

Corporate Ownership Structure and The Quality of ESG Disclosure: The Nexus of Contract Perspective

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Basic Research Question

1. Will the companies with high level of managerial ownership, institutional ownership, and government ownership disclose ESG (Environmental, Social, and Governance) information better than companies with low level ownership?
2. Does the level of stakeholder's pressure affect the quality of ESG reporting?

Key paper(s)

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Behavior: International Perspectives (Critical Studies on Corporate Responsibility, Governance and Sustainability, Vol. 5), Emerald Group Publishing Limited, pp. 3-16.
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Motivation / Puzzle

The ESG reporting practice reflects the management's commitment to implementing the concept of sustainability in corporate governance. Based on the results of the previous research, the quality of ESG reporting is determined by the external factor, such as the ownership structure. In this research, the ownership structures are indicated by the managerial ownership, the institutional ownership, and the stakeholder pressure (the governmental ownership). In the Indonesian context, not many public companies have focused on ESG reporting. For companies in carbon intensive industries, ESG reporting is used to increase the legitimacy of the company's business activities. Thus, ESG reporting is only a report that is prepared without paying attention to the company's stakeholders. This research focuses on whether in the context of companies in Indonesia, the condition of corporate ownership will make the company disclose the good quality of ESG reporting to increase the company's legitimacy. In addition, this research also examines whether the stakeholder pressure will affect the quality of ESG reporting. The originality of this research lies in the division of the types of industry to be studied. This research divides the group of companies into carbon-intensive and non-carbon-intensive industries. And also, this research will use the nexus of contract perspective to discuss the connection between the corporate ownership structure and the quality of ESG reporting.

Idea

This research framework is based on the legitimacy theory, the stakeholder theory, and the nexus of contract perspective. In the context of legitimacy theory, the ESG reporting is disclosed to increase the company's legitimacy in carrying out their business activities. In carbon-intensive industries, the motivation for disclosing the ESG information is based on increasing the company's legitimacy from the stakeholder's perspective. Based on the stakeholder theory and the nexus of contract perspective, the ESG reporting is intended to form the good relationships with the company's stakeholders and with perfect relationships, the

company's legitimacy will increase. With this concept, the ESG reporting is basically reporting that focuses on the interests of the company and does not focus on the interests of the social community. This research examines whether the corporate ownership structure contribute to the quality of the company's ESG reporting. Previous research has found that the corporate ownership structure had a high effect on the ESG reporting. The independent variables in this research are the level of managerial ownership and the level of institutional ownership. Another independent variable is the stakeholder pressure. The dependent variable is the quality of ESG reporting which explains the level of the quality from the ESG reporting which disclosed by the company's management. The research hypothesis:

H1: In carbon-intensive industries, companies with high level of managerial ownership and the institutional ownership will disclose ESG information better than companies with the low level of the ownership.

H2: In carbon-intensive industries, companies with high level of stakeholder pressure will disclose better ESG information than companies with low level of the stakeholder pressure.

Data

This research will use secondary data. The data in this research relate to companies in carbon intensive industries in Indonesia. This research analyses data from 2015-2020. The companies in this research are companies that are indexed on the Indonesia Stock Exchange. The type of data is a cross sectional data. Data regarding the level of the managerial ownership and the level of the institutional ownership are obtained from the company's annual reports. Data regarding the level of governmental ownership is obtained from the company's annual report. Data regarding the company's ESG information is obtained from the company's annual reports and the company's sustainability reports. Data will be obtained from the OSIRIS and Bloomberg databases.

Tools

The design of this study is to examine the connection between the independent variables and the dependent variable. Research framework will use legitimacy theory, stakeholder theory, and the nexus of contract perspective. This research will use a multiple regression analysis model approach. The software in this research is a statistical software.

What's New?

The novelty in this research is expected to increase the understanding of what determinants can affect the quality of ESG information which disclosed by the company's management. Based on the previous research, there is still debate about the determinants that affect the quality of the company's ESG information. Several previous studies have explained that the determinants that affect the quality of the company's ESG information come from the external factor, for example the stakeholder pressure. In this research, using legitimacy theory and stakeholder theory, the results of this research are expected to explain that basically the quality of the company's ESG information is largely determined by the company's internal factors, one of them is the corporate ownership structure. This research also uses several new measurement indicators in measuring the quality of ESG information which disclosed by the company's management. In the Indonesian context, research related to the corporate ownership structure and quality of the company's ESG information still has a great opportunity to be investigated. Therefore, it can be explained what determinants most influence the quality of ESG information which disclosed by the company's management in Indonesia.

So What?

The results are expected to help the stakeholders who are concerned about improving the quality of the company's ESG information. The Indonesian government has compiled a long-term plan regarding Sustainable Development Goals (SDGs) and disclosing the ESG information is one way to help realize the goals of the SDGs. Companies in Indonesia have an obligation to support the goals of the SDGs and by disclosing information about the company's ESG, the company's management reflects on their support for achieving the goals of the SDGs. The results are expected to help stakeholders and decision makers understand how the corporate ownership structure can affect the quality of company's ESG information. By understanding the relationship between the corporate ownership structure and the quality of the company's ESG information, stakeholders are expected to be able to formulate rules and guidelines to improve the quality of corporate ESG reporting.

Contribution?

This research adds to the understanding of the role of the corporate ownership structure on the quality of the ESG reporting. This research contribution consists of three parts. The first part is the contribution to theory. The results are expected to support the implementation of legitimacy theory and stakeholder theory in the discussion on corporate ESG reporting. The

results can add to the understanding related to the determinants that affect the quality of company's ESG information, especially understanding in a theoretical context (on the nexus of contract perspective). The second contribution is from the practical side. The results of this research can be implemented by the companies that have strong motivation to disclose company's ESG information. In Indonesia, ESG reporting is not yet an obligation for all companies, but with the long-term goals of the SDGs which formulated by the central government, the reporting of the ESG information will become a company obligation in the future. The next contribution of this research is on the policy side. The results can be used by the stakeholders to improve the quality of corporate ESG reporting in Indonesia.

Other Considerations

Based on the results of the previous research, this research project is realistic. Challenges that may become obstacles in this research are the stages of data collection and statistical hypothesis testing. However, with references from some previous literature, researchers have confidence that this research process can be done and the results of this research will have a strong contribution to the academic community.

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