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The Effect Of Concurrent Position And Tenure Of President Director And Ownership Structure On Environmental, Social, And Governance (ESG) Value

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ABSTRACT

The decision on how much the company contributes to environmental, social, and governance (ESG) related activities is influenced by President's characteristics and the company ownership structure. Present study was undertaken to investigate the effects of the President's busyness and tenure, as well as the ownership structure of family companies, on the ESG scores of companies in Indonesia. The present study used 221 observations from 50 companies listed in the Indonesia Stock Exchange and Refinitiv ESG Scores database from 2016 – 2020 and analyzed them by the Regression method. The findings suggested that companies that have busy presidents or CEOs and family ownership structures give low ESG scores. While the authors do not find sufficient evidence to support the President Director serving more than five years has a good influence on ESG scores. It is because family companies tend to focus on enriching their families. Companies can limit the number of concurrent positions held by the President and recruit a President who has extensive experience. This study contributes to investigating the correlation between ESG scores with the President's concurrent positions and the company ownership structure.

INTRODUCTION

Agency theory discusses the principal-agent problem that views a company as a set of legal contracts between different parties. Companies need to design assignments, incentives, and employment contracts as well as other control mechanisms in a way that minimizes agent opportunism (Rothaermel, 2021).Companies owned by individuals or families are the most common form of company ownership in the world. Controlling owners gain power (through high voting rights) and incentives (through high cash flow rights) to negotiate and enforce company contracts with various stakeholders (Fan & Wong, 2002). The strong presence of a family in a company can lead to a culture where the values of corporate governance mechanisms are not always appreciated well by management, such as a tendency to pay less attention to public accountability and the social performance of the company (Khan et al., 2012; McGuire et al., 2012). In Indonesia itself, 52.09% of companies in Indonesia are owned by families (Rusmin & Evans, 2017).

Under Law No. 40 of 2007, it is stated that the Board of Directors serves as the board responsible for managing the Company, with one of its members appointed as the main director. This implies that the Board of Directors has a large role in making decisions about company activities, including activities related to ESG. Upper echelon theory supports the idea that effective strategic leadership is the result of innate abilities and learning (Hambrick, 2007; Rothaermel, 2021).Disclosure about sustainability in Indonesia is regulated by the Financial Services Authority Regulation POJK Number 51/POJK.03/2017 concerning the Implementation of Sustainable Finance for Financial Services Institutions, Issuers, and Public Companies. The implementation of ESG in companies is the responsibility of the company's board, namely the board of commissioners and directors. Each board member has their own expertise to ensure the company carries out adequate ESG implementation (Gates et al., 2022).ESG (Environmental, Social, and Governance) is a set of standards that refer to three main criteria in measuring sustainability. ESG has become a globally recognized consideration in making investment decisions and is increasingly becoming the focus of the company's strategic and operational agenda (BEI, n.d.). ESG disclosure is used by stakeholders to monitor management strategies regarding non-financial performance that impacts future economic sustainability. The implementation of sustainability strategies can provide financial, environmental, and social benefits to the company (Lokuwaduge & Heenetigala, 2016). ESG disclosure can also be used to reduce the agency problem. ESG activities prioritize the transparency of company activities, so agency costs and information asymmetry can be reduced. Controlling shareholders also cannot use ESG as a tool to extract personal profit (Ferrell et al., 2016; Ghoul et al., 2017; Lee & Isa, 2020).

