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Does the Owner Characteristic Affect Sustainability Disclosure and Firm's Performace? (Empirical Evidence From the Indonesia Stock Exchange)

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Abstract: The purpose of this study was to examine the effect of the characteristics of ownership (institutional, foreign, and government) on the sustainability disclosure level and its implications for firm performance. The population of this study is all companies listed on the Indonesia Stock Exchange during 2016-2020. Purposive sampling was used to determine the sample. Data from 35 companies were obtained for hypothesis testing. Path analysis with SPSS v. 25 is used to data processing. The results show that the institutional ownership has a significant and positive effect on the level of sustainability disclosure. Meanwhile, the foreign and government ownership have significant and negative effect on the level of sustainability disclosure. Furthermore, the institutional, foreign, government ownership and sustainability disclosure level have no significant effect on firm performance.

Keywords: Ownership Characteristic, Sustainability Disclosure Level, Firm Performance

INTRODUCTION

The practice of sustainability disclosure has become a common practice in large companies in the world. The 2017 KPMG survey stated that the practice of sustainability reporting in the world's largest companies (N100 Companies) has reached 93% (KMPG, 2017). One of the benefits of sustainability reporting/disclosure practices is to improve company performance (Center for Corporate Citizenship & Ernst & Young LLP, 2013: 2).

In Indonesia, the participation of companies in conducting sustainability reporting/disclosure practices is still low, which is still around 30% of the top 100 issuers on the Indonesia Stock Exchange that have published sustainability reports (Ernst & Young, 2016). The results of research conducted by Loh & Thomas (2018) on sustainability reporting in 5 ASEAN countries (Indonesia, Malaysia, the Philippines, Singapore and Thailand) show that the level of sustainability disclosure by Indonesian companies is at the lowest position of

53.6%. The highest ranking was achieved by Malaysia with a sustainability disclosure level of 64.5%.

Based on the above phenomena, we examines the effect of ownership characteristics (institutional, foreign, and government) on the sustainability disclosure level and its implications for firm performance in the Indonesian context, especially for companies listed on the Indonesia Stock Exchange during 2016-2020.

LITERATURE REVIEW

Agency Theory

The theory that is often used to explain the motivation for CSR [sustainability] disclosure is agency theory. This theory studies the agency relationship between managers, called agents, and shareholders, or principals, and the problems that arise from them. Jensen & Meckling (1976) define agency relationship as "a contract in which one or more persons (principals) engage another person (agent) to perform some service on their behalf which involves delegating decision-making authority to agents". The relationship between principal and agent creates information asymmetry. The concept of information asymmetry is very important when studying CSR [sustainability] disclosure. It is assumed that the information between the agent and the principal is not evenly distributed so that the agent has more access to internal information than the principal.

Legitimacy Theory

This theory is widely used in the literature on sustainability disclosure practices. Lindblom (1994) defines legitimacy as a condition or status, which exists when the firm's value system is consistent with the values of the larger social system in which the firm operates. While Suchman (1995), defines legitimacy as "a general perception or assumption that an entity's actions are desirable, appropriate, or in accordance with some socially constructed system of norms, values, beliefs, and definitions". According to (Guthrie & Parker, 1989), to gain legitimacy from society and in return for acceptance of goals, rewards and survival, companies are expected to comply with contractual requirements and carry out various socially desirable activities, and with sustainability disclosure, the company hopes to justify its existence and to legitimize corporate actions.

Institutional Ownership

Institutional investors are parties in the form of institutions such as limited liability companies, investment companies, banks, insurance companies, pension funds, and other institutions that have share ownership in a company. Institutional ownership is defined as the proportion of company shares owned by institutional/institutional investors. Institutional ownership is measured by dividing the total company shares owned by institutional investors by the total company shares outstanding (Majeed *et al*. 2015; Nurleni *et al*, 2018; *Zhou*, 2019).

Foreign Ownership

Foreign ownership is defined as the proportion of company shares owned by institutional investors or individual investors from abroad. Foreign ownership is measured by dividing the total company shares owned by foreign institutional/institutional investors and foreign individual investors by the total company shares outstanding (Majeed, et al. 2015; Naser, 2006; Wang, 2017).

Government Ownership

Government ownership is defined as the proportion of company shares owned by the Government of the Republic of Indonesia or the Regional Government (Provincial, Regency/City). Government ownership is measured by dividing the total company shares owned by the government by the total company shares outstanding (Wutticindanon, 2017; Laksmi, A.C., & Kamila, C, 2017; Zhou, 2018).

