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Institutional Ownership and the ESG on Firm Value: Evidence from Indonesia's Food and Beverage Sector

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Abstract

This research investigates how Environmental, Social, and Governance (ESG) practices relate to firm value, with particular attention to whether institutional ownership alters the strength of that relationship. A quantitative design was applied, drawing on secondary data financial statements and sustainability disclosures from food and beverage manufacturers listed on the Indonesia Stock Exchange (IDX) between 2022 and 2024. Applying purposive sampling criteria narrowed the population to 19 firms, generating 57 firm-year observations for analysis. Price to Book Value (PBV) serves as the proxy for firm value, while ESG is captured through a disclosure scoring system built on the 2021 GRI Standards; institutional ownership is calculated as the share of outstanding stock held by institutional entities. Multiple linear regression together with Moderated Regression Analysis (MRA) was run in SPSS to test the hypothesized relationships. The findings indicate that, taken individually, neither ESG nor institutional ownership exerts a statistically significant influence on firm value. Institutional ownership, however, does emerge as a significant moderator of the ESG–firm value relationship.

Keywords: *ESG, firm value, institutional ownership.*

1.1 Introduction

Concern for the environment has increased significantly over the last few decades and has become one of the central issues in public discussion (Calculli et al., 2021; Franzen & Bahr, 2024; Lou et al., 2025). This phenomenon is further reinforced by the involvement of the younger generation, which is not limited to awareness alone but is also manifested in concrete actions through green movements and environmental policy advocacy efforts. Changes in the preferences of the younger generation, which are increasingly oriented toward environmentally conscious products, have also encouraged companies to adjust their business strategies in order to remain relevant in the eyes of consumers (Casalegno et al., 2022; Salam et al., 2024). Moreover, to being consumers, the younger generation has also begun to act as investors who consider the principle of *ethical investing*, in which the ESG aspect becomes one of the important considerations before deciding to invest in a company (Kaakandikar et al., 2026; Martutiningrum & Catyanadika, 2025; Safina & Marlinda, 2025). On the other hand, the high level of literacy and concern of the younger generation regarding environmental issues has made the understanding of the level of *greenwashing* practices, or environmentally friendly claims not supported by concrete action, increasingly easy to identify and subject to critical scrutiny (Balaskas et al., 2025; Jugo et al., 2026).

To address these transparency demands, companies need an accountable sustainability assessment standard; the most widely used sustainability assessment framework is Environmental, *Social, Governance* (ESG). ESG constitutes an assessment framework used to evaluate the extent to which a company fulfills its responsibilities in managing environmental impact, social relations, and internal governance. (Radzi, 2023; Zhao, 2024). Good ESG implementation can increase the trust of investors and stakeholders (Diab & Eissa, 2024; J. Wang & Zeng, 2024), because the company is considered capable of managing non-financial risks better, thereby lowering the cost of capital and increasing market valuation. ESG implementation also strengthens the trust of stakeholders (*stakeholder*) through improved reputation, accountability, and alignment of corporate values with society's increasingly high expectations regarding social and environmental responsibility(Kulova & Alexieva, 2023; Moussa et al., 2024). In terms of cost implementation, good quality that produces a high score will carry lower risk, so that investors and creditors are willing to invest at a lower rate of return. Firm value has been shown by previous studies to be influenced by ESG. (Aydoğmuş et al., 2022; Yu & Xiao, 2022; Zhou et al., 2022). Moreover, the implementation of responsible investment policies related to institutional investors makes it easier to gain access to funding.

