The Characteristics of Corporate Governance Driving Environment Social Governance Disclosure –In Energy & Utility Industry in Four Regions–

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This research aims to examine the impact of the characteristics of corporate governance on driving corporate Environment Social Government (ESG) disclosure and make a comparison of these characteristics among four regions. These characteristics of corporate governance are the business ethics policy to Global Reporting Initiative criteria compliance, the Global Compact signatory, the proportion of independent directors, the proportion of women on board, the board average age, the existence of dominant personalities (CEO/Chairperson duality), and the number of audit committee meetings. Using ESG disclosure score for measuring voluntary disclosure, our estimation results show that the adoption of compliance guidelines such as Global Reporting Initiative, Global Compact, monitoring mechanism such as the number of audit committee meetings and the proportion of independent directors are significantly and positively related to the quality of ESG disclosure, while we also obtain the different results in different regions to let us make a comparison. For example, the quality of ESG disclosure score is higher in East and South-East Asia associated with Business Ethics Policy activities. In this study, we adopted global firms data sets from Bloomberg professional service from 2005-2013. The data sets were drawn from the range of energy and utilities sectors based on United States (obs: 842), Europe (obs: 332), Japan (obs: 126), East and South-East Asia (obs: 221). The study provides empirical evidence to help policy makers and regulators for implementing the new corporate governance requirements, making ESG disclosure more transparency and reliable, and guiding companies' business activities be more compliance and greater reputation.

Key Words : *Environment Social Governance disclosure, corporate governance, Corporate Social Responsibility, Global Reporting Initiative, energy and utilities industries*

1. INTRODUCTION

(1) Purpose of this study

In recent years, there has been a growing interest in Corporate Social Responsibility (CSR) across a range of disciplines. Researchers and practitioners strongly believe that corporations should not be judged just on their economic success[1)] as they are "… no longer expected to be mere contributors to the global economy, but rather to reconcile and skill-fully balance multiple bottom lines and manage the interests of multiple stakeholders"[2)]. Even though CSR is becoming increasingly significant, the relationship between ESG performance and ESG disclosure, which could be called other ways such as CSR reporting and/or non-financial disclosure by companies all over the world, is still unclear in the literature. Among the possible reasons for this, there could be a lack of ability within the major decision makers, in particular boards of directors who are considered to be key players in firms' CSR achievements[3)], to make proper decisions with regard to CSR and ESG disclosure. Especially, corporate governance (i.e., boards of directors) has an influence on major decision makers, and are collectively both responsible and accountable to a wider range of stakeholders. Therefore, examining the characteristics of corporate governance and their impacts on ESG disclosure is important to deepen the understanding about the process of decision making within firms. In order to investigate the decision making processes with regard to CSR activities, this study examines the relationship between corporate governance and ESG disclosure, assuming that ESG disclosure is outcome of corporate governances' decisions.

Voluntary disclosure and its determinants have been identified as an important research area in financial reporting since the 1970s[4]. Research on corporate governance so far has mainly focused on its effect on corporate financial performance but has focused less on its characteristics which influences ESG disclosure. It is well argued in the literature that characteristics of corporate governance have the potential to influence financial performance and reporting[5),6)], but a very limited number of studies have been undertaken to examine whether this also applies to non-financial performance and reporting (in this case, ESG disclosure). Furthermore, previous studies, in their each study, often focus on the effect of single corporate governance attribute but little on the effect of different governance attributes. In addition, because previous studies often focus on U.S. and Europe, the findings of these studies also may not be applicable to Asia and South-East Asia economies, which have different regulatory and environment background.

The main objective of this study tries to fill the gaps mentioned above by aiming to explore the relationships between corporate governance characteristics, decision making process and their subsequent influence on ESG disclosure. The importance or potential contributions of this current study are several.

