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CEO ownership, host countries' institutional diversity, and ESG disclosure: Evidence from US MNEs

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Abstract

This study examines how CEO ownership and host-country institutional diversity influence ESG disclosure among multinational enterprises (MNEs). Drawing on managerial entrenchment and institutional complexity theory, we argue that CEO share ownership and exposure to various institutional environment may create conflicting effect that reduce firms' ESG disclosure. Using panel data from 279 U.S.-based MNEs, we analyzed by employing a correlated random-effects model with Mundlak correction. The findings support our hypotheses and our moderating proposition. Overall, the study highlights how governance mechanisms and institutional environments influence disclosure strategies in MNEs.

Keywords

CEO ownership; institutional diversity; ESG disclosure; managerial entrenchment; institutional complexity

INTRODUCTION

The literature on ESG disclosure has expanded significantly since sustainability concerns began gaining momentum in the 1990s and since firms started voluntarily disclosing ESG data in the early 2000s. In 2004, the UN Global Compact coined the term "ESG," and since then various ESG guidelines and certification frameworks have been introduced. In the United States, the growing attention to sustainability issues was also triggered by corporate governance scandals such as the Enron case (Li, 2010).

For multinational enterprises (MNEs), the disclosure of ESG performance and activities is important because it serves as a medium for gaining legitimacy and market access (Rathert, 2016). Firms disclose their ESG achievements to signal compliance (Khan, 2022), and such disclosures are often associated with improvements in overall firm performance (Bamel, Khatri, Bamel, & Kumar, 2025). ESG disclosure by parent companies may also open access to economic and non-economic benefits. For example, it can assists with institutional pressures and geopolitical tensions (Kim, Kwak, & Park, 2025), improve the financial performance of foreign subsidiaries (Sun, Feng, Yuan, & Sun, 2025), and increase the degree of internationalization for firms from emerging economies (Yu, Chen, & Zhao, 2025). Due to its importance, scholars have increasingly sought to investigate the factors affecting ESG disclosure.

Prior ESG disclosure literature in the past five years has been dominated by studies examining how different corporate governance mechanisms—such as board attributes and ownership structures—promote greater ESG disclosure. Board gender diversity is among the most frequently studied issues and has been found to positively affect ESG disclosure (Ma, Ahmad, & Torelli, 2024; Bhatia & Marwaha, 2022; Gurol & Lagasio, 2022; Alkhawaja, Hu, Johl, & Nadarajah, 2023; Khemakhem, Arroyo, & Montecinos, 2022; Nuhu & Alam, 2023; Teng, Saidin, Lau,

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& Li, 2026). Other board characteristics found to positively influence ESG disclosure include board independence (Gurol & Lagasio, 2022; Liu & Ren, 2025; Nicolo, Zampone, Sannino, & Tiron-Tudor, 2023; Umar, Firmansyah, Danlami, & Al-Faryan, 2024), board size (Bhatia & Marwaha, 2022; Gurol & Lagasio, 2022; Nicolo et al., 2023), board meetings and diligence (Nuhu & Alam, 2023; Umar et al., 2024), and overall board diversity (Teng et al., 2026). With regard to ownership structures, concentrated ownership (Chung, Bayne, & Birt, 2024) and state or government ownership (Doshi, Jain, Sharma, Mukherjee, & Kumar, 2024) have also been found to positively affect ESG disclosure.

Beyond corporate governance factors, a smaller number of studies have investigated certain organizational characteristics. Chung et al. (2024) found that larger firms and firms with auditing mechanisms tend to disclose more ESG information. Seow (2025) found that firms with poor financial performance tend to disclose more ESG information. This finding supports the idea that some firms use ESG disclosure to manage impressions when they fail to meet financial expectations (Hamza & Jarboui, 2025; Yan & Zhang, 2026). Lastly, scholars have also examined external organizational factors that may increase ESG disclosure, such as stakeholder pressure (Alessa, Akparep, Sulemana, & Agyemang, 2024), litigation pressure (Iftikhar, Bagh, & Shabbir, 2025), and economic and political uncertainty (Guenichi, Omri, & Khaskhoussi, 2023).

The literature has provided significant insights into the determinants of ESG disclosure. However, two important gaps remain. *First*, in the context of multinational enterprises, the literature provides limited insight into the role of institutional contexts in shaping MNEs' ESG disclosure strategies. While literature provides a number of study regarding how home country institutional context affects different ESG aspects (e.g., Baldini, Maso, Liberatore, Mazzi, & Terzani, 2018; Pinheiro, dos Santos, Cherobim, & Segatto, 2024; Singhania & Saini, 2023; Yu et al., 2025), less insight is known regarding role of host country institutional contexts on ESG disclosure. Specifically, the diversity of institutions within MNEs' host country portfolio.

Portfolio diversity can be understood as the variety of locations in which subsidiaries operate, reflecting differences in economic development and institutional environments (Nachum & Song, 2011). Subsidiary diversity may become a source of competitive advantage for MNEs (Rugman & Verbeke, 2001). MNEs that face diverse institutional environments may gain access to a broader range of ideas and innovations (Wu, Wu, & Zhuo, 2015). In the context of corporate social performance, host countries with stronger institutions may provide learning opportunities for MNEs, which can then be leveraged when operating in countries with weaker institutions (Keig, Brouthers, & Marshall, 2019). As a result, MNEs may develop better strategies to respond to institutional pressures because they have accumulated insights from operating across countries with diverse institutional characteristics.

Among prior studies, Solimene, Coluccia, Fontana, and Bernardo (2025) have initiated the investigation of the role of certain institutional types in ESG disclosure. They specifically examined the effect of formal institutions on ESG disclosure and how institutional diversity—measured by stakeholder orientation—moderates this relationship. Solimene et al. (2025) provide an important foundation regarding the role of institutional diversity in ESG outcomes; however, their measures of formal institutions and institutional diversity focus solely on the home-country context. As a result, there is currently no empirical study that investigates such institutional effects in the host-country context.

