The Ownership Structure, and the Environmental, Social, and Governance (ESG) Disclosure, Firm Value and Firm Performance: The Audit Committee as Moderating Variable

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Abstract: This study investigated the effect of ownership structure on environmental, social, and governance (ESG) disclosure, firm value, firm performance, and audit committees as moderating variables in the Indonesian context. The ownership structures in this study are foreign, public, state, and family ownership. This research is quantitative and uses secondary data. The sample consisted of 140 companies on the Indonesia Stock Exchange for the 2018–2020 period. This study used legitimacy, stakeholder, and agency theory. The analytical method used was partial least squares structural equation modeling. The results show that foreign and public ownership positively and significantly affect environmental, social, and governance disclosure. However, state and family ownership did not affect environmental, social, and governance disclosure. In addition, environmental, social, and governance disclosure positively impacts firm value. However, environmental, social, and governance disclosure do not affect a company’s performance. Audit committees moderate the influence of environmental, social, and governance disclosure and firm value. However, the audit committees do not moderate the effect of environmental, social, and governance disclosure and firm performance. The government should make stronger environmental, social, and government regulations that must be implemented by companies listed on the Indonesia Stock Exchange even though they are now voluntary.

Keywords: ownership structure; environmental, social, and governance (ESG) disclosure; firm value; firm performance; audit committee

1. Introduction

Recently, corporate organizations have become more responsible for the environment and society. This is due to demands from stakeholders, customers, regulators, company shareholders, suppliers, employees, creditors, media, and social and environmental activist groups (Maama and Appiah 2019; Sajjad et al. 2019). Environmental, social, and governance (ESG) analysis has become an essential part of the investment process due to increasing attention to investing in companies’ social impact and sustainability (Caporale et al. 2022). Lack of clarity on the disclosure of environmental, social, and governance (ESG) practices can create information gaps for responsible financiers and investors when making assessment (Rabaya and Saleh 2021). ESG disclosures reveal a company’s overall initiatives to stakeholders, including regulators, communities, investors, and employees (Atif et al. 2022).

Environmental, social, and governance disclosure activity include three main components. The first is the environment, which includes aspects related to pollution, mitigation, and climate change sustainability. The second is social, which refers to how an organization treats its communities, employees, and clients and its responsibility for
products and services, diversity, the fight against corruption, and respect for human rights throughout the supply chain. The last component is governance, which is related to balancing the interests of stakeholders and shareholders and adhering to the best corporate governance practices (De Masi et al. 2021). The environmental dimension refers to a company’s ability to use natural resources efficiently, thereby reducing environmental emissions. The social dimension promotes ethical values, employees' trust, and respect for human rights. Finally, the governance dimension benefits shareholders through the company’s management system and effective processes (Dicuonzo et al. 2022).

Previous research explained environmental, social, and governance (ESG) disclosure (Kumar and Firoz 2022; Li et al. 2018; Mohammad and Wasiuzzaman 2021; Rabaya and Saleh 2021; Wasiuzzaman et al. 2022), (Chen and Xie 2022), environmental, social and governance performance (Beloskar and Rao 2022; He et al. 2022; Sheehan et al. 2022; Daugaard and Ding 2022; Wang and Sun 2022), environmental, social and governance ratings (Zheng et al. 2022; Vilas et al. 2022; Liu and Lyu 2022; Boulhaga et al. 2022) environmental, social and governance reporting (Ahmad et al. 2021; Bmahros et al. 2022); environmental, social and governance practices (Dicuonzo et al. 2022; Fuente et al. 2022). This study examines the effect of ownership structure which includes foreign, public, state, and family ownership, on environmental, social, and governance disclosure, firm value, firm performance, and audit committees as moderating variables. The study used a sample of companies listed on the Indonesia Stock Exchange. In theory, this research extends legitimacy, stakeholder, and agency theories. Moreover, the current study provides insight into the role of audit committees in companies regarding environmental, social, and governance disclosure, firm value, and performance.

Our study offers several contributions. First, we contribute to the literature by seeking to understand ownership structure and environmental, social, and governance disclosure. As mentioned, the ownership structure consists of foreign, state, family, and public ownership. We expand on existing knowledge of environmental, social, and governance disclosure by exploring the contribution of ownership structures to the three components of environmental, social, and governance practices. Second, this study uses and extends legitimacy, stakeholder, and agency theory. Third, we contribute to the effects of environmental, social, and governance disclosure on firm value and performance with the audit committee as a moderating variable.

This paper is structured as follows. Section 2 illustrates the development of hypotheses. Then, Section 3 describes the research methodology, while Section 4 describes and discusses the results. Finally, conclusions are presented in Section 5.