First, the current study examines several characteristics of corporate governance in a single model assuming different factors how to give an influence on ESG disclosure. Second, prior studies did not test the impacts of corporate governance characteristics in different regions and the current study showed the relationship between characteristics of corporate governance and ESG disclosure by making a comparison of different regions to explain how the characteristics of region variance influence ESG disclosure. In this study, we focus four regions in the world including the United States, Europe, Japan, and East and South-East Asia to make the comparison. The relationship between corporate governance and firm performance is important in formulating efficient corporate management and public regulatory policies. However, prior literature mainly focuses on the corporate governance practices in UK, U.S. and other developed countries[7)8)9)]. Due to some institutional factors of countries being considerably different compared with those of UK, U.S. and Japan. We shift our study to a new setting to focus on Asia and South-East Asia and observe the characteristics of other regions, which may provide some enlightenment and experience to Asia and South-East Asia countries to improve their CSR activities including non-financial disclosure. Last, regarding the boundary of data, we focus on energy and utility industry because some reasons as follows.

Around the world, CSR reporting has become a fundamental imperative for business, with 95% of the top 250 global firms now reporting their CSR activities[10)]. However, interestingly, empirical studies have found that corporate environmental reporting in developed countries is predominantly voluntarily[11)12)], this is different from traditional financial disclosure, which is high regulated. Previous studies done on developed countries show that the motivations of disclosing ESG information are varied[11)]. In developed countries, which have a more liberal and developed capital market and where environmental awareness is relatedly high, governments' intervention on ESG disclosure is relatively low. The forces on companies to voluntary disclose ESG information is pluralist. Most obviously, ESG disclosure in developed countries has a societal focus. However, a number of scholars claim that the unique characteristics of each country may result in differences in the corporate ESG disclosure activities seen in different countries[13)14)]. Thus, we focus our study on four regions including developed countries such as U.S., Japan and developing countries that are gathered in Asia and South-East Asia.

In particular, developing countries are at a different stage of economic development from developed countries. China is the largest developing country in the world, and China has totally a different institutional context, which is driven largely by state capitalism, as compared to places, which have more liberal and developed capital markets. It is therefore expected that there will be more governmental influence on Chinese ESG disclosure. For example, Situ and Tilt (2012) finds that whether or not a firm is state-owned is a major determinant of Chinese ESG disclosure significantly. Hence, state-owned firms (SOFs) are the backbone of the national economy and exactly in line with the country's development strategy[15)]. ESG disclosure issued by SOFs has become a focus of the Chinese research community and as an example for the world to observe the latest CSR practices of Chinese companies. In the past three years, observations by several Chinese research institutions indicate that SOFs have produced ESG disclosure of better quality than other large private sector listed companies have. To explain this phenomenon in China, political economy theory (PET) is considered as the most applicable. It suggests ESG disclosure conducted by firms is mainly for protecting their self-interest under political and social pressures[16)17)]. Besides economic policies and legislations, indirect macro-control is mainly through providing planning guidance to SOFs for creating a stable, secure and orderly social-economic environment. From this perspective, SOFs' disclosure behavior can therefore reflect the government's political and economic directions. The government plays a major role in leading ESG disclosure development in China. In recent years, although there has been considerable interest in research applied to the developing world, there is still significant scope to address CSR research in the BRICs countries[18)]. Current CSR practice in China's energy and utility industry is characterized as demonstrating a high level of concern with the form of ESG disclosure practice but a low level of engagement with improving the substance. Energy and Utility industry is not ready for but has a high potential to play a leading role in ESG disclosure[19)].

In developing countries, the portion of energy supply consumed by the industrial sector is frequently in excess of 50% and can create tension between economic development goals and a constrained energy supply. Further, countries with an emerging and rapidly expanding industrial infrastructure have a particular opportunity to increase their competitiveness by applying energy-efficient best practices from the outset in new industrial facilities. For example, 80% of global industrial growth in over the past ten years has been in China[20)]. Integrating energy efficiency into the initial design or substantial redesign is generally less expensive and allows for better overall results than retrofitting existing industrial facilities, as is typically required in more developed countries. Hence, our study focus our research target on energy and utility industry by the comparison among four regions in order to attain some meaningful experience, which could be concluded from developed countries' case.

