THE EFFECT OF CONTROLLING OWNERSHIP ON FIRM PERFORMANCE: THE MODERATING ROLE OF ESG PERFORMANCE AND INDUSTRY EFFECT

(Tobacco and Energy)

THESIS

Prepared by: Joseph Eugene Lumoindong (20111008)

Thesis Supervisors:

Ardo Ryan Dwitanto,SE,MSM, CFP

Prof. Ir Roy H. M. Sembel, MBA, Ph.D, CSA, CIB, CIIM

Dr. Melinda Malau, SE.,MM.,CBV.,CFRM.,CFA.,CPA

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A THESIS

Submitted in a partial fulfillment of the requirements for the degree of

Bachelor of Business Administration

CERTIFICATE OF APPROVAL

Name & Student ID : Joseph Eugene Lumoindong & 20111008

Topic : THE EFFECT OF CONTROLLING OWNERSHIP ON FIRM PERFORMANCE: THE MODERATING ROLE OF ESG PERFORMANCE AND INDUSTRY EFFECT (Tobacco and Energy)

NON-PLAGIARISM DECLARATION FORM

This Thesis is a presentation of our original research work. Wherever contributions of others are involved, every effort is made to indicate this clearly, with due reference to the literature, and acknowledgement of collaborative research and discussions.

Also, this work is being submitted in partial fulfillment of the requirements for the Bachelor of Business Administration degree and has not previously been accepted in substance for any degree and is not being concurrently submitted in candidature for any degree.

Jakarta, 15 August 2024

Joseph Eugene Lumoindong

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ABSTRACT

A company's primary objective is to generate profit for its owners. However, this goal is often hindered by agency conflicts. This study examines the impact of controlling ownership on the performance of 42 companies listed on the Indonesia Stock Exchange (IDX) from 2020 to 2022, using ESG performance and industry effects as moderating variables. The methodology is based on stakeholder theory, with controlling ownership categorized into family ownership, foreign ownership, and state-owned ownership. Accounting performance is assessed through return on equity (ROE) and net profit margin (NPM), while market performance is measured by Tobin's Q and stock performance. ESG performance is gauged using Refinitiv (LSEG). The findings show mixed effects: family-owned companies negatively impact ROE but positively influence NPM, State-owned enterprises negatively impact ROE. Foreign-owned enterprises also negatively affect ROE. The study further explores the moderating role of ESG practices, revealing that improved ESG performance moderate the negative impact of ROE in family and state-owned companies. For state-owned and foreign-owned companies, ESG moderates and reduces both the negative ownership effect towards ROE. The results of this study has several implications, as it may provide insights into the relationship between ownership structure and the financial performance of Indonesian companies for investors, corporate management, hedge fund management, and future research. For theoretical implications, it finds how ESG reduces the effect of agency cost within the emerging market in Indonesia.

Keywords: Controlling Ownership, Environmental, Social and Governance, Industry Effect, Accounting and Marked Based

Chapter I
Introduction

1.1 Problem Background

1.1.1 Corporate Governance and Firm Ownership

Battilana et al. (2022) mentioned that over the past few decades, the most common management practice model has been shareholder value maximization. This means to maximize shareholder value in every company decision and management. But in times, potential conflict between shareholders may arise with different goals between stakeholders and shareholders. Moreover, the challenge arises when controlling groups or owners, is more focused to chase their personal interests. In order to incorporate or minimize these potential conflicts, a set of rules and guidance from corporate governance plays a role, to moderate this agency conflict. Corporate governance plays an important role in shaping the standards for the sustainability of a business. In emerging markets, ownership carved a pivotal impact towards firm performance. Findings from Srivastava and Bhatia (2020) report that there is a nonlinear link between family ownership and business performance. Specifically, family ownership improves firm performance up to a point before starting to have a negative effect.

With several cases of corporate scandals in recent years, the need for having a strong corporate governance is strongly promoted in general, with emerging markets in particular. Ethical corporate governance emphasizes the relationship between stakeholders in business and other related parties. The way a firm is owned and various aspects of ownership are crucial in establishing a robust corporate governance system. Vitolla et al. (2019) mentioned that Agency Theory by Eugene Fama explores the difficulties of prioritizing between the agent and principal. A complex ownership structure may challenge the priority in a company, yet generates new challenges.

Corporations in developed countries tend to be larger in size with multiple ownership structures, in contrast to those in Indonesia. In Indonesia, a significant portion of listed companies is owned by the government or families and large business groups. Over 95% of the companies in Indonesia are

family-owned, with the family patriarch as the dominant shareholder who acts as manager, whereas the immediate and distant family members are operating various firms within that business group. These findings may create various situations and outcomes in terms of firm performance. On the other hand, foreign investors have left many traces in the Indonesian stock market. Kang and Stulz (1997) and Ko et al. (2007) indicate that foreign investors show a preference for large profitable firms with a strong growth potential. Many investors and traders in Indonesia actively hunt for foreign investor movement, so called the big money. They purposely seek information from foreign investors to gain some profit. It is interesting to find out that foreign ownership enhances Indonesian firm performance.

The influence of state-officials and government parties in Indonesian firms is still bold. State ownership remains high in strategically important industry sectors such as oil, natural gas, mining sector, and broadcasting media sector. Studies from Yu, Mei (2013) reveal that state ownership influence is due to the benefits of government support and political connections. This may create advantages to a certain extent yet expose the risk of agency conflict towards business decisions.

Sustainability Issue and Growing Concern on Indonesian Public Firm

The growth of sustainable investing is starting to become a new concern, especially in emerging markets where the issue is still strongly visible. Government officials also realized this matter, that in 2022 president of Indonesia, Jokowi announced Indonesia Green Taxonomy. The meeting aims to classify sustainable financing and investment activities, which target stakeholders on carrying sustainable economic activities (PWC, 2022). Globally, demands from regulators, business, and environment activists push the agenda for wider financial products that embody ESG.

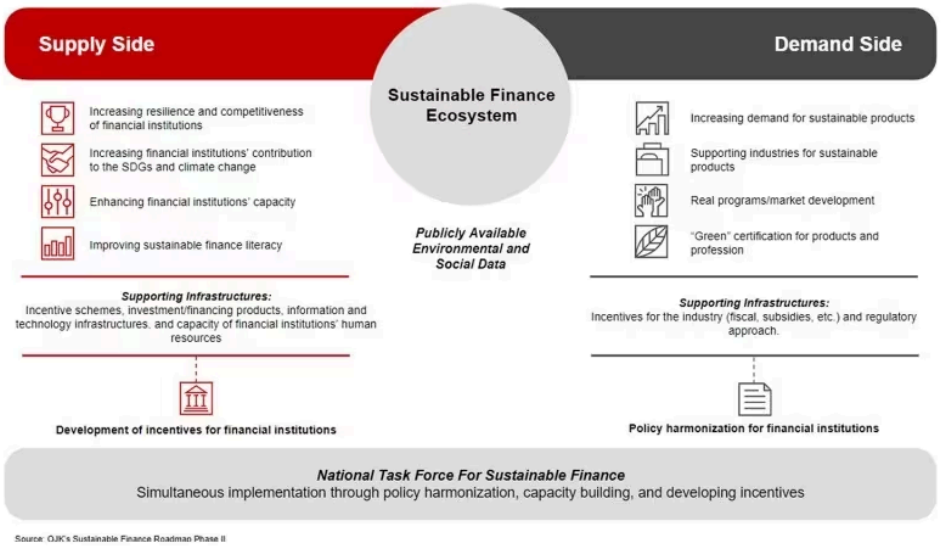


Figure 1.1 OJK Sustainable Finance Roadmap (Year, Source)

Quoting from OJK Finance roadmap, the Indonesia stock exchange launched a new investment index (ESGSRI-KEHATI, ESG Leaders) that aims to encourage sustainable investment practies in Indonesia and take ESG factors into account. This shows how investors in Indonesia have concerns towards sustainability investing. But the question is, due high ESG scoring companies lead to a better company performance yet market performance? The activities of Environmental, Social, and Governance (ESG) characteristics in investment decisions can be attributed to investor preferences that are independent of risk and return, or ESG factors linked to betas on underlying common risk factors Ciciretti et al. (2023). With ESG linked to risk, a higher demand for firms with high-scoring ESG indicators should lead to a systematically higher stock price. This research shortlisted 42 companies which have 3 years of ESG score. Previous study shows the presence of ESG Bias generated by sudden shifts in demand towards ESG assets in recent years, shows investor growing interest in ESG value creation.

Figure 1.2 PWC Road Map on ESG Strategy to increase Stock Price, (2022)

In 2024, there are four ESG indices on the Indonesian Stock Exchange. Three of them developed by Kehati Foundation (SRI-Kehati, ESG Sector Leaders IDX Kehati, and ESG Quality 45). While the other partnership is between IDX and Sustainalytics (IDX ESG Leaders). The current study acknowledges the importance of acknowledging ESG as moderating variables towards firm ownership. A previous study shows investor preference for ESG comes with the cost of lower expected future returns, which compensates investors by positive realized returns Ciciretti et al. (2023)

Energy Sector and Tobacco

ESG scores have mixed results towards firm performance. It may depend on the industry sector which has issues in sustainability, in this case tobacco and energy. Energy security is an essential component of a country's energy policies, serving as a strategic concern. The findings show that the energy sector plays an important role to make sure the nation's economy is running. In previous research, ESG disclosure factors the responsibility towards society, risk towards company profitability, and the opportunity for growth mentioned in Lineman et al. (2015). This is an important issue as the energy sector in

Indonesia holds huge potential and impact on many areas of economy, society and environment. Therefore, managing firms operating in that sector should discourse ESG factors, as well as acknowledging their ownership structure while pursuing profit. Current Research uses the Energy and Tobacco industry, as environmental issues are attached to these types of industries and ESG can become their solution.Given the importance of including ESG towards future research, the current study embodies ESG scores as an indicator if it provides financial benefits toward company performance (profitability) and its market performance

1.2 Research Problem

Given the importance in corporate governance, the relationship between firm ownership structure to various firm intentions, in particular to firm performance, has been an important area to be researched. Most of these studies on ownership structure were conducted in advanced countries, which focused on unmonitored management and scattered ownership. The aspects of ownership, such as managerial and insider ownership, institutional ownership, family ownership, government ownership, and foreign ownership, are frequently studied in relation to firm performance and firm value. The existing literature on these various types of ownership and their impact on firm performance has produced mixed findings. For instance, some studies have found a positive relationship between managerial ownership and firm performance (Kumar, 2004; Severin, 2001), while others have found the opposite (Demsetz and Villalonga, 2001; Lang and So, 2002). Similarly, family ownership has been found to be associated with severe governance issues by some studies (Perrini et al., 2008), while others have found a positive association between family control and firm performance (Anderson and Reeb, 2003). In the US market, Morck et al. (1988) discovered a non-monotonic relationship between insider ownership and firm value. Other studies, such as Beiner et al. (2006), Perrini et al. (2008), and Shahveisi et al. (2016), have also reported mixed findings. With the mixed outcomes, most of these studies are done in developed markets where differences in laws and regulations stood strong, compared to emerging markets like Indonesia. The

current study combines ownership in emerging markets, while using ESG score as a moderating variable towards firm market performance and profitability, with energy and tobacco industry as a dummy variable. Previous studies show the research gap on the difference between the effect of ownership structure with emerging markets and developed markets. Thus, ESG scores in this research plays an important role as a sampling rule for selecting companies with three years available data in Refinitiv ESG score. This shows how company efforts to comply with ESG reporting, how it improves within the past, and how it affects their performance in Indonesia stock market.

1.3 Research Questions

Based on the description of the background and identification of problems that have been described previously, the formulation of the problem for this research is as follows:

1. How does government ownership affect firm performance?
2. How does family ownership affect firm performance?
3. How does foreign ownership affect firm performance?
4. How does Average Annual Weekly Market Return affect firm performance?
5. How does ESG Score affect firm performance?
6. How does ESG Score moderate relationship between government ownership and firm performance?
7. How does ESG Score moderate relationship between family ownership and firm performance?
8. How does ESG Score moderate relationship between foreign ownership and firm performance?
9. How does the tobacco and energy industrial sector moderate the relationship between ESG Score and Firm Performance?

1.4 Research Objectives

Based on the problem formulation that has been set above, this research has the following objectives:

1. To analyze the firm performance on firm with government ownership
2. To analyze the firm performance on firm with family ownership
3. To analyze the firm performance on firm with government ownership
4. To analyze firm performance on Average Annual Weekly Market Return
5. To analyze the firm performance on ESG Score
6. To analyze government ownership and firm performance using ESG Score.
7. To analyze family ownership and firm performance using ESG Score.
8. To analyze foreign ownership and firm performance using ESG Score.
9. To analyze tobacco and energy industrial sector relationship with ESG score and firm performance.

