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# Enhancing ESG Performance Through Ownership Structure, Stakeholder Engagement, and Sustainable-Responsible Investment

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ESG performance, Ownerships structure, Socially Responsible Investment; Stakeholders' engagement

**ABSTRACT**
This study analyzes how ownership, stakeholder engagement, and Sustainable and Responsible Investment affect ESG performance. Ownership is classified by government, management, and minority shareholder, while stakeholder engagement by employee, creditor, and community. Socially Responsible Investment is measured by dummy variable of SRI Kehati Stock Index. This analysis uses 270 Indonesia Stock Exchange-listed company observations from 2012–2022. Using unbalanced panel data, study finds that Socially Responsible Investment improves ESG performance, although ownership type has a distinct effect. ESG suffers from stakeholder engagement, particularly creditor and community engagement. This investigation advances ESG antecedent that interplays shareholders, industry recognition, and stakeholder's engagement.

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## INTRODUCTION

Stakeholders' theory prescribes that firms should consider the interests of the stakeholders: individuals, groups, communities, and institutions that affect or are affected by management actions, meaning that the firms should create stakeholder value, not merely shareholder value to have sustainable performance (van Lieshout et al., 2021). Stakeholders' interests cover a broad range of issues being concerned by the stakeholders such as environment, social, ethics, reputation, and trust. The Stakeholders' Theory is also used to describe how the nature of stakeholders affects management efforts in tackling ESG issues, and creating a green innovation (Ågerfalk et al., 2022; Stieb, 2009; Xu et al., 2021). Stakeholders' interests on ESG issues may stimulate managers' effort in solving the issues and green innovation such as the eco-innovation strategy development, and open innovation which focus on a single process based on an active collaboration among various organizations or groups of stakeholders (Freeman et al., 2004; Garcés-Ayerbe et al., 2019), thereby increasing the value of the firms.

According to Stakeholders' Theory, companies must pay attention to the interests of all parties related to the company, whether shareholders or not. Therefore, this research explores the role of shareholder nature and stakeholder engagement to validate stakeholder theory in explaining and predicting corporate ESG behavior. Furthermore, stakeholders have expectations regarding the legitimacy of companies carrying out ESG activities that can improve company performance (Lee & Raschke, 2023). Therefore, this research also examines the impact of the SRI Kehati Stock Index on ESG performance.

This research contributes to the literature in two ways. Firstly, limited studies investigates the impact of the nature of shareholders and stakeholder engagement on ESG which has not been done in previous studies. Secondly, this study also provides empirical evidence regarding the role how SRI (Sustainable and Responsible Investment) Kehati Index may encourage companies' legitimation for increasing ESG performance in Indonesia. The use of firms in Indonesia as the sample is important due to its rapid economic growth, urbanization, and the large size of commodity export, makes Indonesia face significant environmental concerns relating to air and water pollution, waste management, climate change, biodiversity loss, and resource depletion (Breure et al., 2018; Mulyani et al., 2023). While domestic and international private investment can occasionally be the cause of pollution issues, especially if done carelessly, it can also play a vital role in the transition to a low-carbon and energy-efficient economy.

Several previous studies have only tested the impact of ESG on company performance or value using the SRI Kehati Index as a research sample design, but have not tested the direct impact of SRI Kehati Listing on ESG performance. This study expands on previous studies by adding SRI Kehati Listing as a dummy variable to test the potential differences between companies indexed by SRI Kehati and those not indexed.

## LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Nature of shareholders has a different impact in accommodating the interests of stakeholders. A particular factor influencing the ESG performance is the ownership structure. This is particularly relevant in situations where there is information asymmetry, since certain shareholders may possess the abilities, motivation, and expertise to prevent information concealment and enhance the caliber and extent of disclosure. Unfortunately, not much study has examined ownership structure and ESG disclosure scores (Doshi et al., 2024).

The difference in impact is caused by differences in their motivation and investment horizon. Shareholders' interests in stakeholders who only have financial motivation are certainly different from those who have non-financial motivation. Shareholders who only have financial motivation have a short investment horizon, so they are less interested in investing in non-financial issues, such as ESG. Meanwhile, shareholders who have non-financial motivation have a long investment horizon, so they are more interested in non-financial issues such as ESG (DesJardine et al., 2023). This research focuses on three types of shareholders, namely government, management, and minority shareholders.

The alignment effect theory states that companies with a concentration of ownership in certain parties will seek to increase the value of the company that benefits the controlling shareholder (Claessens et al., 2002; He & Kyaw, 2018). However, there are some opportunities that the controlling shareholder expropriates minority shareholders when the shareholder's cash flow rights are less than their voting rights (Claessens et al., 1999). So that controlling shareholders may cause an entrenchment effect (Cao et al., 2019; Truong, 2024; Yeh & Woidtke, 2005).

This study has a concern related to government ownership in publicly held companies, especially the position of government as controlling shareholders at publicly held SOEs. Government funding for SOE innovation is promoted through government ownership. As a result, SOEs have a comparative edge when it comes to taking on high-risk projects and SOEs can benefit from government networks to collaborate on patent-sharing and cross-licensing (Belloc, 2014). Because of this, SOEs are highly motivated to innovate and have access to crucial infrastructure ((Asensio-López et al., 2019). By combining public and private duties in one organization, SOEs can be viewed as an alternative or supplementary innovation policy tool that lessens coordination issues while fostering innovation (TÕnurist & Karo, 2016).

