CHAPTER 1
INTRODUCTION

1.1 Research Background

Over the past few decades, investors and stakeholders alike have shown their need for nonfinancial disclosure. This phenomenon was founded on the fact that financial crises, remuneration scandals, and concerns over the social and environmental effects of economic activities have made financial statements less relevant. Due to this, investors take interest in nonfinancial data to make informed decisions (Ittner & Larcker, 1998). The academic and business press have also become increasingly interested in the nonfinancial disclosure, especially those who focuses on its cost-benefits.

Even in emerging markets, research has shown that there is a positive valuation from investors towards companies with non-financial disclosures (Chauhan & Kumar, 2018). There are also indications that the overall benefits of corporate virtue in the form of nonfinancial disclosures are more likely to be realized (Orlitzky *et al.*, 2003).

Despite its necessity being agreeable, it is difficult for investors and stakeholders alike to gain access to standardized nonfinancial data, due to its rather subjective nature and inherently unquantifiable qualities much unlike financial disclosures (Baldini *et al.*, 2018). A popular group of nonfinancial data that is frequently used together is known as ESG disclosure, in which it specifies of a company's environmental, social, and governance situations. The reason ESG earned its fame is mostly due to stakeholder's belief that environmental, social, and governance information are all material towards investment performance.

Various topics pertaining to the environment (such as climate change), social responsibility (such as human rights), and corporate governance (e.g., shareholder protection) are covered under ESG (Lagasio & Cucari, 2019); other notable reasons cited are growing client demands, and its common usage can influence positive changes in firms at large (Amel-Zadeh & Serafeim, 2018). ESG is also beneficial due to the fact that companies are held accountable for their misconduct and malpractice within those aspects, such as improper disposal handling of factory water or hazardous waste, depletion of local natural resources from its civilians, and corporate scandals (Baldini *et al.*, 2018).

It is worth noting that the majority of research concentrate on U.S. corporations despite the expanding discussion on the costs and benefits of nonfinancial disclosure around the world, particularly in emerging markets (Chauhan & Kumar, 2018). Even while these studies show significant economic benefits, emerging countries have just started to study the ESG disclosure, which leaves room for more studies to be done in this regional area. It would be callous to assume that studies done in developed countries would provide similar results in emerging markets, due to the sheer difference in the underlying institutional and economic conditions (Holthausen, 2009).

In order to shed more light on this sort of disclosure, this study aims to assess the markings of heightened ESG disclosure in emerging nations, specifically within the Association of Southeast Asian Nations (henceforth referred as ASEAN) region. This study would also like to evaluate the relationship between ESG disclosures, assessed by way of previous economic studies, and businesses that are run by family. As far as the writer's knowledge, this study is one of the first studies that tries to see the connection between ESG disclosure and family-run businesses within the ASEAN scope. It is expected that businesses run by family can enhance the thoroughness of ESG disclosure, owing to the fact that, commonly, family businesses utilize ESG disclosure as a legitimation tool and to win investors' trust (Thahira & Mita, 2021).

In addition to these facts, this study also aims to evaluate how COVID-19 affects the ESG disclosure of family-run businesses. A rapid market-wide financial crisis that was caused by an impending global health pandemic began in the first few months of 2020. As is known, most of the world is affected by the COVID-19 pandemic, and the economic sector is no exception to this. A study shows that during such financial and health crisis, ESG can have a lowering risk effect for companies, and that higher ESG portfolio can outperform lower ESG portfolio (Broadstock *et al.*, 2021). Due to the novelty of the pandemic itself, research that assess COVID-19 are still budding, and therefore it is more intriguing to see how COVID-19 affects the ESG reporting of family run businesses.

This study uses companies listed within each of the ASEAN nations' national stock exchange website, finding their accessible corresponding sustainability reports within the duration of 2019 and 2020.

Sustainability reports are used due to using the GRI guideline to measure ESG disclosures. Necessary data are collected from OSIRIS, financial statements, and annual reports. The sample size for this research is 638 total observable data, with 312 and 326 firms recorded for 2019 and 2020, respectively.

It is important to note that Brunei Darussalam have no national stock exchange website, while Laos and Cambodia do but none of the listed companies publish sustainability reports, and Vietnam's national stock exchange websites and sustainability reports remain largely inaccessible to the writer due to language barriers. On Myanmar, one listed firm has sustainability reports, but they did not disclose the needed family information, and is thus omitted.

All of this leaves us with examinable samples from a group of countries that is more commonly referred to as the ASEAN-5: Singapore, Indonesia, Malaysia, Thailand, and the Philippines.

With keeping in mind that the nature of nonfinancial disclosure within ASEAN is mostly treated as voluntary but not discretionary, the writer is keen on doing an undergraduate thesis with the title of **"Family-Run Businesses and ESG Disclosure: Evidence from Pre and During COVID Period".**

1.2 Research Problems

Based on the background issues above, the problem formulation that the writer will discuss in this study are:

1. Do ASEAN family-run companies have better ESG disclosure?
2. Does COVID-19 impact the quality of ESG disclosure in family run-companies?

