

DOES INSTITUTIONAL AND FOREIGN OWNERSHIP PRESSURE INCREASE ESG PERFORMANCE? EVIDENCE FROM THE EMERGING ECONOMY

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Abstract

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The aim of this study is to empirically investigate the effect of different ownership structures, specifically institutional and foreign ownership, on the environmental, social, and governance (ESG) performance of non-financial companies. By employing 203 firm-years observations between 2019 and 2023, we found two very different results. Institutional ownership exhibits a significant negative correlation with ESG performance, suggesting that its increased presence may hinder a company's sustainability efforts. Conversely, foreign ownership demonstrates a significant positive correlation with ESG performance, indicating that greater foreign involvement tends to foster improved ESG practices. These results remained the same even when controlling for the impact of the COVID-19 pandemic and when looking only at profitable companies. Essentially, this suggests that foreign investors may push for better sustainability, while institutional ownership might prioritize other goals. This finding is helpful for investors and businesses trying to improve their social and environmental impact.

Keywords: Institutional Ownership, Foreign Ownership, ESG Performance, Indonesia

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1. INTRODUCTION

The rapid development of the global economy and social progress have made the public more aware of various current issues, such as climate change, environmental damage, social welfare, and business governance (Du et al., 2025). This condition

encourages companies to be responsible for managing environmental and social aspects as part of their business operations. In addition, increasing demands for transparency and accountability in global business practices are prompting companies to adopt additional assessment parameters as part of implementing corporate social responsibility (CSR)

(Sumarno et al., 2023). To fulfil this social responsibility, companies implement CSR as a strategy to support the achievement of long-term sustainability goals. Environmental, social, and governance (ESG) expands the concept of CSR by adding considerations related to corporate governance and finance in the investment decision-making process (Prabawati & Rahmawati, 2022; Yin et al., 2024).

In modern business practices, shareholders are pushing companies to implement ESG as a crucial aspect that can determine investment decisions. This is based on the view that ESG provides additional non-financial information useful for analyzing the benefits and risks of an investment (Yunica & Rokhim, 2023; Badia et al., 2022; Li et al., 2021; Wu et al., 2022). However, the number of companies in Indonesia that implement ESG practices in their business operations is still relatively low. This is reflected in data from the LSEG database in 2023¹, which shows that out of 789 non-financial companies listed on the Indonesia Stock Exchange (IDX), only 62 companies have implemented ESG performance. In addition to the limited number of companies, Indonesia's ESG score is also considered low, which is below 30. In Southeast Asia, this index score is low compared to other countries like Thailand, Singapore, and Malaysia (Nareswari et al., 2023). This finding is supported by data from the Financial Services Authority (*Otoritas Jasa Keuangan*, OJK), which shows that out of 153 companies in Indonesia that have implemented ESG-based sustainable finance, only about 11.5% (94 companies) were successfully listed on four ESG indexes during the 2020–2022 period (Saripah et al., 2024).

The limited ESG practices in Indonesia are perhaps influenced by the fact that regulations related to corporate sustainability were only recently enacted, in 2017. These provisions are governed by OJK Regulation No. 51/POJK.03/2017², which emphasizes the importance of balancing economic, social, and environmental dimensions in the economy to achieve sustainable development. Since this regulation was implemented, companies have been required to include ESG aspects in their sustainability reports starting in 2020. As a form of support for the OJK policy, the IDX is also committed to encouraging the improvement of ESG practices in Indonesia by issuing various ESG-based stock indexes. These indices include SRI-KEHATI, IDX ESG Leaders, ESG Sector Leaders IDX KEHATI, IDX LQ45 Low Carbon Leaders, and ESG Quality 45 IDX KEHATI, all of which aim to help shareholders assess both the financial performance and the company's responsibility in implementing ESG (IDX Sustainability, n.d.). However, although the government has tried to encourage the implementation of ESG, many companies in Indonesia have yet to implement it effectively. Therefore, studying ESG performance is relevant for a country like Indonesia, which continues to develop economically and socially.

Environmental and social issues have become a significant research trend in investment and

business (Madyan & Widuri, 2023). Sustainability plays a major role in determining a company's future, encouraging shareholders to pay more attention to this aspect (Tjahjadi et al., 2021). However, the fact that only a limited number of the companies listed on the IDX have implemented ESG performance and the low ESG score raised the question of the reasons of those phenomenon. Prior studies show that the benefits of ESG performance on financial performance are still inconclusive. Some research found a positive effect of the relationship (Issa & Hanaysha, 2024; Ghose et al., 2023), while Adu et al. (2023), Orzalin et al. (2024), and Aryani et al. (2025) reported varying results. Aryani et al. (2025) suggested including corporate governance in the studies related to ESG performance. With the increasing focus on sustainability issues, it is crucial to understand how ownership structures, especially institutional and foreign ownership, can influence ESG performance through their investment preferences and values (Du et al., 2025). Therefore, this study addresses the following research question:

RQ: Does institutional and foreign ownership pressure increase ESG performance?