Government, play an important role in building green innovation and cultivating ESG. Due to the political objective, the government, as the shareholders, may encourage companies to build alignment with government interest and programs. Therefore, managers are also accountable for achieving the political, social, and economic objectives set forth by society for the government. In Indonesia, government generally is the majority shareholder of publicly listed SOEs. Government supports SOEs by helping them build and maintain ties with consumers around the world, shielding SOEs from outside criticism. Non-SOEs strive to establish credibility and a solid reputation to thrive on the global market (Khalid et al., 2021). Thus, the government obtains adequate information regarding the ESG quality of firms, so that the government encourages firms to invest in green innovation (Tan & Zhu, 2022). Therefore, hypothesis 1 is formulated as follows:

**H1:** Government ownership positively influences ESG performance.

From the perspective of internal stakeholders, top management is essential for fostering a climate that is conducive to innovation (Loureiro et al., 2020). Top management plays an important role in directing and building a corporate culture that supports green innovation programs and good ESG practices through policy, incentives making, and leadership. Developing, enhancing, and sustaining development goals require leadership. Companies will benefit from management's awareness of technological and regulatory changes, openness to changes in the business environment (Bendell & Nesij Huvaj, 2020). The goal of achieving a sustainable business by adopting green innovation and implementing ESG can be achieved through high quality management and optimal management engagement.

The relationship between management ownership and ESG has not been thoroughly studied. The results indicate that managerial ownership has no effect on overall ESG disclosure. This could be the result of a conflict of interest that undermines good governance; managers who own stock in the firm might make decisions based on their own interests and neglect the sustainability agenda and associated concerns (Al Amosh & Khatib, 2022). Management share ownership in the company is expected to encourage the optimization of management involvement. Based on these arguments, Hypothesis 2 is formulated as follows.

**H2:** Management Ownership has a positive influence on ESG performance.

Previous research found large differences in the concentration of cash-flow and control rights across the nine East Asian countries. With a 40% ownership share, financial institutions dominate the ownership of firms in Japan. In Singapore, the government owns more than 25% of all corporations, whereas other large corporations own 35% of all corporations in the Philippines. Families control the majority of firms in Hong Kong, Indonesia, Korea, Malaysia, and Thailand. Minority shareholders may be expropriated because of corporate policy when majority shareholders effectively control the company. Conflicts of interest between large and small owners can take many different forms, such as controlling shareholders benefitting themselves by withholding dividend payments or shifting profits to other businesses they own. A danger of ex ante expropriation created by tight control over major

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shareholders discourages managerial initiative and non-contractible investments (Sun et al., 2022).

There are two mechanisms for the active role of minority shareholders to improve ESG performance. First, minority shareholders exercise their voting rights at a general meeting of shareholders. Second, the authority to represent the company to file lawsuits against members of the board of directors because of management policies and actions that ignore environmental and social sustainability issues which ultimately harm the company, such as causing losses due to lawsuits from the public.

Yao et al., (2022) examined whether and how minority shareholders affect corporate environmental performance considering China's mandated requirement that listed companies utilize online voting in their annual general shareholder meetings. Using the difference-in-difference method, they discover that the introduction of online voting encourages minority shareholders to attend shareholder meetings, which enhances listed companies' environmental performance. They find that the two driving forces behind minority shareholders' concerns about the environmental performance of listed corporations are "local pollution" exposure and "the increasing awareness of listed firms' environmental risks." In addition, they discover that minority shareholders influence organizations with more clout, which enhance environmental performance of listed enterprises. Therefore, we examine the existence of minority shareholders to encourage companies to improve ESG and green innovation performance. Based on these arguments, Hypothesis 3 is formulated as follows.

**H3:** Minority shareholders influence ESG performance.

Stakeholder engagement is the objectives, activities, and impacts of stakeholder relations morally, strategically, and/or pragmatically. Each component of interest has different objectives, activities, and impacts (Kujala et al., 2022). Stakeholders' engagement reflects the mutual commitment of the organization and its stakeholders in creating value and trust, and achieving satisfying long-term relationships (Loureiro et al., 2020). The research topics of stakeholders' engagement generally use some approaches that are illustrated in Figure 1.