(2) Backgrounds and hypotheses development

Next sub sections review the literature and definitions of ESG disclosure and Corporate Governance and this is followed by discussion of the links between governance, boards, CSR and ESG disclosure. Meanwhile, regarding statistical methodology, we propose a set of hypotheses to explain the relationship between ESG disclosure and corporate governance.

a) Corporate disclosure

Nowadays, besides financial information disclosure, non-financial information disclosure is increasingly gaining attention all over the world. Gradual changes in the global economy, such as the rise in social activism, the emergence of new expectations, globalisation, international trade, increased expectations of transparency, and corporate citizenship now increasingly require corporations worldwide to perform well in every aspect of business (economic, social and governance)[2)]. As such, modern companies are under a huge amount of pressure to discharge their wider responsibility towards society, which is largely considered as CSR. CSR agenda encompasses various social and environmental concepts such as environmental concerns, employee welfare, corporate philanthropy, human resource management, community relations and so on. CSR in this sense seems to be a complex, multidimensional concept and hence researchers are finding it difficult to reach a consensus on the definition itself[21)]. One of the most popular definitions is Carroll's who provided the four part definition of CSR, stating the "social responsibility of business encompasses the economic, legal, ethical and discretionary expectations that society has of organizations at a given point of time"[1)]. The European Commissions' definition of CSR on the other hand concentrates on social and environmental aspect of business and defines it as a "concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis"[22)]. Even though various definitions are provided, one they have in common is that they all suggest that organisations have a wider responsibility towards society and should take into account its social and environmental impact when making decisions.

In our study, we focus on another important aspect based on CSR which is gaining attention in the literature is ESG disclosure. Organisations are expected to voluntarily communicate their activities and initiatives towards CSR to their board range of stakeholders[23)] and this is broadly known as ESG disclosure. Many studies have used ESG disclosure as a proxy for CSR or ESG performance[24)25)]. ESG disclosure extends the accountability of organizations, beyond the traditional role of providing a financial account to owners of capital, in particular shareholders"[16)]. This extension is again based on the notion of CSR that "… companies do have wider responsibilities than simply to make money"[16)]. In summary, the boundary of CSR also extends the firms' accountability to stakeholders.

Even though CSR and ESG disclosure have been proposed for more than two decades[26)], most of the literature identify that ESG disclosure is still voluntary in most countries. In addition, the benefits of CSR activities are very often unquantified and/or costly and hence less likely to motivate the organisations to take positive steps towards CSR. Therefore it is essential for companies to have proper control mechanisms to ensure that ESG disclosure is fulfilled. This highlights the importance of corporate governance, which is considered to be a critical element for driving excellence in CSR[26].

b) Corporate governance

Recent empirical work on the association between financial disclosure and corporate governance include Forker (1992) and Chen and Jaggi (2000). Forker (1992) examines the association between corporate governance and share option disclosure[27]. Chen and Jaggi (2000) examine the association between indepent non-executive directors and comprehensiveness of information in mandatory financial disclosures[28]. These prior studies view corporate governance from financial perspective, on the other hand, the underlying definition of corporate governance these years mainly fall into two major categories from non-financial perspective. One is viewed as a mechanism to protect the interest of shareholders from the narrow perspective; the other is viewed as a mechanism to protect the interests of a broader range of stakeholders from the broader perspective. Whether the shareholder or stakeholder perspective of corporate governance is taken, researchers while examining the effect of governance on corporate performance (financial or non-financial) often concentrate on internal corporate governance.

The board of directors is considered as a major player in corporate governance[2][29]. In order to explain the board's role in corporate governance, various theories also have emerged. Agency theory, stewardship theory, dependency theory and stakeholder theory are some of the dominant theoretical perspectives among them[21]. However, stakeholder theory which is consistent with a broader concept of corporate governance clearly highlights that a board's responsibility is not limited to shareholders, but rather requires them to ensure that corporations discharge their wider responsibility as well as wider stakeholder accountability (ESG disclosure).