Institutional ownership has a greater capacity to collect and analyze company information and safeguard their assets, thus, they have an obligation to oversee company performance, especially concerning ESG aspects (Bai et al., 2022; Hu & Yang, 2025). In addition, institutional shareholders care about the fundamental value of stocks, therefore, they tend to provide more effective oversight of ESG performance. A number of studies have examined the relationship between institutional ownership and ESG performance. The findings of Du et al. (2025), Jia et al. (2022), Octavio et al. (2025), Sun and Zhao (2024), and Susanto et al. (2024) show that institutional ownership has a positive and significant effect on ESG performance. Meanwhile, Hu and Yang (2025) and Yin et al. (2024) found a negative effect of institutional ownership on ESG performance. This negative impact is due to the low transparency of company information. In practice, institutional shareholders consider sustainability aspects before investing and tend to prefer companies with strong ESG performance. Furthermore, institutional shareholders also play a role in improving a company's ESG performance through active participation in corporate governance by providing advice (Du et al., 2025). Thus, institutional ownership also plays a vital role in directing companies toward more sustainable business practices.

A company's sustainability report is a tool for shareholders to understand the company's performance in ESG aspects. Companies that show a commitment to these aspects tend to have a competitive advantage that can attract foreign capital. ESG performance is an important indicator in the sustainable development of a company, which can increase attention from foreign shareholders (Zhang & Wu, 2024). Foreign shareholders play an important role in driving a company's economic growth, especially by creating a better business environment and strengthening investment protection through the implementation of sustainable financial performance (Al-Gamrh et al., 2020). A number of studies, such as those by Ahmed et al. (2024), Al-Amosh and Khatib (2022), Octavio et al. (2025), Zhang and Wu (2024), and Susanto et al. (2024), show that

¹ The data is available via fee-based subscription at: <https://www.lseg.com/en/data-analytics/refinitiv>

² <https://sustainability.idx.co.id/regulation-and-guidance/ojk-regulation-no-51-pojk-03-2017-the-implementation-of-sustainable-fi>

foreign ownership has a positive and significant influence on ESG performance. However, different results were found by Qa'dan and Suwaidan (2019) and Gulzar et al. (2019), who found a negative impact of foreign ownership on CSR disclosure, especially in the environmental and social aspects.

Most previous studies have sampled companies from countries with strong economies, such as China and Jordan. In Indonesia, several studies have discussed the relationship between institutional and foreign ownership and ESG performance. However, these studies focus on ESG disclosure, which reflects the extent to which companies report information related to sustainability practices rather than the company's actual actions measured by quantitative indicators (Octavio et al. 2025; Susanto et al., 2024). This limitation serves as the basis for this study to further examine the influence of institutional and foreign ownership on ESG performance in Indonesia.

This research analyzes the influence of institutional and foreign ownership on the ESG performance of non-financial companies during the 2019-2023 period to complement existing knowledge and research. The selection of non-financial companies is based on the differences in reporting systems and regulations between the financial sector and other sectors (Sulimany, 2023). The purpose of this study is to better understand the investment decision-making process and corporate practices in carrying out ESG performance. This study also includes control variables, namely return on assets (ROA), return on equity (ROE), and foreign board, to strengthen the analysis.

The contribution of this research to the academic community is to serve as a reference on the relationship between ownership structure and ESG performance in Indonesia. For companies, the results of this study can be used in strategic decision-making related to sustainability, and for the public, it can increase awareness of the importance of ESG. This research also provides benefits for regulators and policymakers as a consideration in designing more effective policies to improve the implementation of ESG in Indonesia, especially by considering the role of shareholders in encouraging sustainable practices. In addition, this study expands insights into how ownership structure affects the implementation of sustainability policies and provides empirical evidence on the effectiveness of ESG regulations in Indonesia. Thus, the results of this research are expected to help various parties develop optimal strategies to improve transparency, accountability, and efficiency in managing ESG performance in non-financial companies in Indonesia.

This research has several novel aspects compared to previous studies. Compared to previous research that focused on countries like China and Jordan, namely Ahmed et al. (2024), Du et al. (2025), Hu and Yang (2025), Jia et al. (2022), Sun and Zhao (2024), Wang, Ma, et al. (2023), Wang, Qi, et al. (2023), Wang, Lin, et al. (2023), Yin et al. (2024), Zhang and Wu (2024), Gulzar et al. (2019), Al-Amosh and Khatib (2022), and Qa'dan and Suwaidan (2019), this study highlights Indonesia as a developing country. With the background of ESG regulations in Indonesia, which have only been mandatory since 2020, this research provides a new

perspective on how these policies affect companies with different ownership structures. In addition, this study uses ESG data from LSEG, which has broad coverage and a comprehensive methodology with more than 40,000 clients in 190 countries. This research is expected to provide a more comprehensive understanding of the influence of ownership structure on ESG in emerging markets.