In addition to firm-specific decisions, the ownership structure of a company also plays a role in influencing firm value, particularly through its institutional shareholders namely mutual funds, pension funds, insurance companies, and domestic or foreign institutional investors that collectively hold a share of the company's outstanding stock (Benlemlih et al., 2022; Meilanda et al., 2025). Because institutions manage capital on behalf of others, their fiduciary obligations push them toward favoring sustainable, prudently managed enterprises which in effect leads to a preference for companies with credible ESG practices, given that such practices serve to protect against environmental, social, legal, and reputational risks capable of undermining long-term investment performance (Cepêda et al., 2025; Rau & Yu, 2023; Velte, 2022). Several forces push institutional investors toward genuine ESG engagement. Because they manage capital belonging to others, fiduciary duty obliges them to act prudently favoring businesses less exposed to environmental, legal, or reputational risk over the long run. International frameworks, including the Principles for Responsible Investment, lend additional weight to this responsibility (Velte, 2022), as does institutions' own reputational stake in being seen as responsible stewards of capital. The net effect is a class of investors motivated to hold companies to a higher ESG standard, a discipline the market rewards with greater valuation once it becomes visible (Lopez-de-Silanes et al., 2024; Velte, 2022). Taken together, these motivations mean institutional investors are inclined to actively push portfolio companies toward genuine ESG adoption, a shift the market tends to reward with higher valuations. Firms demonstrating stronger ESG performance are typically favored by institutions whose strategies emphasize sustainability and risk mitigation (Song et al., 2024). and this pattern is especially pronounced among firms in pollution-intensive industries or those reliant on long-term external financing, where ESG considerations carry greater weight for institutional decision-making.

A substantial body of empirical work supports a positive association between ESG practices and firm value, whether the latter is captured through market valuation, Tobin's Q, or longer-term performance indicators (Aydoğmuş et al., 2022; Diab & Eissa, 2024; Duan et al., 2023; Fang & Guo, 2025; Tang et al., 2024; Yu & Xiao, 2022). Zhao (2024) extends this line of evidence by showing that institutional ownership significantly strengthens the ESG–firm value link when treated as a moderator. Not all findings point in the same direction, however (Zheng et al., 2022) report that it is actually lower, rather than higher, levels of institutional ownership that moderate this relationship most effectively, a result that runs counter to the more common assumption that greater institutional presence automatically translates into stronger ESG-driven value creation.

This research contributes to the literature in several respects. First, it narrows its focus to institutional investors characterized by long-term orientation, fiduciary accountability, and adherence to responsible-investment principles, allowing it to revisit the mixed findings reported Zheng et al. (2022) on whether institutional ownership strengthens or weakens the ESG to firm value relationship, this time within a different sample, time frame, and data setting. Second, the study situates ESG within a present-day lens shaped by growing scrutiny from younger investors and institutions alike toward genuine sustainability practices and away from greenwashing, positioning its findings as more attuned to current capital market conditions than earlier studies conducted under different circumstances. This study uses data from manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the years 2022 to 2024. The research problem addressed is the effect of *Environmental, Social, Governance* (ESG) on firm value and institutional ownership as a moderating variable.

1.2 Theoretical Framework & Hypothesis Development

1.2.1 Environmental, Social and Governance (ESG)

ESG as a concept arose from a growing recognition that financial statements alone fail to capture a company's true contribution to sustainable development (OECD, 2022). It brings together three interrelated dimensions: how a firm handles the environmental consequences of its operations, how it cultivates relationships with employees, customers, communities, and other stakeholders, and how sound its internal management and oversight structures are (OECD, 2022). Together, these dimensions have become a widely accepted yardstick for gauging whether a company's claims of responsible conduct are backed by substance (K. Sri et al., 2025). giving firms a structured way to signal transparency and accountability to both investors and the wider public (Dengas et al., 2025). As public awareness of environmental and social issues has intensified, companies have correspondingly been pushed to embed ESG principles more deliberately into both their strategic direction and their disclosure practices.

1.2.2 Institutional Ownership

Beyond individual shareholders, institutions such as pension funds, mutual funds, and insurance companies often hold significant blocks of a firm's stock. This concentrated form of ownership functions differently than dispersed retail holdings: because institutions control large stakes, they have both the incentive and the capacity to monitor management closely, which helps narrow gaps between what managers pursue and what shareholders actually want. That monitoring pressure extends naturally into sustainability practices, institutional shareholders pushing for credible ESG follow-through rather than superficial reporting, since doing so protects the long-term value of their holdings(Cepêda et al., 2025). This logic underlies why institutional ownership is treated here as a plausible moderator of the ESG–firm value link, rather than a mere control variable.