2. Literature Review

2.1. Foreign Ownership and Environmental, Social, and Governance (ESG) Disclosure

Foreign ownership is the amount of share ownership owned by foreign parties. Al Amosh and Khatib (2021) revealed that a company and its stakeholders gain trust and transparency with the presence of foreign shareholders in a company. Using legitimacy theory, Hanifa and Rashid (2005) described that foreign investors lead to a higher legitimacy gap. Management can disclose environmental, social, and governance elements as a proactive legitimacy strategy that can encourage capital flow from foreign parties and satisfy foreign investors. Legitimacy theory influences and regulates people’s goals to obtain rewards and escape a punishing society’s actions. Firm disclosure results from social values, and the legitimacy theory’s environmental and social disclosure model considers stakeholder values when considering any decision (Tilling and Tilt 2010).

Foreign ownership positively affects environmental, social, and governance disclosure (Al Amosh and Khatib 2021). Foreign ownership positively was found to affect corporate social responsibility (CSR) disclosure in China from (Guo and Zheng 2021) and in Bangladesh (Khan et al. 2012). In addition, foreign ownership positively affects environmental sustainability reporting (Khlif et al. 2016; Masud et al. 2018; Bae et al. 2018;

Thus, foreign ownership can improve corporate governance and maximize stakeholder value by encouraging disclosure of corporate performance in sustainability. Foreign investors encourage corporate governance practices, and various disclosures, one related to environmental, social, and governance disclosure. This means that the more foreign ownership, the more significant impact on the environmental, social, and governance (ESG) disclosure. Companies with foreign ownership are expected to disclose more social and environmental information to assist them in decision-making (Khan et al. 2012). Furthermore, Guo and Zheng (2021) revealed that companies could increase environmental, social, and governance disclosures under pressure from foreign owners. This can enhance the company’s reputation and support its legitimacy. Thus, foreign ownership can improve corporate governance and maximize stakeholder value by disclosing non-financial information including, environmental, social, and governance disclosures. Therefore, the following hypothesis is proposed:

**Hypothesis 1 (H1).** Foreign ownership positively affects environmental, social, and governance (ESG) disclosure.

2.2. Public Ownership and Environmental, Social, and Governance (ESG) Disclosure

Public ownership is the amount of purchased share ownership of a company by an individual or community investor. Legitimacy theory reveals that managers attempt to meet society’s expectations through communication to conform to societal norms and secure the legitimacy of business behavior (Suchman 1995).

Khan et al. (2012) revealed that companies with public ownership are more likely to aspire to and achieve community aspirations and legitimacy, which increases their social responsibility and disclosure. Furthermore, Khliif et al. (2016) emphasized that a company’s board strengthens social and environmental responsibility for the company. In addition, public ownership will pressure corporate accountability, where shareholders want a more comprehensive disclosure of information (Khan et al. 2012).

Public ownership positively and significantly affects corporate social responsibility (CSR) disclosure (Khan et al. 2012). Khan et al. (2012) investigated 135 manufacturing companies on the Dhaka Stock Exchange in Bangladesh as a sample from 2005 to 2009. When a company discloses publicity, the issue of public accountability becomes vital. Therefore, publicly owned companies are expected to experience more pressure to disclose additional information because of the visibility and accountability issues that result from a large number of stakeholders (Khan et al. 2012). Therefore, the company has more significant pressure to disclose additional information to numerous stakeholders or companies with public ownership. This is also related to the company’s accountability, including environmental, social, and corporate governance disclosure. This means that the more public ownership there is, the more environmental, social, and governance (ESG) is disclosed in the company. Thus, the proposed hypothesis is as follows:

**Hypothesis 2 (H2).** Public ownership positively impacts environmental, social, and governance (ESG) disclosure.

2.3. State Ownership and Environmental, Social, and Governance Disclosure

State ownership is defined as the percentage of state ownership of shares in a company. The government invests in companies to achieve goals and promote development.
State ownership positively affects sustainability reporting (Rudyanto 2017; Kumar et al. 2022). Naser et al. (2006) used legitimacy and stakeholder theory, which suggests that the government can pressure companies to disclose more social and environmental information and financial information to increase social perceptions of companies. State ownership increases corporate accountability and transparency, which can increase legitimacy (Monk 2009). Stakeholder theory reveals companies’ motivation for transparent environmental, social, and governance disclosure. Companies must manage the relationship with stakeholders that influence business decisions. Companies and stakeholders are interdependent (Manita et al. 2018).

