



ESG PERFORMANCE IN FAMILY-OWNED FIRMS: EXAMINING THE ROLE OF FOUNDER DOMINANCE, CORPORATE RISK, AND INSTITUTIONAL OWNERSHIP

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Abstract

This study analyzes the effect of founder domination and firm risk on Environmental, Social, and Governance (ESG) performance, and examines the role of institutional ownership as a moderating variable. The research was conducted on family firms in the Indonesian manufacturing sector with a total sample of 83 companies observed over two years. Data were analyzed using moderated regression analysis. The results show that founder domination does not affect ESG performance, reflecting the diminishing influence of founders as control shifts to subsequent generations. Firm risk has a significant positive impact on ESG performance, suggesting that companies facing higher risk tend to strengthen their sustainability practices to enhance legitimacy and transparency. Institutional ownership is found to moderate the relationships between founder domination, firm risk, and ESG performance, confirming its role as an external governance mechanism that enhances monitoring quality and promotes more substantial sustainability commitments. These findings enrich the literature on family firms and ESG, particularly regarding the importance of ownership structure in shaping sustainability outcomes. Furthermore, the study confirms that improving ESG performance is not merely a compliance activity but an effective strategic response to the risks companies face.

Keywords: Corporate Risk; ESG performance; Founder domination; Institutional ownership.

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INTRODUCTION

The business orientation of companies, which previously focused solely on achieving financial returns for shareholders, is currently undergoing a fundamental shift. The modern corporate paradigm emphasizes that a long-term going concern cannot be sustained without considering social and environmental impacts and implementing robust corporate governance. This awareness has prompted companies to integrate sustainability principles into their business strategies and disclose Environmental, Social, and Governance (ESG) information as a manifestation of accountability and transparency

(Carnini Pulino et al., 2022). This shift aligns with global developments, in which sustainability issues have become a primary focus of business and corporate reporting. International organizations such as the Global Reporting Initiative (GRI), the United Nations Global Compact (UNGC), and the Sustainability Accounting Standards Board (SASB) actively encourage companies to adopt sustainability reporting practices, ensuring that non-financial performance receives attention equal to financial reporting. Furthermore, increasing demands from investors, consumers, and regulators underscore that a company's value is no longer judged solely by its profitability, but also by its integrity, social responsibility, and contribution to a sustainable future (KPMG, 2022)

Previous research on ESG has predominantly been conducted in the context of Western and developed economies, leaving emerging markets relatively underexplored. Existing studies in developing countries generally focus on isolated dimensions of ESG such as the relationship between environmental disclosure and corporate performance, social dimensions and performance, or governance aspects and firm performance (Carnini Pulino et al., 2022). While prior literature has analyzed the aggregate impact of ESG on firm value (Wu et al., 2022), ESG disclosure levels remain limited in Asia (Ali et al., 2022).

In Indonesia, ESG transparency has been strengthened through regulatory mandates, specifically by the Otoritas Jasa Keuangan (OJK), which requires public companies, listed issuers, and financial institutions to implement sustainable finance principles and submit sustainability reports. This policy reflects a national commitment to supporting low-carbon economic growth, social responsibility, and the enhancement of corporate governance quality. Consequently, ESG disclosure is no longer a voluntary option but has evolved into a strategic necessity. Despite the growing emphasis on ESG practices, their implementation among manufacturing companies listed on the Indonesia Stock Exchange (IDX) exhibits considerable variation.

One illustrative case is PT Unilever Indonesia Tbk, which, despite demonstrating strong financial performance, has been reported in several studies to have an ESG score of approximately 18.21, classified as relatively low within ESG risk assessment frameworks. This finding indicates that high levels of profitability do not necessarily correspond with strong ESG performance. Consequently, it suggests the presence of a potential misalignment between financial success and the effective implementation of corporate sustainability practices. The manufacturing sector plays a pivotal role in the Indonesian economy, it simultaneously faces significant environmental risks, including high energy consumption, carbon emissions, and industrial waste. Actively engaging in initiatives to reduce carbon footprints not only supports national environmental policies but also serves as a strategic approach to fostering growth, enhancing profitability, and strengthening global competitiveness in an era increasingly focused on sustainability (Khristiana et al., 2025).