Previous studies on the characteristics of the President Director towards ESG assessment are still limited. McBrayer (2018) and Jouber (2020) revealed that the longer the CEO’s tenure, the lower the ESG value. Previous research on the dual role of directors towards ESG is still limited, so far, the author has only found research on independent directors towards ESG value (Cooper & Uzun, n.d.; Tijani et al., 2022). Some previous studies show that Board characteristics, such as tenure, gender diversity, nationality, meeting frequency, proportion of the number of Board of Directors and Commissioners, and Director’s attachment, affect ESG assessment and corporate social responsibility performance (Cucari et al., 2017; Fernandez-Feijoo et al., 2013; Hapsoro & Fadhilla, 2017; Ratri et al., 2021; Setiawan et al., 2021). The author has not yet found research on the busyness of the President Director towards ESG value, which is one of the author’s research focuses.Meanwhile, regarding previous research on family ownership structure towards ESG value, Cruz et al. (2014) said that companies owned by families can reduce social practices when they are oriented towards internal stakeholders (as a way to secure control and emotional bonds). Another study found that family companies have a negative relationship with CSR in certain countries (Jain & Jamali, 2015). In the research of McGuire et al. (2012), it was mentioned that the combination of companies with family control and strong corporate governance is associated with weak social performance. So far, the author has not found empirical studies that concentrate on family company ownership and the interaction between busyness and family ownership towards ESG value.

This study aims to analyze the relationship of the characteristics of the President Director in terms of concurrent positions and tenure based on POJK No. 33/POJK.04/2014, and the company's ownership structure to ESG value. Therefore, this research contributes to the literature in governance and sustainability reporting by completing information on the importance of understanding the characteristics of the President Director, namely dual roles, and tenure, and the company’s ownership structure, as well as the interaction between the dual roles of the President Director with the company’s ownership structure to improve the value of ESG disclosure. Family ownership is the most common form of company in Indonesia, which in this study it was found that 54% of the sample companies used are family companies. This study uses 221 observations from 50 companies listed on the Indonesia Stock Exchange and the ESG

Scores Refinitiv database for the period 2016 – 2020. The study uses regression methods with robust standard errors using Stata/MP 16.0 to test the predetermined hypothesis.

LITERATURE REVIEW

Characteristics of the President Director

The President Director has responsibility for the proposed company strategy and the company's daily business activities (Rothaermel, 2021). With the rapid growth of public attention as stakeholders to the environmental and social responsibilities of the company, the President Director can no longer concentrate only on the company's financial performance measures (Ferrero-Ferrero et al., 2013).In Indonesia, the tenure and concurrent positions of directors allowed are regulated in the Financial Services Authority Regulation No. 33/POJK.04/2014 about Directors and Board of Commissioners of Issuers or Public Companies. Board members can hold concurrent positions as board members at most in one other public company, and the maximum tenure of directors is five years. However, board members can be reappointed as directors at the General Meeting of Shareholders.A director who holds concurrent positions is called a busy director. Busy directors tend to be more connected and experienced than their peers, and such characteristics will be a clear value for companies with relatively few connections and little experience. Ferris et al. (2003) argue that directors who hold positions on various boards will become very busy and cannot adequately monitor management. This can be referred to as the 'busyness hypothesis'.The number of years of director tenure on the board of public companies represents a relevant characteristic, which can enhance its influence (Deschênes et al., 2015). Long tenure in an organization increases an individual's familiarity with the organization's belief system and shows the individual's desire to remain in the midst of a particular organization (Mathieu & Zajac, 1990). Some observers argue that directors with too long tenure can be co-opted by top management, inhibiting the critical thinking of directors whose appointments are intended to protect investor interests. Longer director tenure, it is also said, causes a lack of inspiration and new ideas that can be brought by new director cohorts (Deschênes et al., 2015).

Family Ownership Structure

Family businesses are a common form of business organization in various parts of the world. The most common form of family business ownership is a family company characterized by a controlling owner (Lubatkin et al., 2007). In East Asian countries, control is enhanced through pyramid structures, and cross-ownership among companies. Voting rights consequently exceed formal cash flow rights, especially in Indonesia, Japan, and Singapore (Claessens et al., 2000). In the study by Rusmin & Evans (2017), 52.09% of companies in Indonesia are owned by individuals or families.The strong presence of a family on the Board of Directors can lead to a culture where the values of corporate governance mechanisms are not always appreciated well by management (Khan et al., 2012). Uddin & Choudhury (2008) show that family companies in developing countries tend to find corruption and political interference, which is not conducive to the application of Western-style corporate governance models. This implies that family owners, who have a more dominant role in terms of the company's social strategy than other investors, will pay less attention to public accountability and the social performance of the company (Khan et al., 2012; McGuire et al., 2012).

