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CORPORATE GOVERNANCE MECHANISMS, CEO POWER, AND THEIR IMPACT ON ENVIRONMENTAL PERFORMANCE

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ABSTRACT

This study aims to analyze the influence of institutional ownership, managerial ownership, independent commissioners, audit committees, and CEO power on the environmental performance of consumer goods manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2021–2023 period. Environmental performance is measured using the PROPER rating, which reflects the level of corporate compliance with environmental management standards. The population in this study consists of consumer goods sector companies listed on the Indonesia Stock Exchange (IDX) from 2021 to 2023. The research data was obtained through the purposive sampling method, with a total of 39 companies observed from annual reports and sustainability reports. Data analysis was conducted using multiple linear regression. The results show that institutional ownership, managerial ownership, and independent commissioners significantly influence environmental performance. However, the audit committee and CEO power do not have a significant effect. This study is expected to provide insights for corporate management to improve environmental performance and support business sustainability through the implementation of good corporate governance.

Keywords: Institutional Ownership, Managerial Ownership, Independent Commissioners, Audit Committee, Environmental Performance

I. INTRODUCTION

Most companies in Indonesia tend to focus primarily on financial information. Their main priority is to generate high profits, while attention to social and environmental aspects is often still lacking. In fact, the financial, social, and environmental dimensions—known as the triple bottom line—are interrelated and form the foundation of corporate sustainability. According to the World Business Council for Sustainable Development (WBCSD), environmental performance is defined as a company's commitment to contributing to sustainable economic development in order to improve the quality of life and the environment for the benefit of the business, the community, and society at large. Meanwhile, Article 1 of the Indonesian Limited Liability Company Law No. 40/2007 explains that corporate social responsibility and environmental performance reflect a company's capability to behave in accordance with economic, social, and environmental principles while prioritizing the interests of stakeholders.

The implementation of good corporate governance (GCG) has become essential for companies seeking to improve their environmental performance (Ardianti, 2018). According to Fitri Hayati and Gusnardi (2012), GCG mechanisms are measured using four main indicators: managerial ownership, independent commissioners,

institutional ownership, and audit committees. Both GCG mechanisms and the power of Chief Executive Officers (CEOs) play complementary roles in enhancing corporate environmental performance. An effective board of directors and a sustainability-oriented CEO can collaborate to implement practices that support stronger environmental outcomes. CEOs hold primary responsibility for ensuring that GCG mechanisms are applied consistently across the organization. They work closely with the board of directors to ensure that corporate structures, policies, and procedures comply with established governance standards.

A notable phenomenon concerning environmental performance in Indonesia's manufacturing sector can be observed in Banten Province, which hosts several industrial estates positioned as models for integrated industrial development on Java Island. Investment in Banten's industrial zones has increased significantly due to supporting infrastructure such as Soekarno-Hatta International Airport, Merak Port, the Jakarta–Merak Toll Road, the Jakarta–Rangkasbitung–Merak railway, and the newly developed Bojonegara Port. Three major estates undergoing development include the Modern Cikande Industrial Estate (1,800 hectares), the Wilmar Bojonegara Industrial Estate (800 hectares), and Krakatau Industrial Estate Cilegon (570 hectares). In total, the Ministry of Industry records 20 industrial zones across Banten, including Tangerang City, Tangerang Regency, Serang Regency, and Cilegon City. However, disparities remain between industrial development and environmental preservation. Several companies lack basic environmental infrastructure such as raw-water treatment facilities, wastewater treatment plants, drainage systems, street lighting, and road networks. Poor environmental management has resulted in significant ecological damage.

Environmental degradation in Banten continues to intensify, particularly in agricultural land destruction, mountain erosion, pollution, food-source deterioration, and climate-related changes. This is evident in cases such as PT Sentra Usahatama Jaya (SUJ), the Pulorida coastal reclamation in Cilegon, pollution of the Ciujung River, sand mining in Lebak, and the growing threat of marine sand extraction in northern Banten. Furthermore, 418 industries in Tangerang Regency were sanctioned by the Environmental Agency between 2014 and 2018 for various pollution violations. Many companies lacked wastewater discharge permits, operated smoke-emitting chimneys without treatment facilities, and failed to provide temporary waste storage (TPS). The increasingly severe pollution of the Ciujung River—allegedly caused by PT Indah Kiat Pulp & Paper—prompted the Governor of Banten, Wahidin Halim, to impose sanctions and file legal action on 10 July 2019 (Effendi, 2021).