1.3 Research Objectives

Based on the formulation of the problem that has been revealed above, the objectives of this study are:

1. To empirically test the evidence of ASEAN family-run companies having better ESG disclosures.
2. To empirically test the relationship of COVID-19 and the quality of ESG disclosure in family run companies.

1.4 Research Contribution

1.4.1 Theoretical Benefits

This study is expected to provide additional information on the topic of ESG disclosures, especially within the context of familial relations within the people in charge.

In addition, this study also gauges the effects of COVID-19 towards ESG reporting in family run-businesses, which is quite novel remembering that COVID-19 is a recent phenomenon.

For researchers, this study is the first in the writer's knowledge to connect ESG reporting in the ASEAN region and businesses run by people within one family. This can potentially spark further discussion and extensive ideas on what variables to conduct ESG research in. It is also worth noting that even with the same control variables, the result of this research differs from the research done in developed countries, contributing to the fact that emerging and developed countries have different attitudes and social phenomena to ESG disclosures.

1.4.2 Practical Benefits

Due to the nature of this study, it is expected to potentially benefit the following related parties:

1. Families with business

   This study reveals how well family-run businesses disclose their ESGs, and can be taken as pointers for families doing business on their own ESG disclosures.
2. Lawmakers

   The results of this study can start discussions on standardizing ESG disclosures for listed companies, especially to improve trustworthiness in business practices, while making research done in nonfinancial data to be more universal and all-encompassing in nature. It is imperative for lawmakers to create policies that makes sure improves corporate governance in relation to various ownership structures and confirm that sustainability reporting represents the condition of the company and not a misleading attempt at investors.
3. Investors

   This study is arguably most beneficial for investors, specifically those who plan to make financial decisions on family-run companies. It is worth noting that family-run companies have different characteristics than regular companies, and this study contributes to the differences in regard to ESG disclosure.

1.5 Writing Systematics

This section is dedicated to giving readers a comprehensive understanding on how the writing systematics of this paper works, in the hopes of assisting readers in constructing and studying parts of this paper. The systematics of writing this research is as follows:

CHAPTER 1 INTRODUCTION

This chapter gives a description of the background of this research by detailing the conditions of ESG reporting in ASEAN within the context of familial relationships between Board members. This chapter also talks about the details of the problem formulation, the purpose of this research and its benefits, alongside the writing systematics.

CHAPTER 2 LITERATURE REVIEW

This chapter goes in depth on the theoretical basis of which this research is conducted. This chapter also contains previous studies and how it relates to the paper's conceptual framework.

CHAPTER 3 RESEARCH METHODOLOGY

This chapter gives an insight into how the data for this research is handled and its research methods, detailing the research approach, identification of variables and their sources, operational definitions of the variables used, and analysis techniques.

CHAPTER 4 RESULTS AND DISCUSSION

This chapter will extrapolate on the previous chapter's materials and provide extensive discussion on the findings of the relationship between ESG disclosure and familial relations, and COVID-19's potential effects towards them. This chapter also deals with giving interpretation of the results given by statistical methods done previously.

CHAPTER 5 SOLUTIONS AND RECOMMENDATIONS

This chapter summarizes the conclusions of the study and its related discussions, and gives recommendations on future research into similar topics.

CHAPTER 2
LITERATURE REVIEW

2.1 Theoretical Base

The theoretical base is essential for a better grasp of the research's current difficulty and how it will relate to the developed theory. Instead of just describing a phenomenon, it helps researchers generalize its many characteristics and pinpoint its constraints. The theoretical is also needed to provide a common understanding of a problem in research.

2.1.1 Signaling Theory

Signaling theory is most relevant to describe behavior where two parties have access to different levels of information, so one party must decide how to communicate the information disparity towards the other party (Connelly *et al.*, 2011). In the case of this study, signaling theory is the attempt to lessen asymmetry between the insider of the company and its stakeholders (Spence, 2002). Outside investors look for market signals (such earnings announcements, acquisition activity, or CSR news) on which to base their impressions of the company because they have limited knowledge about the underlying value of the company (i.e., information asymmetries between the firm and investors).

According to signaling theory, voluntary disclosure choices result in information about ESG performance that is important to value (Alsayegh *et al.*, 2020). The three effects of high transparency are acknowledged by ESG disclosure are: (1) reducing information asymmetry between firm management and external stakeholders; (2) signaling organizational quality and dedication to society; and (3) raising the valuation of firm accountability among various external stakeholders (An *et al.*, 2011). It is clear that companies hope to demonstrate through ESG disclosure information that they care about ethics and sustainability, and wish for their external stakeholders to think of them as thus as well.

However, it is good to note that family businesses can be regarded differently when sending the same signals as nonfamily businesses. Family firm