Poor corporate governance has been cited as one of the major reasons that led to the Asian financial crisis of 1997. In addition, prior to a number of in famous corporate scandals such as Enron and WorldCom in the U.S. and Parmalat in Europe, corporate governance is not considered as an important issue in many jurisdictions outside the U.S. and Europe. For instance, in Taiwan, corporate governance became a major and heated issue only at the beginning of the 21st century when Taiwan authorities started to introduce and implement a series of corporate governance reforms. These reforms were aimed at strengthening Taiwan's corporate governance and amongst others include the amendment of the Company Act, the Securities and Exchange Act and other related regulations, the introduction of an independent director system and audit committee, and the promotion of shareholders' rights. The relationship between corporate governance and firm performance is important in formulating efficient corporate management and public regulatory policies[30]. However, prior literature mainly focuses on the corporate governance practices in the UK, U.S. and other developed countries[7][8][9]. Due to some institutional factors of newly industrialized countries being considerably different compared with those of U.S. or UK, we shift our study to a comparison within four regions, in particular the board characteristics on firm performance. Such a relationship between corporate governance and ESG disclosure is further discussed in the next sub section.

c) Hypotheses development

The relationship between ESG disclosure and the characteristics of corporate governance such as the percentage of independent non-executive directors, the number of auditor committee meeting and the existence of dominant personalities (CEO duality) are developed in the following hypotheses. These hypotheses are verified by eight corporate governance variables including business ethics policy, Global Reporting Initiative (GRI) criteria compliance, Global Compact signatory, percentage of independent directors, percentage of women on board, board average age, CEO duality and the number of audit committee meeting through the model explained in the next section in the current study. Jensen and Meckling's (1976) positive agency theory provides a framework linking disclosure behavior to corporate governance[31]. Corporate governance mechanisms are introduced to control the agency problem and ensure that managers act in the interests of shareholders. One way of mitigating such an agency problem is to reduce information asymmetry between management and shareholders[32], and this is possible through one of the important qualities of governance, i.e. transparency/accountability. This relationship between governance, transparency and disclosures is well argued by Htay et al. (2012) who suggest that disclosure of information/transparency is an integral part of corporate governance as higher disclosure could reduce information asymmetry which not only clarifies the conflicts of interests between shareholders and management but also makes corporate insiders accountable[33]. Given that boards of directors are major players in corporate governance, board composition is likely to have some influence on ESG disclosure[21].

Based on the view that corporate governance enhances transparency/accountability, researchers linked board characteristics to various disclosures such as mandatory disclosure (financial reporting) as well as voluntary disclosure including ESG disclosure. For instance, Haniffa and Cooke (2002) argue that 'corporate governance should be considered because it is the board of directors that manages information disclosure in annual reports and therefore disclosure may be a function of the constituents of boards' [34]. The prevalence of agents such as independent directors, who tend to be more strongly aligned with external stakeholder interests than managers[35], may provide 'additional windows on the world'[36]. Better alignment with the views of external groups brings greater expectation of voluntary disclosure activism. Therefore, we propose the following hypothesis:

H1: Companies with a higher proportion of independent directors are more likely to have a higher score of ESG disclosure

The functions of an audit committee include ensuring the quality of financial accounting and control system[37]. Since an audit committee consists mainly of nonexecutive directors, it has influence to reduce the amount of information withheld. Forker (1992) argues that the existence of audit committees may improve internal control and thus regard it as an effective monitoring device for improving disclosure quality. He found a positive but weak relationship between the disclosure of the audit committee and the quality of share-option disclosure for UK companies. McMullen (1996) provides support for the association between the presence of an audit committee and more reliable financial reporting[38]. It is therefore we hypothesize that:

H2: Companies that hold more audit committee meetings are more likely to have a higher score of ESG disclosure

Firms that have on individual who serves as both chairman and chief executive officer/managing director (CEO duality) are considered to be more managerially dominated[39]. The person who occupies both roles would tend to withhold unfavorable information to outsiders. Fama and Jensen (1983) argue that any adverse consequences could be eliminated by market discipline[40]. Nevertheless, Forker (1992) asserts that a dominant personality in both roles poses a threat to monitoring quality and is detrimental to the quality of disclosure. He found a significant negative relationship between the existence of a dominant personality and the quality of share-option disclosure. Hence, here we hypothesize that:

H3: Companies that appoint a dominant chief executive officer as board chairperson are more likely to have a higher score of ESG disclosure

