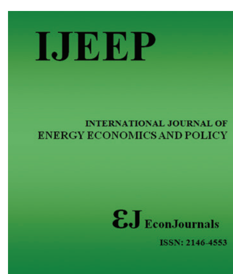

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Disclosure of Environmental, Social, and Governance on Firm Performance Pre and Post Introduction of Integrated Reporting: Evidence from ASEAN Countries

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ABSTRACT

The debate among researchers is still on-going regarding the impact of ESG on firm performance. Therefore, this study aims to investigate the effect of Environmental, Social, and Governance (ESG) Disclosure towards Firm Performance in ASEAN countries before and after Integrated Reporting (<IR>) introduction. Also, this study aims to explore the <IR> whether it moderates the relationship between ESGD and FP. This study focused on ASEAN countries with the selected sample criteria using purposive sampling technique. The 190 samples are obtained from Thomson Reuters from 2006 to 2020 (exclude 2013) obtained from Stock Exchange of each country. The researcher uses multiple linear regression analysis with the fixed effect model. Due to having heteroscedasticity, the regression needs to be standardized by using Robust Standard Error. The findings indicate that the ESG Disclosure has insignificant impact to the Firm Performance although the coefficient shows the positive sign. The second findings are <IR> does not moderate the ESGD and FP however their relationship shows positive relationship. Although the result is not significant, the positive relationship may indicate that companies who implement <IR> have better firm value and improved in firm performance.

Keywords: ESG Score, Firm Performance, Integrated Reporting, Tobin's Q
JEL Classification: G18, C23, F64, G30, M14, M41

1. INTRODUCTION

The impact of ESG disclosure is still a debate among researchers whether ESG disclosure can improve firm performance. Research conducted by Albitar et al. (2020) and Triyani et al. (2020) found results that ESG will improve and has positive impact on firm performance, but these results are contradictory to Junius et al. (2020) and Fatemi et al. (2018) that found ESG had no effect on firm performance. In response to that, firm orientation is starting to shift from being profit oriented to stakeholder oriented that more aware towards environmental and social responsibility. The trend of sustainability is rapidly growing in the past few years throughout the global companies and organizations around the world. Those rapid growing is due to companies realize that ESG disclosure is very important in portraying their good reputation and value of firm when there are meetings about challenging sustainability issues for their stakeholders (Luqyana, 2021).

ESG can be defined as environmental, social, and governance. The disclosure of ESG on a firm offer opportunities to understand non-financial information of a firm. Non-financial information includes environmental aspect, social aspect, and governance aspects. As investors and many stakeholders concerned related to environmental aspects, firm must adopt long term and sustainable value regarding how they conduct their business in accordance to help environment safety (Atan et al., 2018). The concern of stakeholders related to environmental aspect of a firm might include natural protection, climate change, and environmental concern related to the business operation of a firm. Moreover, stakeholders are concerned to social aspect such as human rights,

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diversity in the workplace, and society contribution. Stakeholders are questioning about a firm contribution to society that will increase their value of a firm. Further, stakeholders are concerned about the governance aspect includes board structure, ownership concentration and minority shareholder's right. Investors and stakeholders may reflect to their governance aspect as they would like to invest in a firm. By the drivers of the ESG, the performance of the firm not only be measured by the profits earned by the firm, but also measured by how much the firm contributes to environmental sustainability and the welfare of the surrounding community.

In this era, there is increasing recognition that the adoption of ESG principles creates shareholder value, generates positive publicity, enhances the reputation of the company and opens up access opportunities for new capital (Oxford Business Group, 2021). According to Annisa and Hartanti (2021), there are increasing number of firms that disclosed their ESG from 48 firms increased to 12,075 at the end of 2017. It means that the stakeholders start to be aware of ESG effects on firm performance and consider the ESG disclosure to make decision making on the economic activities. Since 2000, many developed countries in the Western have required their firms to disclose their relevant ESG information. For instance, since 2001, France has required all listed companies to disclose information related to environmental and social issues in their annual reports (Wu and Hąbek, 2021). Some companies disclose environmental, social, and governance as a signaling mechanism to gain a good reputation and legitimacy from stakeholders by integrating the focus of attention on social and environmental issues into business operations and interactions with stakeholders (Wood, 2010).