1.5 Research Benefits

With rapid changes of investment, uncertainty, and future risk it is hoped that this research can enrich both empirical and theoretical. From the current research, it can be used as enrichment in sustainability literature, as in emerging markets like Indonesia it is known to be inconclusive and inconsistent. In addition, it can expand and enrich the knowledge in the field of finance, for firm ownership, how ESG scores impact firm performance and energy/tobacco industry as a dummy variable.

Moreover, current research helps **add new variables** in ESG Investment Relation in Indonesia, as this research uses ESG as a moderating variable, to support or to diminish a positive performance towards firm ownership and company profitability.

As an investor, this research is expected to provide more relevant information regarding the information of firm ownership, ESG score, and its effect towards financial performance and market performance so it helps investors in determining their future investment decision. As for regulators, this research is expected to be information for regulators, creating an input for companies to pay more attention towards environmental, social, and

governance responsibilities to create and support high demand in ESG investment.

1.6 Chapter Outline

This thesis paper consists of five chapters, each of which is very important for the final conclusions and additional recommendations. The following points emphasize each chapter and its contents.

Chapter One: Introduction

This chapter is an introduction that discusses the research context in terms of background, problems, goals, questions, and processes. This chapter includes the background of the study, research problems, research objectives, research benefits, and limitations of the research.

Chapter Two: Literature Review

This chapter includes a thorough review of existing literature and theory in the field of this research that will be important to ensure strong factual support of carrying out a new investigation in this research.

Chapter Three: Methodology

This chapter includes an explanation of the research data collection process used to approach it. This chapter consists of the research design, population and sample, data collection techniques, operational variables, and lastly, data analysis techniques.

Chapter Four: Findings, Analysis, and Discussions

The data collected from the population sample will determine the final result of the study. To achieve research goals and answer the research questions In this chapter, take raw data from a sample and convert it into readable results so that researchers can interpret the data and complete the study.

Chapter Five: Conclusion and Recommendations

Finally, this chapter will conclude with the finding from the fourth chapter, to

answer and can reach conclusions summarizing what the study has found in the context described in the problem. This chapter includes recommendations to those involved in the background of the study which are the further researcher, companies, investor, and regulators.

CHAPTER II

Literature Review

2.1 Theoretical Review

Theoretical review explains how firm ownership can reflect towards companies financial & market performance, and how ESG score relatively may disrupt the return and market performance.

2.2 Stakeholder Theory

According to Jensen (2001), the focus on stakeholders theory is heavy towards decision making. Generally stakeholder theory has been approached from the point of view of business ethics, corporate governance and/or corporate social performance. Stakeholder theory is a management and business ethics approach which addresses the moral and values in managing an organization, including corporate social responsibility and governance. In 1984, professor R.Edward Freeman explored the theory through his book, in which a company's stakeholders include anyone affected by the company. A study by R. Edward Freeman, Andrew C. Wicks, Bidhan Parmar (2004) claims that shareholders are stakeholders and many people want to discredit the role of shareholders in a company. In the end, when everyone in a company decides to consider everyone is important including shareholders and stakeholders,the value of a company will slowly increase.

Through this current study, the researcher wants to explore how firm ownership can disrupt firm performance and their profitability, by looking at the percentage through each shareholder type. R. Edward Freeman, Andrew C. Wicks, Bidhan Parmar (2004) also mentioned that having one objective function makes governance and management difficult. Popular terms of maximizing shareholder value are now challenged, as anyone can look into recent business scandals which are oriented toward ever increasing shareholder value at the expense of others. As shareholder views towards the firm can be mixed and not all shareholders will focus towards the team goal. Stakeholder theory gives performance metrics that work for managers at the operating level, whereas shareholder theory gives performance metrics that work for financial markets Parmar et al. (2010). Through this research, stakeholders theory was used to reconfirm that a company ownership should

not be limited to just financial investors but also include other stakeholders affected by the organization. Stakeholders theory connects firm ownership by emphasizing the importance of considering needs and interest from various stakeholders, which can have positive or negative impact towards the firm performance.

2.3 Agency Theory

Agency Theory by Eugene Fama explores the difficulties of prioritizing between the agent and principal (Jensen, Meckling 1976). A complex ownership structure may challenge the priority in a company, yet generates new challenges. This research emphasizes agency theory as a middle theory, alongside stakeholder theory.

Agency theory strongly emphasizes that concentrated ownership helps to monitor the company management by shareholders, to reduce decision-making conflicts. But on the other hand, interest conflict might happen. As it shows the importance of firm ownership in terms of governance, correlation between firm performance and ownership structure has been subject of research. Agency Theory is used as a middle theory for this research. Recent studies are coming in emerging countries which focused on lack of monitoring in management and dispersed owners. The current study reattempts the core problems of relationship between various ownership types (Family Ownership, State-Owned Ownership, and Foreign Ownership) to market performance and firm profitability, using ESG score as a moderating variable, in a sample of a publicly traded Indonesian company, with energy and tobacco industry as a dummy variable.

2.4 Firm Ownership

Topic of firm ownership effect towards firm performance has been the subject of much scholarly discussion. As most researchers took their subject in developed countries, current findings suggest inconsistent and mixed results towards emerging countries. This research conducted in Indonesia, helps explore the impact of various types of firm ownership on the dynamics of a company. In this research, controlling variables refers to state-owned ownership, family ownership, and foreign ownership. In the realms of the

corporate world, potential conflict between the majority and minority might happen. While there might not be a potential conflict between owners and managers, this creates a potential research topic for emerging countries such as Indonesia.

For example, BUMN or state-owned companies in Indonesia hold critical sectors such as mining, electricity, construction, and many more. Furthermore, growing concerns such as if a state-owned enterprise takes an exit in ownership of a company in Indonesia.This creates a further investigation if state-owned companies in Indonesia have a positive impact towards their firm profitability, as well as to the market performance.

In addition, public family ownership in Indonesia represents an interesting case of high ownership concentration combined with high growth opportunities. Conglomerates groups such as Sinarmas, Lippo Group, and many more have been operating for more than a decade and have positive economic impact towards the nation. Family firms also minimize the exit strategy of ownership, as there is little possibility of family firms' owners taking an exit from the company ownership. As the share of family firms' contribution to global GDP is estimated to be in the range of 70%–90% Németh and Németh (2016), a large fraction of economic activity takes place inside a family owned corporation. Consequently, if stable concentrated ownership has led to better corporate investment and financial performance, we would expect a positive relation between ownership concentration and firm profitability. Moreover,

On the other hand, a high concentration of equity holdings can result in family owners becoming established, potentially leading to private benefit extraction and insufficient risk-taking. This can negatively impact firm performance and the wealth of outside shareholders. On the other hand, foreign ownership is also often used as a value added to a company. Indonesia itself promotes Foreign Direct Investment by giving tax allowances to companies that invest in Indonesia. Study by Wiwattanakantang (2001) shows controlling shareholders' influence on financial performance in Thailand. It suggests that there are significant impacts from controlling shareholders towards return on asset and sales-assets ratio, but no impact on Tobin’s Q. Globerman (1994) proves that there are no significant findings in foreign

owned enterprises, compared to locally owned companies in Canada. However, overall wages in Canada are rising because of foreign firms that pay higher compared to domestic firms.

2.5 Firm Performance

In order to measure a firm's performance, there are several factors that influence how a research takes place. If a researcher is solely focused on profitability, they might use a financial ratio: Return on Asset, Return on Equity, etc. On the other hand, when a company goes public, some will measure how well their stock price performs in a market. From these findings, it highlights the difference between accounting based measurement and firms market measurement in a dynamic way. Gentry and Shen (2010) attempted to revisit the relationship between accounting-based profitability and market performance measure as an indicator towards firm performance. At the end, the study strongly advises to conclude both accounting and market measurement in order to have a comprehensive result in a research.

This research goal is to measure corporate ownership effect towards firm performance, moderated by ESG performance and Industry Effect. By using both accounting and market-based performance measurement, the findings would refer to how market perception and accounting measurement impacts towards the hypothesis. For market-based performance, in this research the regular stock return model and Tobin's Q ratio. While for accounting-based performance, this research uses Return On Equity (ROE) as it will measure the relationship for owners or shareholders, combined with Net Profit Margin (NPM) to measure between the increase of cost and total revenue of a firm.

The Q theory of investment suggests a strong relationship between a corporation's market value and its investment rates. Wildasin (1984) argues that marginal q can be measured using a valuation ratio, known as average q (or Tobin's q). By conducting a simple regression of investment on Tobin's q, a strong correlation is expected.

In 1969, Nobel Prize-winning economist James Tobin introduced the 'Q' ratio. He defined the 'Q' ratio as a firm's market value relative to the

replacement cost of its assets. If <1 means the market is undervalued due to the market price lower than the sums of its asset. On the other hand, >1 means the market appreciates the firm's value more than the sum of its asset, meaning it is overvalued. In a research conducted by Scholars, Q ratio represents the adjustment for risk. Moreover, Tobin Q's also allows for cross-industry comparison because dividing a firm's market value by the replacement cost of its assets puts all firms on a similar scale.

Tobin's Q ratio has been widely used to evaluate firm performance. It is used to count the market value of an enterprise compared to replacement cost. It is said that the Tobin'Q Ratio measures firm performance from a market perspective which tries to eliminate the accounting bias. Studies by Moeen Naseer Butt, Ahmed S. Baig and Fazal Jawad Seyyed (2021) show that Tobin's Q provides strong positive results for questions that involve intangible assets.

This research goal is to measure corporate ownership effect towards firm performance, moderated by ESG performance and Industry Effect. By using both accounting and market-based performance measurement, the findings would refer to how market perception and accounting measurement impacts towards the hypothesis.

2.6 ESG Score and Performance

ESG refers to Environmental, Social, and Governance. These three types of topics are referred to as pillars. These pillars bound the non financial risks and opportunities that companies face in their daily operations. The purpose of ESG is to comprehensively capture these non-financial aspects, providing a more complete picture of a company's sustainability and potential for long-term success. Malau (2019) also mentioned that it is necessary to have integrity and openness in financial reporting of a company, which highlights the good corporate governance.

As the world is confronted with global issues, including climate change, the shift from a linear to a circular economy, growing inequality, and imbalance between economic and societal needs. In response, investors,

regulators, consumers, and employees are increasingly expecting companies to not only manage financial resources effectively but also to be responsible custodians of natural and social resources. Furthermore, they require companies to have a robust governance structure in place to support these efforts. As a result, the integration of Environmental, Social, and Governance (ESG) factors into investment decisions is becoming more widespread, underscoring the critical role of ESG in securing both debt and equity capital. Moreover, publicly traded companies started to chase on having a good ESG score, in order to have a good public image and to increase investor confidence towards the company, as they will feel comfortable towards their investments.

ESG investing has gained much traction over the past few years, including in Indonesia. It has been shown by increasing demand to index launches by the Indonesian stock exchange (ESG-SRIkehati, ESG-Leaders, etc). Despite the significant investments in ESG strategies by large institutions like insurance companies, pension funds, and sovereign wealth funds in recent years, and the growing interest from other investors such as wealth management and retail investors, the question of performance remains a contentious issue and a puzzle for the financial community. Barnett and Salomon (2006) study shows that ESG incentive stocks tend to have higher performance than stocks with mediocre ESG. In addition, these findings have multiple implications where it includes quality of the management, impact towards ESG on financial performance. This is where a fund manager would include the highest or best performer in ESG and also the lowest ESG performer, in their investment portfolios.

In a similar vein, Renneboog et al. (2008) found no significant effect of socially responsible investment and concluded that the existing studies still demonstrate that SRI investors are willing to accept mediocre financial performance to pursue social or ethical objectives. The findings indicate an interesting topic where ESG may have a negative impact towards firm performance. This is where greenwashing plays particularly towards the problem. Delmas and Burbano (2011) discusses greenwashing as a disparity between actual eco-efficiency and the promotion towards green objectives, associated with sustainable development. As green strategies develop, the

issue of greenwashing also emerges. This could be an issue towards industries such as energy and tobacco might be in a paradox, which has an impact on negative interpretations of green activities and accusations of greenwashing.

In emerging economies, Bhattacharya and Sharma (2019) found that ESG Performance has influence towards credit metrics (Credit Rating). The findings suggest that it has a major impact towards SME firms in India, while there are no impacts on larger firms which already have good credit ratings. By reviewing previous studies, it is found that multiple components and factors are affected by ESG ratings. In addition, it would be interesting to research the companies in emerging economies like Indonesia and use ESG score as a moderating variable towards firm ownership and the performance. As Indonesia has diversified cultural and institutional settings, differ from developed countries, to take ESG as a factor in the current research.