1.2.3 Firm Value

firm value captures what the market thinks a company is worth right now and where it's headed a judgment usually visible in how its share price moves (Amimakmur et al., 2024; Azzahra et al., 2022). Management tends to treat raising this value as its central mandate, since doing so feeds directly into shareholder wealth ((Kartika & Wirawati, 2024; W. Sri & Nurramadhani, 2024). Two proxies are most commonly used to measure it: share price itself (Amimakmur et al., 2024; Azzahra et al., 2022) and Tobin's Q, which compares a firm's market value against the value of the assets or investments underlying it (Sri & Nurramadhani, 2024). A range of factors shape firm value beyond these proxies financial performance, profitability, governance quality, and company size among them (Eliza, 2024). while institutional ownership has also frequently been linked to higher firm value, though the strength of that link has varied across studies (Azzahra et al., 2022; Kartika & Wirawati, 2024).

1.2.4 Agency theory

Agency theory addresses the tension that arises once a principal delegates decision-making authority to an agent, particularly the information asymmetry that follows from agents typically knowing more about their own actions and capabilities than principals do (Hendrastuti & Harahap, 2023; Panda & Leepsa, 2017). This dynamic is especially visible in modern corporations, where shareholders no longer run operations directly but instead entrust that responsibility to managers, a separation that can produce divergent goals and risk appetites between the two parties, ultimately generating monitoring or agency costs(Panda & Leepsa, 2017; Zogning, 2023). Two broad strategies are typically used to contain this problem: monitoring mechanisms and incentive alignment, both reinforced through governance structures such as a well-designed ownership base, an independent board, and dedicated oversight committees (Hendrastuti & Harahap, 2023; Panda & Leepsa, 2017). While the theory has since been extended across accounting, finance, law, and public administration, its classical assumption that agents behave purely rationally in pursuit of self-interest is increasingly seen as insufficient for explaining real-world behavior, prompting extensions such as behavioral agency theory that incorporate social and institutional dimensions into the principal agent analysis (Bendickson et al., 2016; Eisenhardt, 1989; Wiseman et al., 2011).

1.2.5 Hypothesis Development and Research Conceptual Model

The conceptual model used to facilitate understanding of the concepts applied is as follows:

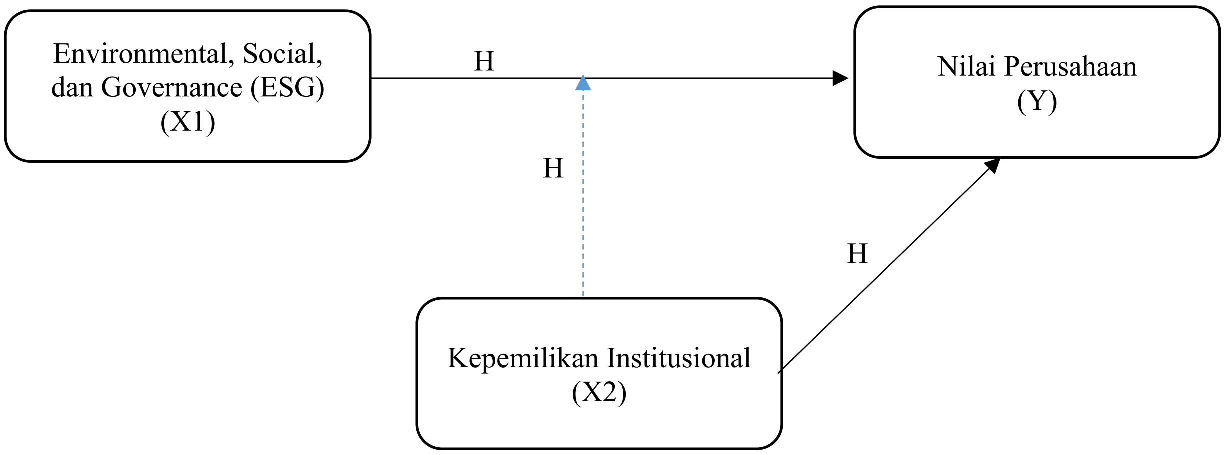

Figure 1. *Conceptual Framework*

H1: The Effect of Environmental, Social and Governance (ESG) on Firm Value

Prior work on ESG's individual pillars paints an uneven picture. Aditya & Hasnawati (2025) find social disclosure alone raises firm value, however Angela & Sari (2023) find neither environmental nor governance disclosure does so independently. Environmental, Social, and Governance (ESG) constitutes a structured framework through which corporate performance can be evaluated along three interconnected dimensions—environmental stewardship, social responsibility, and the quality of governance (OECD, 2022). Evidence on each pillar's individual contribution is mixed: social disclosure alone has been found to significantly raise firm value (Aditya & Hasnawati, 2025), whereas environmental and governance disclosure scores individually show no such effect (Angela & Sari, 2023). When the three dimensions are considered jointly, however, several studies report a positive overall effect on firm value (Aditya & Hasnawati, 2025; Moussa et al., 2024a). largely because integrated ESG practices help firms avoid environmental penalties and social friction while operating more efficiently (Nophet & Sincharoonsak, 2025; Wong et al., 2020). These gains feed into greater investor confidence, a lower cost of capital, and firmer stakeholder backing all of which ultimately lift the firm's market valuation.

Hypothesis 1: The Effect of *Environmental, Social and governance* (ESG) on Firm Value

H2: The Effect of Institutional Ownership on Firm Value

Not all institutional ownership operates the same way. Its effect on firm value hinges on variables like investor type, board representation, and the surrounding governance regime(Elyasiani & Jia, 2010). Institutional ownership shapes the kinds of decisions that can raise firm value, though its impact is far from uniform. How strongly it matters depends on factors such as the type of institutional investor involved, how stable their holdings are, whether they hold board seats, and the broader governance and country context in which the firm operates (Elyasiani & Jia, 2010; Meilanda et al., 2025; Wu et al., 2022a). This variation exists largely because institutional investors tend to impose closer oversight of management, which helps rein in opportunistic behavior and sharpens the quality of corporate decision-making. On this basis, institutional ownership is expected to influence firm value (Abedin et al., 2022; Sakawa & Watanabel, 2020; Suhandi, 2021)

Hypothesis 2: The Effect of Institutional Ownership on Firm Value

H3: The Effect of Environmental, Social and Governance (ESG) on Firm Value with Institutional Ownership as a Moderating Variable

Prior evidence links institutional ownership to stronger ESG scores (Qasem et al., 2022), a connection that plausibly feeds forward into firm value by dampening agency conflict. A positive correlation has been documented between institutional ownership and a firm's ESG score (Qasem et al., 2022; Velte, 2020; Y. Wang et al., 2023), which subsequently feeds into higher firm value by curbing agency conflict (Giordino et al., 2025; Y. Wang et al., 2023); however, the strength of this chain depends on the type of institutional ownership involved, since differing ownership proportions can either dampen or amplify the positive ESG–firm value link. Practically, this suggests firms have an incentive to attract greater institutional ownership as a way of reinforcing ESG implementation, while investors can treat ESG scores as a meaningful input into investment decisions (Fauziah et al., 2024; Wu et al., 2022). Institutional ownership's role thus extends beyond a direct effect on firm value, it also operates as both a mediator and a moderator of the ESG–firm value relationship, capable of strengthening or weakening that link depending on the ownership context involved.

Hypothesis 3: The Effect of *Environmental, Social and governance* (ESG) on Firm Value with Institutional Ownership as a Moderating Variable

1.3 Research Method

The analysis draws on manufacturing companies observed from 2022 through 2024, relying on secondary sources, historical financial statements, annual reports, and sustainability disclosures. Nineteen food and beverage manufacturers that consistently published sustainability report data make up the sample, yielding 39 observations across the three-year window. Firm value serves as the dependent variable and is proxied by Price to Book Value (PBV). ESG and institutional ownership constitute the independent variables. The ESG disclosure index relies on a dummy-coding approach, assigning a value of 1 whenever a company discloses an Environmental, Social, or Governance activity and 0 otherwise; these scores are then aggregated into an overall index using a weighted average. Institutional ownership, meanwhile, is captured as the percentage of shares under institutional control and is treated in this study as the moderating variable.