We seek to fill this gap by investigating the effect of host-country institutional diversity on MNEs. We specifically use institutional complexity theory and argue there is a negative association between host countries' institutional diversity and ESG disclosure. Under institutional theory, ample of prior studies acknowledged robust institutional factors—such as governance structure and politics—as crucial factors to ESG (e.g., Ahmad, Mohti, Khan, Irfan, & Bhatti, 2024; Alsagr & Khan, 2026). However, this study specifically offers novelty through institutional complexity theory and provides empirical evidence that under certain degree, a variety and complexity of institutions faced by MNEs could generate a counter-productive effect and complicate MNEs' disclosure efforts.

The institutional complexity theory was initiated by Greenwood, Raynard, Kodeih, Micelotta, & Lounsbury (2011) and described that institutional complexity arises when organizations face multiple institutional logics at once. According to the framework, it is possible that firms defy demands when they are complex or have more difficult logic to comply. Some studies support this theory, for example Pache & Santos (2013) found that organizations selectively comply and intentionally violate institutional demands due to competing logics. In the context of banking, Marquis & Lounsbury (2007) found that banks resist acquisition pressures despite strong market incentives. Lastly, firms were also found even to reject institutional logic and build new internal practices that contradict dominant expectations (Battilana & Dorado, 2010).

We also adopt a portfolio approach (Nachum & Song, 2011; Keig et al., 2019) to analyze host countries' institutional diversity. The portfolio approach views MNEs as entities that manage networks of subsidiaries located in different countries with varying institutional conditions. This diversity of institutional environments may shape stakeholder expectations regarding MNEs' ESG practices, particularly ESG disclosure. Following the logic of institutional complexity theory (Greenwood, Raynard, Kodeih, Micelotta, & Lounsbury, 2011), our study argues that higher institutional diversity increases the level of complexity faced by MNEs, which may lead them to disclose less ESG information. In addition to the conceptual differences, our study also differs from Solimene et al. (2025) methodologically. While Solimene et al. (2025) measure institutional diversity using a dummy indicator of stakeholder orientation, we measure institutional diversity using the Worldwide Governance Indicators (WGI) developed by Kaufmann, Kraay, and Mastruzzi (2011).

Second, the literature reports conflicting findings regarding the role of executive compensation in firm performance (Al Farooque, Buachoom, & Hoang, 2019). Firms often use ownership as a form of compensation, and it is argued that greater executive ownership reduces managerial negligence toward strategic responsibilities (Meckling & Jensen, 1976). However, some empirical studies report the opposite findings (e.g., Saidu, 2019; Tran & Pham, 2022). Additionally, relatively few comprehensive empirical studies examine the role of specific ownership types (Connelly, Hoskisson, Tihanyi, & Certo, 2010). We aim to address this gap by examining how CEO share ownership affects ESG disclosure and how institutional diversity moderates this relationship.

To analyze the association of executive compensation, we draw on managerial entrenchment theory (Shleifer & Vishny, 1989) and argue that CEO ownership may have a negative effect on ESG disclosure. According to the theory, managers may secure their positions and act opportunistically even when shareholder value is not maximized (Shleifer & Vishny, 1989). The literature documented several factors affecting the degree of entrenchment behaviors, especially high CEO power—such as CEO ownership and tenure (Berger, Ofek, & Yermack, 1997; Cronqvist, Heyman, Nilsson, Svaleryd, & Vlachos, 2009). We also argue that the main effect of executive compensation is contingent on the institutional conditions faced by MNEs.

The data analyzed in this paper cover 279 MNEs from the United States (U.S.). The U.S. provides a suitable context because ESG disclosure remains largely voluntary (Ketchum, 1986). ESG disclosure is not mandatory in the U.S., and demand for such disclosure is primarily driven by normative and cognitive pressures, such as peer influence (Liu & Wu, 2016) or professional governing bodies (Fortanier, Kolk, & Pinkse, 2011). Furthermore, the strong culture of shareholder orientation may place less pressure on social and environmental objectives, as firms tend to prioritize shareholder wealth above other considerations. In this study, we employ several analytical approaches, including random-effects models with Mundlak correction in the main analysis, as well as pooled OLS with year fixed effects as robustness test. The results support all of our hypotheses.

Our paper has the following contributions. *First*, this study extends institutional complexity theory by empirically demonstrate that exposure to diverse institutional environment may reduce ESG disclosure instead of increase it. MNEs operating across heterogenous environment and may face conflicting expectation. Such conflicts and complexity increases coordination and legitimacy challenges. *Second*, this study contribute to corporate governance literature by demonstrating that higher CEO ownership can negatively affect ESG disclosure. While CEO ownership is often viewed as a method to align managerial interests with shareholders, high ownership can also lead to managerial entrenchment. *Third*, this study bridges institutional views and corporate governance research by showing that institutional complexity shape governance mechanisms on firms' strategic responses. *Fourth*, this study extend prior study (Solimene et al., 2025) which focused on the context of home country's institutional condition—and captures the effect of host countries' institutional environment.

LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

While CSR and ESG disclosure represent distinct concepts, they are often used interchangeably in the literature. CSR is considered as framework or firm responsibility while ESG is the evaluation metrics of firms' responsibility (Gillan, Koch, & Starks, 2021; Kaźmierczak, 2022) and many studies use ESG disclosure metrics as operationalization of CSR (Gillan et al., 2021). In this paper, we specifically use term ESG disclosure as the main variable of interest, but we also include CSR studies in building our literature and hypotheses positioning. CSR studies provide well-estbalished insights how governance mechanisms and institutional environments shape firms' sustainability-related behaviors—which are ultimately manifested in ESG disclosure.