ESG Disclosure Value

The concept of integrating social and environmental issues into investment decisions has been around for 200 years. In the early 2000s, there was a shift from incorporating personal or religious values into investment decisions to a more detailed assessment of the risks and opportunities of companies and society. This shift encouraged an increasing number of asset managers to analyze ESG factors along with financial returns when researching investment opportunities (Kawaguchi, 2017). In 2006, the Principles for Responsible Investment (PRI), designed by the investment community and supported by the United Nations, were launched. The PRI provides a voluntary framework by which investors can incorporate ESG factors into their decision-making and ownership practices, and thus better align their goals with the broader goals of society. The PRI then developed a program to align responsible investment practices with the broader sustainability goals of society, which are now well defined through the concept of Sustainable Development Goals (SDG) (Berenberg, 2022).

METHODS

Broadly speaking, the analysis to be conducted in this study is to identify the influence of the characteristics of the President Director and company ownership on the ESG disclosure value carried out by companies in Indonesia. The decisions made by the President Director of each company play an important role in the procurement of ESG carried out to support sustainable development goals.

The series of analyses conducted in this study are, analysing the characteristics of the President Director in terms of concurrent positions and tenure, and the company's ownership structure on the ESG disclosure value issued by Refinitiv for the period 2016 – 2020. Of the 888 companies listed on the Indonesia Stock Exchange (IDX), only 50 companies have an ESG disclosure value issued by Refinitiv. The analysis is then carried out using panel data regression methods using Stata/MP 16.0. The research data is taken from the official IDX website which contains the financial reports and annual reports of the related companies, Refinitiv, and other supporting sources.

RESULT AND DISCUSSION

Descriptive Analysis

Table 1 presents the results of the descriptive analysis of the existing data. The average ESG value of Indonesian companies that have issued sustainability reports is 0.5181 or equivalent to a B- value according to Refinitiv. A B value indicates relatively good ESG performance and above-average transparency in reporting ESG data to the public. The average size of the Board of Directors is 1.9409 while the average company size is 10.9342. Respectively, the average values of leverage, ROA, and ROE are 52.02%, 7.65%, and 15.21%. The ROA and ROE values have a minimum negative value. Many companies suffered losses in 2020 due to the Covid pandemic that hit the entire world, which hindered company sales due to a decrease in public purchasing power (He & Harris, 2020).

Table 1 Results Of Descriptive Analysis

Variable	N	Average	Std. Deviation	Minimum	Maximum
ESG_Value	221	0.5181	0.2003	0.0833	0.9167
BOARDSIZE	221	1.9409	0.2919	1.0986	2.5649
SIZE	221	10.9342	1.2998	8.4807	14.2918
Leverage	221	0.5202	0.2409	0.0069	1.8977
ROA	221	0.0765	0.0899	-0.19	0.463
ROE	221	0.1521	0.325	-2.5434	1.446
Variable				**N**	**N (%)**
BUSY	No concurrent position			76	34.68
	Concurrent positions			145	65.32
TENURE	< 5 years			137	62.16
	> 5 years			84	37.84
FAMILY	Not family-owned			23	46
	Family-owned			27	54
Sector	Excluding energy			44	88
	Energy			6	12

As many as 65.32% of President Directors hold concurrent positions, while 37.84% of President Directors have served as President Director for more than 5 years. As many as 54% of companies that have issued sustainability reports and have an ESG value are family-owned companies. Companies included in the energy sector number as many as six companies. In concurrent positions, there are still President Directors who violate POJK No. 33 /POJK.04/2014 by holding more than one director position in other companies or being a board member in more than three other companies.

