CHAPTER I

INTRODUCTION

1.1 Background

With the growing global focus on sustainability and corporate social responsibility, the concept of Environmental, Social, and Governance (ESG) has become an increasingly important part of modern business strategies. Attention to non-financial information provided by companies has significantly risen in recent years, particularly in the fields of accounting and sustainability (Helfaya et al., 2023). Companies are now facing demands from various stakeholders to disclose information regarding their environmental, social, and governance (ESG) performance, reflecting their responsibility for the social and environmental impacts of their operations (Muñoz-Torres et al., 2019).

The term ESG (Environmental, Social, and Governance) was first introduced in 2004 in the "Who Cares Wins" report published by the United Nations Global Compact. The main purpose of introducing this concept is to encourage companies around the world to consider ESG factors in their financial market activities, such as investment decisions and business strategies (Swiss Federal Department United Nations of Foreign Affairs & United Nations, 2004). ESG is considered a development of the concept of Corporate Social Responsibility (CSR), which was previously widely known. The difference is, ESG has a more comprehensive scope, because it does not only focus on corporate social responsibility, but also highlights other important issues such as good corporate governance and the environmental impact of daily business operations (Aboud & Diab, 2019).

With increasing public awareness of the importance of social and environmental responsibility, the pressure on companies to act more transparently is also increasing. The public and stakeholders now demand that companies openly disclose how they handle environmental issues, employee welfare, and how they manage their internal governance. To meet these demands, companies have begun to implement more transparent and open sustainability strategies. One way companies demonstrate this transparency is by disclosing their ESG information publicly, so that the public can see and evaluate the steps taken by the company in addressing important issues related to sustainability (Raimo, Caragnano, et al., 2021).

Disclosure of ESG information is not only beneficial to the public, but also serves as an important reference for investors who want to make more responsible and sustainable investment decisions. Investors increasingly rely on ESG data to assess the long-term risk and sustainability of a company. Thus, companies that openly share their ESG information tend to be viewed more positively by the market and have a higher appeal to investors (Arif et al., 2021; Raimo, Vitolla, et al., 2021).

Climate change and social issues, such as poor working conditions and safety violations, have driven an increased awareness of ESG disclosure. This is particularly relevant in the business climate context of ASEAN, where differences in culture, regulation, and levels of economic development create unique challenges in the implementation and reporting of ESG (Moussa et al., 2022). ESG investment in

ASEAN has been on the rise since the COVID-19 pandemic, reflecting growing awareness of sustainability issues (Oxford Business Group, 2021) . ESG frameworks play a key role in this trend by encouraging companies to disclose their environmental and social risks, enabling investors to make informed decisions while holding companies accountable for their sustainability efforts. ESG ratings, which are determined using a combination of quantitative data and qualitative assessments by analysts, provide scores in various categories as well as an overall rating for each company, helping investors evaluate their ESG performance (Abdelkader et al., 2024; Helfaya et al., 2023; Song, 2024).

In Southeast Asia, six main countries—Singapore, Malaysia, Thailand, Vietnam, Indonesia, and the Philippines—are working harder to improve ESG (Environmental, Social, and Governance) reporting in their company reports. Singapore requires listed companies to create annual sustainability reports using a global framework. Malaysia needs companies to include statements about managing economic, environmental, and social risks. Thailand promotes sustainability reporting based on local and international standards, and Vietnam asks public companies to report their environmental and social impacts according to GRI guidelines. In Indonesia, since 2020, companies must make sustainability reports following OJK rules and submit a Sustainable Finance Action Plan. The Philippines also requires companies to provide sustainability information in their annual reports, with penalties for those that don't comply. Among these countries, Thailand has the best ESG performance, while Vietnam and Indonesia face more risks because they are involved in high-risk industries like mining and oil, and their management is not as effective (Pan, 2021)