State ownership positively affects environmental, social, and governance disclosure (Khlif et al. 2016; Al Amosh and Khatib 2021). State ownership positively and significantly influences voluntary disclosure (Albawwat and Ali basah 2015). Albawwat and Ali basah (2015) used 72 non-financial companies listed on Amman Stock Exchange in Jordan from 2009 to 2013. State ownership plays a decisive role in companies’ sustainability disclosure because companies to which the state contributes respond to government strategies that promote sustainable development, as government pressure appears to be in line with stakeholder interests (Rudyanto 2017). Furthermore, state ownership increases accountability and transparency systems in companies, thereby increasing their legitimacy (Al Amosh and Khatib 2021). The state ownership of companies can emphasize the disclosure of social and environmental responsibilities. Thus, it is also related to ESG, as it positively affects disclosure, increasing disclosure as state ownership increases. Hence, this study hypothesizes the following:

**Hypothesis 3 (H3).** State ownership positively impacts environmental, social, and governance (ESG) disclosure.

### 2.4. Family Ownership and Environmental, Social, and Governance (ESG) Disclosure

Freeman (1984) revealed that stakeholder theory forces organizational managers to respond more to the external environment and its needs. Stakeholders perceive social responsibility as positively impacting a company’s future performance and conclude that higher social responsibility reduces the company’s sensitivity to adverse shocks that may negatively affect the company (Bouslah et al. 2013).

Family companies manage strong relationships with external and internal stakeholders through the good disclosure of non-financial information (Salvato and Melin 2008). Chauhan and Kumar (2018) concluded that voluntary disclosure of non-financial information, in this case, environmental, social, and governance disclosure, is superior and is expected to influence the perceptions of stakeholders and investors positively.

Stakeholder theory can be described with ethical and management aspects, especially economics (Deegan 2013). From a management point of view, the company should be responsible for the stakeholders who can influence the economic impact on the organization (O’Dwyer 2003). From the ethical dimension, all stakeholders have the right to know the social and environmental consequences of a company’s operations (Deegan 2013).

Family ownership positively and significantly affects sustainability reporting (Amidjaya and Widagdo 2020). This is because companies owned by families tend to protect their families' image and reputation. A good reputation in the minds of stakeholders is essential to protect family assets (Amidjaya and Widagdo 2020). Thus, family ownership can improve the disclosure of environmental, social, and governance issues. This means that the greater the family ownership, the greater the environmental, social, and governance (ESG) disclosure. Therefore, the following hypothesis is proposed:

**Hypothesis 4 (H4).** Family ownership positively affects environmental, social, and governance (ESG) disclosure.
2.5. Environmental, Social, and Governance (ESG) Disclosure and Firm Value

Stakeholder theory reveals that board accountability is not only to shareholders but also to other interested parties. Proponents of stakeholder theory argue that this theory colors the corporate portrait by providing social and economic values and ethical and moral considerations for estimating firm value (Freeman 1983). Environmental, social, and governance disclosures can serve as tools to minimize potential conflicts with stakeholders and to increase stakeholders’ perceptions of the appropriateness of their company’s actions (Freeman 1984). Thus, the environmental, social, and governance disclosure that affects the value of this company can be explained through stakeholder theory.

Environmental, social, and governance disclosure positively influence firm value (Ferrell et al. 2016; Yu et al. 2018; Li et al. 2018; Aboud and Diab 2018; Kim et al. 2018; Shaikh 2022). Ferrell et al. (2016) conducted a study using data from MSCI’s Intangible Value Assessment database and the Vigeo Corporate environmental, social, and governance (ESG) database from 1999 to 2011. Yu et al. (2018) conducted research and used 47 developed and emerging countries from 2012 to 2016 with 1.996 observations. Li et al. (2018) conducted a study on the level of environmental, social, and governance disclosure and firm value using the FTSE 350 in the UK and a sample of 2415 observations from 367 companies from 2004 to 2013. Aboud and Diab (2018) conducted research using 1,507 observations from the Egyptian stock market. Kim et al. (2018) used the Korea Investors Service Value and Bloomberg databases from 2010 to 2014. Shaikh (2022) researched 510 environmental, social, and governance scores from 17 countries from 2010 to 2018. These studies determined that TESG disclosure can increase firm value through increased transparency, accountability, and stakeholder trust (Li et al. 2018). This means that the greater the environmental, social, and governance (ESG) disclosure, the higher the firm’s value.