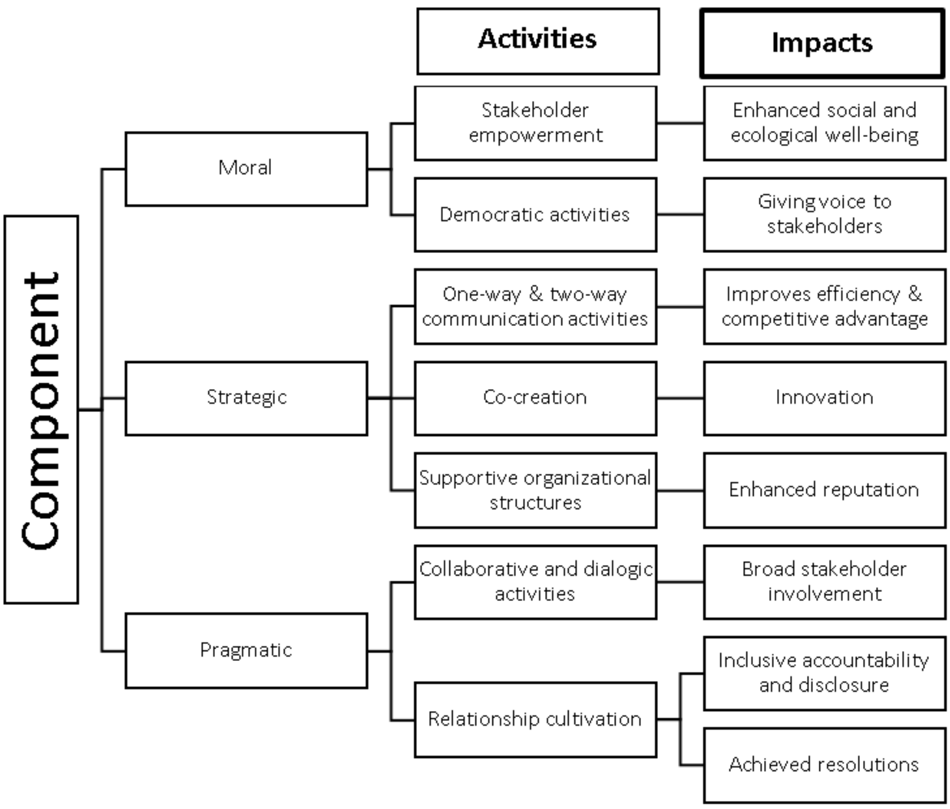


**Figure 1. The Research Scope of Stakeholders' Engagement (Kujala et al., 2022)**

On the conception of sustainability, stakeholders' engagement is part of a sustainability assessment instrument that activates dialogue among stakeholders in a sustainability activity. Dialogue with stakeholders opens space for creative and innovative initiatives to solve problems faced in sustainable development. Dialogue does not only aim to obtain opinions from stakeholders, but to reflect and consider the views of stakeholders with mutual respect (Mathur et al., 2008; Neville et al., 2011).

There are limited studies that examine the impact of stakeholder engagement on ESG. There are two strands of literature on stakeholder engagement, one focus on external stakeholder engagement, such as consumers, suppliers, communities, and activists (Barko et al., 2022; Papagiannakis et al., 2019; Waheed et al., 2020; Wu & Li, 2020) and the other focus on internal stakeholder engagement that includes employees and management (Ayuso et al., 2011; Loureiro et al., 2020). Prior findings indicated that the knowledge obtained via interaction with internal and external stakeholders influences firms' orientation toward sustainable innovation (Ayuso et al., 2011; Bendell & Nesij Huvaj, 2020)

However, internal group of stakeholders may have different interest from that of external stakeholders. Focus on a group of stakeholders' interest may alienate remaining claimant of stakeholders, which may result in ESG problems that further reduce the firm value. Involving various stakeholders is important in the company's business decision-making (Harjoto et al., 2022). Therefore, we examine the potential effect of internal and external stakeholders on ESG. We use employee engagement as proxies of internal stakeholders, while creditor engagement and community engagement as proxies for external stakeholders (Bendell & Nesij Huvaj, 2020; Islam & van Staden, 2018; Loureiro et al., 2020).

From the stakeholder theory perspective, engagement, and responsiveness to the interests of all parties are key to achieving sustainability. By treating stakeholders as valuable contributors and partners, organizations can build sustainable relationships and support the achievement of ESG goals. In the context of influencing ESG performance, internal stakeholders are individuals or groups directly involved in the operational and managerial aspects of the organization. Internal stakeholders have a direct impact on ESG policies and practices. Employees can influence green work practices, while management can establish green innovation policies. On the other hand, external stakeholders are individuals or groups outside the organization with interests influenced by or influencing the company's activities. External stakeholders can impact the company's reputation and compel changes in business practices.

In addition, this study focuses on the pragmatic components of stakeholder engagement that aim to find solutions for existing problems or as an effort to develop the organization and society. Therefore, stakeholder engagement activities take the form of dialogue, collaboration or cultivating relationships. The expected impact of these activities is to expand stakeholder involvement, increase accountability, and disclose the results of these activities (Kujala et al., 2022). Pragmatic activities from internal and external stakeholders are needed to improve the company's ESG performance.

Managers must build good relationships with the company's stakeholders by delivering the value that the company promises to the stakeholders. Therefore, the key to the company's success relies on the implementation of business values and their engagement with stakeholders (Shafique & Gabriel, 2022; Vracheva et al., 2016). Companies should redistribute benefits to stakeholders (Stieb, 2009). Any parties who participate in the company, they have legitimation to gain benefit from the company. No one party has more priority over others to get benefits from the company (Donaldson & Preston, 1995), including benefits of ESG that encourages value creation (Kaler, 2006).

Parzefall et al. (2008) summarizes that team and organizational level factors have been found influencing innovativeness in organizations. Organizations must rely on human capital to be innovative because of the highly competitive and international business environment. For firms to promote innovative behaviors, committed employees are required. The study's findings showed a strong correlation between employees' innovative activity and affective and normative commitment (Hakimian et al., 2016). The findings support a link between employee-focused CSR and the perceived value of CSR activities for society, clients, and employees, as well as, indirectly, the strength of

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Business-to-Business connections (B2B). The result of this trait is a reciprocal commitment between the company and its personnel. As a result, employee-focused CSR should (indirectly) influence a focal firm's B2B relationship quality, which strengthens both employees' and a firm's commitment to their employees (Pfajfar et al., 2022).