Sustainability Disclosure Level

De Villiers & Alexander (2014) describe sustainability reporting as the disclosure of social and environmental information in annual reports and on websites, which is mostly voluntary. Sustainability disclosure can be defined as information that a company discloses about its environmental impact and its relationship with its stakeholders through relevant communication channels (Gamerschlag *et al*., 2011). In this study, the level of sustainability disclosure is measured by the Sustainability Disclosure Indices (SDI) which is calculated based on the Global Reporting Initiative (GRI) disclosure standards (Riyadh *et al*, 2019; Zhou, 2019).

Firm Performance

The firm's performance represents the results obtained by the company from its operating activities during a certain period. In this study, firm's performance is measured by profit growth (Salehi, *et al*, 2018).

The Effect of Institutional Ownership on Sustainability Disclosure Level

Institutional investors are legal entities or institutions that invest in a company. Institutional investors are argued to own most of the shares of a company because they have greater resources than other shareholders. Because it controls the majority of shares, institutional investor can monitor management policies more closely than other shareholders. In addition, institutional investors have the capacity to influence company policies and exercise effective oversight of company operations, including company policies and operations related to sustainability disclosure practices. The larger the share of ownership of institutional investors, the greater the influence on the companies in which they invest. Thus, it is argued that institutional ownership has a significant and positive effect on the level of disclosure of a company's sustainability. The effect of institutional ownership on the level of sustainability disclosure has been empirically proven by the results of several previous studies conducted by, among others: Majeed *et al*., 2015; Nurleni *et al*., 2018; *Zhou* 2019, which states that institutional ownership has a significant and positive effect on the level of sustainability disclosure.

H_1 : Institutional ownership has a significant and positive effect on sustainability disclosure level.

The Effect of Foreign Ownership on Sustainability Disclosure Level

Foreign investors are investors who come from outside Indonesia. Foreign investors, especially those from developed countries, will try to apply business practices common in their home countries to the companies where they invest, including sustainability disclosure practices. The larger the portion of ownership of foreign investors, the greater the influence on the companies in which they invest. Thus it is argued, foreign ownership has a significant and positive effect on the level of sustainability disclosure. The effect of foreign ownership on the level of sustainability disclosure has been empirically proven by several previous research results conducted by, among others: Majeed, *et al*., 2015; Naser, 2006; Wang, 2017,

which states that foreign ownership has a significant and positive effect on the level of sustainability disclosure.
H_2 : Foreign ownership has a significant and positive effect on sustainability disclosure level.

The Effect of Government Ownership on Sustainability Disclosure Level

In Indonesia, besides aiming to make a profit, companies owned by the government also aim to provide public services. Consequently, many government-owned companies undertake extensive social responsibility activities. The implementation of this social responsibility will trigger these companies to make sustainability disclosures. Thus it is argued that government ownership has a significant and positive effect on sustainability disclosure. The effect of government ownership on the level of sustainability disclosure has been empirically proven by the results of several previous studies conducted by, among others: Wutticindanon, 2017; Laksmi & Kamila, 2017; Zhou, 2019, which states that government ownership has a significant and positive effect on the level of sustainability disclosure.
H_3 : Government ownership has a significant and positive effect on sustainability disclosure level.

The Effect of Sustainability Disclosure Level on Firm Performance

The level of sustainability disclosure is a manifestation of the implementation of social responsibility carried out by a company. The higher the level of sustainability disclosure made by the company, it can be interpreted that the company is increasingly carrying out its social responsibility activities. This can increase the legitimacy of the community, especially consumers. This increase in legitimacy can be in the form of increasing consumption of products or services produced by the company which in turn can improve the company's performance. Thus, it is argued that the level of sustainability disclosure has a significant influence on the company's performance. The effect of the level of sustainability disclosure on company performance has been empirically proven by several previous research results conducted by, among others: Ong, *et al*., 2016; Loh, *et al*, 2017; Abishasha, & Tyagi, 2019; Al-Dhaimesh, & Al-Zobi, 2015: Emeka-Nwokeji & Osisioma, 2019; Gupta, 2019, which states that the level of sustainability disclosure has a significant effect on company performance.
H_4 : Sustainability disclosure level has a significant and positive effect on firm’s performance.