In line with the literature, this study proposes the following hypothesis:

**Hypothesis 5 (H5).** Environmental, social, and governance (ESG) disclosure positively affects firm value.

2.6. Environmental, Social, and Governance (ESG) Disclosure and Firm Performance

Stakeholder theory reveals that corporate social responsibility has an inconclusive effect on performance because external shareholders can reward companies that are successful in corporate social responsibility practices, but their responses do not affect performance when companies perform poorly. In other words, the cost of corporate social responsibility is not outweighed by the gains. However, companies with poor corporate social responsibility practices may be penalized by external stakeholders, whose negative opinions of the company can adversely affect the company’s performance (Carlos and Lewis 2018). ROA uses to measure firm performance (Alareeni and Hamdan 2020; Pulino et al. 2022; Saini and Singhania 2019; Kumar and Firoz 2022). In addition, the company’s performance uses ROA as the primary indicator associated with capital invested in operating activities related to the balance sheet (Pulino et al. 2022).

The environmental, social, and governance disclosure positively affect firm performance (Brogi and Lagasio 2018; Mohammad and Wasiuzzaman 2021; Boulhaga et al. 2022; Kumar and Firoz 2022; Chen and Xie 2022; Pulino et al. 2022). Environmental, social, and governance disclosure positively impacts financial performance (Giannopoulou et al. 2022). In addition, integrated reporting also positively and significantly affects firm performance (Pavlopoulos et al. 2019). Brogi and Lagasio (2018) conducted research on US companies with 17,358 observations. Boulhaga et al. (2022) conducted a study using a sample of 98 firms from French registered companies on the SBF 120 index over seven years, from 2012 to 2018, for a total of 686 observations. Pavlopoulos et al. (2019) conducted research using 82 companies from 25 countries. Chen and Xie (2022) researched non-financial companies from 2000 to 2020 on the Chinese Stock Exchange. Pulino et al. (2022) investigated the largest Italian-listed companies as a sample from 2011 to 2020.
They determined that the greater the environmental, social, and governance (ESG) implementation, the higher the firm performance. Therefore, the hypothesis is:

**Hypothesis 6 (H6).** Environmental, social, and governance (ESG) disclosure positively affects firm performance.

2.7. Audit Committee Moderation of Environmental, Social, and Governance (ESG) Disclosure, Firm Value, and Firm Performance

Agency theory (Jensen and Meckling 1976) identified audits as an essential monitoring tool to reduce information asymmetry, limit opportunistic behavior, and improve environmental, social, and governance disclosure, firm performance, and firm value. Principals use the disclosure of financial and non-financial information to reduce agency costs (i.e., information asymmetry) arising from the separation of ownership and control (Morris 1987). Companies provide environmental, social, and governance disclosures to reduce information asymmetry (Harjoto and Jo 2011). Hence, management’s increased environmental, social, and governance disclosure, which represents additional non-financial information, improves the information environment and reduces the knowledge barrier between the company and its shareholders (Kim et al. 2014).

The primary responsibility of an audit committee is to oversee the financial and non-financial reporting processes and to reduce information asymmetry between managers, stakeholders, and the company (Appuhami and Tashakor 2017). In particular, the audit committee oversees mandatory and voluntary environmental, social, and governance disclosures. Therefore, audit committee members must understand how environmental, social, and governance risks and opportunities are identified and prioritized and oversee disclosure practices accordingly (Bamahros et al. 2022).

An audit committee handles preparing, presenting, and ensuring the integrity of financial statements, applying accounting principles and financial statements, and performing internal control under applicable financial accounting standards. The audit committee is also responsible for conducting an independent audit of consolidated financial statements based on auditing standards (Djaddang et al. 2017). Furthermore, an audit committee’s role is to assist the board of directors in overseeing the company’s reporting policies and the quality of the company’s financial statements. In addition, the audit committee can increase investor and stakeholder confidence in the reliability and objectivity of financial statements and provide increased efficiency in corporate governance practices (Biger and Feneir 2019). As a result, the study suggested the following hypotheses:

**Hypothesis 7 (H7).** The audit committee moderates the impact of environmental, social, and governance (ESG) disclosure and firm value.

**Hypothesis 8 (H8).** The audit committee moderates the relationship between environmental, social, and governance (ESG) disclosure and firm performance.

Figure 1 presents the empirical research model, which is presented below:
3. Methodology

3.1. Sample Selection and Data Source

The population in this study consisted of companies listed on the Indonesia Stock Exchange for each sector. In addition, this research uses secondary data from annual, financial, and sustainability reporting from companies’ websites and the IDX or Indonesian capital market directory (idx.co.id; idxchannel.com). The research period is from 2016-2020, with as many as 140 companies and 700 observations.