Originally, the responsibility of firms and businesses was primarily to generate profit (Carroll & Brown, 2018). Over time, stakeholders such as governments, NGOs, and society in general have increasingly demanded that firms operate more sustainably and be transparent about their business operations. In the early stages of the growing popularity of sustainability issues, ESG disclosure was often voluntary and unaudited (Christensen, Hail, & Leuz, 2021). However, due to the increasing importance of ESG disclosure—especially in business investment—some countries have begun mandating such disclosures (Krueger, Sautner, Tang, & Zhong, 2024).

The literature shows that firms may be motivated to disclose their ESG performance due to both economic and non-economic factors. Many studies have found that ESG disclosure positively affects corporate performance (Chen, Song, & Gao, 2023; Elmghaamez, Nwachukwu, & Ntim, 2023). ESG disclosure also plays a role in reducing information asymmetry (Frankel, Kothari, & Raghunandan, 2025). Recent research further indicates that investors from developed markets increasingly demand high-quality ESG reporting (Hu, Zhang, & Dong, 2026). Based on these findings, ESG disclosure acts as a signal that can attract or maintain stakeholders' expectations.

The literature has also identified factors that affect the degree of firms' ESG disclosure. In general, it suggests that firms disclose environmental or sustainability-related information due to external pressures. Luo, Zhang, and Liu (2022) argued and found that legitimacy pressures and impression management motivate firms to disclose their carbon information. Pressure from shareholders, especially institutional investors, has also been found to drive firms to increase their voluntary disclosure (Fabrizio, Flammer, Toffel, & Viswanathan, 2019). External factors such as certain legal systems positively affect firms' environmental disclosure, whereas certain cultural dimensions—such as power distance, individualism, and masculinity—reduce firms' disclosure (Gallego-Álvarez & Pucheta-Martínez, 2019). Lastly, regulatory stringency has been found to increase firms' carbon performance disclosure (Adetutu, Odusanya, Stathoupoulou, & Weyman-Jones, 2024).

With regard to firm characteristics, larger firms and firms with better performance have been found to face greater pressure to disclose their sustainability or ESG activities (Giacomini, Zola, Paredi, & Mazzoleni, 2019). Additionally, firms with board interlocks (Xue, Xu, & Chen, 2024) and boards with sustainability-oriented strategies (Helfaya & Moussa, 2017) are more likely to disclose their sustainability performance. Finally, CEOs who are members of national political councils or who have experience in government agencies (Marquis & Qian, 2013) are positively associated with ESG disclosure, as is managerial ability (Kao, Jian, & Tseng, 2024).

Among the studies investigating factors that increase ESG disclosure, some have also noted that certain firms exhibit lower levels of ESG disclosure. In many countries, disclosing ESG information remains voluntary (Lin, 2020). As a result, firms always have the option not to disclose ESG information publicly. Carlos and Lewis (2018) conducted a study on organizational certification and found that when firms face reputational threats, they tend to publicize less of their certification status. This phenomenon is amplified when the content of the threat contradicts the claims associated with the certification and when firms have stronger reputations. Brammer and Pavelin (2006) studied UK firms and found that those with low public visibility or fewer stakeholder pressures disclose less environmental information. Lastly, Dhaliwal, Li, Tsang, and Yang (2011) found that due to the voluntary nature of ESG disclosure, many firms choose not to disclose ESG information unless the benefits exceed the costs. Durand, Hawn, and Ioannou (2019) made a similar argument in their model of organizational responses to pressures. They argued that firms often do not respond to pressures if there are no clear net benefits to be obtained from complying with those pressures (Durand et al., 2019).

The effect of CEO share ownership on ESG disclosure

Among strategic disclosure strategies, certain factors related to CEOs and managers have been noted by scholars. Pham and Tran (2020) found that CEO integrity becomes a boundary condition determining whether a firm discloses its CSR activities. García-Sánchez, Aibar-Guzmán, Aibar-Guzmán, and Azevedo (2020) hypothesized that managerial ability positively affects CSR disclosure and found support for their hypothesis. Additional CEO characteristics that may increase firms' disclosure include CEO education level (Lewis, Walls, & Dowell, 2013), CEO narcissism (Lassoued & Khanchel, 2023), and female CEO succession (Shaheen, Luo, & Bala, 2023). Meanwhile, several factors have been found to negatively affect ESG disclosure, such as CEO tenure (Lewis et al., 2013; Razali, Roslanie, Brahmana, & Ali, 2016), CEO power (Muttakin, Khan, & Mihret, 2018; Rashid, Shams, Bose, & Khan, 2020), and CEO duality (Oware & Awunyo-Vitor, 2021).

As explained in the previous paragraphs, some factors increase firms' disclosure while others negatively affect it. In this section, we focus on one CEO attribute—CEO ownership—and related issues. Nagar, Nanda, and Wysocki (2003) investigated the relationship between managers' stock-based incentives and disclosure and found a positive association between the two. They view disclosure as an agency problem and argue that managers may avoid disclosing information because doing so could reduce their private benefits. Cheng, Cho, and Kim (2020) propose a similar argument, suggesting that pay duration—as a form of incentive—can motivate managers to disclose more information, even when the information is considered negative. Lastly, De Franco, Hope, and Larocque (2013) found that firms with greater disclosure (e.g., management guidance) exhibit higher pay-for-performance sensitivity in CEO compensation. These findings support agency theory, which suggests that shareholders use certain types of compensation to align managerial behavior with shareholder interests, thereby encouraging transparency and reducing information asymmetry.