1.4 Results and Discussion

Results from the Moderated Regression Analysis (MRA) are presented below, examining how ESG affects firm value once institutional ownership is introduced as a moderator.

Table 1. Moderated Regression Analysis

Variable	Coefficient (B)	Std. Error	t-value	Sig.
Constant	9,7194	9,013	1,078	0,286
ESG (X1)	-29,0119	19,765	-1,468	0,148
KI (Z)	-15,4305	11,151	-1,384	0,172
ESG × KI	**55,1993**	**24,551**	**2,248**	**0,029**

Table 2. Summary of Regression Results

Model Measure	Value
R Square	0,220
Adjusted R Square	0,176
F-value	4,985
Sig. F	0,004
N (number of observations)	57 (19 companies × 3 years)

Taken together, these results indicate an R Square of 0.220, meaning ESG, institutional ownership, and their interaction term jointly account for 22% of the variation observed in firm value (PBV), leaving the remaining 78% attributable to factors outside the model. The F-test returns an F-value of 4.985 at a significance level of 0.004 , below the conventional 0.05 threshold confirming that the regression model is jointly significant.

Examined individually through the MRA, both ESG (coefficient of 29.0119) and institutional ownership (coefficient of 15.4305) show negative effects on firm value. The interaction term ESG×KI, however, yields a considerably larger and positive coefficient (55.1993), signaling that institutional ownership functions as a moderator that not only strengthens but effectively flips the direction of ESG's effect on firm value, from negative to positive once ownership reaches a certain threshold.

H1: The Effect of *Environmental, Social and governance* (ESG) on Firm Value

With a negative B coefficient of 29.0119, a t-value of −1.468, and a significance level of 0.148 (above 0.05), ESG shows no significant direct effect on PBV. ESG adoption has become increasingly widespread among companies worldwide as part of broader sustainable business strategies. Within Indonesia specifically, ESG practices are formally mandated through the Sustainability Report requirement under Financial Services Authority (OJK) Regulation No. 51/POJK.03/2017 concerning the Implementation of Sustainable Finance for Financial Services Institutions, Issuers, and Public Companies, later reinforced by a supplementary Circular Letter from the same authority.

In theory, robust ESG implementation should raise firm value by signaling commitment to long-term sustainability, sound governance, and social and environmental responsibility , all of which can strengthen investor confidence (Aditya & Hasnawati, 2025; Islam, 2025; Sari et al., 2025). In developing markets such as Indonesia, however, ESG has yet to become a top priority for the public or for capital market participants, who remain more attentive to short-term financial metrics such as profitability, leverage, and capital structure (Al Sanasleh et al., 2025; Fang & Guo, 2025), such as the level of profitability, leverage, or the company's capital structure (Kusuma & Sari, 2025; Sarjiyono & Prasetio, 2025), than to sustainability considerations when making investment decisions. This orientation explains why ESG implementation has not yet translated meaningfully into higher firm value, notwithstanding its mandatory status under current regulation.

This result mirrors patterns documented across other sectors, banking, energy, non-cyclical industries, and firms included in low-carbon or ESG-leader indices (Kusuma & Sari, 2025; Purnamawati & Dautrey, 2025; Sarjiyono & Prasetio, 2025). where aggregate ESG scores likewise fail to meaningfully move market value (Aditya & Hasnawati, 2025; Sari et al., 2025; Sinaga et al., 2025). Such consistency suggests that the ESG–PBV relationship is not universal but instead shaped by contextual factors including industry characteristics, study period, and the ESG measurement approach adopted. One plausible explanation is that ESG's benefits only materialize over a longer horizon, whereas investors in Indonesia's capital market, including in the food and beverage sector remain preoccupied with near-term financial indicators such as debt, leverage, and profit rather than sustainability performance, meaning strong ESG disclosure does not automatically raise PBV. This finding aligns with Aditya & Hasnawati (2025), Aydoğmuş et al., (2022), Zhou et al., (2022) all of whom likewise report an insignificant ESG–firm value relationship.