Correlation Analysis

Table 2 presents the results of the correlation analysis of the existing variables. It can be seen that BUSY, TENURE, and FAMILY towards ESG value have a significant negative relationship. Control variables in the form of boardsize, size, and leverage towards ESG value have a significant positive relationship, while the variables ROA and ROE towards ESG value each have a non-significant negative and positive relationship. The highest correlation value is owned by the independent variables ROA and ROE (0.732). Of the 36 correlations between variables analyzed, 25 (69.44%) of the correlations are significant at the 1% and 5% confidence level. Table 2 also shows that multicollinearity is not a problem because the variance inflation factor (VIF) value of all variables is below 5, with the highest being 3.129.

Table 2 Results Of Correlation Analysis

Variable	1	2	3	4	5	6	7	8	9	VIF
(1) ESG Value	1	-0.379**	-0.195**	-0.613**	0.241**	0.373**	0.238**	-0.019	0.01	
		0.000	0.002	0.000	0.000	0.000	0.000	0.389	0.440	
(2) BUSY		1	0.233**	0.417**	-0.158**	-0.314**	-0.381**	0.02	-0.157**	1.497
			0.000	0.000	0.009	0.000	0.000	0.385	0.010	
(3) TENURE			1	0.393**	-0.029	-0.147*	-0.016	-0.02	-0.03	1.246
				0.000	0.334	0.014	0.407	0.384	0.331	
(4) FAMILY				1	-0.143*	-0.279**	-0.240**	0.058	-0.011	1.418
					0.017	0.000	0.000	0.194	0.435	
(5) BOARDSIZE					1	0.546**	0.141*	0.085	0.118*	1.703
						0.000	0.018	0.103	0.041	
(6) SIZE						1	0.466**	-0.370**	-0.124*	2.418
							0.000	0.000	0.032	
(7) Leverage							1	-0.304**	-0.036	1.632
								0.000	0.298	
(8) ROA								1	0.732**	3.129
									0.000	
(9) ROE									1	2.515

Note: ** and * are significant at the 1% and 5% levels respectively

Regression

The regression results are shown by Table 3. Based on the analysis results, it is shown that the variables BUSY, FAMILY, size, leverage, ROA, ROE, Covid, year, and energy sector have a significant effect on the ESG disclosure value, with the leverage and ROE variables having a negative effect.

Table 3 Random Effect Gls (Robust Standard Error) Regression Results

Number of observations: 221				
R-sq:				
Within	0.3347		corr(u_i, X)	0 (assumed)
Between	0.4720		Wald chi2(11)	141.40
Overall	0.5121		Prob > chi2	0.0000
ESG Value	**Coef.**	**Robust Std. Err.**	**z**	**P>|z| (1-tailed)**
BUSY	-0.0512***	0.0187	-2.73	0.0030
TENURE	0.0021	0.0262	0.08	0.4680
FAMILY	-0.1676***	0.0542	-3.09	0.0010
BOARDSIZE	0.0455	0.0411	1.11	0.1340
SIZE	0.0465	0.0196	2.37	0.0090
Leverage	-0.0760	0.0518	-1.47	0.0715
ROA	0.3044	0.1374	2.22	0.0135
ROE	-0.0309	0.0150	-2.07	0.0195
COVID	0.1057	0.0208	5.08	0.0000
Year				
2017	0.0359	0.0151	2.38	0.0085
2018	0.0376	0.0178	2.11	0.0175
2019	0.0677	0.0191	3.55	0.0000
Energy sector	0.1619	0.0521	3.11	0.0010
_cons	-0.0212	0.2445	-0.09	0.4655
sigma_u	0.1494			
sigma_e	0.0656			
rho	0.8383			

Note: ***, **, * Significant at the 1%, 5%, and 10% levels respectively

Table 3 also shows that the BUSY variable is significant at the 1% confidence level with its coefficient value is -0.0512 (z = -2.73). This result indicates that when the President Director holds more than one position, it will have a negative effect on the ESG disclosure value. The TENURE variable is not significant towards the ESG value with a coefficient value of 0.0021 (z = 0.08) indicating that the President Director who has served for more than five years will have a positive effect on the company's ESG disclosure. Meanwhile, the FAMILY variable is significant at the 1% confidence level towards the ESG value with a coefficient value of -0.1676 (z = -309). These results indicate that companies owned by families or individuals will have a negative impact on the company's ESG disclosure value. The analysis results show that only hypotheses 1 and 3 regarding the BUSY and FAMILY variables are accepted.