Although managerial compensation is often intended to mitigate agency problems, it may also increase managerial opportunism. This argument is supported by several empirical studies. Bergstresser and Philippon (2006), using Compustat data, showed that CEOs with high equity-based incentives are more likely to manipulate earnings. Efendi, Srivastava, and Swanson (2007) investigated 190 firms from the S&P 500 index that conducted financial restatements at the end of the 1990s market bubble. They found that CEOs who hold stock options are more likely to misstate financial information. Armstrong, Blouin, Jagolinzer, and Larcker (2015) examined managerial incentives and corporate tax avoidance and found that executive compensation incentives tied to after-tax performance encourage aggressive tax avoidance strategies. In the context of sustainability strategy, Tran and Pham (2022) found that certain CEO compensation structures weaken CSR disclosure, supporting the argument that CSR activities may be deprioritized when they reduce short-term profits.

We draw on the logic of managerial entrenchment theory to predict the effect of CEO ownership on ESG disclosure. Originally developed by Shleifer and Vishny (1989), managerial entrenchment theory suggests that corporate managers may become so deeply entrenched in their positions that they pursue opportunistic and self-interested behavior at the expense of shareholders' interests (García-Sánchez et al., 2020). To pursue such opportunistic behavior, managers may rely on various mechanisms, such as manager-specific investments (Shleifer & Vishny, 1989) or short-termism (Keum, 2021).

In the case of manager-specific investments, managers invest in projects that are valuable primarily under their leadership, thereby making it costly for firms to replace them (Shleifer & Vishny, 1989). In the case of short-termism, entrenched managers may focus on short-term profits while ignoring long-term investments (Keum, 2021; Wiersema, Koo, Chen, & Zhang, 2025). Under this theoretical perspective, we argue that CEO ownership may increase CEO power and lead to entrenched managerial behavior. As a result, CEOs may be more motivated to pursue short-term profits rather than long-term strategies such as ESG investments and disclosure. The justification for this argument is explained in the following paragraphs.

While CEO ownership can align managerial and shareholder interests, higher ownership concentration may also reduce the effectiveness of governance mechanisms. In a study analyzing 1,301 firms across eight countries, Claessens, Djankov, Fan, and Lang (2002) found that higher ownership concentration may reduce firm value. When governance mechanisms weaken, oversight is also reduced, allowing CEOs greater discretion to limit transparency and disclosure (Fabrizio & Kim, 2019; Nikbakht, Weysihesar, & Fateri, 2020), including ESG information.

Since ESG disclosure invites greater public scrutiny (Kim & Lyon, 2015), entrenched managers may deliberately avoid such scrutiny by disclosing less information. Carè, Agnese, Cerciello, & Taddeo (2025) provided empirical proof that when firms disclose full sustainability information to public, they face higher likelihood of exposure to scandals. The risky consequence encourages entrenched manager to use less ESG disclosure mechanism as signals and opt for more discreet strategy. Furthermore, entrenched managers may prefer to limit information disclosure in order to maintain decision-making authority. Reduced ESG disclosure thus becomes a mechanism for maintaining informational control. This argument is consistent with the findings of Liu and Lu (2016), who showed that dominant shareholders may engage in strategies that reduce the quality of information disclosure. Based on the above arguments, we propose the following hypothesis:

H1: CEO share ownership is negatively associated with MNEs' ESG disclosure

The effect of host country institutional diversity on ESG disclosure

Disclosure literature has acknowledged the role of institutional arrangements in a limited manner. Carran, Hodgson, Saudagaran, and Xiong (2024) found support that the ethical constraining power of higher CSR rankings varies across institutional factors. Bello, Said, and Gardazi (2024) found that, in the Nigerian context, the rule of law positively affects disclosure compliance. Barry, Jona, and Söderström (2022) investigated how regulatory frameworks in the United States (U.S.) and China affect firms' disclosure practices in both countries. Nyamah, Attatsi, Nyamah, and Opoku (2022) found that institutional quality improves agri-food value chain transparency. Lastly, Buhr and Freedman (2001) investigated the role of institutional factors in the disclosure practices of Canadian and U.S. companies. They found that the institutional infrastructure in Canada was more conducive than that in the U.S., and therefore Canadian firms produced more disclosure compared to U.S. firms. These findings illustrate how institutional conditions often increase firms' disclosure. However, multinational enterprises (MNEs) operate across multiple institutional contexts, yet the literature provides limited insight into how institutional quality diversity affects firms' disclosure.

Institutional quality reflects the effectiveness, reliability, and integrity of a country's formal institutions, such as legal systems and governance structures (North, 1990; Kaufmann, Kraay, & Mastruzzi, 2011). In the field of international business and global trade, institutional quality has been vital for multinational firms. Institutional quality affects MNEs' degree of internationalization (Deng & Zhang, 2018; He & Cui, 2012), a country's level of foreign direct investment (Buchanan, Le, & Rishi, 2012; Ullah & Khan, 2017), knowledge spillovers (Bhaumik, Driffield, Lavoratori, Song, & Vahter, 2025), and even location choices (Nayyar & Luiz, 2024; Sen & Sinha, 2017). Strong institutional quality acts as a catalyst for MNEs' foreign activities, primarily by reducing transaction costs (Kovač, 2016) and investment risks (Canh, Schinckus, Su, & Cong, 2021).

In the context of MNEs' CSR and sustainability strategies, the institutional quality of the home country has been found to increase subsidiaries' CSR engagement in host countries (Lee, Choi, Xiao, Lew, & Park, 2024). However, when considering institutional quality diversity, we propose that the opposite effect may occur. To analyze the effect of institutional quality diversity within an MNE's subsidiary portfolio on ESG disclosure, we draw on institutional complexity theory. Institutional complexity arises when firms face multiple institutional logics that are often incompatible or even competing with each other (Smith & Tracey, 2016). Institutional quality diversity reflects such competing demands, in which multiple institutional logics coexist, and MNEs must respond to them simultaneously.