One compelling perspective for understanding the evolving sustainability landscape including the evaluation and disclosure of ESG performance across its various dimensions is the context of family firms. Research on ESG within family businesses indicates that listed family enterprises tend to exhibit lower ESG performance (Fiorillo et al., 2025a). In this context, family-owned entities frequently prioritize internal interests and demonstrate less responsiveness toward sustainability demands and public accountability (Waldau, 2025). Furthermore, literature on sustainability disclosure within

family businesses continues to evolve, yet empirical findings remain divergent depending on the specific disclosure area, such as social or environmental information (KPMG, 2022).

Drawing upon legitimacy theory, corporations garner recognition and trust from investors and the public when they demonstrate business conduct perceived as appropriate, responsible, and socially acceptable (Reber et al., 2022). ESG performance contributes to reducing value at risk by directly mitigating reputational, operational, and environmental risks. Furthermore, ESG disclosure does not merely provide information; it empowers investors to integrate sustainability considerations into their investment decision-making processes. Ultimately, this contributes to establishing more sustainable business practices and enhancing overall social welfare. In modern corporate structures, organizational forms have decoupled ownership from operations through continuous refinement, and the operational risks borne by shareholders have been redistributed among stakeholders, including managers, creditors, and employees (Wu et al., 2022). Consequently, analysing the ownership structure is imperative, as it is a cornerstone of corporate governance. Ownership structure reflects the distribution characteristics of business owners' rights; currently, most scholars quantify this structure by the volume and nature of shares held by both individuals and legal entities within the firm.

This study aims to elucidate how founder domination and corporate risk influence ESG performance, with institutional ownership serving as a moderating variable. Our findings enrich the ESG literature by offering novel insights into the corporate social performance of family-run enterprises. Specifically, this research extends prior literature on the social behavior of family firms by demonstrating the extent to which ESG performance is shaped by founder dominance and risk profiles. Furthermore, as family businesses transition through successive generational stages, they exhibit divergent ESG performance. Given these behavioral variances, we analyze the family effect on aggregate ESG outcomes, highlighting how distinct sustainability dimensions receive varying degrees of momentum from family status, contingent upon the business-to-family proximity.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Socioemotional Wealth Theory

Drawing on Socioemotional Wealth (SEW) theory (Berrone et al., 2012), family firms are conceptualized as comprising dual systems: an emotion-oriented family system that prioritizes non-economic SEW targets and a results-oriented corporate system focused on economic objectives (Fang et al., 2018). SEW collectively refers to non-economic goals that satisfy the emotional needs of the controlling family, including exercising family influence, corporate identity, emotional attachment, and dynastic succession. Controlling families derive intrinsic utility from SEW, as its preservation constitutes a primary familial objective (Gomez-Mejia et al., 2018) and is fundamentally intertwined with the owners' psychological identity. Consequently, the loss of SEW is perceived as an identity threat. Under the imperative of SEW preservation, controlling families will actively forgo strategic actions that jeopardize SEW, even if such actions would enhance economic wealth. Conversely, they may sacrifice financial gains to secure or augment their socioemotional assets.

Furthermore, Fiorillo et al., (2025) utilize the SEW framework to examine ESG behavior within family enterprises. This perspective posits that strategic decisions are driven not only by financial considerations but also by the preservation of affective wealth (Kosmidou & Holt, 2022). Defined as the emotional value derived from business control (Kotlar et al., 2018), SEW serves as the primary reference point for owners. As a result, family strategies are often dictated by loss aversion toward socioemotional wealth, prioritizing the protection of the family's non-financial assets against potential threats.

Agency Theory

Agency theory posits that the structural separation of ownership and control in modern corporations gives rise to principal-agent conflicts, as managerial incentives frequently diverge from the maximization of shareholder wealth (Fama, 1980; Jensen & Meckling, 1976). While ownership concentration may mitigate these agency costs by reducing information asymmetry and enhancing monitoring (Shleifer & Vishny, 1986), it often precipitates principal-principal conflicts. In this context, controlling shareholders particularly family owners, as examined in this study may exploit their position to extract private benefits of control at the expense of minority shareholders (Espinosa-Méndez et al., 2023). However, (Sauerwald et al., 2019) offer an alternative perspective, suggesting that controlling shareholders' monitoring activities can also generate positive externalities that benefit minority investors.