2.7 Market Return

In this research, the author elevates independent variables using market return. Market return refers to the overall performance of the market, where it usually refers to an index. The purpose of this market return is to measure the performance of the market as a whole, which can be used as a benchmark when measuring individual companies. When measuring market returns, it is highly influenced towards market return for companies, as usually it reflects how a general investor has a benchmark.

Market returns are also used as a key indicator from investors for decision making, and could provide insights into overall economic conditions. Lastly, incorporating market returns is important to know sentiment and risk, as higher market returns are often associated with higher risk/volatility. Bhowmik and Wang (2020) mentioned that market volatility as deviation of the expected future value of assets. Bhowmik and Wang (2020) also adds that the impact of monetary policy will have big control towards movement of the current market, which will adjust the risk/volatility. This research includes market return as it will provide additional information towards market based performance.

2.8 Previous research and studies

To gain more capabilities and knowledge transfer, current research refers to the previous studies to gain traction and ideas towards the topic. Firm ownership has multiple findings and results, depending on the area of research. Hegde et al. (2020) elaborates that in fast growth and less competitive markets, it has been proven that family firms have negative returns. On the other hand, performance will increase in a less competitive market. This result contrasts with the negative value effects of high ownership concentration in developed economies with lower growth rates and higher degrees of product market competition.

This finding is crucial for investors and Indian regulators to consider, as a significant portion of economic activity takes place within family firms. Moreover, Maury, Benjamin (2005) concludes that family controls boost profitability but have little effect on the profitability of family enterprises when compared to non-family firms. The study elaborate on passive controls of ownership usually does not intervene with performance. In addition, at higher control levels the performance would likely increase in terms of profitability. On the other hand, Maury, Benjamin (2005) also showed that family controls reduce agency problems, but potential for family opportunism may happen.

Reeb, David, and Anderson (2003) showed that family enterprise has better performance than non-family enterprise. However, Faccio (2001) found that family ownership in East Asia creates conflicts that negatively impact firm performance. The findings highlight the disparity between East Asian firms, as it is related to governance and political environment in Asia. Facio (2001) focused on limitations for data disclosure towards shareholders. Chu (2009) on the other hand showed the opposite towards firm performance, where founding-family controls influence performance positively. This can happen due to directors and high control stakeholders coming from a family person. But firms which have no controls over high-control stakeholders with no family members will weaken the relationship. The findings suggest that the advantages of family firms are more likely to be realized when family ownership is combined with active family management and control.

Aybars, Asli and Gurbuz, Ali (2010) revealed that foreign ownership enhances firm financial performance in Turkey. (Dominguez and Chari (2012) indicates that (i) acquisitions by firms from emerging markets affect the post-acquisition performance of U.S firms. Batra et al. (2023) also showed that foreign ownership in India helped reduce the market volatility. Moreover, Gürbüz and Aybars (2010) find that foreign investors help boost firms' performance in Turkey. Nguyen, Pascal and Nakanoa, Makoto (2013) elaborate on the influence of foreign investors which have a positive impact in increasing market value. Findings showed higher firm values and increased performance from the impact of foreign investors.

While state owned ownership also has major implications, studies by Yu, Mei (2013) show negative impact on firm performance due to government intervention, while on the other hand it might boost profitability of an enterprises where the government acts as a positive influence. Moreover, studies by Benito, Gabriel and Grunfeld, Eskil (2008) found that in Norway, firms show weaker performance when the companies are owned and managed by the government.

In addition, a study by Rajverma et al. (2019) reveals that family firms exhibit lower profitability, lower valuation, and higher non-systematic risks compared to widely held firms. The findings also demonstrate that family ownership concentration tends to increase risks and contribute to firm value erosion. The evidence suggests that dividend payouts can help reduce a firm's riskiness, which in turn enables a valuation premium. From recent studies, firm ownership: family-ownership, state-owned, and foreign ownership has mixed findings towards firm performance. The purpose of the study is to gain additional insight towards how firm ownership affects firm performance in Indonesia. Moreover, current research uses ESG score as a moderating variable. A study by Ciciretti et al. (2023) revealed that ESG characteristics are influenced by investor preferences on underlying risk factors, leading to an ESG Premium on expected returns (CAPM).

The results indicate that the ESG Premium is mostly determined by ESG attributes rather than ESG risk factor betas. Furthermore, a sharp rise in demand for ESG-related products could introduce bias into the calculation. Furthermore, it implies that, independent of risk factors, investors will only

hold companies with low Environmental, Social, and Governance (ESG) scores if they are rewarded with greater predicted profits. We refer to this as the "ESG-risk premium." The expectation of lower returns tends to rise when investors allocate a larger percentage of their portfolios to stocks that perform the best in terms of ESG. The reason for this is that businesses with high ESG scores tend to have lower capital costs, which might result in lower expected returns for investors. Furthermore, the projected profits may decline much more if investors stick to this approach for an extended length of time.

This is due to the fact that businesses with low ESG scores typically have greater capital costs, which puts them at a competitive disadvantage. Consequently, ESG investors can choose to invest in companies with high ESG ratings and steer clear of those with low scores, which would increase the latter's cost of capital. In conclusion, the study demonstrates that investors will only hold low-scoring ESG companies if they are paid with greater predicted profits; as a result, investors' willingness to hold these companies declines and their portfolios become more skewed toward equities with the best ESG performance. For as long as investors stick with this technique, this tendency will continue.

Comparing this research to earlier studies reveals that it makes numerous contributions: 1) Firm ownership: The performance of a firm can be positively or negatively impacted by foreign, family, and state-owned ownership. Firm ownership affects emerging markets differently than it does industrialized nations, as evidenced by earlier research. 2) The moderating variable ESG score may have a negative correlation or perhaps an additional impact on the relationship between business ownership and performance. According to earlier research, "premium" from high-scoring ESG companies may be influenced by investor preference and erratic demand, and enterprises with lower ESG ratings may have more capital costs. Given the limited research conducted on firm ownership with ESG as a moderating variable in Southeast Asia, particularly in the context of Indonesia, it is essential to investigate this topic further.

2.9 Research Framework

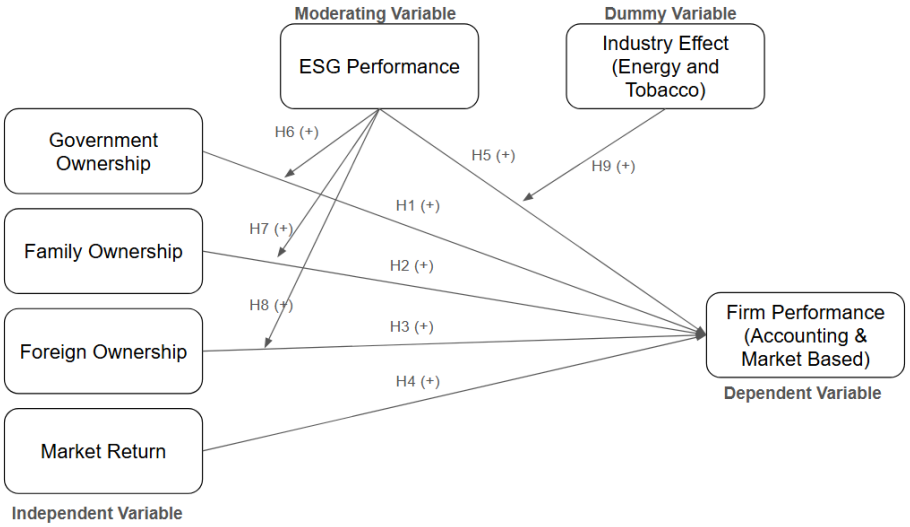


Figure 2.1 Research Framework (Author, 2024)

2.10 Hypothesis Development

Government Ownership and Firm Performance

As investors of state owned companies, the majority assume a government that is a *pro rakyat*, monitoring company management from the sake of all shareholders, then governance ownership will give a positive impact to a firm. In addition, previous study confirms that state ownership lowers expropriation risk as they have the implicit backing of their home country governments, especially when those governments are powerful (Knutsen et al., 2011). This shows the positive effect of government ownership on company performance.

H1 : Government ownership affect company performance positively

If government ownership companies have a good performance on ESG, it will have an additional positive impact towards the performance.

H1A: ESG score moderate relationship between ESG and firm performance.

Family Ownership and Firm Performance

The majority of investors should look towards type of ownership when investing in a company. Investors might choose to invest in family owned companies, as family ownership will take care of the firms and controls might give a good outcome for investors. In the United States, family firms are generally associated with higher valuations and profitability compared to nonfamily firms (McConaughy et al., 1998; Anderson and Reeb, 2003). Research by Villalonga and Amit (2004) suggests that the "family premium" in the US is primarily attributed to the presence of founding family CEOs. While state owned ownership also has major implications, studies by (Yu, Mei xxx) indicate that the state shareholder exerts both a 'grabbing hand' and a 'helping hand' on Chinese PLCs.

H2 : Family ownership affect company performance positively

If family ownership companies have a good performance on ESG, it will have an additional positive impact towards the performance.

H2A: ESG score moderate relationship between ESG and firm performance.

Foreign Ownership and Firm Performance

Most of the time, the activity of foreign ownership, especially in emerging countries, has been a sign if a company has a good performance or not. The more foreign investors, the better indicator it is for investors and act as a green light. A study by Wiwattanakantang (2001) examines the influence of controlling shareholders on the financial performance of firms in Thailand. His analysis reveals that firms with controlling shareholders tend to outperform their peers in terms of accounting-based metrics, such as return on assets (ROA) and the sales-assets ratio.

H3 : Foreign ownership affect company performance positively

If foreign ownership companies have a good performance on ESG, it will have an additional positive impact towards the performance.

H3A: ESG score moderate relationship between ESG and firm performance.

ESG and Firm Performance

The importance of ESG has been recognized by investors. As interest in environmental, social, and governance (ESG) strategies grows, the Indonesian stock exchange has seen an increase in demand for index launches, including ESG-Leaders and ESG-SRIkehati. The question of whether ESG strategies improve financial performance is still controversial and a mystery to the financial community, despite significant investments in ESG strategies made in recent years by major institutions like insurance companies, pension funds, and sovereign wealth funds, as well as growing interest from other investors like wealth management and retail investors.

Fu and Loang (2024) study looks at how ESG affects financial success. The results indicate that there is a positive correlation between financial performance and ESG performance, and that digital transformation has a moderating effect on this relationship. Additionally, a study by Sarhan and Al-Najjar (2022) looks at the function of executive compensation in connection to corporate governance, shareholding structure, and corporate social responsibility. The researchers find that executive compensation has a significant role in the relationship between corporate governance and shareholding structure and corporate social responsibility. This finding highlights the significance of aligning executive compensation with corporate social responsibility goals in order to promote a socially responsible culture within organizations. Given the robust associations that exist between ESG and company success, it is imperative to incorporate ESG into research to determine whether ESG performance (score) may improve firm performance and serve as a remedy for family ownership.

H4 : Market Return affect company performance positively

Market return refers to overall return of the market, where investors usually used also as a measure of risk/volatility. Bhowmik and Wang (2020) mentioned that market returns are highly correlated with economic performance, and sometimes are used as indicators towards the future of monetary policy. In this research, it is interesting to see how market returns affect company performance, both accounting and market based performance within Indonesian firms.

H5: ESG score positively affect Firm performance

ESG refers to the non-financial aspect. As much as implementing ESG is related to cost, it is interesting to see how ESG as a factor will reflect a firm accounting and market based performance. As ESG provides better cost of debt and easier access to capital, which might enhance firms financial performance in Indonesia.

H6 : ESG score moderate the relationship between Government Ownership and Firm Performance.

ESG Score and Government Ownership

According to the Mckinsey Survey in 2019, it is strongly believed that the ESG program will contribute more to shareholders in the long run. Moreover, investors are also willing to pay a 10% average premium to acquire companies that have a positive record regarding ESG issues. In Indonesia, it is interesting to see firms with government control. Study by Alazaani, Rahmah (2022) in Saudi Arabia shows that Government Ownership has a negative impact in controlling the board of directors and influences the quality of information shared to the public, which may have an impact on ESG performance.

H7 : ESG score moderate the relationship between Family Ownership and Firm Performance.

ESG Score and Family Ownership

ESG performance has been around since the demand for green investing keeps rising. In emerging markets such as Indonesia, it is interesting to foresee further studies, as how would the market respond to a firm with a good ESG performance. In this case, family ownership has been shown as a significant contributor in Indonesia's economy. Study by Sun, Wang, and Dabic (2023) in China shows that family ownership and controls both effectively affect ESG score. In the Chinese context, this interpretation may be aligned with cultural explanations, and the jia guo concept can be used to support this claim. Jia guo

refers to the general sentiment of people influenced by Chinese culture and tradition that exalts the intersection between nationalism and familism. This concept leads individuals to be proud of their social surroundings, both in their close environment (familism) and in society more broadly (nationalism)

H8 : ESG score moderate the relationship between Foreign Ownership and Firm Performance.