Employee unity resulting from common values supports co-innovation if the organizational culture accepts utilizing the ideas, resources, and expertise of other partners. Employee empowerment speeds up decision-making and enables communication with other partners. Organizations may become more competitive because of empowerment. Providing employees with sufficient knowledge and skill regarding green innovation and ESG boosts their confidence to deal with clients. They will provide high-quality service to other stakeholders (Bendell & Nesij Huvaj, 2020). Based on these arguments, Hypothesis 4 is formulated as follows.

**H4:** Employee engagement influences ESG performance and green innovation.

Investors are concerned with "moral dividends," which are returns that are not financial in nature. Reduced environmental production externalities, improved working conditions (across the entire supply chain), and the participation of underrepresented groups in the corporate labor force are a few examples of how to produce societal value. According to Barko et al. (2022), corporate social responsibility advocacy often enhances ESG practices, boosts corporate sales, and is advantageous for the activist. Their study offers concrete evidence that, from the standpoints of the activist and the targeted firm, ethical investing and successful financial results may coexist.

Co-innovation necessitates a firm's opening its boundaries to collaboration with external stakeholders to leverage internal capabilities to become more competitive. The resource-based view contends that limited internal resources strategically encourage organizations to balance the use of both internal and external resources. As a result, organizations use technology partnerships to proactively seek resources and work together to build these resources with outside partners (Loureiro et al., 2020). Firms can take advantage of business-to-consumer (B-to-C) networks and business-to-business (B-to-B) networks to create green innovation and improve ESG performance. Green innovation and ESG investments require a large funding, so firms need to establish good cooperation with creditors. Based on these arguments, Hypothesis 5 is formulated as follows.

**H5:** Creditor engagement influences ESG performance and green innovation.

To establish communication with consumers, SOEs can use community channels that are aware of green innovation and ESG. The results of previous studies show that collaboration with NGOs can increase transparency and accountability of disclosure, thereby reducing social and environmental conflicts, such as mineral conflicts (Islam & van Staden, 2018). Therefore, firms can work together with communities, including NGOs by providing sponsorship of activities that support green innovation and ESG campaigns. The project must be streamlined and made known to the community through community-based projects. The success of the projects is ensured by relying on the local knowledge and communities (Amiraslani, 2021). According to study of (Bendell & Nesij Huvaj, 2020), established firms who were more involved in the community, contributed more funds to community projects, and were more active in networking with philanthropic organizations. Accordingly, engaging the community can also have a positive impact on how environmental product innovation EPI. Diverse actors, including activist groups and social movements, might be considered community stakeholders. These more "fringe" stakeholders frequently open new markets for green investments, goods, or services (Papagiannakis et al., 2019). Based on those arguments, hypothesis 6 is formulated as follows:

**H6:** Community engagement influences ESG performance and green innovation.

Environmental and industrial factors are one of the variables that can influence the level of shareholder influence in paying attention to stakeholder interests, including ESG performance. Companies need the type of investors who have non-financial motivation and have a long-term investment horizon to be able to improve the company's ESG performance (DesJardine et al., 2023). Therefore, companies need legitimacy from shareholders that the company has adopted sustainable business practices.

One form of legitimacy is to gain recognition from the industry or business environment as a company categorized as a green company, including if its shares are indexed to SRI Kehati. This argument is in line with the research results which state that stakeholder legitimacy is an antecedent to ESG performance and financial performance (Lee & Suh, 2022). Recognition as a company whose shares are indexed by SRI-Kehati not only gains legitimacy from stakeholders, but also provides power and urgency so that the company continues to improve its environmental performance (Neville et al., 2011).

The Sustainable and Responsible Investment (SRI) -KEHATI Stock Index, which was released by the KEHATI Foundation in conjunction with the Indonesia Stock Exchange (IDX) on June 8, 2009, is a green index that refers to the United Nations' Principles for Responsible Investment (PRI). The SRI-KEHATI Index is now the only reference for investing principles that stress ESG issues in the Indonesian capital market, with business selection rules that apply the Sustainable Responsible Investment (SRI) principle as well as environmental, social, and governance (ESG) principles.

SRI-KEHATI provides rankings or assessments to companies based on sustainability practices and social responsibility implemented by these companies. In other words, this index provides an overview of the extent to which companies in Indonesia pay attention to sustainability issues in their operations. The SRI-KEHATI Index focuses on companies in Indonesia that are considered to have good performance in environmental, social, and governance (ESG) aspects. The methodology and assessment criteria used by SRI-KEHATI encompass various ESG aspects, such as environmental policies, treatment of employees, community relations, corporate governance, and more. The objective of this index is to provide information to investors and other stakeholders about the sustainability performance of companies in Indonesia. Thus, its SRI Kehati indexed company shares are thought to be positively correlated with ESG performance. Based on this explanation, H7 is formulated as follows:

**H7:** Companies whose shares are indexed by SRI Kehati have a positive effect on ESG performance.

## RESEARCH METHODS

This study uses a quantitative approach by estimating the research models using multiple regression analysis. This study uses secondary data that are obtained from various sources, specifically: (1) ESG data were collected from the S&P Global Ratings; (2) financial reports and annual reports are obtained from Indonesia stock exchanges database. We chose S&P ESG Global Ratings for the following reasons: it is one of the most widely referenced ESG ratings besides MCSI and Refinitiv (Park & Jang, 2021), the S&P ESG score has a relatively higher correlation with other ratings such as Refinitiv and Bloomberg, the ESG Evaluation by S&P Global Ratings is a unique evaluation of a company's ESG strategy and capacity to foresee potential future risks and opportunities, and the ESG Evaluation is the right instrument for investors because it offers a long-term, forward-looking assessment of the firms for disruptive ESG risks and opportunities.