3.2. The Measurement of Variables

Table 1 shows the measurements of research variables. The environmental, social, and governance (ESG) disclosure is obtained from financial reports and sustainability reports from companies’ websites and the IDX or Indonesian capital market directory (idx.co.id; idxchannel.com). This study uses content analysis (Krippendorff 2018). This analysis is used for all companies as samples to be more detailed and transparent in collecting data by examining environmental, social, and governance (ESG) disclosures referring to guidelines of the Global Reporting Initiatives (GRI 2013). ESG score in this study ranges from 0.1 to 100, with high scores indicating more disclosure and transparency. According to the Global Reporting Initiatives (GRI-G4), the environmental dimension of sustainability includes issues related to the organization’s impact on ecosystems. These issues include biodiversity, effluents and waste, greenhouse gas emissions, discharges into water, and other emissions. The social dimension concerns an organization’s impact on its social systems, such as equal opportunity, social investment, human rights, due diligence, and community involvement. Thus, the governance dimension focuses on organizational capabilities in instituting mechanisms that assist stakeholders in evaluating company compliance with established rules and regulations and initiatives for sustainable business practices.

Table 1. Measurement of research variables.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Measurement</th>
<th>Sources</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign ownership</td>
<td>Percentage of foreign ownership of shares to the total number of issued shares.</td>
<td>(Al Amosh and Khatib 2021).</td>
</tr>
<tr>
<td>Family ownership</td>
<td>Percentage of family ownership of shares to the total number of issued shares.</td>
<td>(Al Amosh and Khatib 2021).</td>
</tr>
</tbody>
</table>
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<table>
<thead>
<tr>
<th>State ownership</th>
<th>Percentage of state ownership of shares to the total number of issued shares</th>
<th>(Al Amosh and Khatib 2021).</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public ownership</td>
<td>Percentage of public ownership of shares to the total number of issued shares</td>
<td>(Khan et al. 2012)</td>
</tr>
<tr>
<td>Environmental, social, and governance (ESG) disclosure</td>
<td>ESG score ranging from 0.1 to 100</td>
<td>(GRI 2013)</td>
</tr>
</tbody>
</table>
| Firm value | Tobin’s Q = (VMS + D)/TA  
Where:  
VMS = market value of all outstanding shares  
TA = company assets  
D = debt | (Lindenberg and Ross 1981) |
| Firm performance | ROA = EBIT/TA  
Where:  
ROA: return on assets  
EBIT: earnings before interest and tax  
TA: total assets | (Chan et al. 2019) |
| Audit committee | Number of people on the audit committee | (Nikulin et al. 2022) |
| Control variables | Size = the natural logarithm (total assets) | (Aman and Nguyen 2013) |
| Leverage | Leverage = (long term borrowing + short term borrowing): total assets | (Aman and Nguyen 2013) |

Source: several empirical research results developed for this study.

3.3. Method of Analysis

Inferential testing uses structural equation modeling with variant-based partial least squares. The reason for data processing using partial least squares was that it involves latent variables and tiered structural models, and the direction of the relationship is recursive.

Conventional regression only examines the causal relationship, ceteris paribus, between the independent and dependent variables. Structural equation modeling (SEM) was advantageous in establishing complex causal relationships between variables, allowing it to perform multiple path analyses and measure the effects of interrelationship variables on the response variable (Li and Zhao 2019). The SEM model evaluated the complete adequacy of suggested hypotheses between constructs. The essential paths between the paired constructs in the model suggest the simultaneous emergence of relationships and the appropriate compilation of strategic responses to the perceived market environment. The structural model describes construction’s interrelationships (Weston and Gore 2006). This study’s mediating variables were environmental, social, and governance disclosure; the moderating variable was the audit committee. The independent variables included foreign, public, state, and family ownership. The dependent variable is the firm value and the firm’s performance.

The outer model test was used to determine the indicators of the latent variables in the study. All indicators of latent variables were reflective, meaning a reflection of each variable. The provision of whether an indicator reflects each variable was based on the loading factor. If the results of the loading factor were > 0.7, then the indicator reflects the variable, but if the results of the loading factor range from 0.5 to 0.60, it was considered sufficient. Model fit involves testing the structural model by considering the parameter values of the relationships between the variables studied. A hypothesis was declared significant if the p-value < 0.05 (Hair et al. 2016, 2019).

The form of the structural equation can be described as follows:

$$ESG = \alpha + \beta_0FO + \beta_0PU + \beta_0ST + \beta_0FA + \beta_0S + \beta_0L + \varepsilon$$ (1)
Company performance = α + β₁ESG * AC + ε \tag{2}

Firm value = α + β₁ESG * AC + ε \tag{3}

The equation symbol is defined below:
FO = foreign ownership
PU = public ownership
ST = state ownership
FA = family ownership
S = size
L = leverage
ESG = environmental, social, and governance disclosure
AC = audit committee

4. Results and Discussion

4.1. Results

Table 2 shows the descriptive statistics of the sample. Table 3 shows the results of the reliability testing of all variables in this study. The reliability and validity of this study are adequate, as the value of Cronbach’s alpha was >0.6, and the value for composite reliability was >0.7. The average variance extracted (AVE) value was above 0.5.