Hypothesis Development

Founder Domination and ESG Performance

From the Socioemotional Wealth (SEW) perspective, family firms are characterized by a profound fusion of identity between the family and the business; consequently, both internal and external stakeholders perceive the enterprise as an extension of the family itself. As a result, family members meticulously manage the projected corporate image including interactions with customers, suppliers, employees, and other stakeholders to safeguard their SEW. The potential for public censure and the emotional distress associated with the erosion of SEW motivate family owners to prioritize and accommodate a broader array of stakeholder needs compared to non-family firms (Devos et al., 2024; Sutrisno et al., 2023).

One pillar of SEW pertains to the social embeddedness of the family firm. Reciprocal relationships, referred to as "binding ties," exist within the family unit and extend to various external constituents, including the community. Family firms sense a significant non-tangible obligation toward a wide spectrum of stakeholder claims. This strong identification means that actions misaligned with stakeholder expectations are viewed negatively, potentially tarnishing the family's reputation. Given that consumers often associate a company's products with the owner's family name, family members are intrinsically motivated to cultivate a robust reputation. This involves strategies such as enhancing product quality and safety as such efforts are vital for preserving the SEW of the family firms (Block & Wagner, 2014; Zhong et al., 2023).

A final key element of SEW is intergenerational sustainability or dynastic succession. Unlike easily liquidated assets, a family business is viewed as a legacy and a long-term investment to be transferred across generations. This long-term horizon incentivizes family firms to foster enduring relationships with stakeholders. As the primary architects of the firm, founders commit deeply to SEW preservation; they shape the corporate

values, developmental concepts, and strategic objectives. Founders typically exhibit the strongest motivation to protect these socioemotional assets. Having invested substantial resources time, capital, and effort into establishing the firm, founders develop a deep emotional attachment and sense of belonging that links their personal reputation to the business. Consequently, they view SEW as their most valuable creation (Martin et al., 2016; Zhong et al., 2023) and prioritize its preservation. This strong attachment and sense of identity (Gómez-Mejía et al., 2007) empowers founders, particularly when serving as CEO, to influence the strategic agenda to ensure SEW is maintained directly.

Founders prioritize maintaining control and ensuring business survival (S. Ding & Wu, 2014; Zhong et al., 2023). Consequently, social activities that enhance reputation but simultaneously diminish control, thereby jeopardizing existing SEW, are often avoided (Block & Wagner, 2014; Zhong et al., 2023). This concern also extends to discouraging engagement in beneficial external social behaviors if they risk compromising family control, which is central to SEW preservation. Furthermore, founders' self-perceptions as entrepreneurs, coupled with traits such as overconfidence and a high-risk orientation, often lead them to emphasize aggressive growth strategies. This singular focus on growth discourages the adoption of ESG practices, as they are often perceived as costly and limiting the firm's growth opportunities (Devos et al., 2024; Sutrisno et al., 2023), ultimately discouraging founders from investing in such areas. Based on these theoretical frameworks and empirical findings, the following hypothesis is proposed:

H₁: Founder domination influences ESG performance.

Corporate Risk and ESG Performance

Environmental, Social, and Governance (ESG) disclosure is a pivotal practice for ensuring corporate transparency and accountability to stakeholders. Firms facing elevated risk levels—encompassing both financial and non-financial dimensions tend to engage in more extensive ESG disclosure to alleviate information asymmetry and bolster social legitimacy. Agency theory posits that providing supplementary information, such as ESG disclosures, can mitigate conflicts of interest between management and shareholders by delivering relevant insights into the firm's risk profile (Espinosa-Méndez et al., 2023). Furthermore, legitimacy theory underscores that corporations strive for social acceptance through ESG reporting, particularly when they face environmental or social risks that threaten their reputation (Reber et al., 2022). Consequently, corporate risk is a primary driver of the intensity and quality of ESG disclosure. Therefore, when a company effectively mitigates its risks, it tends to exhibit superior ESG performance (L. Ding & Cui, 2024).