The systematic writing in this study is structured as follows. Section 2 presents the literature review, followed by the hypotheses development. Section 3 explains the research methodology. Section 4 reports the findings, and Section 5 discusses the results. Finally, Section 6 summarizes the overall findings and provides recommendations for future research.

2. LITERATURE REVIEW

2.1. Stakeholder theory

Stakeholder theory states that a company's responsibilities are not limited to shareholders but also include various other interested parties, in particular, customers, employees, suppliers, the community, and the government (Freeman, 1984). Stakeholder theory also highlights the importance of corporate governance and managerial aspects, including attitudes, structures, and managerial practices that support the creation of mutually beneficial relationships with stakeholders (Donaldson & Preston, 1995). To achieve its goals, a company needs to strengthen its relationships with stakeholders by providing benefits to all parties who contribute to the company's performance. One of the company's commitments to maintaining relationships with stakeholders is through the implementation of ESG performance as a form of CSR. In the context of ESG performance, stakeholder theory shows that companies that pay attention to the interests of various stakeholders tend to implement sustainable business practices to balance business goals and social responsibilities (Chaklader et al., 2025).

2.2. Agency theory

Agency theory explains the relationship between two parties: the agent (manager) who runs the company's operations and the principal (shareholder) who gives instructions to the agent to manage the company (Jensen & Meckling, 1976). In practice, a conflict of interest often arises between the agent and the principal, which is often called an agency conflict, due to differences in interests, goals, risk preferences, and long-term perspectives (Smirnova & Zavrtaieva, 2017; Lagoarde-Segot, 2019). To reduce this conflict, monitoring mechanisms such as institutional and foreign ownership structures can increase managerial transparency and accountability, especially in the implementation of ESG policies (Ahmed et al., 2024; Jia et al., 2022). This increased transparency can reduce the information asymmetry between the agent and the principal, thereby encouraging more responsible managerial behavior (Prafiani & Utama, 2024). Therefore, the greater the influence of institutional and foreign ownership, the stronger the pressure on management to carry out accountable and sustainable practices.

2.3. Hypotheses development

2.3.1. Institutional ownership and ESG performance

Institutional ownership refers to the ownership of a company's shares by financial institutions, such as pension funds, mutual funds, banks, insurance companies, hedge funds, and other investment funds (Velte, 2023). Based on stakeholder theory, institutional shareholders encourage sustainable practices to increase the company's long-term value and competitiveness in the market (Yin et al., 2024). Additionally, as significant shareholders in the capital market, institutional shareholders also influence a company's ESG performance through investment decisions that reflect a preference for sustainability aspects (Du et al., 2025). In agency theory, institutional shareholders play a role in reducing agency conflicts by increasing optimal control and supervision over company performance (Pangeran & Salaunaung, 2016; Jia et al., 2022).

Institutional shareholders also act as active monitors in corporate governance to promote ESG practices to enhance a company's reputation and value (He et al., 2022). In addition, institutional shareholders have an advantage in accessing strategic company information and are considered to be able to improve the quality of corporate governance due to their resources and expertise in overseeing company performance (Baker et al., 2021; Buchanan et al., 2021; Wang, Ma, et al., 2023; Wang, Qi, et al., 2023; Wang, Lin, et al., 2023). Institutional shareholders play a role in overseeing the company through their membership on the supervisory board or as a non-executive board member. As dominant shareholders, institutional ownership has the power to influence corporate governance, one of which is through its role in the formation and supervision of the board of directors. Institutional ownership can encourage the appointment of board members who are professional, independent, and committed to shareholder interests, thereby increasing the effectiveness of the company's oversight function and strategic decision-making. Institutional ownership also contributes to setting the direction of the company's strategic policy through pressure on the board of directors and can push for the replacement of board members who are deemed ineffective, thus serving as a balancing force against potential conflicts of interest or abuse of authority by management.

Companies that implement good ESG performance are more attractive to institutional shareholders because they can increase competitive advantage and minimize legal and social risks (Chen & Xie, 2022; Lopez-de-Silanes et al., 2024). Based on this argument, the resulting hypothesis is:

H1: Institutional ownership positively affects ESG performance.

2.3.2. Foreign ownership and ESG performance

Based on Indonesia Law No. 25 of 2007 concerning Investment, foreign ownership refers to shares owned by individuals or business entities from abroad that invest their capital in Indonesia. Foreign shareholders, especially from developed countries, apply stricter governance standards and demand higher social responsibility and environmental

sustainability (He et al., 2022). By implementing better governance standards, companies that receive investment from foreign shareholders can operate more efficiently. Drawing on agency theory, foreign ownership increases transparency and reduces information asymmetry by demanding more accurate reporting and more ethical management practices (Chen et al., 2017).