Based on Table 4 the p-value was less than 0.05, and the path coefficient value was positive. The proposed hypotheses H1, H2, H5, and H7 were accepted and had a positive effect. H1 was acceptable because foreign ownership positively affects environmental, social, and governance disclosure (coefficient = 0.30, p-value < 0.01). For H2, there was a positive association between public ownership and environmental, social, and governance disclosure (coefficient = 0.27, p-value = 0.04). H5 was supported because environmental, social, and governance disclosure positively affects firm value (coefficient = 0.29, p-value = 0.01). (Coefficient = 0.29, p-value = 0.01). Finally, H7 was also accepted and confirmed the H7 that the audit committee moderates the relationship between environmental, social, and governance disclosure and firm value. Meanwhile, hypotheses H3, H4, H6, and H8 were rejected because the p-value was greater than 0.05.

<table>
<thead>
<tr>
<th>Variables</th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign ownership</td>
<td>700</td>
<td>0.00</td>
<td>37.8</td>
<td>28.4</td>
<td>23.6</td>
</tr>
<tr>
<td>Public ownership</td>
<td>700</td>
<td>0.04</td>
<td>25.9</td>
<td>19.7</td>
<td>17.9</td>
</tr>
<tr>
<td>State ownership</td>
<td>700</td>
<td>0.00</td>
<td>68.2</td>
<td>13.9</td>
<td>8.7</td>
</tr>
<tr>
<td>Family ownership</td>
<td>700</td>
<td>0.00</td>
<td>45.3</td>
<td>16.5</td>
<td>9.3</td>
</tr>
<tr>
<td>ESG</td>
<td>700</td>
<td>2</td>
<td>4</td>
<td>3.4</td>
<td>2.3</td>
</tr>
<tr>
<td>Audit committee</td>
<td>700</td>
<td>8</td>
<td>72.8</td>
<td>39.2</td>
<td>14.5</td>
</tr>
</tbody>
</table>

Source: author based on output SPSS.

<table>
<thead>
<tr>
<th>Variables</th>
<th>Cronbach’s Alpha</th>
<th>Rho A</th>
<th>Composite Reliability</th>
<th>AVE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign ownership</td>
<td>0.713</td>
<td>0.887</td>
<td>0.803</td>
<td>0.587</td>
</tr>
<tr>
<td>Public ownership</td>
<td>0.890</td>
<td>0.842</td>
<td>0.889</td>
<td>0.541</td>
</tr>
<tr>
<td>State ownership</td>
<td>0.846</td>
<td>0.924</td>
<td>0.863</td>
<td>0.617</td>
</tr>
<tr>
<td>Family ownership</td>
<td>0.789</td>
<td>0.873</td>
<td>0.876</td>
<td>0.500</td>
</tr>
<tr>
<td>ESG</td>
<td>0.823</td>
<td>0.801</td>
<td>0.815</td>
<td>0.589</td>
</tr>
<tr>
<td>Audit committee</td>
<td>0.831</td>
<td>0.899</td>
<td>0.885</td>
<td>0.625</td>
</tr>
</tbody>
</table>

Source: author based on the output of SEM PLS.
Table 4. Path coefficient.

<table>
<thead>
<tr>
<th>Hypotheses</th>
<th>Coefficient</th>
<th>p Value</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign ownership → ESG</td>
<td>0.30</td>
<td>&lt;0.01</td>
<td>Accepted</td>
</tr>
<tr>
<td>Public ownership → ESG</td>
<td>0.27</td>
<td>0.04</td>
<td>Accepted</td>
</tr>
<tr>
<td>State ownership → ESG</td>
<td>0.06</td>
<td>0.16</td>
<td>Rejected</td>
</tr>
<tr>
<td>Family ownership → ESG</td>
<td>0.16</td>
<td>0.19</td>
<td>Rejected</td>
</tr>
<tr>
<td>ESG → firm value</td>
<td>0.29</td>
<td>0.01</td>
<td>Accepted</td>
</tr>
<tr>
<td>ESG → firm performance</td>
<td>0.10</td>
<td>0.15</td>
<td>Rejected</td>
</tr>
<tr>
<td>ESG → firm value → audit committee</td>
<td>0.38</td>
<td>&lt;0.01</td>
<td>Accepted</td>
</tr>
<tr>
<td>ESG → firm performance → audit committee</td>
<td>0.01</td>
<td>0.32</td>
<td>Rejected</td>
</tr>
</tbody>
</table>

Significant level at 5% $p < 0.05$.