Under complex pressures from different institutional environments, firms do not always provide definitive responses. Oliver (1991), for instance, proposed a range of strategic responses representing different levels of compliance: firms may fully comply, compromise, avoid, defy, or even manipulate institutional pressures. Within this framework, an increasing number of institutional constituents complicates firms' decision-making processes and may lead firms to avoid full compliance and instead adopt alternative strategies. Marano and Kostova (2016) corroborated Oliver's framework and argued that multiple institutional environments with different rules, norms, and expectations may prevent MNEs from developing standardized CSR practices. Firms may instead selectively adopt sustainability practices in order to satisfy legitimacy expectations (Marano & Kostova, 2015). Both Oliver's (1991) and Marano and Kostova's (2016) frameworks are supported by empirical studies examining various forms of non-compliance in sustainability practices, such as greenwashing (Delmas & Burbano, 2011; Gatti, Seele, & Rademacher, 2019), brownwashing (Huang & Francoeur, 2022; Kim & Lyon, 2015), or even withholding disclosure (Fox, 1999; Waniak-Michalak, Sapkauskiene, & Leitonienė, 2018).

Based on institutional complexity theory and the supporting frameworks discussed above, we argue that institutional diversity among host countries within an MNE's subsidiary portfolio negatively affects ESG disclosure through the following mechanisms. Institutional diversity creates conflicting stakeholder expectations. Prior studies show that stakeholder diversity can increase conflicts and paradoxes that firms may struggle to manage (Jæck, Marais, Joly, & Preuss, 2024). When firms attempt to address such complexity, monitoring and coordination costs tend to increase (Lubell, Mewhirter, Berardo, & Scholz, 2017). Since ESG reporting requires standardized data collection across organizational units, institutional diversity makes it more challenging for firms to harmonize ESG reporting systems (Fourati, Zenaidi, & Jeriji, 2025; Goerzen, Van Assche, Zhan, & Zhang, 2025). As a result, firms may limit ESG disclosure in order to reduce reporting complexity and administrative burdens. Based on the justification presented above, we propose the following hypothesis:

H2: Institutional diversity of host countries is negatively associated with MNEs' ESG disclosure

The moderating effect of host country institutional diversity

While providing important insight, literature showed certain degree of inconsistency regarding how CEO ownership affects firms' disclosure. Agency theory postulates that firms could use managerial compensation and ownership as a mean to align principal and agency interests (Nyberg, Fulmer, Gerhart, & Carpenter, 2010), however, executive compensation and ownership could cause managerial entrenchment (Kumar & Zattoni, 2014). To analyze the dual effect of executive ownership, we would like to investigate possibility of moderating role that may serve as boundary condition; specifically, the moderating role of institutional diversity of host country on the negative association of CEO share ownership and ESG disclosure.

Literature show that effectiveness of corporate governance mechanisms (e.g., executive compensation and ownership) intertwined with the institutions or environments surround the firms. La Porta, Lopez-de-Silanes, Shleifer, and Vishny (2000) illustrated how investor protection law enhance corporate governance reform. Institutions surrounding firms also could determine or limit managers' strategic choice to achieve competitive advantage (Ingram & Silverman, 2002). Some of empirical works that support this claim are Clougherty (2005) who investigated role of institutional factors on domestic merger, Lewin and Kim (2004) on organizational innovation, and even Peng, Lee, and Wang (2005) on scope of the firm. Lastly, disclosure strategy is largely voluntary and legitimacy-driven, which means it is strongly influenced by external institutional pressure (Solimene et al., 2025). Therefore, effect of internal governance mechanisms on disclosure may depend on institutional conditions, especially of the host countries.

We also refer to managerial entrenchment theory to explain the moderating mechanism of the respective variables. As explained in previous paragraphs, institutional diversity could increase institutional complexity. Under complex institutional environment, stakeholders will struggle to monitor and maintain firm behavior consistently across subsidiaries (Kostova & Zaheer, 1999; Larson, Measham, & Williams, 2010). When CEOs' ownership is high, it cause CEO to possess power and discretion (Daily & Johnson, 1997). The complexity and diversity of host countries' institutions is predicted to reduce effective monitoring, which cause entrenched CEOs even to further limit firms' disclosure. Additionally, since ESG disclosure require standardized reporting across subsidiaries, meanwhile institutional diversity cause higher cost of coordination, entrenched CEOs may prefer simpler or even fewer ESG disclosure. In conclusion, we propose that host-country institutional diversity will amplify the negative association between CEO share ownership and ESG disclosure. Therefore, the proposed hypothesis is:

H3: Host-country institutional diversity negatively moderates the association of CEO share ownership and ESG disclosure; such that the negative effect becomes stronger when institutional diversity across host countries is higher.

METHODS

The sample of this study is U.S. MNEs that operates in multiple foreign countries. U.S is considered as country with large number of multinationals and accounting for 33% of global MNEs (Eurostat, 2024). The initial data collection was the screening of US firms with foreign subsidiaries. We checked the Wharton Research Data Service (WRDS) and recorded list of MNEs who have active foreign subsidiaries. Some MNEs changed their status to non-multinationals due to many reasons, and we excluded these firms from the sample. The next step was identifying which MNEs have ESG disclosure score. We checked the Bloomberg database and recorded list of MNEs who have ESG disclosure score. We restricted the observation period to 2019 – 2022 because this timeline provided the most extensive information on ESG disclosures. During that year, the amount of firms which disclose their ESG metrics were considered as the highest. The final result consists of 279 MNEs with 1116 firm-year observations.

For *ESG disclosure*, we measured it with ESG reporting score provided by Bloomberg. The disclosure score measure degree of firm's transparency in reporting ESG and sustainability achievements. The score is measured with 120 indicators across various range of ESG issues, such as energy consumption, water usage, and waste management. Bloomberg calculate the score based on firm's disclosure mechanisms (e.g., sustainability reports and/or annual reports).