For Southeast Asia, especially ASEAN countries, it is relatively late for requiring companies to disclose related to environmental, social, and governance information compared to developed countries in Europe. The requirement for ASEAN ESG disclosure was issued starting from 2002 that was regulated in Thailand (NUS Business School, 2020). ASEAN formally recognized ESG as a priority in 2015 evidenced by the ASEAN Socio- Cultural Community Blueprint 2025.

Linking to the ESG disclosure, the introduction of <IR> that was introduced by the International Integrated Reporting Council (IIRC) on 9 December 2013 has attracted all jurisdiction, practitioners, and academics (Velte and Stawinoga, 2017). The increasing interest on <IR> drives the number of companies producing integrated report over the past five years including increasing the number of academic contributions written on the <IR> topic (Dumay et al, 2016). International Integrated Reporting Council defined <IR> as a concise communication regarding the strategy, governance, prospects, and performance of organization in the context of external environment that lead to value creation in long-term basis (IIRC, 2016). The IIRC is an international partnership of regulators and accounting standards setter that share regarding perspective that communication about creation of value should be the next strategy in the corporate reporting evolution (IIRC, 2013). Hence, <IR> includes non-financial information on the environmental, social, and governance aspects which are integrated with the financial information. Non-financial information in the corporate perspective includes value that differentiate their brand with the competitor and followed with the objective of communicating more value creation. Furthermore, the <IR> evolution that brings benefits for firm, led some international firms including the United Kingdom, Germany, South Africa, etc. to adjust and follow the IIRC's reporting regulations and policies (Fernando et al., 2018). It is also happening in ASEAN countries which stakeholders start to pay attention to sustainability and respond to the demand of the comprehensive reporting framework (Pratama and Pei, 2021). According to an article that was post released by AFA (2021), it emphasizes the significance of starting early and progressing gradually as firms shift into the integrated thinking required to effectively implement <IR>. Transparent assessment and the sustainability performance disclosure such as <IR> which includes both financial and non-financial information, is widely seen as a critical component of company communication to stakeholders about its value creation.

This research aims to explore environmental, social and governance disclosure (ESGD) effects on firm performance (FP) pre and post of introduction. Furthermore, the second aim is exploring potential moderation effects of towards firm performance. This research is expected to answer the main questions addressed by using the independent variables in the research problem with regression analysis. Finally, the findings from the results of this study are expected to provide an understanding of the effect of the ESG Disclosure on Firm Performance in ASEAN Countries before and after introduction. Besides that, the findings are also expected to give an overview and provide the relationship between ESG Disclosure and the voluntary disclosure of <IR> in ASEAN.

2. LITERATURE REVIEW

In this study, we use stakeholders, legitimacy, and signaling theory as the main point to explain the relationship and impact between ESG Disclosure and Firm Performance. Stakeholders are groups or individuals who can influence or be influenced by the process of achieving the goals of an organization. The term stakeholder was introduced in 1963 by the Stanford Research Institute and is defined as a group that can provide support for the existence of an organization (Harmoni, 2013). Stakeholder theory illustrates that companies are not only responsible for maximizing profits for owners and investors but are also responsible for providing benefits to society, the social environment, and the government. Companies must maintain relationships with stakeholders or accommodating the stakeholders needs (Hörisch et al., 2014). In that case, ESG report can be issued by maintaining relationship with stakeholders to protect interest of each party (Hörisch et al., 2014).

The legitimacy theory states that the organization is part of the social system of society and seeks to create harmony between social values and norms that exist in society (Dowling and Pfeffer, 1975). Regarding the previous statement, the company will gain recognition for the value creation and norms owned by the company with those of the community where this will have an impact on the firm sustainability and improve firm performance. It means that the legitimacy theory emphasizes that the company

must protect their operational activities that implied company is exist within norms applied in the society. Legitimacy can be described and expressed as the recognition of a company towards community aims to obtain trust and maintain company's future (Deegan, 2002). Thus, legitimacy theory focuses on social contract between company and society. In this case, the company are responsible to pay attention to their surroundings includes society in their business operations, environmental aspect in their business operations area (Deegan, 2022).