S&P ESG Global Ratings scores are often presented in the form of numbers or ratings, where higher values reflect better ESG performance. These scores provide insight for investors and other stakeholders into the extent to which a company considers non-financial factors that can impact their sustainability and reputation. Like other ESG rating agencies, S&P Global Ratings utilizes a combination of financial and non-financial data to assess a company's performance related to environmental, social, and governance factors. Environmental factors may include sustainability practices and environmental conservation, environmental risk management, and the company's impact on ecosystems. Social factors may encompass treatment of employees and adherence to labor rights, engagement with the local community, and positive contributions to social well-being. Governance factors may cover company structure and governance practices, transparency, business ethics, and accountability. The sample of this study are publicly listed firms on stock exchanges in Indonesia during the 2012-2022 period.

Equations 1 states research models to examine the influence of stakeholders' engagement on ESG performance.

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$$\mathrm{ESGScore}_{i,t} = \beta_0 + \beta_1\mathrm{GovOwn}_{i,t} + \beta_2\mathrm{MgtOwn}_{i,t} + \beta_3\mathrm{NCI}_{i,t} + \beta_4\mathrm{Employee}_{i,t} + \beta_5\mathrm{Creditor}_{i,t} + \beta_6\mathrm{NGO}_{i,t} + \beta_7\mathrm{SRI}_{i,t} + \beta_8\mathrm{ROA}_{i,t} + \beta_9\mathrm{SIZE}_{i,t+}\ \beta_{10}\mathrm{AGE}_{i,t} + \beta_{11}\mathrm{EPS}_{i,t} + \varepsilon_{i,t} \quad (1)$$

The dependent variable of this study is ESG Performance (ESG Score), measured by the ESG Rating issued by S&P Global Ratings. The independent variables of this study are nature of shareholders, stakeholders' engagement, SRI Kehati Listings and the control variables that are presented in Table 1.

**Table 1. Variable Measurements**

| Variables | Measurements |
|---|---|
| ESG Score | ESG S&P Global Ratings |
| **Ownership Structure** | |
| Government ownership (GovOwn) | Ratio of the number of shares owned by the government to the total outstanding shares |
| Management ownership (MgtOwn) | Ratio of the number of shares owned by management to the total outstanding shares |
| Minority Shareholders (NCI) | Ratio of the number of shares owned by non-controlling interest to the total outstanding shares |
| **Stakeholders Engagement** | |
| Employee Engagement | The number of employees sent for trainings related to green innovation and ESG |
| Creditor Engagement | Debt to Equity Ratio |
| Community Engagement | Numbers of NGO or community events that are sponsored by the firm. |
| SRI Kehati Listing | Dummy variable, given value of 1 if company's share is indexed by SRI (Sustainable and Responsible Investment) Kehati Index, and 0 if otherwise. |
| **Control Variables** | |
| Profitability-Return on Asset (ROA) | Ratio of company's net income to the total asset |
| Firms size | Amount of company's total assets |
| Firms age | The age of the company since its founding |
| Earnings Per Share (EPS) | Ratio of company's net income to the total outstanding shares |
| Market to Book Ratio (MTB) | Ratio of company's market capitalization to the total bookvalue |
| Price Earnings Ratio (PER) | Ratio of share price to total net income |

Sources: Authors' elaboration

## RESULTS AND DISCUSSION

Table 2 presents descriptive statistic of variables for 270 observations. The samples consist of 29 publicly held companies that provide ESG data during period 2012-2022 or 11 years. Overall, only less than 10% of publicly held companies provide ESG data. Furthermore, not all of 29 companies also provide ESG data consecutively during the observation period, so the data is analyzed using unbalanced panel data regression. Based on the mean value of ESG Score (49.39042), the ESG performance of firms are relatively medium. Among the three ESG pillars, Social performance has the highest score (approximate 54%), followed by Governance (50%) and Environmental pillar (39%).

The mean value of government ownership, management ownership, and minority interest (NCI) are relatively low: 16.82%, 0.50%, and 0.09% respectively. Meanwhile, companies engagement with employee and creditor are relatively high, while their engagement with NCI is relatively low. It shows by the mean value of employees who have training regarding innovation and sustainability issues is 333 persons/year and debt to equity ratio of sample is 73.37% or above 30%. Meanwhile, mean value of NGO's sponsorship program is less than 1/year. Furthermore, nearly 60% of samples were indexed by SRI-Kehati Listing.