Foreign shareholders will improve a company's ESG performance to minimize financial risks and secure their investments by encouraging the company to conduct more environmentally friendly production efficiency. The larger the proportion of foreign ownership, the better the company's ESG performance, due to the high commitment of foreign investors (Ahmed et al., 2024; Zhang & Wu, 2024). Foreign ownership also contributes to the company's economic growth and competitiveness, so many companies strive to attract foreign investment by improving their ESG practices (Al-Gamrh et al., 2020). Thus, the hypothesis generated from the above argument is:

H2: Foreign ownership positively affects ESG performance.

3. RESEARCH METHODOLOGY

3.1. Sampling frame and sample selection

The sampling frame of this study is non-financial firms listed on IDX from 2019 to 2023. We exclude financial firms in our study for several key reasons. These reasons stem from their unique business models, regulatory environments, and financial structures, which make them fundamentally different from non-financial companies (Fama & French, 1992; Shleifer & Vishny, 1997; Foerster & Sapp, 2005). The research sample was determined using a purposive sampling method, which is a method of selecting a sample based on specific criteria to obtain a representative sample representatif (Sekaran & Bougie, 2016). The sample selection criteria in this study include: 1) non-financial companies with an ESG score from LSEG in the 2019-2023 period; 2) non-financial companies that published annual reports during that period; 3) non-financial companies that presented complete data and information as needed for the measurement of the research variables. The sample selection process is presented in Table 1.

Table 1. Sample selection process

Criteria	Total
Non-financial companies listed in IDX 2019-2023	798
Companies that do not have an ESG score according to LSEG data	(736)
Companies that do not present detailed data on institutional and foreign ownership	(1)
Total companies	61
Total sample observation	203

Based on these criteria, a total of 61 non-financial companies were obtained that met the requirements for the final sample, with a total of 203 observations. The data source used in this study is secondary data obtained from the LSEG database and the annual reports of each company. We are not controlling for the industrial structure, as the non-financial companies with an ESG score are very limited in the LSEG dataset.

3.2. Operational definition and variable measurement

3.2.1. ESG performance

Environmental, social, and governance (ESG) performance represents the extent to which a company manages ESG aspects as part of its strategy to achieve corporate sustainability (Sumarno et al., 2023). Data was obtained from the LSEG database, which has been the most

popular provider of ESG ratings since 2002, with over 40,000 users in 190 countries (Truong, 2025; Yunica & Rokhim, 2023). LSEG assesses ESG performance based on 186 key indicators and classifies them into 10 categories that form the three ESG pillars: environmental, social, and governance. The final result is an ESG score on a scale of 0-100, providing an objective overview of the company's ESG performance. The 10 categories are presented in Table 2.

Table 2. Environmental, social, and governance performance

Score	Definition
Environmental	
Resource use	Evaluating the company's effectiveness in developing more environmentally sustainable alternatives
Emissions reduction	Assessing the company's level of commitment and effectiveness in reducing greenhouse gas emissions
Innovation	Assessing the company's capacity for green technology and products.
Social	
Workforce	Assessing the company's effectiveness in ensuring job satisfaction, safety, and health
Human right	Evaluating the company's human rights performance
Community	Assessing the company's ability to produce quality and safe products
Product responsibility	Evaluating the company's ability to produce high-quality goods and services
Governance	
Management	Evaluating the commitment to implementing good corporate governance
Shareholders	Assessing the fair treatment of shareholders and the application of anti-takeover mechanisms
CSR strategy	Measuring the integration of a company's economic, social, and environmental aspects

Source: Authors' compilation based on the LSEG data.

3.2.2. Institutional ownership

Institutional ownership (IO) refers to the ownership of a company's shares by financial institutions or organizations such as mutual funds, pension funds, banks, insurance companies, hedge funds, and other investment funds (Velte, 2023). Institutional ownership is measured as institutional shares divided by total outstanding shares (Bai et al, 2022; Du et al, 2025; Sun & Zhao, 2024). Meanwhile, foreign ownership (FO) is the proportion of shares held by foreign individuals, business entities, or governments that invest capital in companies operating in Indonesia. Foreign ownership is measured as the foreign share divided by total outstanding shares (Al-Gamrh et al, 2020; Susanto et al., 2024).

3.2.3. Control variables

Return on assets (ROA) is a profitability indicator calculated as the ratio of net income to a company's total assets (Du et al., 2025). Return on equity (ROE) is obtained by dividing net income by a company's total equity (Hu & Yang, 2025). Additionally, the foreign board variable is measured based on the percentage of foreign directors compared to the total number of directors within the company (Ali et al., 2022). In sum, the operationalization of each variable is presented in Table 3 below.