The Effect of Institutional Ownership on Firm’s Performance

Institutional investors have adequate capacity and resources to influence company policies and operations in order to operate efficiently and effectively, which in turn will have an impact on firm’s performance. Thus, it is argued that institutional ownership has a significant influence on firm’s performance. The effect of institutional ownership on firm’s performance has been empirically proven by the results of several previous studies conducted by, among others: Xavier, *et al*., 2015; Salehi, *et al*., 2018; Kansil & Sing, 2018; Masry, 2016; Tahir, *et al*., 2015; Heydari, *et al*., 2015, which states that institutional ownership has a significant effect on firm’s performance.
H_5 : Institutional ownership has a significant and positive effect on firm’s performance.

The Effect of Foreign Ownership on Firm’s Performance

Foreign investors have an interest in maintaining the growth of their investments abroad. For this reason, they will try to influence company policies and oversee company operations so that they can operate efficiently and effectively, which in turn will have an

impact on firm's performance. Thus, it is argued that foreign ownership has a significant influence on firm's performance. The effect of foreign ownership on firm's performance has been empirically proven by the results of several previous studies conducted by, among others: Aydin, et al., 2007; Gurbus & Aybar, 2010; Vural-Yavas & Erdogan, 2016, which states that foreign ownership has a significant effect on firm's performance.
H_6 : Foreign ownership has a significant and positive effect on firm's performance.

The Effect of Government Ownership on Firm's Performance

The government has an interest in supervising the operations of the companies it owns in order to operate efficiently and effectively and to have good performance. Good firm's performance will contribute to state revenues in the form of taxes and dividends which will strengthen the structure of the state budget (APBN). Thus, it is argued that government ownership has a significant effect on firm's performance. The effect of government ownership on firm's performance has been empirically proven by the results of several previous studies conducted by, among others: Masry, 2016; Sahut & Gharbi, 2010; Yu, 2013; Chiang, 2013, which states that government ownership has a significant effect on firm's performance.
H_7 : Government ownership has a significant and positive effect on firm's performance.

RESEARCH METHODS

This study uses a quantitative approach, where research data is quantified in the form of numbers and then statistically tested using Path Analysis techniques to test research hypotheses and draw conclusions.

Population and Sample

The population of this study is all issuers listed on the Indonesia Stock Exchange (IDX) in the 2016-2020 that formally publish sustainability reports and annual reports. Sampling was carried out using a purposive sampling technique with the sample criteria being issuers listed on the Indonesia Stock Exchange which formally and continuously publish sustainability reports and annual reports in the 2016-2020. Besides, it also used the criteria that sustainability reports and sustainability reports must disclose information related to this research. Thus, the population and sample in this study are multi-industry (multi-sector). The selection of the population and sample in a multi-industry (multi-sector) manner was carried out with the argument that there were still limited (few) companies per industry/sector listed on the IDX that issued a formal and continuous sustainability report in the 2016-2020 based on the Global Reporting Initiative Standard. Based on the argument of data adequacy, the selected population and sample are multi-industry (multi-sector).

Thus, the research sample is all issuers listed on the IDX that formally and continuously publish sustainability reports and annual reports in the 2016-2020 time period based on the Global Reporting Initiative Standard.

Variable Measurement

Institutional ownership is measured by dividing the total company shares owned by institutional investors by the total outstanding shares (Majeed, et al., 2015; Nurleni, et al., 2018; Zhou, 2019). Foreign ownership is measured by dividing the total company shares owned by foreign institutional investors and foreign individual investors by the total outstanding shares (Majeed, et al., 2015; Naser, 2006; Wang, 2017). Government ownership is measured by dividing the total company shares owned by the government by the total outstanding shares (Wutticindanon, 2017; Laksmi & Kamila, 2017; Zhou, 2019).

Sustainabilitry Disclosure Index (SDIs) measured based on the Global Reporting Initiative (GRI) disclosure standards (Riyadh *et al*, 2019; Zhou, 2019).

Types of Data and Methods of Collection

This study uses secondary data. While the data collection method is carried out through searching and visiting websites and physical locations that are relevant to the collection of data needed in this study, such as the Indonesia Stock Exchange, the Financial Services Authority and the companies that are used as research samples.

Data Analysis and Processing

Data in the form of sustainability reports and annual reports are sampled which are analyzed using content analysis techniques to be tabulated accurately in the form of numbers to then be processed statistically according to the specified data processing method. In accordance with the research model, the research data processing technique was carried out using Path Analysis techniques using SPSS statistical software v. 25.