For *institutional diversity of host countries*, we used the information of subsidiaries obtained from WRDS and manually listed location of subsidiaries for each MNEs. We then calculate the institutional quality of each host countries and then calculate the diversity of institutional quality—by calculating the standard deviation of the whole list of MNEs' subsidiaries. As a result, institutional diversity is measured in the firm level (MNEs' headquarter level).

To measure institutional quality, we used the World Governance Index by Kaufmann et al. (2011) who developed a governance index based on six dimensions of a country: voice and accountability, political stability, government effectiveness, regulatory quality, rule of law, and control of corruption. Each dimensions value score from -2.5 to 2.5. We then follow Tashman, Marano, and Kostova (2019) and aggregated these six scores with principal components analysis. The example of the calculation is presented in the Appendix. Lastly after obtaining one single score for each countries, we list host countries of each MNEs and calculate the standard deviation to measure diversity of the institutional quality.

For *CEO ownership*, we measured it by percentage of share ownership by CEO. The data is obtained from LSEG Refinitiv. We also controlled some firm's characteristics that were found to affect several aspects of ESG strategies. *Firm growth* was found to increase firm's degree of sustainability over-reporting (Kim & Lyon, 2014), as a result, we measured firm growth using sales growth (Coad, Segarra, & Teruel, 2016) and obtained it from Bloomberg. We also controlled firm size which measured with *number of employee* (Kumar, Rajan, & Zingales, 1999) and *total asset* (Doğan, 2013) which were obtained from Bloomberg. *Analyst coverage* is controlled, as it was shown to reduce sustainability reporting (Zhang, 2022). Analyst coverage is measured by amount/number of analysts that recommend to buy MNEs' shares and is obtained from LSEG. We controlled *capital intensity* as it was found to affects firms' ability to improve sustainability issues (Russo & Fouts, 1997). Capital intensity is measured by ratio of assets to total sales and the score is obtained from Bloomberg. We also controlled the existence of *sustainability committee* who are responsible for managing sustainability and ESG issues. We specifically use CSR committee—measured by dummy variable obtained from LSEG. The committee was empirically found to be important in various ESG strategies (Suttipun, 2021; Bifulco, Savio, Paolene, & Tiscini, 2023. Lastly, we controlled *operational revenue* taken from Bloomberg. Firm's revenue was found to boost efficiency and ESG performance (Xu & Wan, 2024).

To test the hypotheses of the study, we utilized a panel regression with a balanced dataset. Specifically, we use random effect with Mundlak correction. In the initial Hausmann test, it was found that the data is more suitable for fixed effects. However, since our theory concerns about structural exposure than short-term within-firm fluctuation, we estimate correlated random effects models following Mundlak (1978), which allow predictors to correlate with unobserved firm heterogeneity while preserving between-firm variation. As robustness test, we also analyzed the data by pooled OLS with year fixed effects and two-way fixed effects. To reduce the endogeneity issue (Zaefarian, Kadile, Henneberg, & Leischnig, 2017), we lagged the all the independent and control variables for one year. The following is the model estimation of the study:

$$\begin{aligned} Y_{it} = \alpha_{it-1} - \beta_1 InDiv_{it-1} - \beta_2 CEOO_{it-1} \\ + \beta_3 InDiv\ x\ CEOO_{it-1} \\ + \beta_4 CV_{it-1} + \varepsilon_{it-1} \end{aligned}$$

where *i* denotes MNE and *t* indicated the time; Y is the ESG disclosure (for MNEs *i* at time *t*), InDiv is the institutional diversity of MNEs' host countries (for MNEs *i* at time t-1). CEOO is the CEO share ownership (for MNEs *i* at time t-1) and CV is the control variables (for MNE *i* at time t-1).

RESULTS AND DISCUSSION

Table 1 below show the descriptive statistics of the variables in this study before standardization and the pairwise correlation results. Among the variables, the mean score of ESG disclosure ($\bar{x}$ = 52.99), total asset ($\bar{x}$ = 23.07), analyst coverage ($\bar{x}$ = 17.09), sustainability committee ($\bar{x}$ = 0.63), and operational revenue ($\bar{x}$ = 22.53) are larger than its standard deviation. The result indicates that the data of the respective variables are relatively concentrated around the mean and the variability is not extremely large compared to the average value. The minimum score of host country institutional diversity is zero, indicates that there are MNEs that have no variation at all in their subsidiaries. These MNEs usually only have one subsidiary located in the foreign country.

Table 1.
Descriptive Statistics (Before Standardization) and Correlation Matrix

Variables	Obs	Mean	Std.Dev	Min	Max	(1)	(2)	(3)
(1) ESG disclosure	1116	52.99	11.95	29.78	95	1.000		
(2) Host country ID[1]	1116	0.12	0.12	0	1.21	-0.055	1.000	
(3) CEO share ownership	1116	0.85	3.61	0	51.66	-0.059	0.008	1.000
(4) Firm growth	1116	8.90	22.45	-79.83	244.23	-0.000	0.004	0.039
(5) Employee	1116	35215.87	53137.77	132	375300	0.015	-0.032	0.017
(6) Total asset	1116	23.07	1.69	8.87	28.46	0.170*	-0.014	-0.027
(7) Capital intensity	1116	3.06	8.69	0.07	145.29	0.039	-0.016	-0.084*
(8) Analyst coverage	1116	17.09	8.83	0	46	0.043	-0.030	0.039
(9) Sustainability committee	1116	0.64	0.48	0	1	0.293*	0.018	-0.044
(10) Operational revenue	1116	22.53	1.43	18.13	26.62	0.145*	-0.014	0.134*
Variables	**Obs**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**	**(9)**	**(10)**
(1) ESG disclosure	1116							
(2) Host country ID[1]	1116							
(3) CEO share ownership	1116							
(4) Firm growth	1116	1.000						
(5) Employee	1116	0.129	1.000					
(6) Total asset	1116	0.129*	0.122*	1.000				
(7) Capital intensity	1116	-0.168*	0.046	0.159*	1.000			
(8) Analyst coverage	1116	0.076	0.111*	0.168*	-0.029	1.000		
(9) Sustainability committee	1116	0.049	0.003	0.093*	0.035	0.057	1.000	
(10) Operational revenue	1116	0.402*	0.213*	0.246*	-0.399*	0.255*	0.109*	1.000