Table 3. Variable's operationalization

Variable	Operationalization
Dependent variable	
ESG	ESG performance, ESG score on a scale of 0-100
Main independent variables	
IO	Institutional ownership is measured as institutional shares divided by total outstanding shares
FO	Foreign ownership is measured as foreign shares divided by total outstanding shares
Control variables	
ROA	Net income divided by total assets
ROE	Net income divided by total equity
FB	Foreign board, percentage of foreign directors compared to the total number of directors
Variable used to do a robustness test	
COV	A dummy variable, where the years affected by the COVID-19 pandemic (2020 and 2021) were assigned a score of 1, and unaffected years were assigned a score of 0

3.3. Regression method

Data processing in this study was conducted using STATA version 17 software. The data analysis technique began with descriptive statistical analysis to describe the characteristics of the research variables, including mean, minimum, maximum, and standard deviation values (Sugiyono, 2013). Next, the selection of the panel data regression model was

performed through three tests: the Chow test to compare the fit between the fixed effect model (FEM) and the common effect model (CEM), the Hausman Test to choose between the FEM and the random effect model (REM), and the Lagrange multiplier (LM) test to determine whether the most appropriate model is the CEM or the REM (Gujarati & Porter, 2009). The result of the panel estimation model selection is presented in Table 4.

Table 4. Panel estimation model selection

Statistic test	Prob.	Note
Chow test	0.0249	FEM
Hausman test	0.6284	REM
LM test	0.0000	REM

Based on the results of the panel estimation model selection tests, the Chow test shows a probability of 0.0249 (less than 5%). This means the most appropriate estimation model is the FEM. Next, the Hausman test shows a probability

$$ESG_{it} = \alpha + \beta_1 IO_{it} + \beta_2 FO_{it} + \beta_3 ROA_{it} + \beta_4 ROE_{it} + \beta_5 FB_{it} + \varepsilon \tag{1}$$

The coefficient of determination (adjusted R²) is used to assess the extent to which independent variables can explain the variation in ESG performance. The F-test is used to assess the simultaneous influence of all independent variables on ESG performance. Additionally, the t-test is used to assess the partial influence of each independent variable on the dependent variable. An independent variable is declared to have a significant influence if its p-value < 0.05 (Ghozali, 2021).

4. RESEARCH RESULTS

4.1. Empirical findings

Descriptive statistics are used to provide a general overview of the characteristics of the data for the variables studied (Ghozali, 2021). At this stage, the data for each variable is described through several statistical indicators, including the mean, maximum value, minimum value, and standard deviation. The results of the descriptive analysis in this study are presented as follows.

This study includes 203 observations from the 2019–2023 period. Table 5 shows that

Table 5. Descriptive statistics

Variable	Obs.	Mean	Std. dev.	Min	Max
ESG	203	50.41149	18.17997	9.4997	88.86128
IO	203	0.7494427	0.2837419	0.0021691	1
FO	203	0.3451754	0.2842713	0.0014767	0.9309407
ROA	203	0.070831	0.1058894	-0.29	0.735
ROE	203	0.1264074	0.3640681	-2.5434	2.384
FB	203	0.1386076	0.1999867	0	0.8

Table 5 also presents results for control variables such as ROA, with an average of 0.070831. This average is higher than the 0.047 average found in research by Madyan and Widuri (2023), indicating improved corporate profitability within the research sample and suggesting more stable financial conditions during the 2019–2023 period. ROE has an average of 0.1264074. This average is lower than the 0.1521 average reported by Prafiani and Utama (2024). This result suggests that companies may have faced challenges in optimizing the use of equity to generate profit during the 2019–2023 period. Meanwhile, the foreign board has an average of 0.1386076, indicating that the presence of foreign directors in Indonesian non-financial companies remains relatively low, even though some companies have a fairly high proportion of foreign board members.

of 0.6284 (greater than 5%). This means the most appropriate estimation model is the REM. Finally, the LM test shows a probability of 0.0000 (less than 5%). These results indicate that the most appropriate estimation model is the REM. Based on all these test results, it can be concluded that the most appropriate regression model to use in this research is the REM, as it's supported by the results of both the Hausman and LM tests.

To test the hypothesis, multiple linear regression with a panel data approach was used, employing the following equation:

the average of ESG performance for non-financial companies in Indonesia is 50.41149. This average shows an increase compared to previous research by Nareswari et al. (2023), which reported an average of 31.99894. The study by Nareswari et al. (2023) used a sample of Indonesian non-financial companies from 2016–2021. This indicates that ESG performance in Indonesia tends to improve compared to prior research. The average institutional ownership is 0.7494427, and foreign ownership is 0.3451754. These figures suggest that the majority of companies in Indonesia are dominated by institutional ownership rather than foreign ownership. These averages are also higher than those found in research by Susanto et al. (2024), which reported an average institutional ownership of 0.7208 and foreign ownership of 0.3355 for Indonesian companies from 2019–2021. Furthermore, the maximum value for institutional ownership is 1, and for foreign ownership is 0.9309307. This indicates some overlap in the data between these two ownership types. This overlap occurs because certain shareholder entities can be categorized as both institutional and foreign ownership.