FINDINGS AND DISCUSSION

Descriptive Statistics

Based on the results of data processing using SPSS v. 25 obtained descriptive statistics as follows:

Table 1. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
X1 (Institutional Ownership)	175	,56	1,00	,9240	,08113
X2 (Foreign Ownership)	175	,00	,99	,3581	,33938
X3 (Government Ownership)	175	,00	,80	,2192	,30716
Y (Sustainability Disclosure Level)	175	,01	,79	,3938	,12471
Z (Firm's Performance)	175	-27,24	15,82	-,4028	3,96641
Valid N (listwise)	175				

Source : Result of data processing (2022)

Hypotheses Testing

By Path Analysis with the SPSS v. 25, a summary of the results of hypothesis testing is presented in Table 2.

Tabel 2. Summary of Hypotheses Testing

Hipothesis	Coefficient	t-Stats	t-table	Sig	Conclusion
H1	0,353	3,777	1,974	0,000	Accepted
H2	-0,475	-4,783	1,974	0,000	Accepted
H3	-0,187	-2,070	1,974	0,040	Accepted
H4	0,167	1,616	1,974	0,108	Rejected
H5	-0,034	-0,305	1,974	0,761	Rejected
H6	-0,055	-0,567	1,974	0,571	Rejected
H7	0,048	0,595	1,974	0,553	Rejected

The Effect of Institutional Ownerships on Sustainability Disclosure Level

As expected, the results of hypothesis (H1) testing indicate that institutional ownership has a significant and positive effect on the level of sustainability disclosure. This means that the larger the share of institutional ownership, the higher the level of sustainability disclosure. Institutional investors who represent institutional ownership generally have sufficient capacity and resources to monitor and control the company's operations, including sustainability disclosure practices. From the perspective of agency theory, this means that institutional investors (principals) have succeeded in carrying out their monitoring and control functions well on the management (agent) of the companies where they invest.

The results of this study are consistent with the previous research conducted by, among others: Majeed, *et al*. (2015), Nurleni, *et al*. (2018), and Zhou, 2019. However, the results of this study contradict the results of previous research conducted by, among others, Naser (2006); Yusuf, et al. (2018).

The Effect of Foreign Ownerships on Sustainability Disclosure Level

Not as expected, the results of hypothesis (H2) testing indicate that foreign ownership has a significant and negative effect on the level of sustainability disclosure. This means that the larger the portion of foreign ownership, the lower the level of sustainability disclosure will be. These results indicate that foreign investors do not pay adequate attention to sustainability activities and disclosures in Indonesia or even consider sustainability disclosure activities and practices as something that costs money that will reduce the company's financial returns. This is understandable because sustainability disclosure activities and practices in Indonesia are still voluntary and investors in the Indonesian capital market do not/have not given sufficient appreciation of sustainability disclosure activities and practices. This can be triggered because investors are still focused on the company's financial performance. This is suspected as the cause that foreign investors try to influence management not to carry out sustainability activities and practices in the companies they invest in. Another factor that can be suspected as the cause of the significant and negative influence of foreign ownership on sustainability practices is that sustainability disclosure activities and practices have not become a common practice in their home countries. From the perspective of agency theory, this means that foreign investors (principals) have not succeeded in effectively monitoring and controlling management to implement policies and activities that can provide the best results for the company in the long term. This result contradicts the research conducted by, among others, Majeed, et al. (2015), Naser, et al (2006), Wang (2017).

The Effect of Government Ownerships on Sustainability Disclosure Level

The results of hypothesis (H3) testing show that government ownership has a significant and negative effect on the level of sustainability disclosure. This means that the greater the government ownership in a company, the lower the level of sustainability disclosure will be. This result is something of a paradox. The government as a regulator should pay great attention to sustainability disclosure activities and practices. But in fact, the test results show the opposite. There are several things that should be suspected as the cause. First, the commissioners who are appointed as representatives of the government are generally officials or former civil/military officials. This results in a lack of attention being paid to the company's sustainability activities and practices. Second, the company's management may pay more attention to the company's financial performance because this is the main measure of their success in performance evaluation so that they pay less attention to sustainability activities and practices. From the perspective of agency theory, this means that government investors represented by commissioners (principals) have not been able to effectively monitor and control management to implement policies and activities that can provide the best results for the company in the long term. This result contradicts research conducted by, among others, Wutticindanon, 2017; Laksmi & Kamila, 2017; Zhou, 2019.

The Effect of Sustainability Disclosure Level on Firm's Performance

The firm's performance in this study is measured by profit growth (Salehi *et al*., 2018). This performance measure represents the legitimacy given by consumers to the company.