Empirical evidence from prior studies supports this relationship, indicating that firms under social and environmental risk pressures are more likely to increase ESG-related reporting to maintain legitimacy. Cahan et al. (2016) demonstrated that litigation risk incentivizes companies to expand their social responsibility reporting to minimize potential reputational damage. Similarly, (Shakil, 2021) revealed that higher business risk strengthens a firm's drive to perform ESG reporting to preserve investor confidence. Furthermore, findings by Ding & Cui (2024) indicate that a reduction in corporate risk significantly influences ESG performance. Based on these theoretical frameworks and empirical findings, the following hypothesis is proposed:

H₂: Corporate risk influences ESG performance.

Institutional Ownership as a Moderating Variable

Gull et al., (2025) assert that within the agency framework, institutional ownership serves as a vital corporate governance mechanism. By providing stringent independent oversight, institutional investors mitigate agency conflicts and counterbalance the influence of controlling shareholders. Furthermore, institutional ownership enhances monitoring efficacy, thereby incentivizing higher levels of voluntary disclosure (Flammer et al., 2021).

Existing literature underscores the critical role of independent directors in strengthening corporate governance and reducing agency costs (Fama & Jensen, 1983). Due to their detachment from familial networks, independent directors are perceived to exercise more rigorous oversight, which in turn fosters non-financial outcomes, such as ESG performance. Therefore, examining the moderating effect of institutional ownership on the relationship between founder domination, corporate risk, and ESG performance is of paramount importance.

Broader corporate governance literature corroborates the essential supervisory role of independent boards across various domains. Recent studies indicate that board independence promotes long-term sustainability through effective risk management (Saleh et al., 2025) and enhances environmental transparency, particularly among ASEAN-5 firms (Mansour et al., 2025). Conversely, the efficacy of independent directors remains debated within the specific context of family firms. Critics argue that rather than exercising strict oversight, independent directors may remain passive due to the prevailing pressure of entrenched family interests (Sobhan et al., 2025). Based on these theoretical frameworks and empirical findings, the following hypothesis is proposed:

H₃: Institutional ownership moderates the relationship between founder domination and ESG performance.

In firms with higher ownership concentration, decision-makers are more inclined to pursue long-term corporate development. Existing research suggests that institutional ownership concentration is a critical determinant of corporate risk. Institutional ownership is frequently associated with enhanced oversight and more stringent governance standards (Octavio et al., 2025; Sobhan et al., 2025). Consequently, firms with higher institutional ownership tend to exhibit more prudent financial decision-making and reduced market volatility.

Furthermore, in companies where ownership is highly concentrated among institutional investors, decision-makers prioritize sustainable growth (Kong et al., 2020), thereby improving ESG performance. In firms with a more balanced ownership distribution, major shareholders can enhance the quality of corporate decision-making through a system of mutual checks and balances. With greater access to capital for ESG investments, these firms can effectively use sustainability practices to prevent corporate risk. Based on these theoretical frameworks and empirical findings, the following hypothesis is proposed:

H₄: Institutional ownership moderates the relationship between corporate risk and ESG performance.

RESEARCH METHODOLOGY

The population of this study comprises manufacturing companies listed on the Indonesia Stock Exchange (IDX). The research sample specifically focuses on family businesses within the manufacturing sector. Following the criteria established by (Suprianto et al., 2019), a company is classified as a family firm if it satisfies the following conditions: (1) the family maintains an ownership stake of $\geq 20\%$, and/or (2) at least one family member serves on the Board of Directors, the Board of Commissioners, or within the top management.

The sample for this study comprises family-owned enterprises in the Indonesian manufacturing sector. Based on the family business classification criteria established (Suprianto et al., 2019) and (Chua et al., 1999) 83 family firms were identified from a total population of 188 manufacturing companies listed in Indonesia. The study covers a two-year observation period, resulting in a total of 166 pooled observations. Following the identification of a single outlier, one observation was removed, leaving a final sample of 165 observations for empirical testing.

The dependent variable in this study is ESG Performance. The independent variables consist of founder domination and corporate risk, while institutional ownership serves as the moderating variable. This study utilizes secondary data sourced from the official IDX website (idx.co.id) and the ESGI database. The data analysis is conducted using Moderated Regression Analysis (MRA) in E-Views. Table 1 provides a comprehensive overview of the operational definitions and measurements for each variable utilized in this research:

Table 1. Variable Measurements

Variable	Measurements	References
ESG Performance	ESG Score	(Fiorillo et al., 2025b)
Founder Domination (FD)	A dummy variable. Point "1" will be given if the company's founder is also the CEO of the company Point "0" = if Not	(Xu et al., 2015; Zhong et al., 2021, 2022)
Corporate Risk (RISK)	Long-term Liabilities/Total Equity (Brigham & Houston, 2019)	(Ding & Cui, 2024)
Institutional Ownership (INST)	Percentage of Institutional Ownership	(Octavio et al., 2025)

Source: Data Analysis Results.