ESG Score and Foreign Ownership

Foreign ownership in Indonesia has been known to have a positive impact on the economy. As the government purposely gave incentives to foreign direct investment in Indonesia, it is interesting to see how ESG performance affects Foreign ownership towards firm performance. Singhania and Saini (2018) shows foreign ownership negatively moderates the relationship between ESG and firm performance. The study outlines the controlling effect of foreign as a moderating variable. In this study, ESG score will be tested as a moderating variable towards controlling ownership from foreign, and how it will impact the relationship.

H9: Energy and Tobacco moderate the relationship between ESG and Firm Performance.

Energy and Tobacco Industry with ESG & Firm Performance

ESG topics have been around for, especially for the last three years in Indonesia. As more and more companies are taking accounts towards their ESG scoring to boost investor confidence. It is interesting to see where a company operates into specific industries such as Energy and Tobacco. From this research, the author suggests that from 42 short-listed companies, energy and tobacco related industries have become interesting insights. As some energy companies have higher ESG compliance compared to other industries that logically have lower impact towards the environment. Through the

research, energy and tobacco companies are relevant to be researched if they have any impact towards ESG and Firm Performance.

Research Title	Location	Author	Dependent	Independent	Paraphrase
The contributions of betas versus characteristics to the ESG premium	Rome, Italy	Rocco Ciciretti a,b , Ambrogio Dalò c,* , Lammertjan Dam c	ESG Characteristic and ESG Factor Betas	ESG Premium	In conclusion, the study suggest that when compensated with higher expected returns, investor are disposed to hold firms with low ESG score.
Do Environmental, Social and Governance (ESG) Performance Scores Reduce the Cost of Debt? Evidence from Indian firms	Indian	Ankit Arora1 and Dr. Dipasha Sharma	Cost of Debt	ESG Disclosure Score, Environmental Disclosure Score, Social Disclosure Score, Governance Disclosure Score	The ESG score influences the cost of loan component, with higher ESG scores resulting in reduced borrowing costs for the firm. This association is substantial at the 6% level.
Ownership concentration and stock returns : Evidence from family firms in India	Indian	Shantaram Hegdea , Rama Sethb,S.R. Vishwanathad	family ownership	Firm attributes, legal protection, and firm performance	The study elaborates on a fast growth and less competitive market, family enterprises have negative average abnormal returns. On the other hand, when the market is less competitive, family dominance in India improves firm performance.
Family ownership and firm performance: Empirical evidence from Western European corporations	West Europe	Benjamin Maury	Firm Performance	Family Ownership	The study concludes that active family controls boost profitability but has little effect on the profitability of family enterprises when compared to non family firms.
Founding-Family Ownership and Firm Performance: Evidence from the S&P 500	USA	RONALD C. ANDERSON and DAVID M. REEB	Firm Performance	Family Ownership	Family enterprises perform similarly to non family firms. But Faccio et al. (2001) found that family ownership in East Asia creates conflicts that negatively impact firm performance.
Family ownership and firm performance: Influence of family management, family control, and firm size	Taiwan	Wenyi Chu	Firm Performance	Family management, family control, and firm size	Founders from family controls enhances firm performance. The study shows that firms with dynamic family executives control in management creates an advantage
Foreign investors and stocks' volatility: evidence from COVID-19	India	Shallu Batra, Mahender Yadav and Mohit Saini	Stock Volatility	Foreign Investor	The findings found that foreign investors lead to reduced company market volatility.
The Impact of Foreign Ownership on Firm Performance, Evidence from an Emerging Market: Turkey	Turkey	Ali Osman Gurbuz and Asli Aybars	Firm Performance	Foreign Ownership	Foreign investor boost firms performance in Turkey
Foreign Ownership and Firm Performance: Emerging Market Acquisitions in the United States	USA	ANUSHA CHARI, WENJIE CHEN, and KATHRYN M.E. DOMINGUEZ	Firm Performance	Foreign Ownership and Market Acquisition	The study suggest that acquisitions by companies from developing countries impact postacquisition of U.S. target firms
Foreign ownership and firm performance: evidence from Japan's electronics industry	Japan	Makoto Nakanoa and Pascal Nguyen	Firm Performance	Foreign Ownership	In Japan, foreign investors is linked to better market performance for firms.

Governments as owners: State-owned multinational companies	USA	Alvaro Cuervo-Cazurra, Andrew Inkpen, Aldo Musacchio3 and Kannan Ramaswamy		State Owned ownership	The study indicates potential conflict between the goals of state officials and citizen, as they would focused on holding their position while citizen would want to look towards better firm performance
State ownership and firm performance : Empirical evidence from Chinese listed companies	China	Mei Yu	Firm Performance	State Owned ownership	In China, state ownership show negative impact on firm performance due to government intervention, while on the other hand it might boost profitability of an enterprises where government act as a positive influence.
The Performance Differential between Private and State Owned Enterprises: The Roles of Ownership, Management and Market Structure	Norway	Eskil Goldeng, Leo A. Grünfeld and Gabriel R. G. Benito	Firm Performance	The Roles of Ownership, Management and Market Structure	In Norway, it is shown that firms show weaker performance which the companies is owned and managed by the government.
Impact of ownership structure and dividend on firm performance and firm risk	India	Rajverma, A. K., Misra, A. K., Mohapatra, S., & Chandra, A. (2019).	Firm Performance and Firm Risk	Ownership Structure and Dividend	Family firms perform worse compared to non family firms, in terms of firm performance, divididend and systematic risk.
Ownership structure and corporate financial performance in an emerging market: a dynamic panel data analysis	Pakistan	Din, S. U., Khan, M. A., Khan, M. J., & Khan, M. Y. (2021).	Corporate Financial Performance	Ownership Structure	In Pakistan, institutional ownership generates as a booster for firm performance. In addition, it helps reduce conflict of interest between managers, and add level of monitoring for firms with institutional investor.
ESGDisclosure in an Emerging Market: An Empirical Analysis of the Influence of Board Characteristics and Ownership Structure	Latin America	Jaime F. Lavin 1 and Alejandro A. Montecinos-Pearce	ESG Disclosure Score	Influence of Board Characteristics and Ownership Structure	The study shows higher ESG indicators can be contributed from indendependent director.
Does ESG Reporting Relate to Corporate Financial Performance in the Context of the Energy Sector Transformation? Evidence from Poland. Energies,	Poland	Baran, M., Kuźniarska, A., Makieła, Z., Sławik, A., & Stuss, M. M. (2022b).	ESG Performance	Accounting based measures of profitability	The study give findings that ESG performance has negative relationship with firm performance on energy sector. It indicates that ESG performance improves, financial performance tends to decrease.
Performance relevance of environmental and social disclosures	India	Neha Saini and Monica Singhania	ESG Performance	Foreign Ownership and Firm Profitability	The study found that ESG disclosure has positive impact towards firm performance. Where firms with higher esg score do perform with higher financial performance. On the other hand, foreign investor negatively correlates with ESG Performance

Does Government Ownership Affect Corporate Governance and Corporate Disclosure? Evidence from Saudi Arabia	Saudi Arabia	Al-Janadi, Y., Rahman, R. A., & Alazzani, A. (2016).	Government Ownership	Corporate Governance and Voluntary Disclosure	The study indicate potential conflict in government ownership, that government ownership reduced performance in corporate governance.
Environmental, social and governance (ESG) activity and firm performance: a review and consolidation	Australia	Huang, D. (2019b).	ESG Performance	Firm Performance	There are low impact between ESG Performance and Financial Performance with many conditions. It shows that ESG have bigger impact towards firm performance compared to social and goverment impact
Are family ownership and control in large firms good, bad, or irrelevant?	Asia	Jiang, Y., & Peng, M. W. (2010b)	Family ownership	Firm Performance	Study founds that enterprises show weaker result when being led by family CEO.
Does ESG disclosure influence firm performance?	Italia	Pulino, S. C., Ciaburri, M., Magnanelli, B. S., & Nasta, L. (2022b).	ESG Disclosure Score	Firm Performance	The study confirms its findings, that Italian firms perform better financially, when they have a good ESG Disclosure.

2.1 List of Previous Study for Referring Journal

CHAPTER III
Research Methodology

3.1 Research Design

This research uses quantitative design to examine the effect of firm ownership and ESG Performance towards firm performance and market performance; while also examining the moderating effect of ESG Performance (Score) and Firm Performance, and moderating effect of Tobacco Industry and Energy Industry towards ESG and Firm Performance. Firm Ownership data is taken from a firm's annual report or financial report with confirmation data from RTI Business. To measure a company's performance, there are two aspects: Market Based and Accounting Based measurement. In this research, Tobins'Q is used to measure firm market performance, while ROE and NPM are used to measure accounting based performance as control variables. Agarwal and Taffler (2008) mentioned that using both market based and accounting based approaches will help capture relevant information from historical financial data (Accounting-based) and to reflect current market perceptions from market based approach.

Tobacco Industry and Energy Industry are constructed by a dummy variable. For ESG Score, it is taken from REFINITIV ESG Scoring database, where scoring of environmental, social, and governance of a publicly traded company in Indonesia is available for at least 3 years. Firm Performance, ESG Score, Tobacco and Energy Industry, and Firm Performance is examined using panel data analysis.

3.2 Operational Variables

3.2.1 Energy and Tobacco Industry

A Dummy variable is set for this variable, with 1 is for a company which operates in the Energy and Tobacco Industry, and 0 when the company is not included in the Energy and Tobacco Industry.

3.2.2 Firm Ownership

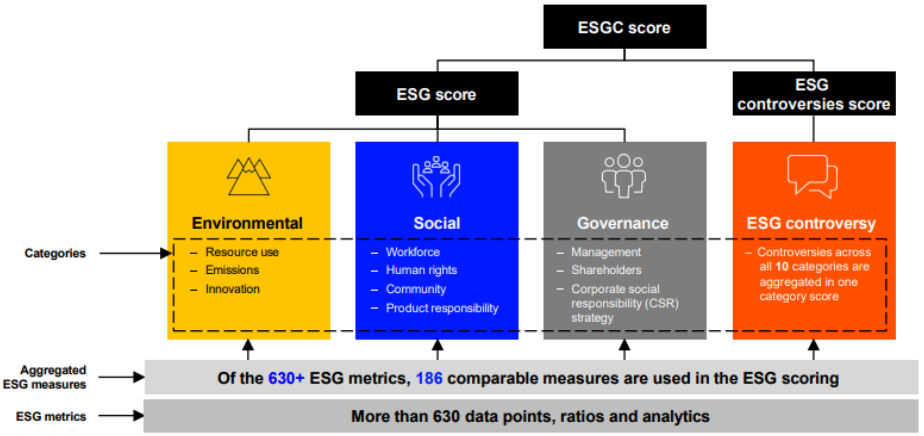
Firm ownership is taken from a company's annual report. A firm ownership is divided into three parts: Government ownership, Family ownership, and Foreign ownership. In Indonesia, those three are the most common and have the biggest impact towards actions taken for the company. Using data from the annual report combined with confirmation from RTI Business, the researcher then marks 1 for ForeignAffiliated, FamilyAffiliated, and GovernmentAffiliated.

3.2.3 ESG Score

ESG Score is taken from REVINITIV data machine, with categories of:

1. Availability of ESG Score from Environmental, Social, and Governance (ESG).
2. Data of listed companies is available for a minimum of the past three years.

Figure 3.1 ESG Matrix from Revinitiv (LSEG)



3.2.4 Firm Performance: Accounting Based and Market Based Performance

To rule out alternative explanations for the findings, performance is measured both by accounting and market performance. Accounting based measurements (ROE,NPM) are taken from a company's annual report. While a market based approach is used to measure overall firms performance, using Tobin's Q ratios that are taken from firms market capitalization, with assets and liabilities taken through the financial statements.