**Table 2. Descriptive Statistic of variables**

| Variables | Mean | Maximum | Minimum | Std. Dev. | Observations |
|---|---|---|---|---|---|
| **ESG** | 49.39042 | 89.64410 | 7.442548 | 20.28120 | 270 |
| **Environmental** | 39.12999 | 91.64408 | 0.000000 | 24.30659 | 270 |
| **Social** | 54.48990 | 96.95265 | 4.550601 | 23.92116 | 270 |
| **Governance** | 50.36370 | 91.06310 | 5.555556 | 24.06106 | 270 |
| **GOVOWN** | 16.82612 | 82.48000 | 0.000000 | 27.07062 | 270 |
| **MGTOWN** | 0.502727 | 13.32000 | 0.000000 | 1.793600 | 270 |
| **NCI** | 0.091155 | 0.941300 | 0.000000 | 0.153151 | 270 |
| **EMPLOYEE** | 333.5714 | 14110.00 | 0.000000 | 1682.372 | 270 |
| **CREDITOR** | 0.733770 | 20.34580 | 0.000000 | 1.875474 | 270 |
| **NGO** | 0.706294 | 1.000000 | 0.000000 | 0.456257 | 270 |
| **SRI** | 0.597902 | 1.000000 | 0.000000 | 0.491181 | 270 |
| **LNSIZE** | 31.97109 | 35.22819 | 29.60109 | 1.379058 | 270 |
| **AGE** | 57.89860 | 89.00000 | 30.00000 | 12.24803 | 270 |
| **EPS** | 461.4831 | 5783.344 | -4.818.752 | 815.6812 | 270 |
| **ROA** | 0.095299 | 1.399204 | -0.094886 | 0.149752 | 270 |
| **PER** | 66234.78 | 14747561 | -1876857. | 882749.4 | 270 |
| **MTB** | 3.808310 | 85.18108 | 0.417117 | 8.429560 | 270 |

Sources: Authors' calculation

Table 3 presents estimation result that examines the influence of nature of shareholders, stakeholders' engagement, and SRI-Kehati Listings on ESG performance. The nature of shareholders variables has different impact on ESG. Supporting Hypotheses 1 and 3, government ownership has a positive impact on ESG performance, and minority shareholders have a negative impact on ESG performance. Contrary to Hypothesis 2, the management ownership has a negative impact on ESG performance. It seems that management ownership discourage overinvestment (including investment to address ESG's issues). Managers tend to have short term investment horizon. Their goals are not maximizing firms' value, but maximizing dividend payment (He & Kyaw, 2018). The negative influence of minority shareholders on ESG performance shows that minority shareholders may experience information asymmetry regarding the significance of ESG for corporations due to their inadequate capacity to defend legal rights and insufficient capacity to express personal interests (Song et al., 2023).

**Table 3. Estimation results-main model**

| Variables | Coefficient | t-Statistic | Prob. | |
|---|---|---|---|---|
| C | -79.46692 | -2.839646 | 0.0049 | *** |
| GOVOWN | 0.099804 | 2.392685 | 0.0175 | ** |
| MGTOWN | -1.241277 | -2.259476 | 0.0247 | ** |
| NCI | -28.14611 | -4.567927 | 0.0000 | *** |
| EMPLOYEEE | -0.000231 | -0.388435 | 0.6980 | |
| CREDITOR | -2.044248 | -4.012847 | 0.0001 | *** |
| NGO | -7.442560 | -3.184849 | 0.0016 | *** |

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Table 3. (continued)

| Variables | Coefficient | t-Statistic | Prob. | |
|---|---|---|---|---|
| SRI | 5.591024 | 2.258268 | 0.0248 | ** |
| SIZE | 4.560825 | 5.091271 | 0.0000 | *** |
| AGE | -0.228463 | -2.345726 | 0.0198 | ** |
| EPS | 0.001469 | 0.878596 | 0.3805 | |
| ROA | -14.54785 | -2.188356 | 0.0296 | ** |
| PER | 1.21E-06 | 1.116931 | 0.2651 | |
| MTB | 0.720560 | 5.502488 | 0.0000 | *** |
| R-squared | | 0.486672 | | |
| Adjusted R-squared | | 0.438678 | | |
| F-statistic | | 10.14027 | | |
| Prob(F-statistic) | | 0.000000 | | *** |
| N | | 270 | | |

Dependent variable is ESG while independent variables are: (i) GOVOWN is government ownership, measured by Ratio of the number of shares owned by the government to the total outstanding shares; (ii) MGTOWN is management ownership, measured by Ratio of the number of shares owned by management to the total outstanding shares; (iii) NCI is minority interest, measured by Ratio of the number of shares owned by non-controlling interest to the total outstanding shares; (iv) EMPLOYEE is employee engagement, measured by The number of employee sent for trainings related to green innovation and ESG; (v) CREDITOR is creditor engagement, measured by Debt to Equity Ratio; (vi) NGO is community engagement, measured by Numbers of NGO or community events related to ESG issues that are sponsored by the firm ; (vii) SRI is SRI-Kehati Listing, measured by Dummy variable, given value of 1 if company's share is indexed by SRI (Sustainable and Responsible Investment) Kehati Index, and 0 if otherwise. Control variables are: (i) SIZE is firm' size, measured by natural logarithm of total assets; (ii) AGE is firm's age, measured by the age of the company since its founding; (iii) EPS is Earnings per share; (iv) ROA is Return of Assets; (v) PER is Price Earnings Ratio; (vi) MTB is Market to Book ratio.

***) **) *) significant at alpha 1%, 5%, and 10%

Sources: Authors' elaboration

Off the stakeholder's engagement variables, employee engagement does not support the Hypothesis 4 that states employee engagement influences ESG performance. Meanwhile, supporting Hypotheses 5 and 6, creditor and community engagement have a negative impact on ESG performance. The higher level of debt, the lower of company's capacity to invest in long-term view investment, such as ESG due to companies' limitation to maintain desired covenant. Community's engagement becomes contra productive with ESG performance due to the scope of engagement is limited to moral engagement by empowering community or NGO. Furthermore, supporting Hypothesis 7, SRI-Kehati Listing has a positive impact on ESG performance. It legitimates the role of business ecosystem or industry to support ESG.