**** p<0.01, ** p<0.05, * p<0.1*
[1]ID = Institutional diversity

Table 2.
Variance Inflation Factor

Variables	VIF
Host country ID[1]	1.02
CEO share	1.03
Firm growth	1.12
Employee	1.84
Total asset	5.51
Capital intensity	1.46
Analyst coverage	1.69
Sustainability committee	1.37
Operational revenue	5.95

[1]ID = institutional diversity

The range of the employee is quite large, with the minimum number of employee is 132 and the maximum score of 375300. This could resulted in highly-skewed data, and therefore for the analysis process, we calculated the ln score of employee to compress extreme large values and reduce skewness of the data. The mean score of sustainability committee ($\bar{x}$ = 0.63) indicates that approximately there are about 63% of the samples who have sustainability committee within the firm. The pairwise correlation results and the VIF scores (Table 2) indicate that there are no severe correlation issue.

Table 3 shows the results of the regression, with Model 1 includes only the control variables. Almost all control variables are significant, except capital intensity and analyst recommendation. Firm growth (β = -0.029, p < 0.05) shows a negative effect and

Table 3
Result of random effect panel regression

Variables	Model (1)	Model (2)	Model (3)	Model (4)
Firm growth	-.029**	-.028**	-.029***	-.029***
	(.011)	(.011)	(.011)	(.011)
Employee	.097**	.095**	.092**	.091**
	(.04)	(.04)	(.04)	(.04)
Total asset	.013	.01	.011	.011
	(.056)	(.054)	(.055)	(.054)
Capital intensity	-.006	-.006	-.008	-.008
	(.025)	(.025)	(.025)	(.025)
Analyst recommendation	.049	.049	.048	.049
	(.04)	(.04)	(.04)	(.04)
Sustainability committee	.154***	.154***	.155***	.156***
	(.031)	(.031)	(.031)	(.031)
Operational revenue	.315***	.321***	.319***	.313***
	(.064)	(.063)	(.063)	(.063)
CEO share ownership (CEOO)		-.029***	-.028***	-.06***
		(.009)	(.009)	(.019)
Host country institutional diversity (InDiv)			-.048***	-.042***
			(.013)	(.014)
CEOO x InDiv				.055**
				(.024)
_cons	-1.254***	-1.229***	-1.197***	-1.188***
	(.391)	(.393)	(.391)	(.389)
Observations	1116	1116	1116	1116
Within R^2	0.308	0.309	0.311	0.311
Between R^2	0.429	0.432	0.438	0.441
rho	0.814	0.814	0.814	0.813

Standard errors are in parentheses
**** p<.01, ** p<.05, * p<.1*

may support the brownwashing logic (Huang, Francoeur, & Brammer, 2022). According to the logic, firms may deliberately under-report sustainability performance to avoid scrutiny. Among constructs of firm size, only number of employee (β = 0.097, $p < 0.05$) have significant effect. Although both number of employee and total assets are widely accepted proxies for firm, they may capture different organizational characteristics in sustainability study. Operational revenue (β = 0.315, $p < 0.01$) shows positive significant result on ESG disclosure, which supports slack resources theory (Ullmann, 1985; Waddock & Graves, 1997). According to the theory, firms with higher revenue typically have more financial resources and it allows firms to prepare more extensive ESG disclosure. Lastly, sustainability committee (β = 0.154, $p < 0.01$) shows a positive effect on ESG disclosure, which support the agency theory.

Model 2 and 3 shows the effect of each predictors on ESG disclosure. CEO share ownership (β = -0.029, $p < 0.01$) show a consistent negative effect on ESG disclosure, provide a support for H1 and to entrenchment theory. Host country institutional diversity (β =

Table 4.
Conditional analysis of different level of host country institutional diversity

Level of host country institutional diversity	Effect of CEO ownership on ESG disclosure	Standard errors	p-value
Low (-1.00082)	-0.115	0.040	0.004
Average (-0.00086)	-0.060	0.018	0.001
High (0.99910)	-0.005	0.015	0.701

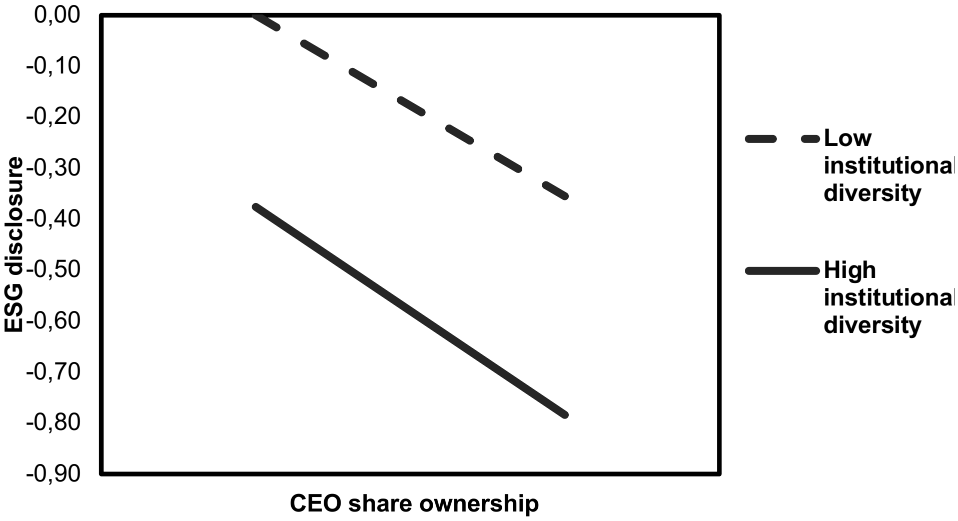

Figure 1. Interaction plot of CEO share ownership and host country institutional diversity