Profitability Ratio (Accounting Based), as Control Variables

Return on Equity (ROE) is a financial metric used to evaluate a company's profitability by measuring the amount of net income generated from each dollar of shareholder equity. It is a key performance indicator that helps investors and analysts assess a company's ability to generate profits from the money invested by shareholders.

$$ROE = \frac{Net\ Income_{i,t}}{Total\ Equity_{i,t}}$$

3.1 Formula of ROE

Where;

$ROE_{i,t}$ = Return On Equity of company i at period of t

$Net\ Income_{i,t}$ = Net Income of company i at period of t

$Total\ Asset_{i,t}$ = Total Equity of company i at period of t

The result of the Return on Equity (ROE) formula is expressed as a percentage, indicating the proportion of net income generated from each dollar of shareholders' equity. For instance, if a company's ROE is 15%, it implies that for every dollar invested in shareholders' equity, the company generates 15 cents in net income. From the perspective of investors, a higher ROE is generally considered more desirable than a lower one, as it suggests that the equity is being utilized efficiently to produce a profit. A high ROE signifies that the investment in equity is yielding a positive return, which is a key consideration for investors.

The net profit margin is a financial metric used to evaluate a company's profitability by measuring the percentage of net income. It is calculated by dividing the net income by the total revenue and then multiplying by 100 to express as a percentage.

$$NPM = \frac{Net\ Income_{i,t}}{Total\ Revenue \times 100_{i,t}}$$

3.2 Formula of NPM

Where;

$NPM_{i,t}$ = Net profit margin of company i at period of t

$Net\ Income_{i,t}$ = Net Income of company i at period of t

$Total\ Revenue_{i,t} \times 100$ = Total Equity of company i at period of t

The result of the Net Profit Margin (NPM) formula is expressed as a percentage, indicating the proportion of net income generated from each dollar of revenue. For instance, if a company's NPM is 15%, it implies that for every dollar of revenue, the company generates 15 cents in net income. From the

perspective of investors, a higher NPM is generally considered more desirable than a lower one, as it suggests that the company is able to maintain a high level of profitability from its sales. A high NPM signifies that the company is able to generate a significant amount of profit from its revenue, which is a key consideration for investors.

Firm Performance (Tobin's Q)

Tobin's Q, also known as the Q ratio, is a financial metric that measures the market value of a company's assets relative to their replacement cost. It is named after James Tobin, who introduced the concept in the 1970s. The Q ratio is calculated by dividing the market value of a company's assets by their replacement value, which is the cost of replacing those assets.

The Q ratio is used to evaluate a company's investment decisions and to assess its financial performance. A Q ratio greater than 1 indicates that the company's assets are worth more than their replacement cost, suggesting that the company has made good investment decisions and that its assets are being used efficiently.

$$Tobins'Q = \frac{Market\ Value\ Equity\ (\ Market\ Cap) + Total\ Debt}{(Total\ Asset)}$$

3.3 Formula of Tobins'Q

The suspension from Tobin's Q ratio encompasses the following, as stated by Sudiyanto and Puspitasari (2010):

1. **Overvaluation:** If Tobin's Q > 1, it indicates that the company's management is successful in managing the assets or assets of the company, suggesting that the company is overvalued.
2. **Undervaluation:** If Tobin's Q < 1, it means that the company's management has failed in managing the assets or assets of the company, suggesting that the company is undervalued.
3. **Average Performance:** If Tobin's Q = 1, it indicates that the company's management is stagnant in the management of company assets, suggesting that the company is performing at an average level.

Firm Performance (Stock Return)

A stock return essentially means the gain or loss made on an investment over a period of time. Within the scope of this research, stock returns refer to how well a company performs in a stock market, in order to see the market based performance.

$$Stock\ Return_{it} = \frac{P_1 - P_0}{P_0}$$

3.4 Formula of Stock Return

Where;

$Stock\ Return$= Stock Return of company i at period of t

P_1 = Stock Price from the end of a period

P_0 = Stock Price from the beginning of a period

3.3 Population and Sampling

Purposive sampling is used in this research. Purposive sampling is used to enhance the alignment of the sample with the research's objectives, thereby increasing the study rigor and reliability of the data and results. As purposive sampling has been described to push credibility, transferability, dependability, and confirmability. Population of this research is firms listed in IDX ESG which partners with Morningstar Sustainalytics to conduct ESG scoring. Then, the researcher shortlisted the companies if it has three years (2022-2020) availability in the REVINITIV database. Maximum availability of ESG Scoring companies in Indonesia is in 2020, after 2020 the data is not available as most of the ESG score for Indonesian companies is started after 2020.

Table 3.1 List of Shortlisted ESG Scoring Companies

No	CODE	Company Name	Industry	ESG History (3 Years)	Financial Statement
1	ACES	PT Ace Hardware Indonesia Tbk	Specialty Retailers	Yes	Yes
2	ADRO	PT Adaro Energy Indonesia Tbk	Coal	Yes	Yes
3	AKRA	PT AKR Corporindo Tbk	Oil & Gas	Yes	Yes
4	ANTM	PT Aneka Tambang Tbk	Gold	Yes	Yes
5	ASII	PT Astra International Tbk	Consumer Goods Conglomerates	Yes	Yes
6	ASSA	PT Adi Sarana Armada Tbk	Passenger Transportation, Ground, & SEA	Yes	Yes
7	BBCA	PT Bank Central Asia Tbk	Banks	Yes	Yes
8	BBNI	PT Bank Negara Indonesia (Persero) Tbk	Banks	Yes	Yes
9	BBRI	PT Bank Rakyat Indonesia (Persero) Tbk	Banks	Yes	Yes
10	BBTN	PT Bank Tabungan Negara (Persero) Tbk	Banks	Yes	Yes
11	BMRI	PT Bank Mandiri (Persero) Tbk	Banks	Yes	Yes
12	BMTR	PT Global Mediacom Tbk	Broadcasting	Yes	Yes
13	BRPT	PT Barito Pacific Tbk	Commodity Chemicals	Yes	Yes
14	BSDE	PT Bumi Serpong Damai Tbk	Real Estate	Yes	Yes
15	CPIN	PT Charoen Pokphand Indonesia Tbk	Fishing & Farming	Yes	Yes
16	EMTK	PT Elang Mahkota Teknologi Tbk	Broadcasting	Yes	Yes
17	EXCL	PT XL Axiata Tbk	Telecommunications	Yes	Yes
18	GGRM	PT Gudang Garam Tbk	Tobacco	Yes	Yes
19	HMSP	PT HM Sampoerna Tbk	Tobacco	Yes	Yes
20	ICBP	PT Indofood CBP Sukses Makmur Tbk	Food Processing	Yes	Yes
21	INCO	PT Vale Indonesia Tbk	Mining and Metals	Yes	Yes
22	INDF	PT Indofood Sukses Makmur Tbk	Food Processing	Yes	Yes
23	INKP	PT Indah Kiat Pulp & Paper Tbk	Paper Products	Yes	Yes
24	INTP	PT Indocement Tunggal Prakarsa Tbk	Construction Materials	Yes	Yes
25	ISAT	PT Indosat Tbk	Telecommunications	Yes	Yes
26	ITMG	PT Indo Tambangraya Megah Tbk	Coal	Yes	Yes
27	JSMR	PT Jasa Marga Tbk	Highway & Rail Tracks	Yes	Yes
28	KLBF	PT Kalbe Farma Tbk	Pharmaceuticals	Yes	Yes
29	MDKA	PT Merdeka Copper Gold Tbk	Diversified Mining	Yes	Yes
30	MNCN	PT Media Nusantara Citra Tbk	Broadcasting	Yes	Yes
31	PGAS	PT Perusahaan Gas Negara Tbk	Natural Gas	Yes	Yes
32	PTBA	PT Bukit Asam Tbk	Coal	Yes	Yes
33	PWON	PT Pakuwon Jati Tbk	Real Estate	Yes	Yes
34	SCMA	PT Surya Citra Media Tbk	Broadcasting	Yes	Yes

35	SMGR	PT Semen Indonesia (Persero) Tbk	Construction Materials	Yes	Yes
36	SMRA	PT Summarecon Agung Tbk	Real Estate	Yes	Yes
37	TBIG	PT Tower Bersama Infrastructure Tbk	Integrated Telecommunication Services	Yes	Yes
38	TKIM	PT Pabrik Kertas Tjiwi Kimia Tbk	Paper Products	Yes	Yes
39	TLKM	PT Telkom Indonesia (Persero) Tbk	Telecommunications	Yes	Yes
40	TOWR	PT Sarana Menara Nusantara Tbk	Integrated Telecommunication Services	Yes	Yes
41	UNTR	PT United Tractors Tbk	Coal	Yes	Yes
42	UNVR	PT Unilever Indonesia Tbk	Household Product	Yes	Yes

3.4 Data Collection Method

The Firm Ownership data is extracted from the firm's annual reports and RTI Business, ESG Score information is extracted from Revinitiv database from 2022 to 2020 which enables three years of ESG score availability. The purpose is to determine the ESG Performance of a company for the past three years. For Firm Performance, it is taken from the firm's annual reports. Firms market performance is measured through daily stock movement which is annualized and compared to JKSE market performance.

3.5 Data Analysis Techniques

The data were analyzed using a regression method of panel data, and *were sectioned using EViews software tool.* The panel data means statistical methods with regression using panel data or pooled data was a combination between time series & cross section data.

For this research, the regression model are:

$$Yit = \beta_0 + \beta_1 Xit + \beta_2 Zit + \beta_3 Xit + \beta_4 Zit + \beta_5 Xit +$$

$$\beta_6 Zit + \beta_7 Xit + \beta_8 Zit + \beta_9 Zit + \varepsilon it$$

3.5.1 Estimation of Panel Data Regression Model Using Firm Performance (Tobin's Q)

For this research, the models used are:

$$TobinsQit = \alpha_0 + \alpha_1 FamilyO_{it} + \alpha_2 StateO_{it} + \alpha_3 ForeignO_{it} + \alpha_4 ESG_{it} + \alpha_5 Market$$

$$\alpha_6 ESG * FamilyO_{it} + \alpha_7 ESG * StateO_{it} + \alpha_8 ESG * ForeignO_{it} +$$

$$\alpha_9 DumTobacEnerg_{it} * ESG_{it} + \alpha_{10} DumTobacEnerg * ESG_{it} + \varepsilon i$$

3.5 Regression Model for Tobin's Q

Where:

$TobinsQ_{it}$= The firm Tobin's Q of company i on t period of time

$\beta 0 =$ Regression model intercept

$\beta 1$ = Coefficient Parameters; Family Ownership

$\beta 2$ = Coefficient Parameters; State Ownership

$\beta 3$ = Coefficient Parameters; Foreign Ownership

$\beta 4$ = Coefficient Parameters; ESG Performance

$\beta 5$ = Coefficient Parameters; Market Return

$\beta 6$ = Coefficient Parameters; ESG towards Family Ownership

$\beta 7$ = Coefficient Parameters; ESG towards State Ownership

$\beta 8$ = Coefficient Parameters; ESG towards Foreign Ownership

$\beta 9$ = Coefficient Parameters; Industry Effect (Energy) towards ESG

$\beta 10 =$ Coefficient Parameters; Industry Effect (Tobacco) towards ESG

$\epsilon it =$ Component error of time period and cross-sectional data observation.

Using Stock Return

For this research, the models used are:

$$SReturnQit = \beta_0 + \beta_1 FamilyO_{it} + \beta_2 StateO_{it} + \beta_3 ForeignO_{it} + \beta_4 ESG_{it} +$$

$$\beta_5 MarketR_{it} + \beta_6 ESG * FamilyO_{it} + \beta_7 ESG * StateO_{it} + \beta_8 ESG * ForeignO_{it}$$

$$+ \beta_9 DumTobacEnerg_{it} * ESG_{it} + \beta_{10} DumTobacEnerg * ESG_{it} + \varepsilon i$$

3.6 Regression Model for Stock Return

Where:

$SReturnQ_{it}$= The firm Stock Return of company i on t period of time

β0 = Regression model intercept

β1 = Coefficient Parameters; Family Ownership

β2 = Coefficient Parameters; State Ownership

β3 = Coefficient Parameters; Foreign Ownership

β4 = Coefficient Parameters; ESG Performance

β5 = Coefficient Parameters; Market Return

β6 = Coefficient Parameters; ESG towards Family Ownership

β7 = Coefficient Parameters; ESG towards State Ownership

β8 = Coefficient Parameters; ESG towards Foreign Ownership

β9 = Coefficient Parameters; Industry Effect (Energy) towards ESG

β10 = Coefficient Parameters; Industry Effect (Tobacco) towards ESG

ϵit = Component error of time period and cross-sectional data observation.