The estimation results show that company's size and firm's value positively impact ESG performance. These findings indicate that ESG programs require relatively large resource capacity, because ESG is an innovative and long-term investment. Large companies have a greater opportunity to become initiators that drive sustainable business practices. Apart from that, the market is one of the determinants that can encourage companies to improve their ESG performance.

The estimation results also show that firm age and profitability negatively impact ESG performance. These findings provide a signal for companies that have been operating for a long time to be able to adapt to changes in business paradigms that are oriented towards innovation and long-term sustainability. Companies that have been established for a long time tend to be more concerned and drive ESG performance to increase the company's business sustainability.

The results of this study add empirical evidence regarding the positive impact of firms' government ownership in realizing sustainable innovation (Ayuso et al., 2011). This finding also supports the alignment effect of firms to increase the value of the firms that benefits government as the controlling shareholder (Huang et al., 2022). In this study, companies whose shares are owned by the government are mostly state-owned enterprises. Thus, these findings suggest that SOEs benefit from their engagement with the government. It might be through government funding, government networks, access to crucial infrastructure (Asensio-López et al., 2019). SOEs has role as alternative or supplementary innovation policy tool for government that lessens coordination issues while fostering innovation (TÕnurist & Karo, 2016).

The negative effect of management ownership on ESG, possibly due to the management ownership is relatively low, so that it does not provide adequate incentives for management to increase ESG performance. The finding adds empirical evidence regarding the argument the managers'/insiders' objective. The managers are motivated to discourage overinvestment not so much because it could destroy value, but rather because it makes it more difficult for the company to pay dividends, which are a significant source of income for them. Put differently, the primary objective of managers should be to optimize dividends rather than share price, thus managerial ownership correlates negative with excessive investment (He & Kyaw, 2018). Meanwhile, companies need large investments to support ESG programs. Investment in sustainable and responsible investment activities is an investment with long-term goals, so it requires investors or types of shareholders who not only have a financial orientation, but also a non-financial orientation (DesJardine et al., 2023).

The negative influence of minority shareholders on ESG performance shows an indication that they may experience information asymmetry regarding the significance of ESG for corporations due to their inadequate capacity to defend legal rights and insufficient capacity to express personal interests. Indonesia may consider following other countries such as China by establishing protection institutions for minority shareholders to reduce information asymmetry and manipulation of majority shareholders, to increase their relationship with companies. Companies can use the online voting option for minority shareholders as is done in China, so they can vote on green innovation programs and efforts to improve the company's ESG performance (Yao et al., 2022). Thus, the expropriation of minority shareholders by the majority shareholders can be avoided. Even though minority shareholding is relatively high (approximately 10%), the interests of minority shareholders regarding green innovation issues will not be represented if they do not vote at the general meeting of shareholders.

Regarding the finding that employee engagement has no impact on ESG performance, it shows that it is necessary, but not sufficient, to involve employees in participating in relevant training. It takes normative and affective commitment from employees to be able to produce green innovation (Hakimian et al., 2016). Accordingly, it would create reciprocal commitment between the company and its employee and sufficient employee empowerment (Bendell & Nesij Huvaj, 2020; Pfajfar et al., 2022).

The literature identifies performance appraisal and recruitment in addition to training as HRM strategies that foster innovation. When it comes to hiring, it's critical to choose someone with the expertise needed to try out novel concepts. In terms of training, this can improve staff members' expertise in areas that are vital to learning and creativity. Organizations that do well typically dedicate more time to training and education, particularly in the areas of teamwork and communication. Performance evaluation, as it relates to performance appraisal, is to assess both individual and team performance in order to establish a connection between individual innovation and business performance (Ayuso et al., 2011; Wiesmeth, 2021).

To achieve sustainable enterprise, we need a strong commitment from all company members. In order to find new goods, solutions, or processes that significantly improve the ones that already exist, companies that engage with their employees through HRM practices that are in line with the sustainable approach are helping to stimulate employee creativity. In short, companies not only need to build employee capacity, but also build their commitment through a strong leadership and communication (Hakimian et al., 2016; Parzefall et al., 2008; Yi et al., 2019).

The negative impact of creditor engagement on ESG, shows that companies need to maintain the level of debt, so companies have sufficient fund to pay the debt while continue innovative investment of ESG projects. These finding encourages regulators to evaluate the achievements of sustainable financing in the financial industry.

The negative impact of community engagement on ESG, it possibly caused by the

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company's sponsorship scheme for ESG is still limited and the focus of its outreach is the wider community in general. It has not yet directly reached the interests of group of society. The success of community engagement in a company's green innovation activities must be project-based, involving the public who are consumers of the company and able to open new markets for green investment.

The positive impact of SRI-Kehati Listing on ESG support the argument that companies need legitimation by gaining recognition from the industry or business environment that they conduct sustainable and responsible investment. The recognition not only gains legitimacy from stakeholders, but also provides power and urgency so that the company continues to improve its environmental performance (Neville et al., 2011).

We examine further the impact of those variables on each pillar of ESG to find out whether resulting the similar findings with the main model. Based on Table 4, we can conclude that Social Pillar of ESG model have a similar result with the main model. It also best explains compared to the two other pillars model. The results are not surprising, because social pillar of ESG has been developed first, followed by environmental and governance pillar. These findings suggest companies to continue improve the environmental and governance pillar along with social pillar. Another interesting finding shows that SRI-Kehati Listing only has positive impact on Environmental Pillar. When the SRI-Kehati index was launched in 2009, the assessment basis was limited to sustainable and responsible investment provisions to address negative business excesses on environmental problems. In line with the development of current issues that add social and governance issues, the KEHATI Foundation in collaboration with the Indonesian Stock Exchange has just launched two ESG-based indices in 2021. One of them is the ESG Quality 45 IDX KEHATI index. This index was formed to complement the SRI-KEHATI Index which was previously launched in 2009 and is a reference for ESG investment in the Indonesian capital market.