In addition, signaling theory suggest how company should give signals to users of financial statement. According to a signal theory, the activities of the company provide information to investors about the prospect of the returns. Information as a signal announced by the management to the public that the company has the good prospect in the future (Susilowati and Turyanto, 2011). Type of information released by the company, can be the signal for the stakeholder especially for investor. Information that disclosed in the report can give the stakeholders insight related to the market condition and the future of the company.

Disclosure of social and environmental information is a communication between the company and the stakeholders involved. The company provide information disclosure on the company's business activities to be able to change the perceptions and expectations of stakeholders. In addition, the company also uses ESG disclosure as a tool to gain strong legitimacy of the community and all stakeholders. Refer to previous explanation, it is expected to create a good image for the company of a disclosure made. The support provided by stakeholders to the company will affect the condition of the sustainability and resilience of a company (Ghozali and Chariri, 2007) as cited in (Haninun and Nurdiawansyah, 2014). The result of the study shows that a positive ESG score is believed to lead to greater asset returns (Buallay, 2019). In line with the stakeholder theory and the legitimacy theory that have been described previously, the company must provide benefits to all company stakeholders and must be in accordance with the values and social norms that develop in the community. For this reason, the company seeks to disclose comprehensive information about the company by disclosing ESG information with the aim that the company is having a positive value towards stakeholders (Table 1). The stakeholders can join as users of the products issued by the company or can become fund supporters where this is part of the form of support provided. The company will be able to increase the company's working capital as well as improve its operations that it has an impact on increasing the profit on sales of the company's products. Thus, ROA will increase with the increase on profit of the company. Based on the previous description, the hypothesis that will be propose is ESG Disclosure has positive and significant impact on Operational Performance (ROA)

In recent years, the research related to firm performance is many observed especially in ESGD. However, some researchers are inconsistent with the results of the study. According to Qiu et al. (2016), some researchers could not find any relationship between ESGD and FP. Yoon et al. (2018) confirmed that ESGD could increase the firm's costs and decrease competitive disadvantage. Meanwhile, others confirmed that ESGD may positively influence FP in both direct and indirect ways which potentially increase competitive advantage and increase firm value (Bernardi and Stark, 2018).

Table 1: ESG information

Color	Information
Environmental	Criteria of environmental refer to impact on the environmental of an organization and risk management practices. These can be included greenhouse gas emission, climate risk, and natural resources
Social	The social aspect refers to relationships of organization to society and stakeholders. For example, human capital management metrics that can impacted on communities
Governance	The governance pillar refers to how company managed and led by their Board of Director. It provides transparency and accountability of how their leadership of the BoD can influence the organization

Source: Boffo and R. Patalano (2020)

An ESG disclosure containing environmental, social, and corporate governance practices is a signal that the company can give to investors. The company will try to provide the best information about the condition of the company as a positive signal addressed to investors. Tobin's Q is a ratio that can reflect the value of company a measurement of a company's performance. An increase in stock prices for non-financial disclosure information as a company signal can affect the value of the company improve. Cecilia et al. (2015) explained that the market reaction was marked by changes in the price and volume of stock trading on the signals given by the company. If the signal given by the company is good, the market reaction will have impact on increasing trading volume which causes stock prices to increase that will also have an impact on increasing the value of the company. When the company has a high value in the market then it will be in line with the company's performance will increase (Buallay, 2019). Based on this description, the hypothesis will be proposed is ESG Disclosure has positive impact on Market Performance (Tobin's Q).