H2: The Effect of Institutional Ownership on Firm Value

Institutional ownership similarly shows no significant direct effect on firm value, carrying a negative coefficient of 15.4305, a t-value of −1.384, and a significance level of 0.172 (above 0.05). Institutional investors in Indonesia tend to behave more like passive shareholders focused on short-term trading rather than active monitors of corporate governance (Azizah & Prastiwi, 2025; Zairin et al., 2025). which limits their capacity to push strategic decisions that would meaningfully raise firm value (Sa'diyah & Hilabi, 2022). This passivity effectively gives managers greater latitude to act on their own private interests

At the same time, larger institutional stakes can heighten the risk of conflicting interests, both among institutional shareholders themselves and between institutions and management. Such friction generates agency costs, as monitoring efforts become entangled with disputes over ownership percentage or clashes between minority and majority shareholders (Martono et al., 2023). Rather than serving the company's collective interest, monitoring can consequently tilt toward the narrower, short-term priorities of institutional investors, undermining sustained efforts to build firm value. In short, a rise in passive institutional ownership can raise agency costs, entrench managerial (CEO) dominance, and weaken independent oversight — helping explain why institutional ownership shows no measurable effect on firm value here (Ariana et al., 2023; Setyabudi, 2021).

H3: The Effect of Environmental, Social and Governance (ESG) on Firm Value with Institutional Ownership as a Moderating Variable

The ESG×KI interaction term, coefficient of 55.1993, t-value of 2.248, significance of 0.029 (below 0.05), points to a significant, positive effect on PBV, indicating that institutional ownership moderates (and strengthens) the ESG–firm value relationship: as institutional ownership rises, so does the positive influence of ESG on firm value. Where this moderating effect turns positive, the likely drivers are tighter monitoring, added pressure on management, and a steadier investment horizon, all of which help ESG-related spending earn greater market trust (Fauziah et al., 2024; Velte, 2020; Wu et al., 2022b). Long-term-oriented institutional investors tend to view ESG expenditure less as a cost and more as a hedge against future reputational and operational risk. Their presence, in this light, lends greater credibility to a firm's ESG disclosures, functioning as an added layer of oversight that keeps ESG implementation from becoming a mere formality.

Where the moderating effect instead turns negative or insignificant, the usual explanations point to conflicts of interest, a short-term profit orientation among investors, or simply the fact that institutional ownership does not automatically translate ESG efforts into added value (Ngamtampong & Sukprasert, 2025; Rastogi et al., 2023; Velte, 2020). Under such conditions, institutional investors push for financial results that materialize quickly, causing the cost of ESG whose payoff is realized only over the long run to be read instead as eroding firm value in the near term. This divergence in outcomes underscores that institutional ownership's moderating role is not fixed, but hinges on the dominant investment orientation embedded within a firm's ownership base. Research examining non-institutional ownership structures lends further support to this view: ownership-based moderators clearly matter, but their direction of effect depends heavily on which type of ownership is in play. Ownership concentration, for instance, tends to weaken the ESG–firm value relationship (Song et al., 2024; Srivastava & Anand, 2023) whereas foreign ownership more often strengthens ESG performance or ESG-linked value than institutional ownership does in general (Bilyay-Erdoğan & Öztürkkal, 2023; Gustanto & Risman, 2025).

1.5 Conclusion

Drawing on the analysis and discussion above, several conclusions emerge: (1) ESG exerts a negative and statistically insignificant effect on firm value; (2) institutional ownership likewise shows a negative and insignificant effect on firm value; and (3) institutional ownership is confirmed to moderate the ESG–firm value relationship. While neither ESG nor institutional ownership individually shows a significant partial effect on firm value, institutional ownership's moderating role is evident, implying that ESG's influence on firm value only surfaces once reinforced by active institutional monitoring.

1.6 Suggestions

Building on these findings, several recommendations follow. First, food and beverage manufacturers should treat ESG disclosure as more than a compliance exercise, prioritizing genuine implementation quality and inviting greater institutional investor involvement in monitoring ESG-related activities. Second, investors are encouraged to weigh ESG performance alongside financial indicators when assessing a company's long-term prospects, rather than relying on financial data alone. Third, future research should broaden its scope through larger samples, longer observation windows, or coverage of additional industry sectors given that the present study remains confined to a single sector and is constrained by the completeness of each company's sustainability report disclosures.

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