RESULTS AND DISCUSSION

Descriptive Statistics

Table 2. Founder Domination in Indonesia Family Firms

Description	Percentage
Company's Founder is also a CEO (Score of "1")	32,7%
Company's Founder is not CEO (Score of "0")	67,3%

Source: Data Analysis Results.

The study found that the descriptive results of Founder Domination reveal that 67,3% of the sampled manufacturing firms are no longer led by their founders (score of "0"), indicating that the majority of family businesses in this sector have transitioned to successor generations (second or third generation) or professional CEOs.

Table 3. Descriptive Statistics

	ESG Performance	Corporate Risk	Institutional Ownership
Mean	0.235268	0.366356	0.582964
Median	0.244190	0.139629	0.604000
Maximum	0.385960	11.66080	0.972000
Minimum	0.050850	-1.851266	0.000000
Std. Dev.	0.059802	1.072686	0.253052

Source: Data Analysis Results.

The ESG Performance shows a mean of 0.2353, indicating a relatively low level of ESG integration among Indonesian manufacturing family firms. The proximity of the mean to the median (0.2442) and a low standard deviation (0.0598) suggest a "follow-the-norm" approach. In the context of Indonesian family firms, this modest score may reflect a tendency to prioritize traditional operational stability and family control over the extensive disclosure requirements of modern ESG frameworks, which are often viewed as high-cost initiatives.

The Corporate Risk exhibits a mean of 0.3664, yet the median is notably lower at 0.1396. This discrepancy, paired with a high standard deviation (1.0727), suggests that while the majority of family firms maintain conservative leverage to preserve family control and minimize default risk, a subset of the manufacturing sector is highly leveraged (reaching a maximum of 11.6608). The presence of negative values (-1.8513) likely points to firms experiencing capital erosion, a critical condition in the capital-intensive manufacturing sector.

Institutional Ownership averages 58.30%, suggesting that despite being family-run, these manufacturing firms have significant external monitoring. The wide range (0% to 97.20%) illustrates a dual landscape in Indonesia: some firms remain strictly private/closely held to maintain "socio-emotional wealth," while others have opened their capital structure to institutions to fund the technological upgrades and large-scale assets required in manufacturing.

Model Selection

Table 4. Model Selection Result

Variabel	Coefficient	T-statistic	Prob (Sig.)
C	0.238861	44.37693	0.0000
FD	-0.010987	-1.045683	0.2973
Risk	5.95E-28	1.52E-13	1.0000
FD X INST	-6.00E-27	-1.07E-12	1.0000
Risk X INST	-7.60E-28	-1.42E-13	1.0000

Source: Data Analysis Results.

Based on the test results, the probability of the moderating variable is 1,000, indicating high correlation, so the best model is the Common Effect Model (CEM).

Goodness of Fit Test and Hypothesis Testing Result

There is a mismatch in autocorrelation in this research model; therefore, the researcher used the common effect model (CEM) with General Least Squares Calculation and Cross-Section Weight Estimation Coefficient (PSCE). PCSE makes the model robust against violations of the assumptions of heteroscedasticity, serial autocorrelation, and dependency between cross sections (Moundigbaye et al., 2018). Based on the F-test results, the F-statistic was 34.89769, with a p-value (Prob (F-statistic)) of 0.0000 (<0.05), so this research model is declared fit.

The complete F-test results are presented in Table 3 below.

Table 5. F-Test Result

	F-statistic	Prob (Sig.)	
F-test	34.89769	0.000000	Model Fit

Source: Data Analysis Results.

Based on the hypothesis testing results, H1, which states that founder domination affects ESG Performance, was not supported because the p-value (0.1793) was greater than 0.05. Meanwhile, hypothesis 2, which states that risk affects ESG Performance, was supported by a p-value of 0.0000. Hypotheses 3 and 4, which state that Institutional Ownership moderates the relationship between founder domination and risk on ESG Performance, were also supported, with p-values of 0.0016 and 0.0005, respectively. The complete results of the hypothesis testing are presented in Table 4 below.