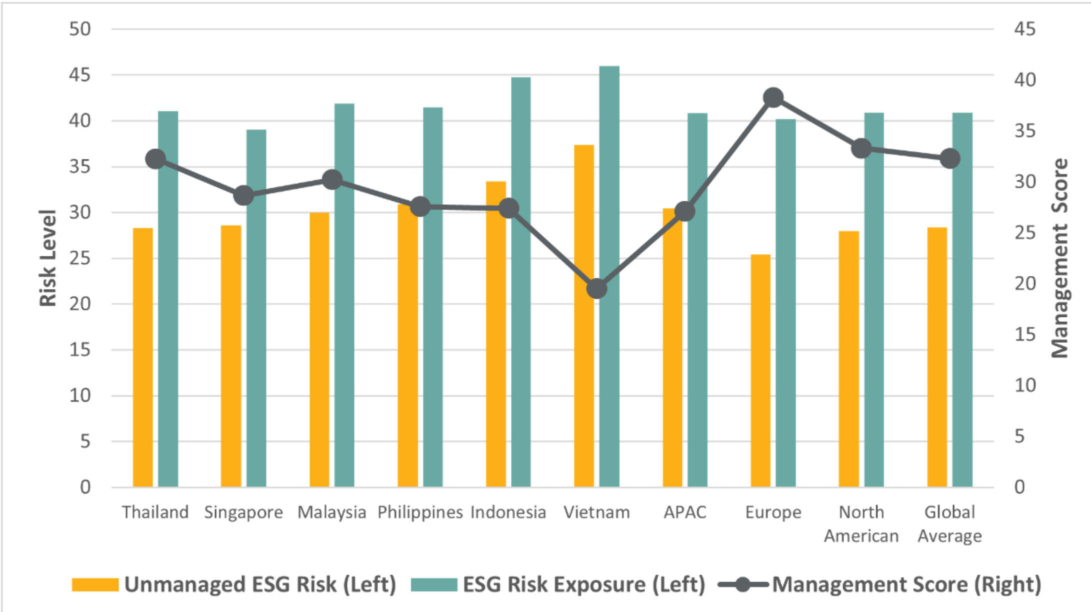

Figure 1.1 ESG In ASEAN Comparison

Source: Sustainanalytics

This graph shows the comparison of ESG (Environmental, Social, and Governance) risk management in ASEAN countries, including Thailand, Singapore, Malaysia, the Philippines, Indonesia, and Vietnam. Thailand appears to be the best at managing ESG risks, with high management scores and lower unmanaged risks. Singapore and Malaysia have high-risk exposure but reasonably good management capabilities, while the Philippines and Indonesia show greater unmanaged risks with inadequate management. Vietnam faces very high ESG exposure, but its risk management is still low. In comparison, Europe and North America demonstrate better

ESG risk management, while the Asia-Pacific (APAC) region as a whole has higher risks, similar to ASEAN countries (Pan, 2021).

In the ASEAN region, ESG disclosure practices still vary, influenced by different regulatory frameworks and the significant role of national culture in managerial decision-making (Muttakin et al., 2022; Shin et al., 2023). Moreover, national cultural dimensions, such as power distance and collectivism, have been shown to impact how companies disclose ESG-related information (Muttakin et al., 2022; Shin et al., 2023). Thus, culture plays a crucial role in shaping disclosure behaviors.

In addition, ESG disclosure is important not only for risk management but also for informing investment decisions. For instance, according to the Governance and Accountability Institute, 86% of companies in the S&P 500 index released sustainability reports in 2018, showing a significant rise in ESG reporting. This demonstrates that ESG information has become an effective communication tool for stakeholders. Similarly, in Asia, awareness and adoption of ESG metrics are on the rise. An HSBC survey highlights that pressure from employees and regulatory environments are key drivers of ESG attention. Notably, companies in the Asia-Pacific region are particularly strong in disclosing social aspects of ESG. Furthermore, public support for biodiversity protection in countries like Indonesia, Malaysia, and the Philippines emphasizes the relevance of nature-based strategies and green finance, not just for investors but also for sustainability (Economist Impact, 2022)

On a related note, sustainability reports provide information not typically covered by conventional financial statements, such as emissions, waste, human rights, and corporate governance (Fahad & Rahman, 2020; Galletta et al., 2022; Helfaya et al., 2023). Therefore, these disclosures benefit a broad range of stakeholders, including governments, investors, suppliers, employees, and customers (Muttakin et al., 2022). As companies enhance their ESG disclosures, they are expected to reduce risks and improve financial performance through lower capital costs linked to non-financial information disclosures (Muttakin et al., 2022).

Furthermore, CSR orientation—defined as the board's commitment to integrating social responsibility into decision-making and business strategy—plays a critical role in ESG disclosure. Boards with a CSR orientation not only focus on financial performance but also ensure the company acts responsibly toward sustainability and stakeholder engagement (Helfaya et al., 2023). An important aspect of CSR orientation such as gender diversity on the board, where research shows that boards with greater gender diversity tend to exhibit better ESG performance (Manita et al., 2018). Additionally, board independence and financial expertise in the audit committee are vital for ensuring transparency and accuracy in CSR disclosures (Raimo, Vitolla, et al., 2021).

Moreover, the concept of board CSR strategies involves applying CSR principles to strategic decision-making, aligning corporate operations with long-term sustainability goals (Helfaya & Moussa, 2017). Recent studies emphasize that board characteristics, governance practices, and cultural influences significantly affect the quality of ESG disclosures. For example, Helfaya et al. (2023) found that boards focused on CSR and following Global Reporting Initiative (GRI) guidelines help improve transparency in ESG disclosures across Europe, particularly in countries with individualistic cultures and a high quality of life. However, as Helfaya & Moussa (2017) observed, the presence of a CSR-focused board does not always increase the volume of information disclosed unless a dedicated CSR committee is established.