4.2. Discussion

The first hypothesis (H1) states that foreign ownership positively impacts environmental, social, and governance (ESG) disclosure. The results of this study indicate that foreign ownership has a significant positive effect on environmental, social, and governance (ESG) disclosure. This means that the greater the foreign ownership, the greater the environmental, social, and governance (ESG) disclosure. This finding supports previous research that concluded that foreign ownership significantly and positively affects ESG disclosure (Guo and Zheng 2021; Khan et al. 2012; Khelif et al. 2016; Masud et al. 2018; Bae et al. 2018; Amidjaya and Widagdo 2020; Al Amosh and Khatib 2021). However, this finding is not in line with previous research that revealed foreign ownership has a negative effect on ESG disclosure (Saini and Singhania 2019; Sharma et al. 2020; Hasan et al. 2022; Abu Qa’dan and Suwaidan 2019). Furthermore, the results of this study do not support the study by Yu and Luu (2021), which concluded that foreign ownership did not impact ESG disclosure. This study supports the legitimacy theory.

The second hypothesis (H2) reveals that public ownership affects environmental, social, and governance (ESG) disclosure. The results of this study indicate that public ownership has a positive and significant effect on environmental, social, and governance (ESG) disclosure. This finding supports previous research by (Khan et al. 2012) that concluded that public ownership positively affects corporate social responsibility disclosure (Khan et al. 2012). On the other hand, the result did not agree with Nugrahani et al. (2022), who concluded that public ownership does not impact corporate social responsibility disclosure. The finding of this study supports the legitimacy theory.

The third hypothesis (H3) reveals that state ownership positively influences environmental, social, and governance (ESG) disclosure. However, the resulting research shows that state ownership does not impact environmental, social, and governance disclosure. Therefore, the third hypothesis was rejected. This finding does not support previous studies from Khelif et al. (2016); Al Amosh and Khatib (2021), who concluded that state ownership has a significant positive effect the environmental, social, and governance disclosure. Furthermore, this result is not in line with the study from Al-Janadi et al. (2016), who concluded that state ownership negatively impacts voluntary disclosure. Therefore, this finding does not support the stakeholder theory.

The fourth hypothesis (H4) states that family ownership positively affects environmental, social, and governance (ESG) disclosure. The result of this study is not supported. The data analysis for hypothesis 4 (Figure 2 and Table 4) shows that family ownership does not affect environmental, social, and governance disclosure. This result is in line with the previous study (Salehi et al. 2017; Rudyanto 2017; Masud et al. 2018, and Rees and Rodionova 2014), which shows insignificant results. In addition, family ownership does not affect sustainability reporting (Rudyanto 2017; Masud et al. 2018) or does not influence corporate social responsibility disclosure (Salehi et al. 2017). In addition, Rees and Rodionova (2014) found that family ownership negatively affects the quality of sustainability reports. This study does not support stakeholder theory.
The fifth hypothesis (H5) states that environmental, social, and governance (ESG) disclosure positively affects firm value. The result of this study shows that environmental, social, and governance disclosure affects firm value. Therefore, the fifth hypothesis was supported. This means that the higher the environmental, social, and governance (ESG) disclosure, the higher the firm value. This result supports the previous research (Ferrell et al. 2016; Aboud and Diab 2018; Kim et al. 2018; Li et al. 2018; Shaikh 2022; Yu et al. 2018) concluded that environmental, social, and governance disclosure positively and significantly affects firm value. However, this finding does not agree with previous studies by Ahmad et al. (2021) and Aouadi and Marsat (2018), who showed that environmental, social, and governance disclosure did not influence firm value. The finding of this study supports stakeholder theory.

The sixth hypothesis (H6) reveals that environmental, social, and governance (ESG) disclosure positively affects firm performance. The data analysis for hypothesis 6 from the Figure 2 and Table 4 shows that environmental, social, and governance disclosure does not affect firm performance. Therefore, the sixth hypothesis was rejected. This finding does not support the research (Boulhaga et al. 2022; Brogi and Lagasio 2018; Kumar and Firoz 2022; Mohammad and Wasiuzzaman 2021) that concluded that environmental, social, and governance disclosure effects have a significant positive on firm performance. Furthermore, this result does not support the previous research (Buallay 2019; Duque-Grisales and Aguilara-Caracuel 2019; Shaikh 2022; Wasiuzzaman et al. 2022) that concluded that environmental, social, and governance disclosure negatively impacts the firm performance. This finding does not support stakeholder theory.