2. MODEL AND DATA

An objective of this study is to determine how the characteristics of corporate governance mechanisms affect a firm's ESG disclosure behaviors. CSR including ESG disclosure is a part of a firm's strategy and corporate governance is responsible for formulating those strategies, examining the characteristics of corporate governance decision making processes would provide more insight into the relationship between corporate governance and ESG disclosure. We extract data from Bloomberg professional service and choose eight variables (β_1-β_8) to represent the characteristics of corporate governance and examine the relationship between corporate governance and ESG disclosure using the following regression model:

$$\begin{aligned} ESGDS = &\beta_1 \cdot BEPolicy + \beta_2 \cdot GRIComl \\ &+ \beta_3 \cdot GCS + \beta_4 \cdot INDIR + \beta_5 \cdot WoB \\ &+ \beta_6 \cdot BAA + \beta_7 \cdot CEOD + \beta_8 \cdot ACM \\ &+ \beta_9 \cdot Size + \beta_{10} \cdot ROA + \alpha_t + e \end{aligned} \tag{1}$$

where α_t denotes fixed effects of year t, and e is an error term.

Here *ESGDS* means ESG Disclosure Score, which denotes proprietary Bloomberg score based on the extent of a company's environmental, social, and governance disclosure. *BEpolicy* denotes Business Ethics Policy, which indicates whether the company has established ethical guidelines and a compliance policy for its non-management, executive employees in the conduct of company business. *GRIComl* denotes GRI criteria compliance whether the company complies with GRI criteria. *GCS* denotes United Nations Global Compact Signatory, which indicates whether the company is a signatory of the United Nations Global Compact. *INDIR* denotes independent directors as a percentage of total board membership. WoB is a percentage of women on the board of directors, as reported by the company. *BAA*

Table 1 Descriptive Statistics

variable	Description	(1) Japan (obs: 126)			
		mean	s.d	min	max
ESGDS	ESG Disclosure Score. Proprietary Bloomberg score based on the extent of a company's environmental, social, and governance disclosure.	34.981	10.635	11.570	55.602
BEPolicy	Business Ethics Policy. Indicates whether the company has established ethical guidelines and/or a compliance policy for its non-management/executive employees in the conduct of company business.	0.952	0.214	0	1
GRIComl	Indicates whether the company is in compliance with Global Reporting Initiative (GRI) criteria and/or a signatory of the United Nations Principles for Responsible Investment and/or a signatory of the United Nations Global Compact.	0.556	0.499	0	1
GCS	Indicates whether the company is a signatory of the United Nations Global Compact.	0.103	0.305	0	1
INDIR	Independent directors as a percentage of total board membership.	9.570	11.874	0	54.55
WoB	Percentage of women on the board of directors, as reported by the company.	0.974	3.261	0	23.08
BAA	Average age of the members of the board.	60.510	2.714	52.76	65.82
CEOD	CEO Duality. Indicates whether the company's Chief Executive Officer is also Chairman of the Board, as reported by the company.	0.405	0.493	0	1
ACM	Number of meetings of the Board's Audit Committee during the reporting period.	11.611	3.366	4	20
Control variables					
Firm Size	Log of total assets	22.726	1.755	19.246	25.960
ROA	Return on Assets	0.034	0.044	−0.079	0.242

Table 1 (continued)

variable	(2) United States (obs: 842)				(3) Europe (obs: 332)				(4) Asia and South-East Asia (obs: 221)			
	mean	s.d	min	max	mean	s.d	min	max	mean	s.d	min	max
ESGDS	23.248	13.002	8.678	78.008	40.802	16.659	12.033	79.339	26.504	11.177	9.917	67.355
BEPolicy	0.954	0.210	0	1	0.877	0.330	0	1	0.548	0.499	0	1
GRIComl	0.220	0.414	0	1	0.557	0.497	0	1	0.403	0.492	0	1
GCS	0.008	0.091	0	1	0.473	0.500	0	1	0.104	0.306	0	1
INDIR	83.374	10.134	11.11	100	60.838	19.080	18.18	100	39.918	11.036	13.33	80
WoB	12.276	9.839	0	56	10.513	11.470	0	57.2	6.794	7.680	0	37.5
BAA	62.199	3.529	42	73.62	57.598	4.054	44	71.78	56.271	4.727	43.6	66.73
CEOD	0.621	0.485	0	1	0.202	0.402	0	1	0.163	0.370	0	1
ACM	7.558	2.626	0	20	6.581	4.165	2	37	5.443	4.183	0	23
Control variables												
Size	22.771	1.482	16.781	26.534	23.395	1.689	19.634	26.702	22.542	1.847	16.693	26.575
ROA	0.078	0.078	−1.266	0.536	0.099	0.082	−1.134	0.467	0.089	0.073	−0.170	0.384