Integrated reporting is gaining more attention since it was released in 2013 by IIRC. However, empirical study in this area is not having momentum yet (Lai et al., 2017). In this era, firm can have better perspectives and understanding related to their value drivers and strategic goals by engage in ESG and (Yap, and Ng, 2018). Therefore, linking ESG disclosure with financial reporting using can provides improved information and understanding of the firm to stakeholders (Bernardi and Stark, 2018). By referring to those past study, there is potential relation between ESG Disclosure and Firm Performance with the help of that make it more visible (Yoon et al., 2018). This paper assumes that the introduction of IR significantly affects ESGD which leads to FP. Based on that idea, the authors proposed this hypothesis development: Integrated Reporting moderates the ESG Disclosure and Firm Performance (FP) Relationship.

3. DATA AND EMPIRICAL FRAMEWORK

In this study, the authors selected 190 companies across ASEAN countries. This study employs non-financial listed firms from

2006 to 2020 (excluding 2013) in ASEAN Countries, which has ESG Score according to Thomson Reuters. The ASEAN countries were chosen as the subject due to previously there are no research conducted in ASEAN developing countries related to FP, <IR>, and ESG relationship. The researcher set the observation of data by using ESG Score. In conducting sample selection, this study uses a purposive sampling. The final selected subject is presented in Table 2. In addition, exclude 2013 has been decided to minimize the bias in measurement and analysis because 2013 is the first introduction of <IR> and its framework. We also exclude financial firms to avoid bias in our results as the financial industry is highly regulated and has different measurement in terms of Tobin's Q and other variables employ here. Lastly, we drop samples that did not meet our required criteria and did not provide relevant data in order to construct our variables, and thus, we have 190 firms with the total observations for 14 years will be 1,183 firm-year observations as our final sample. Our final sample selection criteria is provided in Table 3.

This research uses two dependent variables, ROA and Tobin's Q. While for the independent variable it consists of ESG Score, and the control variable are Firm Size and Leverage. Lastly, <IR> will be the dummy variable that moderates between ESG Score and Firm Performance. The authors use ROA as the first dependent variable to measure how efficient firm towards asset usage that will reflects on operational performance of the firm which also impacted to the firm performance (Buallay, 2018); Griffin and Mahon, 2018. For the second dependent variable is Tobin's Q. The majority of the research has confirmed that Tobins Q has valid measurement of Firm Performance. It reflects past performance and may predict future performance that reflects market performance (Dzahabiyya et al, 2020).

For the independent variable, the authors use ESG Score retrieved from Thomson Reuters that refer to previous study. ESG Score is the independent variable parameters measurement to measure whether ESG has impact towards firm performance. In this case, the ESGD score is obtained from Thomson Reuters with the range 0-100 (Nollet et al., 2016; Bernardi and Stark, 2018; Buallay, 2018). We utilize control variable to control the independent variable is accurate and not controlled by external variable that are not employs in this study. We utilize Firm Size and Leverage as the control variable (Bernardi and Stark, 2018; and Aboud and Diab, 2018).

Table 2: Selected sample in ASEAN countries

Countries	Data retrieved
Indonesia Philippines Malaysia Thailand Vietnam	ESG score, total debt, total assets, percentage of women on board, and some <IR>

Author's observation

Table 3: Final observation

Unit analysis	
Companies listed on each selected ASEAN countries (non-financial sector	2.935
Missing companies that do not have ESG Score	(2.745)
Final observation	190×14 = 1.183

The last variable that authors use is <IR> as dummy variable. IR is the dummy variable in this research. If the firm is preparing an IR and the report is available to stakeholders, it is equals to 1.

In estimating the result, this research will use the mathematical model used in the research of Lim et al. (2011) and modified by previous study as well as in this research. Below is the model that is used to test the hypothesis development:

3.1. Model I

ROA: $\beta0 + \beta1ESGS + \beta2Lev + \beta3LogFS + \epsilon$

ROA: $\beta0 + \beta1ESGS + \beta2IR + \beta3ESGS*IR + \beta4Lev + \beta5LogFS + \epsilon$.

3.2. Model II

TOBINS: $\beta0 + \beta1ESGS + \beta3Lev + \beta4LogFS + \epsilon$

TOBINS: $\beta0 + \beta1ESGS + \beta2IR + \beta3ESGS*IR + \beta4Lev + \beta5LogFS + \epsilon$.