4.2. Correlation test

The correlation test in this study was conducted using the Pearson correlation method. According to Ghozali (2021), if the correlation coefficient between variables has a value of less than 0.8, it can be concluded that there is no strong correlation between these variables.

Table 6. Pearson correlation result

Variable	ESG	IO	FO	ROA	ROE	FB
ESG	1.0000					
IO	-0.0989	1.0000				
FO	0.2695	0.3799	1.0000			
ROA	0.1946	0.1436	0.2573	1.0000		
ROE	0.1803	0.1313	0.2550	0.6017	1.0000	
FB	0.2818	0.0922	0.3171	0.1855	0.1202	1.0000

Based on the results shown in Table 6, all pairs of variables show a correlation coefficient value below 0.8. Thus, it can be concluded that there is no significant correlation between variables in this study.

Table 7. Multicollinearity test results

Variable	VIF	1/VIF
IO	5,22	0,191390
ESG	5,05	0,198071
FO	3,55	0,281374
ROA	2,50	0,400525
ROE	1,87	0,534625
FB	1,81	0,552363

Table 7 shows that each independent variable's variance inflation factor (VIF) is below the threshold, indicating that multicollinearity is less likely to occur.

4.3. Hypothesis test

Based on the tests conducted, the most appropriate estimation method is the REM, which uses generalized least squares (GLS). According to Gujarati and Porter (2009), if the results of the estimation method selection use GLS, then no further classical assumption tests are necessary.

Table 8. Random effect model result

Variable	Coefficient	Std. err.	t-value	p-value	[95% conf. interval]	
Dependent variable: ESG						
IO	-10.46726	4.302319	-2.43	0.015**	-18.89965	-2.034865
FO	10.47784	5.151382	2.03	0.042**	0.3813161	20.57436
ROA	-3.662736	7.385092	-0.50	0.620	-18.13725	10.81178
ROE	3.077961	1.832143	1.68	0.093*	-0.5129739	6.668895
FB	30.20376	7.635695	3.96	0.000***	15.23808	45.16945
Constant	48.47937	3.656111	13.26	0.000***	41.31353	55.64522
Mean	50.41149		Std. dev. dependent var.		18.17997	
Overall R ²	0.1406		Number of obs.		203	
Chi-square	26.08		Prob. > chi2		0.0001	
R ² within	0.0862		R ² between		0.1839	

Note: Significant on *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

The adjusted R² value of 18.39% indicates that institutional ownership and foreign ownership collectively explain 18.39% of the variation in ESG performance. The remaining 81.61% of the variation is influenced by other factors not included in this model. The F-statistic value is 26.08 with a significance level (p-value) of 0.0001. Since this p-value is well below the common significance level of 0.05, it means that both independent variables (institutional ownership and foreign ownership) simultaneously and significantly impact ESG performance. In other words, as a group, these two factors have a statistically meaningful effect on ESG. The t-statistic test shows that institutional ownership has a significant negative relationship with ESG performance ($p < 0.05$). This leads to the rejection of *H1*. This implies that as institutional ownership increases, ESG performance tends to decrease, or *vice versa*, within the scope of this study. Conversely, foreign ownership shows a significant positive relationship with ESG performance ($p < 0.05$). This leads to the acceptance of *H2*. This suggests that an increase in foreign ownership is associated with an improvement in ESG performance. ROA was found to have no significant effect on ESG performance. Both ROE and the presence of a foreign board showed a significant positive influence on ESG performance. This suggests that higher profitability relative to assets (ROE) and a greater presence of foreign individuals on the board are associated with better ESG performance.

5. DISCUSSION OF THE RESULTS

5.1. The effect of institutional ownership on ESG performance

The hypothesis test results, using the REM, indicate that the variable institutional ownership has a significant negative effect on ESG performance.

We obtained a p-value of 0.015 with a coefficient of -10.46726, which is statistically significant at the 5% level. This result indicates that for every 1-unit increase in institutional ownership, ESG performance is expected to decrease by 10.46726 units. Consequently, the first hypothesis (*H1*) is rejected. This finding aligns with research conducted by Hu and Yang (2025) and Yin et al. (2024), who state that institutional shareholders tend to prioritize maximizing personal profit by encouraging companies to reduce the quality of information disclosure. However, these findings contradict previous studies, such as those by Du et al. (2025), Jia et al. (2022), Sun and Zhao (2024), and Wang, Ma, et al. (2023), Wang, Qi, et al. (2023), Wang, Lin, et al. (2023), which showed a positive relationship between institutional ownership and ESG performance.

Based on stakeholder theory, institutional shareholders have voting rights over company decisions, including the strategy for implementing ESG performance (Chaklader et al., 2025). However, in practice, most institutional shareholders focus more on their investment portfolios rather than on enhancing corporate sustainability. This is reinforced by the finding that several Indonesian companies exhibit short-term institutional ownership, meaning their investment horizon is less than five years. Examples include: Golden Valley Advisor Inc., Allianz Life, and HSBC Fund in their investments in PT Merdeka Copper Gold. LGT Bank AG, PT CGS-CIMB Sekuritas Indonesia, and Barito Pacific Lumber in their investments in PT Chandra Asri Pacific Tbk. Vanguard and Petronas Investment Authority in their investments in PT Pertamina Gas Negara. Therefore, the institutional ownership in the sample companies within this study can be categorized as short-term ownership. This type of ownership tends to prioritize short-term financial performance over aspects of corporate sustainability.