In Southeast Asia, the Global Reporting Initiative (GRI) plays a pivotal role in promoting sustainability reporting, especially concerning ESG criteria. With an increasing number of companies in Singapore, Malaysia, and the Philippines adopting GRI Standards, transparency regarding ESG impacts has grown significantly. According to Eelco van der Enden, CEO of GRI, these frameworks enable companies to manage sustainability risks while fostering accountability to stakeholders. Moreover, the establishment of GRI's office in Singapore in 2019 reflects a commitment to unlocking Southeast Asia's sustainability potential amid rapid economic growth and vulnerability to climate change (Global Reporting Initiative, 2023)

Finally, when considering national cultural dimensions, as identified by Hofstede, societal values and norms provide insight into corporate practices. For instance, collectivist cultures may prioritize socially responsible practices, while individualistic cultures tend to focus more on the financial gains from ESG disclosures. Recent studies highlight the significant influence of national cultural dimensions on ESG disclosure practices. Cultures with high individualism and masculinity tend to see stronger financial returns from ESG efforts, while high power distance and uncertainty avoidance weaken these benefits (Shin et al., 2023). Democratic nations often show lower greenhouse gas emissions, but cultures with high uncertainty avoidance still struggle with sustainability (Muttakin et al., 2022). Additionally, board gender diversity's impact on CSR performance is stronger in countries with "tender" cultural traits (Kamran et al., 2023). These findings underscore the importance of culture in shaping corporate ESG strategies.

To control for factors that may influence a company's sustainability practices, this study includes firm age, board size, and board meeting as control variables. Firm age refers to the number of years since the company was established, with older companies often focusing more on sustainability and corporate social responsibility (A. A. Zaid et al., 2020). Firm age is commonly measured using the natural logarithm (ln) to address the diminishing impact of additional years on sustainability practices (A. A. Zaid et al., 2020). Board size, or the number of directors on the board, enhances the diversity of perspectives and expertise, thereby strengthening decision-making related to CSR (Helfaya et al., 2023; Husted & Sousa-Filho, 2019). Meanwhile, board meeting refers to the frequency of annual board meetings, with more frequent meetings providing better oversight and discussions on ESG issues (Abdelkader et al., 2024; Al-Mamun & Seamer, 2021).

In conclusion, this research emphasizes the importance of understanding the various factors that influence ESG disclosure, particularly in relation to board characteristics, governance practices, and cultural differences. It aims to explore how aspects like board orientation, strategy, global reporting standards, and national culture affect ESG practices in ASEAN countries. The findings are expected to offer valuable insights into how companies approach sustainability reporting in different regulatory and cultural environments.

1.2 Research Questions

The problem formulation of this study includes the following questions:

1. Does Board CSR Orientation affect ESG disclosure in ASEAN?
2. Does Board CSR Strategy affect ESG disclosure in ASEAN?
3. Does the Global Reporting Initiative affect ESG disclosure in ASEAN?
4. Does the national cultural dimension of individualism affect ESG disclosure in ASEAN?
5. Does the national cultural dimension of femininity affect ESG disclosure in ASEAN?
6. Does the national cultural dimension of low uncertainty avoidance affect ESG disclosure in ASEAN?

1.3 Objectives of the Research

The research aims to achieve the following objectives:

1. To determine the effect of Board CSR Orientation on ESG disclosure.
2. To determine the effect of Board CSR Strategy on ESG disclosure.
3. To determine the role of the Global Reporting Initiative (GRI) in ESG disclosure.

4. To determine the influence of the national cultural dimension of individualism on ESG disclosure.
5. To determine the influence of the national cultural dimension of femininity on ESG disclosure.
6. To determine the influence of the national cultural dimension of low uncertainty avoidance on ESG disclosure.

1.4 Contribution of the Research

The contributions of this research include:

1. Theoretical Contribution

   This study contributes to the existing literature by enhancing the understanding of how board characteristics and national cultural dimensions influence ESG practices, particularly in the context of ASEAN disclosure. This study strengthens the relationship between the theories used in this study. This study is expected to provide valuable insights into the factors that shape corporate decisions regarding ESG disclosure.

2. Practical Contribution.

   The findings of this study offer valuable guidance for managers and decision-makers, emphasizing the importance of integrating CSR and ESG strategies into their business operations while considering the influence of national culture. Companies within ASEAN can leverage this research to create more transparent policies that align with international standards, such as GRI, thereby improving their attractiveness to investors and stakeholders.

Furthermore, the study provides recommendations for policymakers to formulate more effective policies that promote ESG disclosure, taking into account the cultural nuances present in each ASEAN country.

1.5 Scope of the Research

This study aims to analyze the factors influencing Environmental, Social, and Governance (ESG) disclosure in ASEAN countries, focusing on the roles of board CSR orientation, board CSR strategy, the Global Reporting Initiative (GRI), and national cultural dimensions.