This research is conducted using fixed effect model and robust standard error in order to reduced bias in the result presented.

4. EMPIRICAL RESULTS AND DISCUSSION

The descriptive statistic result are listed in the Table 4, which shows the total observation before and after 2013. The descriptive statistic before 2013 shows the total observation is 266 and the total observation after 2013 is 917.

Table 4 also shows the maximum score of ESG Score that is 88.19 and the minimum score is 2.77. Also, the mean for the ESG score is 34.48 which is there is a long gap between the minimum and maximum score.

In Table 5 it also depicts the result of descriptive statistic after the introduction of in 2013. Based on the data, the mean value for ESG Score is 46.99 which is higher rather than in the period before 2013. Companies that have higher ESG Score can be classified as a good company in non-financial and financial information. As it is presented in the two table, the maximum of ESG Score Post

Table 4: Descriptive statistic pre-2013

Variable	Obs	Mean	SD	Min	Max
TOBINS	266	1.666278	1.024351	0.16	4.7
ROA	266	9.243045	5.713211	0.69	26.45
ESGS	266	34.48271	18.40679	2.77	88.19
LEV	266	0.269549	0.150262	0.01	0.62
LOGFS	266	15.35034	1.092913	12.65	18.39

Author's calculation

Table 5: Descriptive statistic post-2013

Variable	Obs	Mean	SD	Min	Max
TOBINS	917	1.74741	1.061132	0.01	4.89
ROA	917	6.093119	4.067767	0.01	17.89
ESGS	917	46.99304	18.84262	2.78	89.81
LEV	917	0.305841	0.180990	0	0.83
LOGFS	917	15.02211	1.208163	11.45	18.36

Author's calculation

Table 6: Regression result of ROA (model 1)

	ROA		
	2006–2012	2014–2020	Pooled Sample
ESG	0.00058	(0.00522)	–0.0252***
	(0.975)	(0.019)	(0.000)
Leverage	–8.154***	-6.436***	–7.837***
	(0.000)	(0.000)	(0.000)
LogFs	–1.431***	–0.974***	–0.833***
	(0.000)	(0.000)	(0.000)
Cons_	33.39***	22.94***	22.83***
	(0.000)	(0.000)	(0.000)
N	266	917	1183
R-sqr	16.00%	21.80%	18.50%
Adj. R-sqr	15.00%	21.50%	18.30%

P-values in parentheses * P<0.05, ** P<0.01, *** P<0.001. Author's calculation

Table 7: Regression result of tobin's Q (model 1)

	Tobin's Q		
	2006–2012	2014–2020	Pooled sample
ESG	0.00742	0.00075	0.00166
	(0.052)	(0.663)	(0.254)
Leverage	–0.287	0.128	0.0471
	(0.48)	(0.491)	(0.778)
LogFs	–0.386***	–0.377***	0.374***
	(0.000)	(0.000)	(0.000)
Cons_	7.417***	7.337***	7.282***
	(0.000)	0.000	(0.000)
N	266	917	1.183
R-sqr	17.30%	17.70%	17.40%
Adj. R-sqr	16.40%	17.50%	17.20%

P-values in parentheses * P<0.05, ** P<0.01, *** P<0.001. Author's calculation

Table 8: Potential moderator

	IR	
	Tobin's Q	ROA
ESG	0.000669	0.0057
	(0.704)	(0.386)
	0.0351	0.0329
Leverage	(0.962)	(0.905)
	0.00141	0.00979
	(0.909)	(0.832)
LogFs	0.127	–6.445***
	(0.496)	(0.000)
	–0.378***	–0.977***
Cons_	(0.000)	(0.000)
	7.349***	23.00***
	(0.000)	(0.000)
N	917	917
R-sqr	17.70%	21.80%
Adj.R-sqr	17.30%	21.30%

P-values in parentheses * P<0.05, ** P<0.01, *** P<0.001. Author's calculation

2013 is higher than 2013 that can be assumed the company in ASEAN starting to improve their value and performance through ESG Disclosure.