The seventh hypothesis (H7) states that audit committees moderate the relationship between environmental, social, and governance disclosure and firm value. However, the resulting research shows that environmental, social, and governance disclosure affects firm value, and the audit committee moderates this influence. Therefore, the seventh hypothesis was accepted. The audit committee is a moderating variable on environmental, social, and governance disclosure influences and firm values that strengthen its relationship. This finding supports agency theory.

The last hypothesis (H8) states that the audit committee moderates the relationship between environmental, social, and governance disclosure and firm performance. However, the results of this study did not find any significance between these variables, meaning that the audit committees do not strengthen the influence of environmental, social,
and governance disclosure on firm performance. Thus, audit committees do not act as moderating variables in this relationship.

The control variables’ results indicate that the company’s size is positive and significant. Larger companies have greater responsibilities to stakeholders through sustainable disclosure and are related to environmental, social, and governance disclosure. However, leverage shows insignificant results. This means that leverage does not support and contribute to the disclosures required by stakeholders.

The analysis results from Figure 2 and Table 4 show the R Square ($R^2$) value of 0.32 for environmental, social, and governance disclosure, 0.27 for firm value, and 0.23 for firm performance. This means that 0.32 of the environmental, social, and governance disclosure are influenced by foreign ownership, public ownership, state ownership, and family ownership, while 0.68 of the variables are influenced by other variables outside the variables that have not been studied in this study. An $R^2$ value of more than 0.5 indicates that the model has good goodness of fit measure (Hair et al. 2019).

5. Conclusions

The findings of this study reveal that both foreign and public ownership have a positive and significant effect on environmental, social, and governance (ESG) disclosure. Foreign ownership plays a role in environmental, social, and governance disclosure because it contributes to the process. This is in line with public ownership, which also plays a role in environmental, social, and governance disclosure. Neither state nor family ownership significantly influences environmental, social, and governance disclosure. Furthermore, environmental, social, and governance disclosure positively and significantly affect firm value. However, environmental, social, and governance disclosure do not significantly affect the firm performance. The audit committee moderates the influence between environmental, social, and governance disclosure, and firm value. However, the audit committee does not play a moderating role in influencing environmental, social, and governance (ESG) disclosure and firm performance. Overall, these findings prompt managers to pay attention to social operations and good corporate governance that is environmentally friendly. The results are helpful for companies and the government as a regulator who can convince companies to adopt environmental, social, and governance disclosure.

5.1. Practical Implication

The results and findings of this study have several practical implications. First, regarding stakeholders, companies that disclose environmental, social, and governance aspects, can further enhance supervision by both internal and external parties, including the government and stakeholders. Stakeholders include managers, investors, or the community.

Second, implications for managers and companies should be more transparent regarding environmental, social, and governance disclosure. Environmental, social, and governance disclosure can enhance competitive advantage and create value for companies that disclose sustainability-related strategic information. Companies can also use resources related to environmental, social, and governance practices efficiently and economically.

Third, the implication for the government as a regulator in Indonesia involves the financial services authority (Otoritas Jasa Keuangan-OJK). The government must create stronger environmental, social, and government regulations that companies must apply, especially those listed on the Indonesia Stock Exchange. However, a company’s annual report must disclose information related to corporate social responsibility (CSR) based on the law from the financial services authority (Otoritas Jasa Keuangan-OJK).

Fourth, investors can assess the company’s environmental, social, and governance disclosure more accurately. As a result, investors have a significant role in supporting companies in increasing transparency and disclosure and ultimately improving their reporting standards. Finally, environmental, social, and governance disclosure can persuade investors to invest in a company.
5.2. Limitations

This study has several limitations. The first limitation is related to weak secondary data. Suggestions for further research would be to conduct research by obtaining primary data. In addition, future researchers should conduct a qualitative study with interviews with companies that have disclosed environmental, social, and governance information. The second limitation is that the factors affecting environmental, social, and governance disclosure in this study focus only on the ownership structure, including foreign, public, state, and family ownership. Further research could use other variables, such as corporate social responsibility, profitability, board independence, and corporate governance. The third limitation of this research is related to the use of three theories: legitimacy, stakeholder, and agency theory. Future research could use different perspectives by using other theories. The last limitation is that we use financial measurement, return on assets (ROA), to measure the firm performance. Future researchers can use non-financial measurements, such as global economic policy uncertainty, political risk, governance quality, etc. Athari (2021) showed empirical results that external governance mechanisms and their dimensions, particularly political stability, regulatory quality, the rule of law, and corruption control, positively impact the profitability of Islamic banks. Furthermore, the results of this study showed that increasing the dimensions of external governance, especially political stability, regulatory quality, the rule of law, and controlling corruption, increases the profitability of Islamic banks (Athari and Bahreini 2021).


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References