Using Return on Equity as Control Variables (ROE)

For this research, the models used are:

$$ROEit = \gamma_0 + \gamma_1 FamilyO_{it} + \gamma_2 StateO_{it} + \gamma_3 ForeignO_{it} + \gamma_4 ESG_{it} +$$

$$\gamma_4 MarketR_{it} + \gamma_5 ESG * FamilyO_{it} + \gamma_6 ESG * StateO_{it} + \gamma_7 ESG * ForeignO_{it} +$$

$$\gamma_8 DumTobacEnerg_{it} * ESG_{it} + \gamma_9 DumTobacEnerg * ESG_{it} + \varepsilon i$$

3.7 Regression Model for ROE

Where:

ROE_{it}= The firm Return on Equity of company i on t period of time

β0 = Regression model intercept

β1 = Coefficient Parameters; Family Ownership

β2 = Coefficient Parameters; State Ownership

β3 = Coefficient Parameters; Foreign Ownership

β4 = Coefficient Parameters; ESG Performance

β5 = Coefficient Parameters; Market Return

β6 = Coefficient Parameters; ESG towards Family Ownership

β7 = Coefficient Parameters; ESG towards State Ownership

β8 = Coefficient Parameters; ESG towards Foreign Ownership

β9 = Coefficient Parameters; Industry Effect (Energy) towards ESG

β10 = Coefficient Parameters; Industry Effect (Tobacco) towards ESG

ϵit = Component error of time period and cross-sectional data observation.

Using Net Profit Margin as Control Variables (NPM)

For this research, the models used are:

$$NPMit = \kappa_0 + \kappa_1 FamilyO_{it} + \kappa_2 StateO_{it} + \kappa_3 ForeignO_{it} + \kappa_4 ESG_{it} +$$

$$\kappa_4 MarketR_{it} + \kappa_5 ESG * FamilyO_{it} + \kappa_6 ESG * StateO_{it} + \kappa_7 ESG * ForeignO_{it} +$$

$$\kappa_8 DumTobacEnerg_{it} * ESG_{it} + \kappa_9 DumTobacEnerg * ESG_{it} + \varepsilon i$$

3.8 Regression Model for NPM

Where:

NPM_{it}=The firm Net Profit Margin of company i on t period of time

β0 = Regression model intercept

β1 = Coefficient Parameters; Family Ownership

β2 = Coefficient Parameters; State Ownership

β3 = Coefficient Parameters; Foreign Ownership

β4 = Coefficient Parameters; ESG Performance

β5 = Coefficient Parameters; Market Return

β6 = Coefficient Parameters; ESG towards Family Ownership

β7 = Coefficient Parameters; ESG towards State Ownership

β8 = Coefficient Parameters; ESG towards Foreign Ownership

β9 = Coefficient Parameters; Industry Effect (Energy) towards ESG

β10 = Coefficient Parameters; Industry Effect (Tobacco) towards ESG

$\epsilon it =$ Component error of time period and cross-sectional data observation.

In the realm of panel data analysis, researchers are fortunate to have a diverse array of analytical methods at their disposal. These methods include the Common Effects Model (CEM), which combines all data without considering time and individual dimensions, the Fixed Effect Model (FEM), which accounts for individual-specific effects, and the Random Effect Model (REM), which captures individual-specific differences while allowing for some degree of randomness. Each of these models offers a unique approach to analyzing panel data, and they can be used to address different research questions.

The Common Effects Model (CEM) is a straightforward approach that combines all the data without considering the time and individual dimensions. This means that the model treats all the data as a single unit, ignoring the panel data's site and time dimensions. As a result, the CEM is essentially equivalent to a linear regression model, with non-different (constant) intercept and slope coefficients. This approach is often used when the researcher is interested in the overall relationship between the dependent and independent variables, without considering the individual and time-specific effects.

The Fixed Effect Model (FEM) is a more advanced approach that accounts for individual-specific effects. This model estimates a separate intercept for each individual, which allows for the capture of individual-specific differences. The FEM is particularly useful when the researcher wants to control for individual-specific factors that may influence the dependent variable.

The Random Effect Model (REM) is another approach that accounts for individual-specific effects, but in a different way. This model estimates a random intercept for each individual, which allows for the capture of individual-specific differences. The REM is particularly useful when the researcher wants to account for individual-specific factors that may influence the dependent variable, but also wants to allow for some degree of randomness in the individual-specific effects.

The models for Common Effects Model (CEM):

$$Y_{it} = a + \beta 1 X1_{it} + \beta 2 X2_{it} + \ldots + \beta_n X_{nit} + \epsilon it$$

3.9 Common Effect Model

The models for Fixed Effects Model (CEM):

$$Y_{it} = a + \beta 1 X1_{it} + \beta 2 X2_{it} + \ldots + \beta_n X_{nit} + ait + \epsilon it$$

3.10 Fixed Effect Model

The models for Random Effects Model (CEM):

$$Y_{it} = a + \beta 1 X1_{it} + \beta 2 X2_{it} + \ldots + \beta_n X_{nit} + \epsilon it + uit$$

3.11 Random Effect Model

3.5.2 Selection of Panel Data Regression Model

3.5.2.1 The Chow Test

The Chow test is a statistical test used to determine whether the coefficients of a regression model are the same across different groups or subpopulations. It is a widely used test in econometrics and statistics to evaluate the homogeneity of regression coefficients across different groups or subpopulations. It is based on the idea that if the coefficients of a regression model are the same across different groups or subpopulations, then the residuals from the regression model should be randomly distributed and should not be correlated with the group or subpopulation membership. The test is based on the F-statistic, which is calculated as the ratio of the variance of the residuals from the restricted model (where the coefficients are assumed to be the same across all groups) to the variance of the residuals from the unrestricted model (where the coefficients are allowed to vary across groups)

. If the F-statistic is significant, it indicates that the coefficients of the regression model are not the same across different groups or subpopulations, and the null hypothesis of homogeneity of coefficients is rejected. If the F-statistic is not significant, it indicates that the coefficients of the regression model are the same across different groups or subpopulations, and the null hypothesis of homogeneity of coefficients is not rejected.

Ho: Probability > 0.05, then Common Effect Model (CEM) is valid to be used.
Ha: Probability < 0.05, then Fixed Effect Model (FEM) is valid to be used.

3.5.2.2 The Hausmen Test

The Hausman test is a statistical test used to determine whether the coefficients of a regression model are consistent with a specific model or not. It is a widely used test in econometrics and statistics to evaluate the validity of a regression model.

The test compares the coefficients of a regression model with the coefficients of a restricted model. The restricted model is a simplified version of the original model, where some of the coefficients are set to zero or are restricted to be equal. The test is based on the idea that if the coefficients of the original model are consistent with the restricted model, then the residuals from the restricted model should be randomly distributed and should not be correlated with the explanatory variables.

Ho: Probability > 0.05, then Random Effect Model (REM) is valid to be used.
Ha: Probability < 0.05, then Fixed Effect Model (FEM) is valid to be used.

3.5.2.3 Langranger Multiplier Test

The Lagrange Multiplier (LM) test is a statistical method that evaluates whether a model accurately captures the underlying relationships in the data. It is a robust tool in model specification testing, with a strong focus on linear regression models. The LM test is founded on the concept of maximizing the likelihood function while adhering to specific constraints, enabling the estimation of model parameters under the assumption that the model is correctly specified.

3.5.3 R Squared

The Coefficient of Determination, also known as R-squared, is a statistical measure that indicates the proportion of the variance in the dependent variable that is explained by the independent variable(s) in a regression model. It is a

widely used metric in econometrics and statistics to evaluate the goodness of fit of a regression model.

The Coefficient of Determination ranges from 0 to 1, where:

1) 0 indicates that the independent variable(s) do not explain any of the variance in the dependent variable.
2) 1 indicates that the independent variable(s) explain all of the variance in the dependent variable.
3) Values between 0 and 1 indicate the proportion of variance explained by the independent variable(s).

3.5.4 F Test (Model Feasibility Test)

The F-test is a statistical method that evaluates whether the variances of two populations or samples are identical. It is a hypothesis-testing procedure that compares the variances of two samples to determine if they can be considered representative of the same normal population with the same variance. This test is particularly useful in various scenarios, such as assessing whether the quality of a product is deteriorating over time or whether income variability differs between two populations.

Ghozali (2011) elaborates that when the calculated F-statistic is less than the critical F-value (0.05), the null hypothesis (H0) is rejected, and the alternative hypothesis (H1) is accepted. This indicates that at least one of the independent variables has a significant impact on the dependent variable.

If the calculated F-statistic is greater than the critical F-value (>0.05), the null hypothesis (H0) is accepted, and the alternative hypothesis (H1) is rejected. This suggests that none of the independent variables have a statistically significant effect on the dependent variable.

3.5.5 T Test (Partial Test)

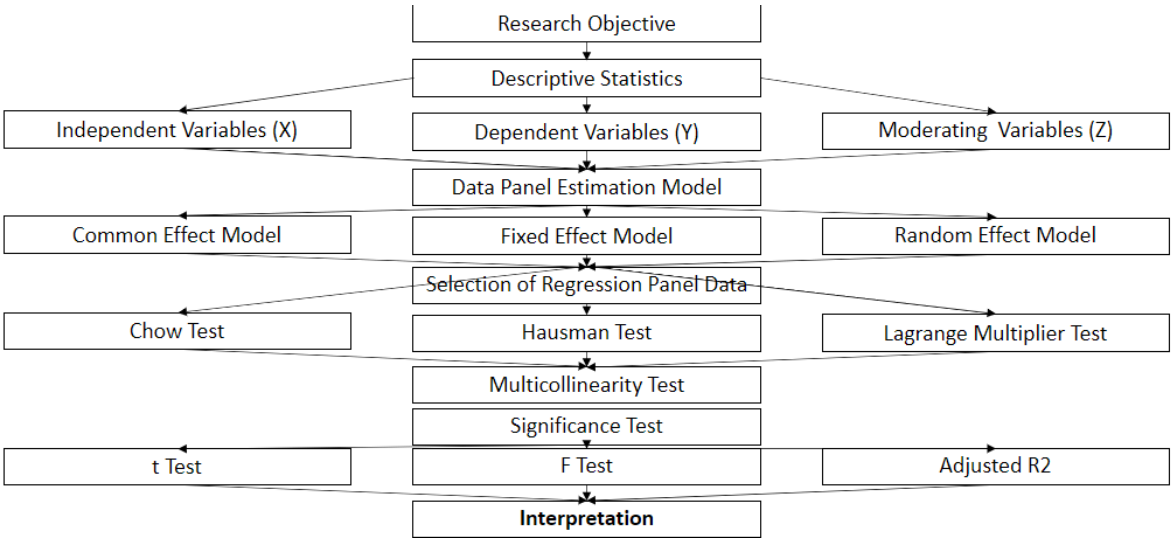
The t-test is a statistical technique employed to identify whether there is a statistically significant difference between the means of two groups. It is a hypothesis-testing procedure that compares the means of two samples to determine if they can be considered representative of the same normal population with the same variance. This test is particularly useful in various

contexts, such as evaluating whether the quality of a product is deteriorating over time or whether income variability differs between two populations.

The t-test provides a p-value, which is the probability of observing the difference between the means, assuming that there is no real difference between the groups. If the p-value is less than a certain significance level, typically 0.05, we reject the null hypothesis and conclude that the difference between the means is statistically significant.

In other words, if the p-value is less than 0.05, we can say with a certain level of confidence that the difference between the means is not due to chance, but rather it is a real difference between the groups. This means that the groups are significantly different from each other.

Data Flow Chart Process, Author (2024)



CHAPTER IV
FINDINGS, ANALYSIS, AND DISCUSSION

4.1 Findings and Analysis

4.1.1 Descriptive Statistics Analysis

Purposive sampling is the method used in this study to screen out all companies for which financial and ESG data for the previous three years are available. When doing analysis, it is important to highlight the fact that all these companies listed have done their work to enhance their ESG Performance, for at least three years. Taking into account ESG, it will be engaging to see how corporate ownership in Indonesia may impact one another with ESG and their industry specific effects.