The regression result of ROA is presented in Table 5. The ESG Score is showing significant relationship towards firm performance (β = 0.0252, t = 0.000). This result is in line with the stakeholder theory where the theory assumes that the existence of these stakeholders has an important effect on the sustainability of the company's operations through the support and trust that has been given and is able to increase the level of the firm performance (Freeman and McVea, 2005). Besides, the results of this study also in line with the theory of legitimacy where one way to gain public legitimacy is to provide non-financial information. The information disclosed by the company will be able to invite support and trust from the public and stakeholders using company products or through the inclusion of working capital in the form of assets which will certainly improve the company's operations. Furthermore, it is expected that the rate of return on company assets used to generate company profits will increase. This study is consistent with the study conducted by Buallay (2019); (Almeyda and Darmansya, 2019) and Albitar et al. (2020) that the result is significant and positive. These results indicate that the higher the ESG disclosure score obtained by the company it will lead to the higher the rate of return on the asset of the company. Therefore, the hypothesis of ROA is accepted.

The impact of ESG Disclosure on market performance is not significant for prior (β = 0.00742, t = 0.052) and after 2013 (β = 0.00075, t = 0.663) (Table 6). This result is inconsistent with the study conducted by Albitar et al. (2020); Almeyda and Darmansya (2019) and Yoon et al. (2018) which they discovered positive and significant result. This study is consistent with the study conducted by Junius et al. (2020) and Velte and Stawinoga (2017) that they stated the result is negative and insignificant. This result is insignificant because it may indicate that the countries that are used as a sample have not considering sustainable development towards market reaction. Other analysis that is the samples countries is not yet developed in terms of information and knowledge regarding to the ESG and sustainability. This result also contradicts with the signaling theory that states the signal that delivered by companies to the stakeholders in a form of the ESG disclosure and sustainability is not generate significant return in terms of market-based performance. Therefore, the hypothesis for Market performance is rejected.

According to the result, <IR> shows insignificant effect for both market (β = 0.00141, t = 0.909) and operational performance (β = 0.00979, t = 0.832) (Tables 7 and 8). This study is in line with the study conducted by Bhimantara and Dinarjito (2021) which states that the integrated reporting element does not have relationship to firm value that affect firm performance. It also indicates that <IR> does not moderate the relationship due to the different implementation of the samples which are voluntary, and the implementation still limited. However, they show positive relationship between two variables. It may indicate that the company who disclosed <IR> has higher firm value that may lead to increasing in firm performance.

5. CONCLUSION

In this study, we investigate and explore the ffect of ESGD of FP in the ASEAN countries by applying fixed effect and robust standard error regression. Based on previous discussion on the proposed hypothesis, the result of this study explains that the ESG Disclosure has insignificant impact on Firm performance especially on Market Performance. It may lead that investor in ASEAN still not consider sustainability as the main consideration when they would like to invest. Other result also explains that ESG disclosure showing positive impact and significant impact on Firm Performance

especially on Operational Performance (ROA). It may indicate that the higher the ESG disclosure score obtained by the company it will lead to the higher the rate of return on the asset of the company. Meanwhile, for moderation effect of <IR>, it does not moderate the relationship between ESG Disclosure and Firm Performance.

The limitation of this research is that the research conducted only on several ASEAN countries. This study also only analyses the effect on FP measured by ESG score. This study also conducted by using Dummy Variable of <IR> rather than <IR> Disclosure Score as the potential moderator effect. For future research, ASEAN as developing countries, it may improve and engage more on the ESGD and developed more information and knowledge regarding ESGD towards stakeholders to improve firm performance. Other than that, implementing <IR> will have positive impact to the firm performance as shown on the previous chapter. For the future research may include wider observation in another developing country outside ASEAN, carried out this study by adding other variables such as moderating variables. For instance, adding variables gender diversity across ASEAN, for <IR> as a variable it may use <IR> Disclosure Score rather than Dummy to enhance the result of the regression.

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