denotes the average age of the members of the board. CEOD indicates whether the company's chief executive officer is also chairperson of the board, as reported by the company. *ACM* denotes number of meetings of the Board's Audit Committee during the reporting period. In addition, we set log of Sales representing the size of firms (Size), and return on assets (ROA) as control variables for firms. In this study, we use global firm dataset from Bloomberg professional service, since we conduct this analysis based on four regions including Japan, United States, Europe and Asia and South-East Asia (except Japan), each number of the observation is 126, 842, 332 and 221 between 2005-2013. It is relatively small compared with the origin dataset. Due to the particularity of our independent variable, we consider the number of observation is valid. Considering the low perception of CSR in developing countries, we focus the intended sector on energy and utility, which are considered to have higher concern about environment and other social factors and higher quality on ESG disclosure than other sectors. **Table 1** shows the descriptive statistics table, respectively, in this study.

The data used as dependent variable is *ESGDS*, which indicates that proprietary Bloomberg score based on the extent of a company's ESG disclosure. The score ranges from 0.1 for companies that disclose a minimum amount of ESG data to 100 for those that disclose every data point collected by

Bloomberg. Each data point is weighted in terms of importance, with data such as Greenhouse Gas Emissions carrying greater weight than other disclosures. The score is also tailored to different industry sectors. In this way, each company is only evaluated in terms of the data that is relevant to its industry sector. Furthermore, with regard to eight independent variables, *BEPolicy*, a strategy policy has intensive to develop reputations in decision control. Influential standards and guidelines such as GRI and Global Compact increasingly inform leading edge disclosure practice and underline the stakeholder accountability of the disclosure process[41]. For example, according to GRI[42], "a primary goal of reporting is to contribute to an ongoing stakeholder dialogue. Reports alone provide little value if they fail to inform stakeholder or support a dialogue that influences the decisions and behavior of both the reporting organization and its stakeholders." Under the accountability principle, one of concerns for corporate disclosure is the right of all stakeholders to receive all information relating to the firm, including ESG information, and the responsibility of the firm to provide it, even though the regulatory bodies do not require it. Therefore, disclosure guideline organization such as GRI and Global Compact provide a framework to improve the quality of ESG disclosure. Other variables such as *INDIR*, which is indicated that firms with a higher proportion of independent directors have a positive effect on ESG disclosure. In contrast, many previous studies even report a negative relationship between board independence and firm performance[7][43]. In our study, we use *INDIR* to verify hypothesis *H1*. If it shows a positively significant relationship, we could make it clear that independent directors may not exert sufficient monitoring power if their numbers only account for a small proportion of board membership. Moreover, verified by *ACM*, if it shows a positively significance in *H2*, the role of audit committee meeting that may improve internal control and disclosure quality could be verified. With respect to *H3,* we use *CEOD* to verify if it shows a negatively significant relation, dominant personality (*CEOD*) will result in a lower quality of disclosure. Besides verifying hypotheses, in order to examine the influence of other characteristics of corporate governance, women on board and board average age are used as well to represent the diversity of corporate governance.

3. RESULTS

Table 2 shows the result of regression analysis. We could not find significance of *BEPolicy* in Japan, United States and Europe column except Asia and South-East Asia column. In this area, Business Ethics Policy is statistically positively significant to ESG disclosure score, since there are many developing countries included in this region, the results illustrate that for developing countries, compared with other factors, they would firstly concern the strategy policy, which guides the firms' CSR activities. Our estimation results show that in all regions, high ESG disclosure scores are primarily associated with the adoption of GRI disclosure guideline. According to the results, it is supposed that compared with GRI guideline, Global Compact have more directly effective influence to ESG disclosure in United States and Europe.