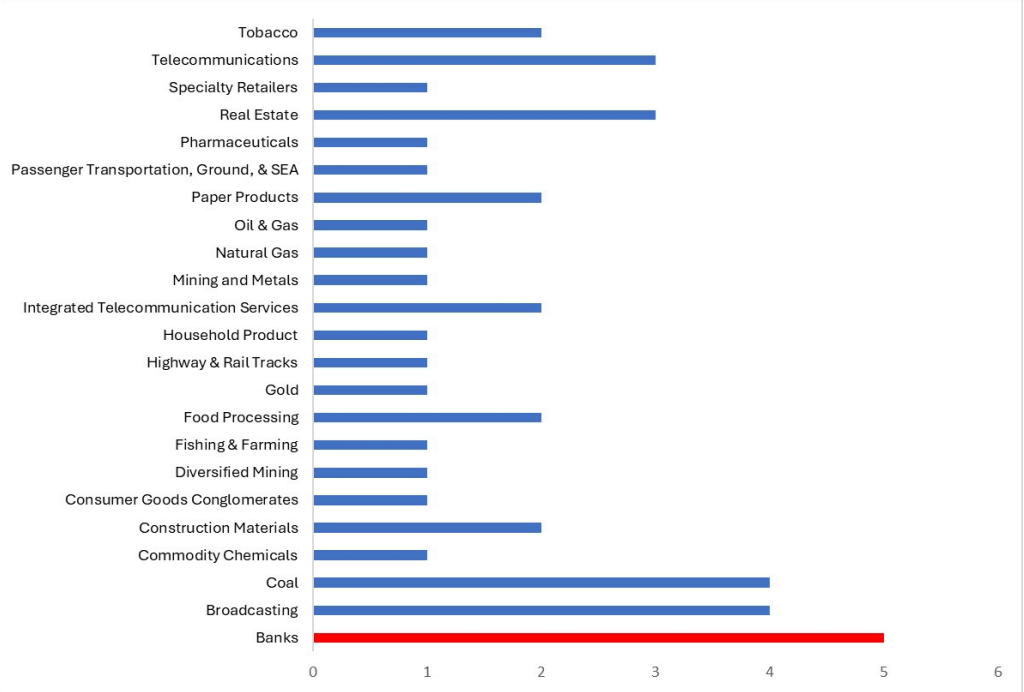


Figure 4.1 Samples Companies per Industry Sector, Author (2024)

Out of 42 Companies, Banks, Broadcasting, and Coal companies dominate the sample, averaging 4-5 companies per industry. Financial industries like banks may or may not benefit from ESG yet the initiatives to become an ESG established company in Indonesia. On the other hand, energy companies like Coal may benefit from development of ESG, as they operate in sensitive industries which have high-impact towards the environment.

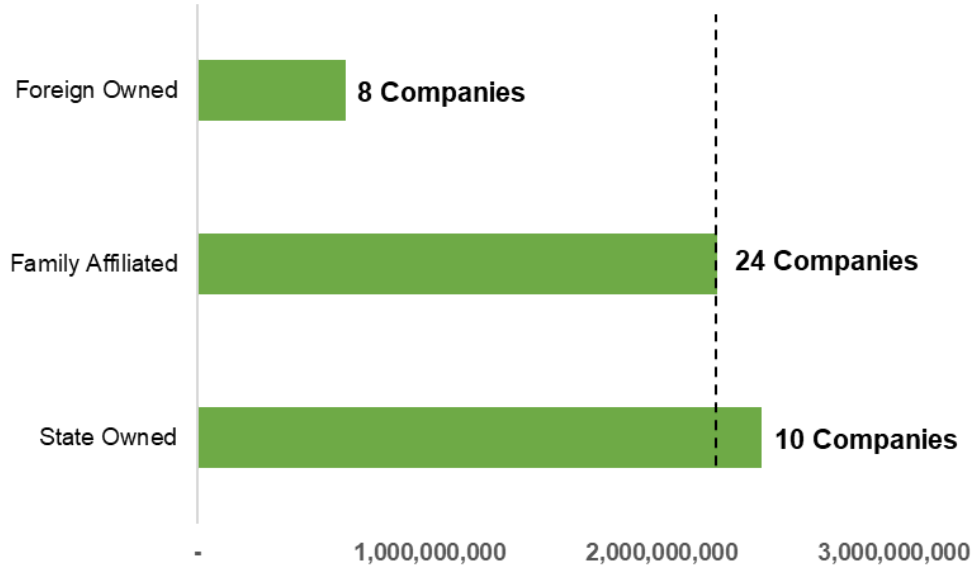


Figure 4.2 Market Cap for Companies per Ownership Structure, Author (2024)

As these research samples 42 shortlisted companies, this research result and implementation might be industry sensitive, and are unable to represent all industries in Indonesia stock market. In addition, this research also might represent only the big companies in Indonesia which have the ability to run ESG initiatives, which might be limited to small to medium sized companies.

Table 4.1 Descriptive statistics

	ForeignO	FamilyO	StateO	ESG	Energy_Industry	Tobacco_Industry	ROE	NPM	Tobins'Q	Stock_Return	M_Return
Mean	10.36698	32.65645	12.95890	54.77230	0.238095	0.047619	17.33595	16.11913	2.783254	11.50532	4.780000
Median	0.000000	38.87050	0.000000	57.04000	0.000000	0.000000	12.35000	13.50000	1.255000	7.140000	4.470000
Maximum	84.99000	92.50000	70.00000	87.17000	1.000000	1.000000	130.1000	49.79000	21.36000	204.0700	10.75000
Minimum	0.000000	0.000000	0.000000	17.00000	0.000000	0.000000	-11.10000	-7.500000	0.300000	-127.8200	-0.880000

Std. Dev	23.80832	30.93901	25.26205	19.01933	0.427618	0.213809	20.95589	10.84193	4.175153	38.94932	4.771959
Observation	126	126	126	126	126	126	126	126	126	126	126

The table above presents a detailed descriptive statistical analysis of the independent and moderating variables, encompassing ownership, ESG, industry, accounting metrics (ROE and NPM), and market-based metrics (Tobin's Q and Stock Return). It discusses how ownership structures in Indonesia (Family, Foreign, and State) vary greatly, within range of 0 to 92%.

Furthermore, stock return within these samples averages 11.5%, with the highest returns reaching 204%. ESG Performance in this research is being extracted from Revinitif Data, averaging 54 with 87 for max data. Return on equity from this research averaged 17%, with NPM averaging 16%. Tobins'q averaging 2,7 with max of 21.36 coming from banking companies. Overall, this part highlights how descriptive analysis comes from 42 companies within 3 years of data observation.

4.1.2 Estimation of Panel Data Regression Model

The purpose of this analysis is to help determine, which regression model is best fitted to support the study. To help gather the optimal results, the panel must be tested by choosing the right regression model, which includes Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM).

In this research, there are 4 regression models that are needed to be tested, which includes 4 dependent variables, covering accounting and market based performance. This research uses net profit margin (NPM) and return on equity (ROE) for accounting measurement, while Tobin's Q and weekly stock return is used for market based measurement. The purpose to include multiple measurements is to help better understand the implications behind the results, which gives clearer vision towards research results.

4.1.3 The Selection of Panel Data Regression Model

This section specifically highlights the purpose towards deciding which model fits the most towards the model estimation. The analytical methods that are being used to test are by comparing the model of Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM). Each model is tested by using Chow Test, Hausman Test, and Lagrange Multiplier Test.

When testing for a **Hausman** Test, if the result is less than 0.1, then we will accept the Fixed Effect Model. While if the result is bigger than 0.1, we accept the Random Effect Model. For **Langrange**, if the result is less than 0.1, then we will accept the Random Effect Model. While if the result is bigger than 0.1, we accept the Common Effect Model. While for **Chow Test**, if the result is less than 0.1, then we will accept the Fixed Effect Model. While if the result is bigger than 0.1, we accept the Common Effect Model.

Out of 4 Regression models, this research test uses Hausment, Lagrange, and Chow Test. Turns out, two regression models are headed towards the Random Effect Model (FEM) and two regression models are chosen for the Common Effect Model (CEM).

Table 4.2 Model Selection

Dep. Variable	Langrage	Hausman	Chow	Conclusion
ROE	Random	Random	-	Random
NPM	Random	Random	-	Random
TOBINS'Q	Random	Common	-	Common
AWR	Common	Random	-	Common

4.1.3 Hypothesis Testing

In a regression model, the Variance Inflation Factor (VIF) and tolerance are both extensively applied tests of the degree of multicollinearity of the independent variable with the other independent variables (O'brien (2007). In

a regression model, multicollinearity is the phenomena whereby two or more independent variables are highly linked, therefore making it challenging to determine the individual effect of each variable on the dependent variable. In this research, we run four VIF tests covering both accounting and market based models.

4.1 Formula for VIF

$$VIFi = \frac{1}{1-R_i^2}$$

Where:

R_i^2 is the R-squared value achieved by regressing the *i*ith independent variable on every other independent variable.

Table 4.2 Variance Inflation Factor

Variance Inflation Factor				
	ROE	NPM	TOBINSQ	AAWR
FAMILYO	3.97	3.97	4.19	4.19
STATEO	3.9	3.9	3.95	3.95
FOREIGNO	2.77	2.77	2.82	2.82
ESG	8.65	8.65	8.82	8.82
MRETURN	-	-	1.9	1.9

The model's interpretation is determined when the VIF exceeds the threshold of 10. If it surpasses this threshold, the independent variable may exhibit high multicollinearity. Across the four regression models, the variance inflation factor consistently remains below 10, indicating that the data do not exhibit multicollinearity.

After conducting several regression tests, the findings have indicated that the Random Effect Model and Common Effect Model are the most suitable models for this study's model selection test. The Random Effect Model (REM) and The Common Effect Model (CEM) generates four regression models, based on accounting and market based measurement:

Table 4.3 Panel Data Regression Summary and Model Result for Market Based (Tobins'Q)

Dependent Variable **Tobins Q**

Independent Variable	Coefficient	T Statistic
FamilyO	0.078618	1.413859
StateO	-0.235290	-2.337456**
ForeignO	0.056152	0.767652
ESG	0.185449	2.841566**
Market R	0.036329	0.554190

Moderating Variable	Coefficient	T Statistic
ESG_Family	-0.001743	-1.479251
ESG_State	-0.002997	1.816991*
ESG_Fore	-0.001903	-1.530936
Energy_ESG	-0.025131	-2.019047**
Tobacco_ESG	-0.022836	-0.656578

F Statistic	6.340758	
Rsquare	0.355409	
Adjusted R-Square	0.299357	

Table 4.4 Panel Data Regression Summary and Model Result for Market Based (Stock Return)

Dependent Variable **Stock Return**

Independent Variable	Coefficient	T Statistic
FamilyO	-0.990796	-2.251779**

StateO	-1.649347	-3.104366***
ForeignO	-0.795365	-1.331093
ESG	-0.583074	-1.278895
Market R	-0.113475	-0.446168

Moderating Variable	Coefficient	T Statistic
ESG_Family	0.014750	1.830136*
ESG_State	0.022841	2.359371**
ESG_Fore	0.010696	1.064317
ESG_Energy	0.395625	4.507836***
ESG_Tobacco	-0.512801	-2.946101***

F Statistic	7.281219	
Rsquare	0.387686	
Adjusted R-Square	0.334441	

Table 4.5 Panel Data Regression Summary and Model Result for Accounting Based (ROE)

Dependent Variable **ROE**

Independent Variable	Coefficient	T Statistic
FamilyO	-0.453236	-1.929426*
StateO	-0.684505	-2.133142**
ForeignO	-1.292773	-3.990017***
ESG	-1.014677	-4.098817***

Moderating Variable	Coefficient	T Statistic
ESG_Family	0.014473	3.347836***
ESG_State	0.018831	3.625909***
ESG_Fore	0.034491	6.770887***
ESG_Energy	-0.004794	0.062502
ESG_Tobacco	-0.009986	-0.490611

F Statistic	21.72909	
Rsquare	0.653918	
Adj R.Square	0.623824	

Table 4.6 Panel Data Regression Summary and Model Result for Accounting Based (NPM)

Dependent Variable **NPM**

Independent Variable	Coefficient	T Statistic
FamilyO	0.415989	1.975339*
StateO	0.138295	0.423072
ForeignO	0.030790	0.106881
ESG	0.637788	2.645033***

Moderating Variable	Coefficient	T Statistic
ESG_Family	-0.009160	-2.132159**
ESG_State	-0.005938	-1.086080
ESG_Fore	-0.004068	-0.849908
ESG_Energy	-0.081699	-1.493541
ESG_Tobacco	0.058832	0.396286

Continued to next page

F Statistic	1.642291	
Rsquare	0.113018	
Adj R.Square	0.044201	

Table 4.7 Panel Data Regression Result for Accounting and Market Based

	Sign of Effects			
	Acc. Based		Market Based	
	Random Test	*Random Test*	*Common Test*	*Random Test*
Firm's Measurement Performance	ROE	NPM	Tobins'Q	AWR
Independent Variable				
State	Negative	*None*	Negative	Negative
Family	Negative	Positive	*None*	Negative
Foreign	Negative	*None*	*None*	*None*
ESG	Negative	Positive	Positive	*None*
Market Return (for Market Based)	*None*	*None*	*None*	*None*
Moderating Variable				
ESG-State	Positive	*None*	Positive	Positive
ESG-Family	Positive	Negative	*None*	Positive
ESG-Foreign	Positive	*None*	*None*	*None*
Moderating Variable				
Energy-ESG	*None*	*None*	Negative	Positive
Tobacco-ESG	*None*	*None*	*None*	Negative

4.2 Discussion

In today's business landscape, many companies are increasingly prioritizing Environmental, Social, and Governance (ESG) scores as part of their corporate strategy. These scores reflect a company's commitment to sustainable practices, social responsibility, and ethical governance. However, a significant challenge has emerged: there is growing concern and debate about whether these ESG initiatives and scores are genuinely translating into improved company performance and financial returns.