Setiawan and Syarif (2019) define institutional ownership as the proportion of company shares held by financial institutions such as banks, insurance companies, pension funds, and other institutional investors. According to Sintyawati and Dewi (2018), managerial ownership refers to the proportion of shares held by managers or executives who are actively involved in corporate decision-making. Managerial ownership aligns managers' financial interests with company performance. According to Utami and Januarti (2014), independent commissioners serve as neutral parties within the organization, providing oversight and guidance to management. A higher proportion of independent commissioners is associated with stronger environmental disclosure, as such commissioners exert greater pressure on management to comply with environmental standards. The audit committee, another key GCG element, strengthens internal control, enhances monitoring quality, and

ensures optimal protection for shareholders and other stakeholders (IKAI, 2010). CEOs, who occupy the highest managerial position, are responsible for company operations and performance. They are appointed based on expertise and the ability to create shareholder value, as their decisions play a critical role in shaping corporate success (Field et al., 2013; Mendez et al., 2017).

Based on the literature and the inconsistencies found in previous studies (research gap), further investigation is required to examine how GCG mechanisms and CEO power influence environmental performance. The focus on manufacturing firms is particularly relevant given the sector's significant environmental impact, strict regulatory requirements, and increasing scrutiny regarding sustainability practices. Effective GCG mechanisms are expected to play a central role in improving environmental performance through enhanced risk management and regulatory compliance.

II. LITERATURE REVIEW

2.1 Legitimacy Theory

Legitimacy theory was first introduced by Dowling and Pfeffer (1975), emphasizing the interaction between a company and the society in which it operates. The theory assumes that society is a critical factor in a company's long-term development. A company will continuously seek legitimacy and strengthen its relationship with the surrounding social environment. When societal legitimacy is not granted—due to non-compliance with social norms, regulations, or expectations—the legitimacy may be withdrawn at any time. Therefore, companies must comply with applicable regulations and societal expectations to ensure smooth operations (Puspitaningrum & Indriani, 2021).

2.2 Environmental Performance

According to Suratno et al. (2015), environmental performance refers to a company's efforts to create a healthy and sustainable environment. Companies demonstrate environmental performance as a form of responsibility and concern for their surroundings. The relationship between environmental performance and legitimacy theory lies in the idea that strong environmental performance helps companies build an environmentally responsible reputation, which in turn enhances legitimacy in the eyes of the public. International standard-setting bodies also emphasize that achieving strong environmental performance requires the implementation of an effective environmental management system.

2.3 Institutional Ownership and Environmental Performance

According to Salasani and Handayani (2022), institutional ownership in the context of environmental performance refers to the influence and role of institutional investors—such as pension funds, banks, insurance firms, and other financial institutions—in shaping and monitoring corporate environmental policies and practices. Institutional ownership significantly affects environmental performance. Large institutional investors often exert pressure on companies to improve environmental practices through enhanced monitoring, demands for transparency, and the promotion of sustainability-oriented strategies. Institutional investors typically prioritize firms that demonstrate long-term environmental and social responsibility, thereby reducing risk and enhancing corporate reputation. Firms with higher levels of institutional ownership generally show better environmental performance. Empirical evidence from Diva and Nurleli (2022) and Zanra, Tanjung,

and Silfi (2020) supports the positive influence of institutional ownership on environmental performance.

H_1: Institutional ownership has a positive effect on environmental performance.

2.4 Managerial Ownership and Environmental Performance

Sintyawati and Dewi (2018) define managerial ownership as the proportion of shares held by managers or executives who are actively involved in corporate decision-making. Managerial ownership aligns managerial interests with corporate outcomes, as managers with shareholding stakes directly bear the financial consequences of environmental decisions. In the context of environmental performance, managerial ownership may influence managerial commitment to environmental, social, and governance (ESG) practices. Managers with ownership stakes are more likely to adopt environmentally responsible strategies to safeguard corporate value and reputation. Previous studies, including Ayu (2022), indicate that managerial ownership positively affects environmental performance.

H_2: Managerial ownership has a positive effect on environmental performance.