Institutional shareholders often coordinate companies within their portfolios to reduce industry competition. One way they do this is by reducing investment in ESG performance to suppress operational costs (Wang, Ma, et al., 2023; Wang, Qi, et al., 2023; Wang, Lin, et al., 2023; Yin et al., 2024). This indicates that while institutional shareholders wield significant influence over corporate governance, their orientation tends to prioritize financial gains. This priority can diminish a company's incentive to optimally implement ESG policies.

5.2. The effect of foreign ownership on ESG performance

The hypothesis test results show that foreign ownership has a significant positive effect on ESG performance. We obtained a p-value of 0.042 with a coefficient of 10.47784, which is statistically significant at the 5% level. This means that the second hypothesis (*H2*) is accepted. This finding is consistent with research by Ahmed et al. (2024), Al-Amosh and Khatib (2022), and Zhang and Wu (2024). These studies confirm that foreign ownership encourages stricter governance standards and policies, as well as greater transparency in ESG performance. This, in turn, motivates companies receiving investment from foreign shareholders to improve their ESG performance to enhance their competitiveness in the global market.

Foreign shareholders, particularly those from countries with strict regulations, demand higher standards for ESG performance reporting. This pushes companies to increase their transparency and accountability (Zhang & Wu, 2024). Additionally, foreign ownership supports agency theory, where the presence of foreign shareholders in a company's ownership structure can reduce agency conflicts and information asymmetry (Chen et al., 2017). This is because most foreign shareholders originate from countries like the Netherlands, Sweden, Germany, Singapore, the United Kingdom, the United States, and Japan, which have stricter corporate governance regulations. These regulations demand higher reporting standards, information transparency, and management accountability (Zhang & Wu, 2024). Companies improve these reporting standards to maintain shareholder trust, which, in turn, reduces the level of information asymmetry. This prevents management from misusing information for personal gain. Therefore, the greater the proportion of foreign ownership in a company, the higher the potential for improved ESG performance. This is driven by foreign shareholders' strong commitment to ethical principles and their active role in promoting ESG implementation to ensure investment sustainability and reduce future financial risks (Ahmed et al., 2024; Zhang & Wu, 2024).

5.3. Control variable and ESG performance

The control variable *ROA* has an insignificant relationship with *ESG* performance. This indicates that the company's short-term profitability level does not directly influence its commitment to implementing ESG practices (Lee et al., 2024). Conversely, *ROE* has a significant positive effect on *ESG* performance. This relationship is consistent with research by Du et al. (2025) and Hu and Yang (2025), which shows that companies with high

equity returns are more financially stable and thus more committed to ESG performance. The foreign board also has a significant positive effect, as found in the study by Wu et al. (2024), which states that the presence of a foreign board in a company's structure promotes sustainability-oriented governance.

5.4. Robustness test

A robustness test was conducted to ensure the stability of the relationship between the independent and dependent variables. This test was performed by adding a COVID-19 control variable to examine the pandemic's impact on the relationship between the independent and dependent variables. COVID-19 was measured using a dummy variable, where the years affected by the COVID-19 pandemic (2020 and 2021) were assigned a score of 1, and unaffected years were assigned a score of 0 (Habib & Mourad, 2024).

Table 9. Robustness test result

Variable	Model 1	Model 2
Dependent variable: ESG		
<i>IO</i>	-10.46726** (-2.43)	-10.46306** (-2.43)
<i>FO</i>	10.47784** (2.03)	10.32031** (1.99)
<i>ROA</i>	-3.662736 (-0.50)	-3.676423 (-0.50)
<i>ROE</i>	3.077961* (1.68)	2.991865 (1.62)
<i>FB</i>	30.20376*** (3.96)	30.01282*** (3.91)
<i>COV</i>		-0.3471425 (-0.38)
Constant	48.47937*** (13.26)	48.7231*** (13.10)
R ² between	0.1839	0.1833
Chi-square	26.08	26.06
Prob. > chi2	0.0001	0.0002
Mean	50.41149	50.41149
Std. dev. dependent var.	18.17997	18.17997
Number of obs.	203	203

Note: Significant on *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

The regression results from the robustness test (Model 2 in Table 9) largely align with the previous regression analysis (Table 8) regarding the relationship between institutional ownership, foreign ownership, and *ESG* performance. However, there's a notable difference concerning the control variable *ROE*. This discrepancy is likely due to the significant pressure the COVID-19 pandemic exerted on companies' operational performance and profitability, including their *ROE*. Specifically, the results show that institutional ownership still has a significant negative effect on *ESG* performance. Foreign ownership continues to have a significant positive effect on *ESG* performance. The control variables *ROA* and *ROE* both show an insignificant effect on *ESG* performance. The foreign board maintains a significant positive effect on *ESG* performance. Importantly, these findings indicate that COVID-19 did not significantly impact the relationship between the independent variables and the dependent variable (*ESG* performance). This aligns with Habib and Mourad (2024), who also found that the COVID-19 pandemic did not directly affect *ESG* performance policies. Instead, the pandemic's impact was more evident in the general economic and financial conditions of the companies.