Table 4 Interaction Between Busy And Family

Number of observations: 221				
Number of companies: 50				
R-sq:				
Within	0.3246		corr(u_i, X)	0 (assumed)
Between	0.4603		Wald chi2(11)	149.51
Overall	0.5006		Prob > chi2	0.0000
ESG Value	**Coef.**	**Robust Std. Err.**	**z**	**P>|z| (1-tailed)**
BUSY	-0.0515***	0.0202	-2.54	0.0055
FAMILY	-0.1682***	0.0637	-2.64	0.0040
BUSYxFAMILY	0.0017	0.0441	0.04	0.4850
BOARDSIZE	0.0458	0.0399	1.15	0.1255
SIZE	0.0463	0.0194	2.39	0.0085
Leverage	-0.0757	0.0513	-1.48	0.0700
ROA	0.3030	0.1369	2.21	0.0135
ROE	-0.0307	0.0143	-2.14	0.0160
COVID	0.1058	0.0208	5.08	0.0000
Year				
2017	0.0358	0.0151	2.37	0.0090
2018	0.0376	0.0181	2.07	0.0190
2019	0.0678	0.0194	3.49	0.0000
Energy sector	0.1624	0.0512	3.17	0.0010
_cons	-0.0191	0.2460	-0.08	0.4690
sigma_u	0.1498			
sigma_e	0.0656			
rho	0.8390			

Notes: ***, **, * Significant at 1%, 5%, and 10% levels respectively

Further analysis was conducted to determine the influence of the interaction of the President Director's concurrent positions and family companies on the ESG value. Table 4 shows that the coefficient value of BUSY x FAMILY is positive but not significant to the ESG value. This indicates that a President Director who holds several positions in a family company can have a positive impact on the company's ESG value but not significantly.

DISCUSSION

According to Jackling & Johl (2009), a President Director who holds more than one position fails to provide adequate service and value as a board member. Ferris et al. (2003) state that a President Director who holds too many positions will become too busy and reduce their management monitoring time. In addition, if the company's performance is assessed based on the cash it owns, then a busy President Director has a negative effect on the company's performance (Rouyer, 2016). (Kor & Sundaramurthy, 2009) reveal that the length of a director's tenure will help the director in developing knowledge about the company's commitment, capabilities, and unique resources. Exploiting this knowledge allows directors to suggest environmental activities independent of management. A short tenure implies that the director does not have experience in the company. While a long tenure in an organization will make individuals feel more familiar with the organization, thus being able to understand implicit rules and norms (Chen et al., 2006; Mathieu & Zajac, 1990). When directors have served for a long time, their portfolio of successful strategies and their knowledge of the company have been refined. With a guaranteed position, their confidence in their future with the company grows (Takacs-Haynes et al., 2016).

Companies with significant family ownership allow family members to effectively monitor management and ensure that management takes actions to maximize family wealth or to satisfy the socio-emotional wealth of family owners (Yoshikawa et al., 2014). These research results are consistent with those found by Rees & Rodionova (2014) who say that family ownership reduces the level of ESG. Jaskiewicz et al. (2017)found that family-owned companies can lower company performance. Company performance can be improved by sacrificing socioemotional wealth (SEW), such as investing in the environment and providing high incentives to the CEO. Family companies with external stakeholders can spur social initiatives to maintain their reputation, but family companies with internal stakeholders will reduce social practices in order to maintain control and emotional bonds (Cruz et al., 2014). With the existence of government regulations that order companies to disclose their ESG activities every year, companies will be forced to be transparent and not retain company information from all parties involved. The presence of independent parties will also increase the effectiveness of monitoring the company's board, so the effects of entrenchment and information asymmetry can be reduced with the aim of increasing company activities in family companies (Cui et al., 2016; Jabee, 2011).