2.5 Independent Commissioners and Environmental Performance

According to Utami and Januarti (2014), independent commissioners serve as neutral parties who provide oversight and guidance to management. A larger proportion of independent commissioners strengthens environmental disclosure, as they exert greater pressure on management to enhance transparency and accountability. Independent commissioners—who have no personal or financial affiliations with the compan play a critical role in ensuring objective monitoring of managerial decisions. Their primary objective is to protect the interests of minority shareholders, employees, and other stakeholders. Prior studies, including Juliasari and Ana (2023) and Vistinasari (2019), find that independent commissioners significantly influence environmental performance.

H_3: Independent commissioners have a positive effect on environmental performance.

2.6 Audit Committee and Environmental Performance

Siregar (2014) states that the audit committee is an independent body led by a member of the board of commissioners, responsible for monitoring the implementation of good corporate governance. Its functions include overseeing the organization's information systems, internal control structure, operational compliance, procedural planning, and overall performance quality. Audit committees typically hold periodic meetings to evaluate management's performance and ensure compliance. Prior studies (Filatotchev et al., 2015; Sharma et al., 2009) indicate that audit committee size, meeting frequency, and independence are associated with improved corporate performance, including environmental outcomes.

H_4: The audit committee has a positive effect on environmental performance.

2.7 CEO Power and Environmntal Performance

According to Santoso and Setiawan (2024), CEO power can directly influence environmental performance by establishing a sustainability-oriented vision, policy direction, and corporate culture. CEOs who prioritize environmental issues tend to encourage investment in green technologies, strict compliance with environmental regulations, and the development of environmentally friendly products and processes. Conversely, CEOs who undervalue sustainability may neglect the environmental consequences of corporate operations. CEO power—derived from factors such as tenure, ownership, and decision-making authority—plays a strategic

role in determining the company's environmental performance trajectory. Zahroh and Harsugondo (2021) find that CEO power may not always moderate the relationship between environmental performance and financial outcomes; however, other studies demonstrate that strong CEO influence can drive better environmental disclosure and performance. Carnahan et al. (2010) show that CEO characteristics, such as tenure and educational background, shape environmental disclosure practices. Aziz (2024) further finds that CEO power moderates the effect of environmental performance on financial outcomes.

H_5: CEO power has a positive effect on environmental performance.

III. RESEACRH METHOD

This study was conducted on companies listed on the Indonesia Stock Exchange (IDX). Data were obtained online from the IDX website and other relevant sources that provide company profiles and financial reports, particularly for manufacturing firms. The object of this research is the financial statements of manufacturing companies listed on the IDX for the period 2021–2023. The sample was selected using a purposive sampling approach, resulting in 39 firm-year observations. The data were analyzed using multiple linear regression. The regression model is specified as follows:

$$KL = \alpha + \beta 1KI + \beta 2KM + \beta 3KIP + \beta 4KA + \beta 5KCEO + e \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (1)$$

where KL denotes environmental performance, KI institutional ownership, KM managerial ownership, KIP independent commissioners, KA audit committee, and KCEO CEO power.

IV. RESULT AND DISCUSSION

4.1 Descriptive Statistics Results

The descriptive statistics for the research variables are presented in Table 1.

Table 1.
Descriptive Statistics

	N	Min	Max	Mean	Std. Deviation
Kinerja Lingkungan	39	2.00	5.00	2.9231	.73930
Kepemilikan Institusional	39	.0877	.9963	.640677	.2561252
Kepemilikan Manajerial	39	.0000	.4876	.114974	.1536542
Komisaris Independen	39	.2500	.6667	.372924	.0938474
Komite Audit	39	.3333	1.0000	.668498	.2616536
Kekuatan CEO	39	.0000001	.4456000	.071161539	.1453591828

Source: processed data (2025)

Descriptive statistics aim to provide information on the characteristics of research variables, including the mean, standard deviation, maximum, and minimum values.

4.2 Multiple Linear Regression Results

The results of the multiple linear regression analysis are presented in Table 2.

Tabel 2.
Multiple Linear Regression

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.233	.458		4.873	<.001
	Kepemilikan Institusional	.534	.492	.185	1.087	.285
	Kepemilikan Manajerial	2.117	.966	.440	2.190	.036
	Komisaris Independen	1.627	.882	.207	1.844	.074
	Komite Audit	.269	.033	.865	8.053	<.001
	Kekuatan CEO	2.590	1.208	.509	2.144	.039
a. Dependent Variable: ABRES						

Source: processed data (2025)

These results indicate that, at the 5% significance level, managerial ownership, the audit committee, and CEO power have a significant effect on environmental performance, whereas institutional ownership and independent commissioners do not.