-0.048, p < 0.01) also show a negative effect on ESG disclosure, and therefore provide a support for H2 and to institutional complexity theory. Lastly, Model 4 shows a significant moderating effect of institutional diversity on the association between CEO share ownership and ESG disclosure (β = 0.055, p < 0.05), therefore H3 is supported. The interaction plot (Figure 1) shows a negative slope of both lines—indicates a consistency that higher CEO ownership is associated with lower ESG disclosure. Furthermore, the relationship becomes stronger under high institutional diversity. Specifically, firms operating in more institutionally diverse environments exhibit lower predicted ESG disclosure, particularly when CEO ownership is high. In conclusion, institutional diversity amplifies the negative effect of CEO ownership on ESG disclosure

To further check at what level of host country institutional diversity matters as moderator, we conducted a conditional analysis checking (Table 4). Table 4 shows that the effect of CEO ownership on ESG disclosure is not significant when host country institutional diversity is high, but becomes significant when host country diversity is at average (β = -0.06, p < 0.05) and low level (β = -0.115, p < 0.05).

Robustness test

This section report the robustness analysis, specifically the pooled OLS with year fixed effects. Table 5 presents the result of pooled OLS and all hypotheses in the main framework remain significant. Based on the robustness test, we conclude that institutional diversity consistently exhibits a significant negative association with ESG disclosure and the effect is robust to different estimation approaches.

CONCLUSION

Our study investigates how MNEs' exposure to diverse institutional environments and internal governance structures shape ESG disclosure practices. Using panel data analysis with correlated random-effects estimation and additional robustness analyses, the findings reveal that both host-country institutional diversity and CEO ownership are negatively associated with ESG disclosure, while institutional diversity also conditions the effect of CEO ownership. These results suggest that firms operating across heterogenous institutional environments may face conflicting regulatory and stakeholder expectations, which can increase coordination and legitimacy challenges and ultimately discourage extensive ESG disclosure.

Table 5
Result of pooled OLS with year fixed effects

Variables	Model (1)	Model (2)	Model (3)	Model (4)
Firm growth	-.038	-.037	-.039*	-.039*
	(.023)	(.023)	(.023)	(.023)
Employee	.001	.003	-.002	-.007
	(.028)	(.028)	(.028)	(.028)
Total asset	-.121**	-.124**	-.116**	-.117**
	(.051)	(.051)	(.051)	(.051)
Capital intensity	-.014	-.014	-.017	-.017
	(.023)	(.023)	(.023)	(.023)
Analyst recommendation	.14***	.139***	.137***	.139***
	(.028)	(.028)	(.028)	(.028)
Sustainability committee	.686***	.685***	.683***	.676***
	(.053)	(.053)	(.053)	(.053)
Operational revenue	.479***	.474***	.466***	.469***
	(.059)	(.059)	(.059)	(.058)
CEO share ownership (CEOO)		-.043**	-.043*	-.053**
		(.022)	(.022)	(.022)
Host country institutional diversity (InDiv)			-.071***	-.069***
			(.022)	(.022)
CEOO x InDiv				.078**
				(.032)
_cons	-.62**	-.637**	-.585**	-.532**
	(.271)	(.271)	(.27)	(.271)
Observations	1116	1116	1116	1116
R-squared	.475	.477	.482	.485

Standard errors are in parentheses
**** p<.01, ** p<.05, * p<.1*

This study makes several contributions to the literature. *First*, it extends institutional complexity theory by showing the negative effect of institutional diversity on ESG disclosure. *Second*, it contributes to the corporate governance literature by showing CEO ownership could negatively influence ESG disclosure and highlight the potential role of managerial entrenchment. *Third*, it connects institutional perspective and corporate governance research by illustrating how institutional complexity shapes role of governance mechanisms.

Fourth, as practical contribution, this study provides evidence on the importance of strategically managing subsidiary portfolio arrangements. Firms with greater subsidiary diversity may exhibit lower levels of ESG disclosure; accordingly, such firms may reduce the CEO power to prevent further deterioration in ESG disclosure. The finding also provide empirical evidence that there should be a global harmonization of ESG standards. As MNEs face diverse institutional environments that create challenges and reporting complexity, governing body—such as SEC (Securities and Exchange Commision) of U.S—should try to simplify or to ensure interoperability between reporting mechanisms across jurisdictions. Additional recommendation is to develop ESG disclosure guidance that is cater specifically for multinational enterprises who have wider and more diverse operating jurisdiction.

This study has several limitations and opportunities for future research. *First*, the analysis focuses on institutional diversity based on host-country institutional quality, which captures the heterogeneity of institutional environments but does not fully account for other dimensions, such as cultural norms. Future studies could incorporate broader institutional indicators. *Second*, the study examines CEO ownership as key governance mechanism; however, other managerial governance characteristics (e.g., ownership concentration or institutional investors) may also influence ESG disclosure.

Future study could explore how multiple governance mechanisms jointly shape firms' disclosure strategy. *Third*, the relatively short panel period limits the ability to capture long-term changes in institutional environments and disclosure strategies. Longitudinal studies with longer time horizon could provide deeper insight into the dynamic relationship between institutional complexity, governance structure, and ESG disclosure.

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