Table 6. Hypothesis Testing Results

Variables	Coefficient	Prob (Sig.)	Description
FD	0.009156	0.1793	H1 Not Supported
R	0.034238	0.0000	H2 Supported
FD X INST	-0.023587	0.0016	H3 Supported
R X INST	-0.039454	0.0005	H4 Supported

Source: Data Analysis Results.

DISCUSSION

The Impact of Founder Domination on ESG Performance

Based on the hypothesis testing results, founder domination had no significant effect on ESG performance. This result diverges from the findings of (Zhong et al., 2021). The data from the manufacturing sector sampled in this study indicates that, on average, family firms in Indonesia are no longer led by their founders; instead, leadership has transitioned to the second or third generation. Consequently, the specific influence of the founder on ESG performance could not be empirically substantiated in this research.

Although founders traditionally act as the primary architects in shaping family firm values and strategies, the context of the sampled Indonesian family firms suggests that corporate strategy is more oriented toward Socioemotional Wealth (SEW) preservation rather than ESG performance enhancement. Improving ESG performance necessitates substantial capital expenditure, which may constrain expansion opportunity (Devos et al., 2024; Zhong et al., 2023). Meanwhile, founders prioritize control and business continuity, leading them to avoid social activities that despite bolstering reputation risk diluting family control and threatening SEW. Furthermore, the entrepreneurial characteristics of founders such as overconfidence and high risk orientation drive a focus on aggressive growth strategies rather than sustainability initiatives (Sutrisno et al., 2023).

The Impact of Corporate Risk on ESG Performance

Research findings demonstrate that corporate risk significantly influences ESG performance. This result is consistent with the theoretical argument that risk acts as a primary catalyst motivating firms to enhance the quality of their sustainability practices and disclosures. Within the framework of agency theory, companies facing elevated risk levels encounter intensified pressure from shareholders and creditors to provide supplementary information to mitigate information asymmetry. In this regard, ESG performance serves as a monitoring mechanism that reduces agency costs by enhancing

transparency, providing stakeholders with a clearer view of how the firm manages both business and non-business threats.

From a legitimacy theory perspective, firms bearing substantial risk are more compelled to demonstrate social and environmental responsibility as part of a strategy to maintain public legitimacy. Financial, social, and environmental risks increase the probability of external pressure or negative public appraisal. Consequently, improving ESG performance becomes a strategic tool for firms to preserve trust and ensure operational continuity. This dynamic is particularly relevant within the context of family-owned manufacturing firms in Indonesia. Concentrated ownership structures often exacerbate the potential for principal-principal (Type II) agency conflicts between controlling and minority shareholders. As corporate risk escalates, non-controlling shareholders demand greater transparency to ensure that strategic decisions do not benefit only the controlling group. Thus, enhanced ESG performance represents a managerial response to heightened risk pressures.

Empirical research indicates that corporate risk influences ESG performance. This aligns with the findings of (Ding & Cui, 2024), who asserted that a company's ability to mitigate risk through sustainability management and reporting ultimately drives higher ESG scores. Other studies, such as Shakil (2021), also found that risk pressure drives companies to improve the quality of their social reporting to reduce the risk of litigation or reputational damage. Thus, the relationship between risk and ESG is not merely correlational but also reflects a company's adaptive mechanisms in responding to stakeholder expectations.

In the context of family firms in Indonesia's manufacturing sector, this dynamic is even more relevant. Concentrated ownership structures often increase the potential for agency conflicts between controlling and minority shareholders. As corporate risk increases, non-controlling shareholders demand greater transparency to ensure that strategic decisions do not solely benefit the controlling group. Therefore, improving ESG performance is one managerial response to greater risk pressure.