On the other hand, if we focus on the characteristics of board composition including *INDIR*, *WoB*, *CEOD* and *ACM*, we could obtain the following results. The percentage of independent directors is statistically positively significant to score in United States but in the contrary, negatively in Japan. As regarding women on board, only in Europe we gain the positive association with the quality of ESG disclosure score. The coefficient *CEO* duality, which indicates CEO is the chairperson of the board as well, is positively significant in United States but negatively in Japan and Europe. The last result shows the role of Auditor Committee meetings is positively significant to the higher ESG disclosure score in the United States and Europe.

According to the above regression results, we could get some findings as follows. Over the years, stakeholders' expectation have changed towards more substantive disclosure of corporate governance policies and practice, and they are now demanding that corporations need to disclose information about their corporate governance practices related to social and environmental issues[44]. Stakeholders need to know how their rights are respected and how an organization addresses CSR issues within the corporate governance systems. For example, since developed countries' markets have been sourcing many of their products for years from developing countries' markets, they have an interest in the governance policies associated with the health and safety and working conditions of the supply factories. Therefore, stakeholders are interested in the governance policies, as they are also exposed to the risk associated with poor health and safety conditions. This phenomenon does not only appear in Bangladesh but also a general thinking in developing countries. Hence, *BEPolicy* as a governance policy is verified positively significant in Asia and South-East Asia.

Table 2 Regression result

	(1) Japan *ESGDS*	(2) United States *ESGDS*	(3) Europe *ESGDS*	(4) Asia and South-East Asia *ESGDS*
BEPolicy	2.492	−0.255	−1.662	4.608***
	(2.853)	(1.265)	(1.797)	(1.345)
GRIComl	9.533***	16.903***	17.394***	11.100***
	(1.364)	(0.708)	(1.359)	(1.267)
GCS	2.623	20.393***	8.587***	−2.523
	(2.263)	(2.943)	(1.327)	2.447
INDIR	−0.121**	0.099***	0.008	0.044
	(0.053)	(0.029)	0.034	(0.051)
WoB	−0.213	0.047	0.169***	−0.031
	(0.203)	(0.028)	(0.053)	(0.076)
BAA	0.457*	−0.037	−0.285*	0.225
	(0.276)	(0.079)	(0.159)	(0.141)
CEOD	−3.124**	1.308**	−4.814***	−1.670
	(1.569)	(0.551)	(1.383)	(1.679)
ACM	−0.170	0.268**	0.336**	−0.036
	(0.203)	(0.105)	(0.145)	(0.143)
Size	2.496***	2.814***	1.541***	1.582***
	(0.444)	(0.214)	(0.435)	(0.467)
ROA	9.022	−3.883	−16.237**	11.679
	(15.849)	(3.552)	(6.790)	(7.969)
Constant	−51.129***	−54.184***	1.226	−31.744***
	(18.657)	(6.476)	(13.845)	(11.167)
Year fixed effects	Yes	Yes	Yes	Yes
obs	126	842	332	221
year	2005-2013	2005-2013	2005-2013	2005-2013
R-squared	0.699	0.678	0.692	0.553

Notes: Columns (1) (2) (3) (4) show results of regression model. *** significant at 1% level, ** significant at 5% level, * significant at 10% level, respectively. Coefficients are without parentheses, and standard errors are in parentheses.

Furthermore, through the regression results we could explain the hypotheses we generate in the previous section. *H1*, which states that companies with a higher ratio of independent directors would more likely have a higher level of ESG disclosure, is not supported. According to the result, in the case the negative effect runs contrary to expectation for Column Japan, but positive effect with expectation for Column United States. It seems that for the case in Japan, having more directors that are independent makes a firm significantly less likely to improve the quality of ESG disclosure, but for United States, it reaches an opposite conclusion. This finding is not consistent with the findings of Chen and Jaggi's (1998) & Rao and Tilt (2013). *H2* states that companies which have more audit committee meetings, the higher quality of ESG disclosure they have. It is totally supported that audit committee meeting could improve ESG disclosure level. This result is encouraging since a previous study by Forker (1992) only finds a weak relationship between the existence of an audit committee and the quality of disclosure. An important implication of this finding is that it may be appropriate for regulatory authorities to require companies of other industries in Japan and/or Asia and South-East Asia to establish an audit committee in order to secure more corporate transparency. With regard to *H3*, the hypothesis states that firms with the existence of a dominant personality are more likely to have a lower level of disclosure. Therefore, distinguished with other hypotheses *H1* and *H2*, the negatively significance in this case means the hypothesis is supported. it is partially supported by the results for Column Japan and Europe despite Column United States where obtain the contrary expectation. A possible reason is a person who serves as both board chairperson and CEO of a company in United States is likely to be a substantial shareholder in energy and utility industry, so it does not matter whether or not the two jobs are separated.