4.3 Classical Assumption Tests

The classical assumption tests show that all variables meet the required criteria. There is no indication of serious violations of normality, multicollinearity, heteroscedasticity, or autocorrelation. Therefore, the regression model is considered appropriate for hypothesis testing.

4.4 Model Fit (F-Test)

The F-test yields a value of 16.722 with a significance level of < 0.001, which is lower than 0.05. This indicates that the independent variables—Institutional Ownership (KI), Managerial Ownership (KM), Independent Commissioners (KIP), Audit Committee (KA), and CEO Power (KC)—jointly have a significant effect on environmental performance (KL). Thus, the research model is statistically fit and can be used to explain variations in environmental performance.

4.5 Coefficient of Determination

The adjusted R-squared value is 0.674, meaning that 67.4% of the variation in environmental performance can be explained by CEO power, the audit committee, independent commissioners, managerial ownership, and institutional ownership. The remaining 32.6% is explained by other factors outside the model.

4.6 Hypothesis Testing (t-Test)

Institutional Ownership

The regression coefficient for institutional ownership is 0.534 with a significance value of 0.285 (> 0.05). This means that institutional ownership does not significantly affect environmental performance, and therefore H_1 is rejected.

Managerial Ownership

The regression coefficient for managerial ownership is 2.117 with a significance value of 0.036 (< 0.05). This result indicates that managerial ownership has a positive and significant effect on environmental performance, so H_2 is accepted.

Independent Commissioners

The regression coefficient for independent commissioners is 1.627 with a significance value of 0.074 (> 0.05). Thus, independent commissioners do not significantly affect environmental performance, and H_3 is rejected.

Audit Committee

The regression coefficient for the audit committee is 0.269 with a significance value of < 0.001, which is lower than the 0.05 significance level. This shows that the audit committee has a positive and significant effect on environmental performance, and H_4 is accepted.

CEO Power

The regression coefficient for CEO power is 2.590 with a significance value of 0.039 (< 0.05). This implies that CEO power has a positive and significant effect on environmental performance, so H_5 is accepted.

4.7 Discussions

Institutional Ownership and Environmental Performance

The first hypothesis (H_1) proposes that institutional ownership negatively affects environmental performance; however, the empirical results show no significant effect, leading to the rejection of H_1. Although institutional investors may exert pressure on firms, their influence on environmental disclosure and performance is not always evident. One plausible explanation is that institutional investors often prioritize short-term financial returns over long-term environmental initiatives. The inability of institutional investors to impose strong pressure on environmental responsibility may also stem from a lack of commitment to sustainability in their investment strategies. Rahmawati and Surya (2023) suggest that institutional ownership can enhance environmental disclosure when supported by robust corporate governance. The mixed evidence in prior research indicates that institutional ownership alone may not be a key determinant of environmental performance, with other factors such as regulation and internal corporate policies playing an important role. The findings of this study are consistent with Nur Aisyah Putri et al. (2022) and Juliasari and Ana (2023), who also report that institutional ownership has no significant effect on corporate environmental performance.

Managerial Ownership and Environmental Performance

The second hypothesis (H_2) states that managerial ownership positively affects environmental performance, and the results support this hypothesis. Managers who hold shares in the firm have greater incentives to pursue long-term sustainability. Equity ownership aligns their personal wealth with corporate performance, encouraging them to adopt environmentally responsible practices to protect corporate reputation and value. Previous studies also show that managerial ownership improves transparency and environmental disclosure, which contributes to better environmental performance. Nevertheless, the magnitude of this influence may vary depending on corporate policy, regulatory frameworks, and the level of ownership concentration. Recent research by Sari and Purnomo (2023) finds that managerial ownership positively affects environmental disclosure among consumer goods companies in Indonesia. This study's findings are in line with Adyana and Gantyowati (2023) and Ayu (2022), who also document a positive relationship between managerial ownership and environmental performance.