5.5. Additional test

We conducted an additional analysis by eliminating companies with negative *ROA* and *ROE*. This was

done to test a sample consisting only of companies with positive financial performance. The result is presented in Table 10.

Table 10. Additional test result

Variable	Coefficient	Std. err.	t-value	p-value	[95% conf. interval]	
Dependent variable: ESG						
<i>IO</i>	-10.528	4.910111	-2.14	0.032**	-20.15164	-0.9043612
<i>FO</i>	11.05105	5.450381	2.03	0.043**	0.3685003	21.7336
<i>ROA</i>	-6.407569	8.620781	-0.74	0.457	-23.30399	10.48885
<i>ROE</i>	4.262676	3.830331	1.11	0.266	-3.244635	11.76999
<i>FB</i>	28.923555	8.315687	3.48	0.001***	12.6251	45.22199
Constant	49.31733	4.159448	11.86	0.000***	41.16496	57.4697
Mean	51.30218		Std. dev. dependent var.		18.2979	
Overall R ²	0.1491		Number of obs.		183	
Chi-square	22.01		Prob. > chi2		0.0005	
R ² within	0.0714		R ² between		0.1930	

Note: Significant on *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

The regression results from the additional test indicate that institutional ownership has a significant negative effect on *ESG* performance. Conversely, foreign ownership shows a significant positive influence on *ESG* performance. Regarding the control variables, *ROA* and *ROE* have no significant effect on *ESG* performance, while the foreign board demonstrates a significant positive influence on *ESG* performance.

These additional test results are consistent with the main research findings, with one exception: the relationship between the control variable *ROE* and *ESG* performance. This finding suggests that for companies with positive financial performance, *ROE* no longer plays a significant role in influencing *ESG* performance. This could be because high-performing companies likely already have established and stable *ESG* benchmarks. As a result, variations in their *ROE* are not strong enough to explain differences in *ESG* performance across these companies (Nasta et al., 2024).

6. CONCLUSION

This research reveals that institutional ownership has a significant negative impact on *ESG* performance. This is primarily due to the main orientation of institutional shareholders, who focus more on increasing portfolio value than on *CSR*. Conversely, foreign ownership shows a significant positive influence on *ESG* performance. This indicates that the involvement of foreign ownership encourages companies to improve their *ESG* performance through the implementation of stricter governance standards and policies in resource management. This study deepens our understanding of how ownership structure influences the adoption of sustainability policies and offers empirical evidence on the effectiveness of *ESG* regulations in Indonesia. Ultimately, the findings should assist various stakeholders in crafting optimal strategies to enhance transparency, accountability, and efficiency in managing *ESG* performance within Indonesia's non-financial companies.

Our finding indicates that increased foreign ownership in Indonesian companies can drive sustainable practices and more efficient operations. However, this situation also raises concerns regarding the dominance of foreign entities in corporate ownership structures, which could potentially weaken the role of domestic shareholders. Appropriate government regulation can be utilized to maintain a balance between the inflow of foreign capital and the protection of national interests.

While our study offers valuable insight, this research has several limitations that should be considered for future studies. First, the sample size is still limited, including only 61 non-financial companies. This is because not all companies in Indonesia fully implement *ESG* performance according to the LSEG database, and relevant regulations only became mandatory in 2020. Second, not all companies in the sample disclose the investment horizon of institutional ownership (whether long-term or short-term), and the country of origin for some foreign ownership cannot be identified. This limitation prevents the research findings from being comprehensively generalized.

Based on the limitations identified in this study, further research can be done. First, future studies could broaden their scope by including companies from other parts of Asia or globally. This would provide a more comprehensive comparison with Indonesian companies and offer a wider understanding due to the increased geographical reach. Second, it is recommended that subsequent research uses a more diverse range of *ESG* performance metrics. Examples include SRI-KEHATI, IDX *ESG* Leaders, *ESG* Sector Leaders IDX KEHATI, IDX LQ45 Low Carbon Leaders, and *ESG* Quality 45 IDX KEHATI. Utilizing multiple indices will yield more accurate and relevant information regarding sustainability practices in Indonesia. Finally, for deeper analysis, it is crucial for future studies to ensure clearer identification of the investment horizon for institutional ownership (whether short-term or long-term) and the country of origin for foreign shareholders.

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