4. CONCLUSIONS

With the progress of globalization, the nature of organizations and their relationship with stakeholders have been evolved and now require boards of directors to "… move forward from the traditional role of controlling the management, toward a much more proactive role"[45]. Such a broader perspective of corporate governance suggests that major governance mechanisms are both responsible and accountable to a wider group of stakeholders. Within this view, the characteristics of corporate governance can be assumed to have influence on CSR activities and ESG disclosure. The present paper reviews the literature on corporate governance, especially the characteristics of board composition and examines its influence on both CSR activities and ESG disclosure. It also highlights some avenues for future research, which are discussed below.

The majority of empirical papers rather exclusively focus on examining corporate governance effect on corporate financial performance. In our study, we focus on its influence on corporate non-financial disclosure. Since CSR is widely perceived as a strategy, research should also explore how board processes, in particular decision making processes, with regard to CSR and ESG disclosure is taking place in an organization. There is an important gap in the literature and would provide more insight into whether CSR activities and ESG disclosure are outcomes of these decisions. Moreover, the decision making process is the one where boards collectively decide upon various CSR initiatives as well as disclosing such CSR issues. Little research however has directly examined decision making by directors facing social responsibility decisions. Most of corporate governance research studies are quantitative, examining the direct association between the characteristics of corporate governance and ESG disclosure resulting in contradictory findings.

We contract our observation boundary only to energy and utility industry, which is considered the sectors that concern and take CSR activities most not only in developed countries' markets but also in developing countries' markets, and has the best ESG disclosure score in developing countries. However, there is a gap between developed countries and developing countries since within the variables related to characteristics of board composition, compared with United States and Europe, there is no significance showed to be associated with ESG disclosure in Asia and South-East Asia. With regard to the variable *INDIR*, we do not get an ideal result from regression model mentioned in previous section and fail to verify *H1*. Thus, a possible reason is that we set the observation target only to energy and utility industry. Future studies therefore should undertake longitudinal and cross sectional studies, and extend the observation boundary to other industries to address the development of this issue.

Based on the conclusions above, we could obtain some implications as follows. To improve the level of ESG disclosure, keeping disclosure guideline is an essential condition for any country. Communication with stakeholders such as audit committee meeting, in other words, defaulting accountability is an effective way to enhance ESG disclosure. Except quantitative methods, qualitative methods such as case studies, observation and interviews could be adopted to gain in-depth understanding of corporate governance decision making processes with regard to both CSR activities and ESG disclosure. With regard to the characteristics of corporate governance, as far as we know there has been no research done linking various board diversity characteristics to CSR or ESG disclosure decisions by the board. With the diversity characteristics, executive compensation is another debated and significant issue faced by modern corporations. Given such importance placed on executive compensation by academics, policy maker and firms, it is crucial to examine whether executive compensation really matters in CSR activities and ESG disclosure decisions through both qualitative and quantitative means.

This study suffers from limitations that could be addressed in future work. First, considering the high disclosure score of energy and utilities industry in developing countries, our analysis choose it as the only observation boundary. However, since we fail to verify the hypothesis *H1* generated in this study, the possible reason is considered as the lack of analysis on other industries. Longitudinal analysis would both help to resolve examining variation of corporate governance characteristics concerning causality and shed more light on the evolving pattern of ESG disclosure. Second, since the model used in this study is limited by the variables that could choose from the existing dataset, to improve the study we need to extend our observation of the data boundary, particularly regarding not only internal stakeholder perspective but also considering the factors of external stakeholders. Therefore, future studies in this area should address these specific issues directly.

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