This issue takes on additional complexity in Indonesia, where corporate ownership structures often differ significantly from those in Western countries, with a high prevalence of family-owned businesses and conglomerates. This poses significant queries regarding the ways in which

these particular ownership patterns and ESG initiatives interact. More specifically, how will corporate ownership affect Indonesian enterprises and would ESG rankings mitigate such effects? Furthermore, the effects of ESG activities can differ between the nation's various industries. It is possible that some industries will gain more from ESG practices than others, which raises the question of whether industry effects on firm performance will be mitigated by ESG rankings.

Recognizing these processes is crucial in evaluating the efficiency of ESG activities in creating positive transformations within Indonesian enterprises and sectors. Investigating this matter is vital because it can offer insightful information on how ESG practices can be adapted to various industries and ownership structures, guaranteeing that they are not only implemented but also successful in promoting long-term success and sustainable growth.

4.2.1 ROE & NPM towards controlling ownership (Accounting Based)

Based on the regression analysis for return on equity, all controlling ownership shows negative significant results. Within the hypothesis above, it shows different results, and leading towards negative impact towards profitability. Although, this research results is not something new, due to emerging markets issues within their governance. In Indonesia itself, all three controlling ownership: foreign, family, and state contributes to lower profitability. This indicates a possibility of expropriate controls or action towards profit of the company. Li (2021c) explains **Expropriation** as the process of using control powers to maximize one's own welfare and redistribute wealth from minority shareholders. The challenges of corporate governance extend on expropriation threats towards minority shareholders, which reflects on the book value or profitability of the company itself. Regression results indicate controlling shareholders abuse their power in the sense that they redistribute corporate wealth for their own benefit at the expense of minority shareholders.

In addition, adding factors like nepotism, lack of governance standard, and inefficient management adds toward the hypothesis on top of expropriation controls.

However, surprisingly family companies show positive results towards net profit margin. These findings may indicate management decisions to prioritize long term-stability, leading to careful cost management and higher profit margins on family ownership in Indonesia. Family controls might prioritize family-oriented goals, which is to extend their company life, reducing the sense to chase for growth but staying defensive. This hypothesis translates to family company longevity and their profit margin.

4.2.2 ESG for Accounting Based Measurement

Based on a regression model for ROE and NPM, ESG as an independent variable shows mixed results. For return on equity, ESG provides a significant negative impact. ESG stands for Environmental, Social, and Governance, and is used to measure non-financial aspects of companies. It is interesting to see the non-financial aspect of a company has a negative impact towards financial performance. As ESG is considered new in a company, the cost of capital to implement ESG initiatives might be too big that it affects profitability. Rangkuti, Malau, Sembel (2023) mentioned that there is no substantial direct impact of the Environment, Social, and Governance (ESG) performance scores on the business value. Additionally, there is no discernible impact of ESG performance on financial health.

Furthermore, ESG regulations to reduce carbon emissions may increase overall operating costs, that reduce return on equity of a company.

Even if global investors and regulators have strongly influenced policy makers towards implementing ESG initiatives, these findings have found that it has a negative impact towards firm accounting performance (ROE). For net profit margin (NPM), ESG shows significant positive impact. This certainly shows important findings and unique thesis results between both ROE and NPM. Nowadays, companies are chasing good ESG initiatives not only for regulatory purposes but to lower cost of funds. ESG initiatives also enable companies to charge “premium” prices for their product, in exchange for ESG initiatives which contribute to a higher net profit margin.

4.2.3 Moderating Variables for ESG & Corporate Ownership

Findings from above shows how controlling ownership in Indonesia consistently produces negative relationships towards return on equity. Through the moderating effect of ESG, it specifically reduces the negative impact of controlling ownership towards return on equity significantly. The findings suggest that ESG might be the cure towards the bad influence of majority shareholders within emerging markets. Hence, the author from the thesis highlights there is indication through moderating effect, ESG reduces expropriation potential within the controlling ownership. On the other hand, ESG moderates negatively the impact of family ownership towards net profit margin. It indicates that ESG might have high implementation costs which hinder family companies' ability to generate better margin.

4.2.4 Tobin's Q & Stock Return towards controlling ownership (Market Based)

Based on the regression analysis for return on equity, family & state controlling ownership shows negative significant results, which is different compared to the hypothesis. For tobin's Q, controlling effect from State ownership implies significant negative effect. This indicates a negative long-term view on state-controlled companies, where lack of good governance happens. Furthermore, state companies in Indonesia may indicate a lack of incentive for growth, inefficiencies in management, with political interference and bureaucratic inefficiencies.

In addition, family and state controls both showed negative effects towards average annual stock performance return. Our thesis is leaning towards market/investor knowledge about **expropriate controls**, which might hinder the performance/investor distrust.

4.2.5 ESG for Market Based Measurement

Based on the regression model, ESG performance has shown significant positive impact on Tobins'Q Performance. In market perception, favoring ESG-related portfolios have been shown by asset managers and institutional investors, which increases ESG Stock performance in the short-term. In addition, this also matters in terms of growing interest for the last five years in strong ESG Practices.

Using Tobins'Q, ESG provides significant positive results. This might be the result of improvements resulting from when a company decided to chase ESG Performance, and investor perceptions will have a change towards performance in the short term.

4.2.6 Moderating Variables for ESG & Corporate Ownership

The current narratives align closely with those presented earlier, maintaining continuity in the overall message, where ESG acts as a cure, reducing the negative impact of controlling ownership. The message from the findings indicate how investors see ESG as value added activities, where it is appreciated through the moderating effect. This findings does not necessarily change the fact that controlling ownership in Indonesia provides a negative impact, yet ESG weakens the relationship. With a coefficient of 0.22841, ESG as a moderation almost removes the negative effect towards state controls, with -0.235290. Overall, ESG activities may reduce investor distrust in the market from expropriation controls within the controlling ownership.

In addition, industry effects from energy indicate high ESG performance might not lead to better market valuation or performance. When energy companies are considered a factor, the positive effect of ESG and Tobin's Q performance weakens. The hypothesis of these findings are different, where in this case, Energy companies in Indonesia may use ESG as a tool only for the sake of legitimacy, and not as a value added activity. When the tobacco industry shows negative relationship towards ESG, however, stock performance results show positive correlation for the energy industry. This indicates the short-term gains of stock returns through better ESG rating.

CHAPTER V
CONCLUSION, LIMITATION, IMPLICATION, RECOMMENDATION

5.1 Conclusion

Corporate ownership refers to the ownership structure of a company. In the process, ownership also refers to how a company is being managed and influences its overall performance. Corporate governance and firm ownership are critical in shaping a company's performance and sustainability, particularly in emerging markets like Indonesia. Roe (2001) emphasizes the primary goal of a company is to maximize shareholder value, though conflicts between stakeholders and shareholders can arise, particularly when controlling groups prioritize personal interests. To mitigate these conflicts, strong corporate governance is essential.

Agency theory highlights that concentrated ownership can help monitor management and reduce decision-making conflicts, but it can also lead to interest conflicts. This theory emphasizes the importance of ownership structure in corporate governance, linking it to firm performance. Studies in emerging countries often focus on the lack of monitoring in management and dispersed ownership, which impacts firm performance.

ESG throughout its journey has multiple impacts towards both accounting and market performance. Emerging countries like Indonesia are also chasing to become an ESG certified stock that might invite new foreign funds to the country. In this research, the author wants to see how controlling ownership has an impact on firm performance, moderated by ESG and industry effects from energy and tobacco. The data show a complex relationship that differs greatly depending on ownership type and industry.

Controlling ownership in Indonesia has consistently produced negative implications for market-based measuring and accounting, according to this research. In emerging markets, the conclusion is anticipated, even if it deviates from the hypothesis. According to Faccio (2001), family controls in East Asia contribute to conflict, which has an effect on the performance of the entire company. The performance of enterprises in Norway is weakened by governmental controls, as demonstrated by Benito, Gabriel, and Grunfeld,

Eskil (2008). Issues with governance may be connected to emerging markets to some extent. Expropriation controls have an impact on a company's performance and give majority owners an unfair advantage, according to Li (2021b). In this way, the detrimental effects of holding a majority stake could be seen as an abuse of their authority to transfer corporate wealth to themselves at the expense of minority shareholders.

Nonetheless, ESG compensates for the issue's negative effects by continuously moderating ownership control's detrimental effects on company performance. The majority of Indonesian businesses are still unaware of ESG, and only large companies are able to put ESG strategies into action. The moderating impact demonstrates how ESG, particularly in developing nations, may be the solution to expropriation controls. Li (2021b) makes a solid case for giving minority owners the authority to address this problem. The findings of this study could provide insight into the misuse of the majority or controlling shareholders' power through sound governance.

Nevertheless, the energy and tobacco industries exhibit distinct forms of industry effect moderation. ESG is seen negatively by the market in the long run, even when energy companies see short-term performance gains from it. Cardoni et al. (2019) pointed out that energy businesses utilize the ESG score as a means of establishing their legitimacy in a sector without official regulations. Furthermore, tobacco firms have negative effects as well, which is understandable given that the business model itself now poses a risk to public health and safety.

Overall, this study highlights the importance of considering controlling ownership and industry contexts when evaluating the effectiveness of ESG initiatives. While ESG practices can enhance corporate governance and market perception, their financial benefits may vary, necessitating a tailored approach to ESG implementation in different sectors. Understanding the moderating role of ESG is essential for developing tailored strategies that maximize the benefits of sustainable practices. Companies must consider their unique contexts and industry-specific challenges when adopting ESG initiatives to ensure long-term success and sustainable growth in Indonesia's diverse corporate landscape.

5.2 Limitation

As every research has its own limitations, this research constraint derives from its sample sizes which come from specific industries & only comes from companies where ESG data is available. First, this research might be industry sensitive and might not be applicable for all industries. Secondly, companies with ESG data might only cover the big and developed companies that limit the outcome of this research. In the process of data collection, this research can be the foundation for future research of studies examining the relationship between ESG performance, corporate ownership, and its moderating effect towards industry specific.

5.3 Theoretical Implications

As this research relates to agency theory, which examines the relationship between majority and minority shareholders dispute, ESG introduces a new variable towards moderating variables. This study discovered that ESG helps lessen the impact of agency conflict in Indonesian public firms by moderating variables. Stakeholder theory also highlights the connections that exist between a company's stakeholders and other parties with an interest in it. The study's conclusions have implications for how stakeholder theory applies to ESG, where good governance may be compromised yet expropriation controls may occur.

5.4 Practical Implications

This research has several implications, for analysts this research contributes to decision making on how ESG can have a moderating impact on controlling ownership. In addition, it contributes to how it can develop deeper relationships regarding controlling ownership, so analysts can determine better investment decisions. Furthermore, regulators in Indonesia can elevate ESG ratings in companies comprehensively, to an extent on helping investors find better ESG companies. In order to establish and support a high demand for ESG investment, this research is anticipated to provide information to

regulators and act as an input for corporations to prioritize their environmental, social, and governance responsibilities.

5.5 Recommendations

Future researchers may conduct longer-term study and sampling for ESG-related enterprises in rising markets such as Indonesia. Furthermore, they may compare the performance and relationships of enterprises from various emerging markets, rather than only Indonesia. As ESG becomes growing in importance, further research may delve into how leadership in various ownership structures influences a company's success, as well as how ESG returns transfer to a company's financial results. Furthermore, future studies can divide ESG into particular categories such as environmental, social, and governance. As a result, the researcher can determine whether aspects of ESG have a positive or negative impact on corporate performance in Indonesian companies. In addition, this research has several implications, both theoretical and practical. As this research relates to agency theory, which examines the relationship between majority and minority shareholders dispute, ESG introduces a new variable towards moderating variables. This study discovered that ESG helps lessen the impact of agency conflict in Indonesian public firms by moderating variables. Stakeholder theory also highlights the connections that exist between a company's stakeholders and other parties with an interest in it. The study's conclusions have implications for how stakeholder theory applies to ESG, where good governance may be compromised yet expropriation controls may occur. For analysts this research contributes to decision making on how ESG can have a moderating impact on controlling ownership. In addition, it contributes to how it can develop deeper relationships regarding controlling ownership, so analysts can determine better investment decisions. Furthermore, regulators in Indonesia can elevate ESG ratings in companies comprehensively, to an extent on helping investors find better ESG companies. In order to establish and support a high demand for ESG investment, this research is anticipated to provide information to regulators and act as an input for corporations to prioritize their environmental, social, and governance responsibilities.

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