The results of hypothesis (H4) testing show that the level of sustainability disclosure does not have a significant effect even though it has a positive direction on firm's performance. This means that whatever the company does through the disclosure of sustainability (high or low) is not a stimulus for consumers to consume the products and services of a company that can improve the company's performance in the form of profit growth. From the perspective of legitimacy theory, information disclosed by companies through sustainability disclosures is not a good or bad signal for consumers which will affect the legitimacy given to the company in the form of a decrease or increase in consumption of products or services which in turn can affect the company's performance. These results contradict the previous research conducted by, among others, Ong, *et al*., 2016; Loh, *et al*, 2017; Abishasha, & Tyagi, 2019; Al-Dhaimesh, & Al-Zobi, 2015: Emeka-Nwokeji & Osisioma, 2019; Gupta, 2019.

The Effect of Institutional Ownerships on Firm's Performance

Not as expected, the results of hypothesis (H5) testing indicate that institutional ownership does not have a significant and positive effect on company performance. This means that the large or small portion of institutional ownership is not a stimulus for increasing firm's performance in the form of profit growth. Although the average of institutional ownership is very large, namely 92.40%, its existence is not able to affect the firm's performance in the form of profit growth. From the perspective of agency theory, this means that institutional investors (principals) have not been able to effectively implement their monitoring and control functions on the management (agents) who run the company's operations so that it has an impact on firm's performance. This result contradicts the previous research conducted by, among others, Xavier, *et al*. (2015); Salehi, *et al*. (2018); Kansil & Sing (2018); Masry (2016); Tahir, *et al*. (2015); Heydari, *et al*. (2015).

The Effect of Foreign Ownerships on Firm's Performance

Not as expected, the results of hypothesis (H6) testing indicate that foreign ownership does not have a significant and positive effect on company performance. This means that the large or small portion of foreign ownership is not a stimulus for increasing firm's performance in the form of profit growth. Although the average of foreign ownership is quite large, namely 35.96%, its existence is not able to affect the firm's performance in the form of profit growth. From the perspective of agency theory, this means that foreign investors (principals) have not been able to effectively implement their monitoring and control functions on the management (agents) who run the company's operations so that it has an impact on firm's performance. This result contradicts the previous research conducted by, among others, Aydin, et al., 2007; Gurbus & Aybar, 2010; Vural-Yavas & Erdoan, 2016.

The Effect of Government Ownerships on Firm's Performance

The results of hypothesis (H7) testing show that government ownership does not have a significant effect even though it has a positive direction on company performance. This means that the large or small portion of government ownership is not a stimulus for increasing company performance in the form of profit growth. Although the average of government ownership is quite large, namely 24.01%, its existence is not able to affect the firm's performance in the form of profit growth. From the perspective of agency theory, this means that government investors (principals) have not been able to effectively implement their monitoring and control functions on the management (agents) who run the company's operations so that it has an impact on company performance. This result contradicts the previous research conducted by, among others, Masry, 2016; Sahut & Gharbi, 2010; Yu, 2013; Chiang, 2013.

CONCLUSION AND RECOMMENDATION

Based on the results and discussion above, the conclusions of this study are as follows: (1) Institutional ownership has a significant and positive influence on the level of sustainability disclosure; (2) Foreign ownership has a significant and negative effect on the level of sustainability disclosure; (3) Government ownership has a significant and negative effect on the level of sustainability disclosure; (4) The level of sustainability disclosure does not have a significant effect even though it has a positive direction on firm's performance; (5) Institutional ownership does not have a significant and positive effect on firm's performance. (6) Foreign ownership does not have a significant and positive effect on firm's performance; (7) Government ownership does not have a significant effect even though it has a positive direction on firm's performance.

Based on the results, discussion, and conclusions above, the following can be suggested: (1) To Shareholders: Shareholders (institutions, foreign, and government) through the General Meeting of Shareholders (GMS) and the Extraordinary General Meeting of Shareholders (EGMS) should choose a board of commissioners that represents them based on their competence so that they can carry out their functions/roles effectively in monitor and control the company's policies and operations, including policies related to sustainability issues and other policies that can stimulate the firm's's performance improvement; (2) To Regulators: Regulators (such as the Indonesia Stock Exchange and the Financial Services Authority) are expected to consistently establish and enforce sustainability reporting policies for companies listed on the Indonesia Stock Exchange. Thus, it is expected to increase company participation and the level of sustainability disclosure which has become a global trend.

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