Moderating Effect of Institutional Ownership

The hypothesis-testing results indicate that institutional ownership significantly moderates the relationship among founder domination, corporate risk, and ESG performance. This finding aligns with agency theory, which posits that institutional ownership functions as a crucial governance mechanism that mitigates conflicts of interest and counterbalances the dominance of controlling shareholders through rigorous independent oversight (Flammer et al., 2021; Gull et al., 2025). Monitoring efficiency has been empirically shown to incentivize greater voluntary disclosure. Consistently, the literature highlights the role of independent directors in minimizing agency costs; their detachment from familial networks facilitates more objective supervision, thereby fostering non-financial outcomes such as ESG performance (Saleh et al., 2025) (Mansour et al., 2025). Such monitoring efficiency is empirically shown to incentivize higher levels of voluntary disclosure. Consistently, the literature highlights the role of independent directors in minimizing agency costs; their detachment from familial networks facilitates more objective supervision, thereby fostering non-financial outcomes such as ESG performance.

In the context of the relationship between corporate risk and ESG performance, the research indicates that institutional ownership increases corporate sensitivity to risk. When institutional ownership levels are high, firms tend to respond to risk pressures by intensifying sustainability practices to ensure long-term stability, minimize litigation risk, and safeguard public reputation and trust. These moderating findings align with the governance literature, which asserts that institutional ownership bolsters the effectiveness of the board and management through more objective oversight. Studies such as Flammer et al. (2021) and Gull et al. (2025) demonstrate that institutional investors frequently drive companies to enhance transparency, expand voluntary disclosures, and prioritize sustainability-oriented strategies.

Within the context of family-owned manufacturing firms in Indonesia, the role of institutional ownership becomes increasingly salient. While a strong family business culture may foster a tendency to maintain internal control, this study empirically demonstrates that as institutional ownership increases, family firms become more responsive to modern governance and sustainability mandates. This suggests that institutional investors can strike a strategic equilibrium between the controlling family's preferences and external stakeholder demands for ESG performance. The findings regarding this moderating variable underscore that institutional ownership elevates the quality of corporate governance. Through robust monitoring, institutional ownership incentivizes family firms to integrate sustainability principles into their core business strategies, broaden the scope of ESG disclosures, and strengthen their commitment to risk management. Consequently, this moderating variable plays a pivotal role in reinforcing the nexus between internal firm characteristics and overall ESG performance.

CONCLUSION

This study aims to analyze the influence of founder domination and corporate risk on Environmental, Social, and Governance (ESG) performance, and to examine the moderating role of institutional ownership within family-owned manufacturing firms in Indonesia. The results demonstrate that founder domination does not have a significant effect on ESG performance. This finding indicates that the founder's influence on the firm's strategic direction tends to diminish in the Indonesian manufacturing sector. A primary reason for this result is that the majority of companies in the sample are no longer led by their founders, but have transitioned to successor generations. This generational shift suggests that the founder's orientation toward Socio Emotional Wealth (SEW) is no longer a primary determinant in shaping the firm's sustainability performance.

Corporate risk has a positive and significant effect on ESG performance. This indicates that firms with higher risk profiles are more driven to enhance their sustainability practices in response to market pressures and the imperative to maintain social legitimacy. Risk acts as a catalyst for companies to strengthen transparency, improve governance, and reduce uncertainty by bolstering ESG performance. Furthermore, institutional ownership has been empirically shown to moderate the relationship among founder domination, corporate risk, and ESG performance. The oversight exercised by institutional investors reinforces the firm's drive to enhance ESG disclosures and practices, while simultaneously curbing the potential for opportunistic behavior by controlling shareholders. Consequently, institutional ownership serves as an effective governance mechanism that encourages family firms to achieve superior sustainability performance.

This study underscores that enhancing ESG performance is not merely a matter of regulatory compliance but serves as an effective strategy for risk response. Firms facing high-risk pressures should view ESG as a mitigation tool rather than a financial burden. Furthermore, institutional ownership plays a strategic role in driving sustainability performance. Their presence bolsters oversight and ensures that family firms transcend a singular focus on controlling shareholder interests, instead accounting for the concerns of a broader spectrum of stakeholders.

Future research may expand the sample scope by incorporating sectors beyond manufacturing to provide a more comprehensive overview of ESG dynamics within family-owned enterprises. Furthermore, using more diverse risk metrics such as market volatility, operational risk, or environmental risk could provide a deeper understanding of how different risk dimensions influence sustainability performance. Additionally, subsequent research could broaden the research context by conducting comparative analyses between family and non-family firms further to delineate the unique behavioral traits of family controlled entities.

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