The analysis results also show that the higher the company size and ROA value, the higher the ESG value will be. Meanwhile, leverage and ROE values will decrease the company's ESG value. Large companies and those with high profitability (ROA) will actively carry out sustainability activities because companies tend to have more social problems, so they will be strictly supervised by financial supervisors and social stakeholders. Large companies also have a better position to realize economies of scale in the implementation of sustainability programs. Companies with high profitability show their contribution to community welfare and legitimize their existence through the disclosure of social information (Artiach et al., 2010; Khan et al., 2012). Companies with high leverage and ROE values indicate a close relationship between the company and its creditors. The more the company depends on debt financing, the company will focus more on addressing the concerns of debt holders than other stakeholders (Artiach et al., 2010; Qureshi et al., 2021). The results of the analysis show that the Covid pandemic has a positive effect on the company's ESG disclosure value. This is because the Covid pandemic opens up the possibility for companies to increase their sustainability activities in terms of helping the community through the pandemic (Baatwah et al., 2022). The year variable shows a positive effect on the company's ESG disclosure value with a continuously increasing coefficient. This can be caused by the increasing attention to ESG. In 2019, mutual funds and exchange-traded funds with a focus on sustainability raised $20.6 billion from total new assets. The net cash flow the previous year into these funds was almost four times that of $5.5 billion in 2018, which was the highest standard previously (Iacurci, 2020).

The energy sector has a significant positive effect on the company's ESG disclosure value. As the sector with the highest risk in ESG aspects, the energy sector attracts attention from social supervisors and the community. According to Marquis et al. (2016), institutional supervision and information diffusion mechanisms cause companies that are more damaging to the environment to report more important things: environmental indicators that more comprehensively communicate the environmental hazards caused by their operations.

Further analysis was conducted to determine the relationship between the dual roles of the President Director and family companies towards ESG value. A busy President Director in a family company will have a positive effect on company performance because the network connections owned by the President Director are beneficial to the IPO company in looking for new ideas to continue to grow. A President Director who holds concurrent positions is considered to have extensive knowledge and experience so that his experience can help the company in managing the company's ESG activities (Adams et al., 2010; Field et al., 2013), but not significantly.

CONCLUSION AND SUGESSTION

This study aims to analyze the effect of the characteristics of the President Director (concurrent positions and tenure) moderated by the company's family ownership structure on the ESG disclosure value of the company issued by Refinitiv in 2016-2020. Furthermore, the interaction between the concurrent positions of the President Director and the family ownership structure on the ESG disclosure value is also analyzed. The results of the study using MER show that the characteristics of the President Director in the form of concurrent positions (busy) and companies with family ownership show a significant negative effect on the company's ESG disclosure value. Meanwhile, the characteristics of the President Director in the form of tenure above five years show a good but not significant effect on the ESG disclosure value. A President Director who holds concurrent positions, moderated by a family company, has a positive but not significant effect on the ESG disclosure value. This study supports the Upper-Echelon theory, as shown by the significant relationship between the characteristics of the President Director, as the main decision-maker, and the ownership structure towards the ESG disclosure value. The results of this study also support the busyness hypothesis which states that a President Director who holds concurrent positions will be too busy, so his attention to some company interests will decrease because his attention is divided with the interests of other companies.

Through the research that has been conducted, no influence was found from the tenure of the President Director on the ESG value. A President Director who has served for more than five years certainly has more experience in making the most appropriate decisions for his company, one of which is in this ESG aspect. Companies owned by families tend to focus on enriching their own families. The lack of attention of family companies in the ESG aspect will lead to a decrease in the ESG disclosure value. The increasing public attention to this ESG aspect will force all companies, including family companies, to participate in maintaining ESG aspects. This research also provides implications for companies and stakeholders in terms of appointing the President Director, namely to limit the number of positions of the President Director during his tenure and give the position of President Director to individuals who have experience so that the company can be more committed to carrying out its sustainability responsibilities.

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