Independent Commissioners and Environmental Performance

The third hypothesis (H_3) posits that independent commissioners negatively affect environmental performance; however, the empirical results show no significant effect, leading to the rejection of H_3. Although independent commissioners have a supervisory role, their limited involvement in day-to-day operations may constrain their influence on environmental decision-making. In some

cases, independent commissioners tend to focus on compliance with regulations and governance structures rather than actively promoting environmental initiatives. Prior studies also indicate that the effectiveness of independent commissioners in enhancing environmental performance depends heavily on the company's commitment to sustainability and the policies implemented. Consequently, the mere presence of independent commissioners does not necessarily translate into improved environmental performance. These findings are consistent with Maharani (2023) and Ansani (2023), who report that independent commissioners do not significantly affect environmental performance.

Audit Committee and Environmental Performance

The fourth hypothesis (H_4) states that the audit committee has a positive effect on environmental performance, and this hypothesis is supported. The audit committee is an independent body responsible for overseeing financial reporting, internal control systems, and compliance with regulations, including environmental and sustainability standards. An effective audit committee not only strengthens corporate governance but also contributes to the formulation of strategic policies that promote environmentally responsible management. The audit committee ensures that the company complies with environmental regulations and sustainability standards, and its monitoring activities enhance disclosure of environmental performance in corporate reports. Recent studies show that firms with active audit committees tend to exhibit higher levels of environmental compliance due to rigorous oversight of sustainability reporting and environmental risk management (Li et al., 2023; Nguyen & Tran, 2024). The effectiveness of audit committees is often associated with the expertise of their members, meeting frequency, and level of independence, all of which influence environmental performance. The results of this study are consistent with Sari and Widyawati (2022) and Prasetyo et al. (2018), who find that audit committees positively affect environmental performance.

CEO Power and Environmental Performance

The fifth hypothesis (H_5) proposes that CEO power positively affects environmental performance, and the findings support this hypothesis. CEO power reflects the extent to which a CEO has authority and influence over strategic corporate decisions, including environmental policies. Such power may stem from share ownership, long tenure, or dominance over the board of directors. Strong strategic decision-making capacity enables CEOs to direct firms toward environmentally friendly policies without facing substantial resistance. CEOs with a clear sustainability vision can drive green innovation and investments in environmentally friendly technologies. Sari and Purnomo (2023) find that CEO power moderates the relationship between environmental performance and financial performance, suggesting that powerful CEOs can amplify the benefits of environmental initiatives. Overall, although some studies report mixed results regarding the effect of CEO power on environmental performance, this study supports the view that CEO power plays a crucial role. The findings align with Widyawati (2022) and Aziz (2023), who also report a positive influence of CEO power on environmental performance.

V. CONLUSION AND RECOMMENDATION

Based on the results of the data analysis, the following conclusions can be drawn:

1) Institutional ownership does not affect environmental performance.

This finding indicates that although institutional investors may exert certain pressures on companies, such ownership does not automatically lead to improvements in environmental performance. Therefore, additional initiatives—such as stricter regulations and stronger sustainability policies—are needed to encourage companies to enhance their environmental performance.

2) Managerial ownership has a positive effect on environmental performance.

Because managers' financial interests are directly aligned with corporate outcomes, they are more motivated to adopt sustainable practices that enhance corporate image and minimize environmental risks. Managerial ownership also promotes transparency and improved environmental disclosure, strengthening corporate commitment to social and environmental responsibility.

3) Independent commissioners do not affect environmental performance.

This finding suggests that the presence of independent commissioners does not significantly influence corporate environmental performance. Differences in prior research results highlight the importance of considering specific contexts—such as industry type, research period, and analytical methods—to better understand this relationship.

4) The audit committee has a positive effect on environmental performance.

This result indicates that audit committees play an important role in promoting compliance, accountability, and oversight within corporate governance. Their monitoring activities contribute to improved management of environmental issues, greater transparency, and enhanced sustainability reporting.

5) CEO power has a positive effect on environmental performance.

This demonstrates that CEOs with substantial influence within the organization are better able to direct corporate strategies toward sustainable practices. CEOs with strong authority tend to have greater flexibility in making strategic decisions, including the allocation of resources for environmental initiatives.

Future studies are recommended to consider additional variables, as environmental performance may be influenced by factors outside the current research model. Potential variables include government regulations, organizational culture, public pressure, or corporate sustainability strategies. Incorporating these variables could enhance the explanatory power of the model. Furthermore, the use of mixed-methods approaches (combining quantitative and qualitative methods) may help identify additional influential factors that are difficult to measure quantitatively. This approach would yield a more comprehensive and representative understanding of corporate environmental performance.

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