**Table 4. Estimation results of additional analysis**

| | ENVIRONMENTAL (i) | | | SOCIAL (ii) | | | GOVERNANCE (iii) | | |
|---|---|---|---|---|---|---|---|---|---|
| **Variables** | **Coefficient** | **t-Statistic** | **Prob.** | **Coefficient** | **t-Statistic** | **Prob.** | **Coefficient** | **t-Statistic** | **Prob.** |
| **C** | 6.398976 | 0.177473 | 0.8593 | -52.68384 | -1.583829 | 0.1145 | -152.4374 | -3.786210 | 0.0002*** |
| **GOVOWN** | -0.008041 | -0.148505 | 0.8821 | 0.234597 | 4.709010 | 0.0000*** | 0.005680 | 0.091741 | 0.9270 |
| **MGTOWN** | -0.239728 | -0.340202 | 0.7340 | -2.322776 | -3.590670 | 0.0004*** | -1.007284 | -1.278637 | 0.2022 |
| **NCI** | -36.61408 | -4.739860 | 0.0000*** | -30.08237 | -4.132605 | 0.0000*** | -21.73595 | -2.392031 | 0.0175** |
| **EMPLOYEE** | 0.001938 | 2.576260 | 0.0106** | -0.000587 | -0.824630 | 0.4104 | -7.17E-05 | -0.082784 | 0.9341 |
| **CREDITOR** | -1.828567 | -2.896484 | 0.0041*** | -1.914788 | -3.041546 | 0.0026*** | -1.673269 | -2.210315 | 0.0280** |
| **NGO** | -10.90269 | -3.644013 | 0.0003*** | -6.932892 | -2.499898 | 0.0131** | -12.15115 | -3.498841 | 0.0006*** |
| **SRI** | 12.29635 | 3.883575 | 0.0001*** | 2.746354 | 0.932573 | 0.3520 | 4.889425 | 1.346405 | 0.1794 |
| **SIZE** | 1.486200 | 1.285192 | 0.1999 | 3.892571 | 3.653055 | 0.0003*** | 6.694288 | 5.114718 | 0.0000*** |
| **AGE** | -0.243588 | -1.942725 | 0.0532* | -0.251595 | -2.170804 | 0.0309** | 0.001330 | 0.009917 | 0.9921 |
| **EPS** | 0.003096 | 1.443044 | 0.1503 | 0.006469 | 3.318006 | 0.0010*** | -0.002223 | -0.863879 | 0.3885 |
| **ROA** | 4.048984 | 0.479241 | 0.6322 | -23.20542 | -2.966230 | 0.0033*** | -26.75686 | -2.622314 | 0.0093*** |
| **PER** | 1.02E-06 | 0.767835 | 0.4433 | 9.82E-07 | 0.779863 | 0.4362 | 1.64E-06 | 1.110510 | 0.2678 |
| **MTB** | 0.718971 | 4.305202 | 0.0000*** | 0.760149 | 4.909203 | 0.0000*** | 0.573930 | 2.982442 | 0.0031*** |
| **R-squared** | | | 0.426168 | | | 0.468665 | | | 0.239921 |
| **Adjusted R-squared** | | | 0.372517 | | | 0.418987 | | | 0.201323 |
| **F-statistic** | | | 7.943345 | | | 9.434112 | | | 6.215933 |
| **Prob (F-statistic)** | | | 0.000000 | | | 0.000000 | | | 0.000000 |
| **N** | | | 270 | | | 270 | | | 270 |

## CONCLUSION

This study shows that the ESG performance among sample are still in the medium category. As a company that leads sustainability issues in Indonesia, companies are required to improve ESG performance. This study contributes on theoretical frameworks regarding ESG antecedent. We need to consider nature of shareholders and related industry recognition besides stakeholder's engagement that determine ESG performance. Different nature of shareholders has different concern on ESG issues due to their investment motivation and horizon. They also have different channel of communication and relation to address stakeholder's need. Having better understanding regarding the nature of shareholders will encourage companies to create a fit policies to increase ESG performance.

This study also suggests companies to be concern not only on employee trainings, but also employee recruitment and performance evaluation system that link to ESG performance. This may increase employee capacity and commitment to engage with companies ESG program. To create positive impact of external stakeholders' engagement, such as creditor and community, companies need to consider strategic engagement through co-creation, not only pragmatic engagement through collaboration.

This research has several limitations. Firstly, the measurement of company's recognition using dummy variable SRI-Kehati Listing that only applicable for Indonesia, so the results cannot be generalized into a broader context. Therefore, further research is recommended to use world-wide recignition. Secondly, measurement of stakeholder engagement is limited to pragmatic components, has not yet using strategic components that have broad and long-term impacts. Future research can develop measurements that can measure strategic components. Thirdly, this study did not relation of ESG performance on firm's value and as highlight by Sany et al. (2024) as well as the important of business strategy to enhance ESG performance. Future study may consider the role of Busy BOD on ESG Performance as well as extend the study of Moesono et al. (2021)to examine the role of business strategy on ESG Performance.

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