CEO POWER AND ESG PERFORMANCE IN ASEAN EMERGING COUNTRIES: THE MEDIATING ROLE OF MANAGERIAL RISK-TAKING

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CEO POWER AND ESG PERFORMANCE IN ASEAN EMERGING COUNTRIES: THE MEDIATING ROLE OF MANAGERIAL RISK-TAKING

by

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LIST OF ABBREVIATIONS

ACMF	ASEAN Capital Markets Forum
ASCC	ASEAN Socio-Cultural Community
ASEAN	Association of Southeast Asian Nations
C.AGE	CEO age
CEO	Chief executive officer
CHAIR	Committee chair
COMM	Committee hold
DUALITY	CEO duality
EDUCATION	CEO education
ESG	Environmental, social and governance
EXT.DIRECT	External directorship
F.AGE	Firm age
FDI	Foreign direct investment
FOUNDER	CEO founder
GENDER	CEO gender
GROWTH	Sales growth
INV	Long-term investments
LEV	Financial leverage
MCCG	Malaysian Code on Corporate Governance
MTB	Market-to-book ratio
NEW	CEO newness
PLCs	Public listed companies
R&D	Research & development
ROA	Return on assets
SDGs	Sustainable Development Goals
SEM	Structural equation modelling
SHARE	CEO share ownership
SIZE	Firm size
TENURE	CEO tenure
WCED	World Commission on Environment and Development

KUASA KETUA PEGAWAI EKSEKUTIF DAN PRESTASI ESG DI NEGARA-NEGARA MEMBANGUN ASEAN: PERANAN PENGANTARA PENGAMBILAN RISIKO PENGURUSAN

ABSTRAK

Kemampanan perniagaan menekankan tanggungjawab korporat dalam rangka kerja Alam Sekitar, Sosial dan Tadbir Urus (dikenali sebagai *ESG*), yang penting untuk kemampanan jangka panjang bagi syarikat serta ekonomi secara keseluruhan. Teori *Upper Echelons* mencadangkan bahawa hasil sesebuah organisasi dipengaruhi oleh nilai dan asas kognitif pelaku yang berkuasa. Sebagai pembuat keputusan utama, Ketua Pegawai Eksekutif (dikenali sebagai *CEO*) mempunyai pengaruh yang besar terhadap keputusan syarikat. Kajian ini mengambil pendekatan menyeluruh untuk memperkayakan Teori *Upper Echelons* dengan mengintegrasikan rangka kerja kuasa CEO bersama rangka kerja pengambilan risiko pengurusan, bagi meneliti bagaimana prestasi ESG dipengaruhi oleh kuasa CEO dan kecenderungan mereka terhadap pengambilan risiko. Dengan menggunakan sampel sebanyak 1,044 pemerhatian firma-tahun daripada syarikat bukan kewangan yang tersenarai awam di negara-negara sedang membangun ASEAN (Indonesia, Malaysia, Filipina, dan Thailand) bagi tempoh 2009-2019, kajian ini menggunakan model structural equation modelling (SEM) panel. Keputusan empirikal yang mantap menunjukkan bahawa kuasa CEO memberikan pengaruh yang umumnya negatif tetapi bercampur terhadap prestasi ESG, dengan hasil yang berbeza mengikut dimensi kuasa. Yang pentingnya, kuasa CEO dikaitkan dengan tahap leverage kewangan dan R&D yang lebih tinggi, namun pengaruhnya terhadap tingkah laku pengambilan risiko tidak konsisten merentas proksi. Bentuk pengambilan risiko ini menunjukkan implikasi yang berbeza terhadap

ESG: leverage kewangan dan R&D berkait positif dengan prestasi ESG, manakala pelaburan jangka panjang menunjukkan hubungan negatif. Keputusan ini mencadangkan bahawa walaupun kuasa CEO yang tertumpu boleh melemahkan prestasi ESG, kesannya tidak seragam, dan strategi pengambilan risiko tertentu boleh sebahagiannya mengimbangi kesan tersebut. Peranan pengantara dalam pengambilan risiko pengurusan didapati sederhana dan tidak konsisten, menunjukkan bahawa ia hanya menerangkan sebahagian—tetapi bukan keseluruhan—hubungan antara kuasa CEO dan prestasi ESG. Secara keseluruhan, kajian ini menekankan sifat kuasa CEO yang kompleks dan bergantung kepada konteks dalam negara sedang membangun ASEAN. Ia menyumbang kepada Teori *Upper Echelons* dengan menunjukkan bahawa kuasa CEO bukanlah satu konstruk yang homogen, sebaliknya pengaruhnya bergantung pada bentuk kuasa tertentu yang dilaksanakan dan jenis pengambilan risiko pengurusan yang diambil. Analisis keteguhan mengesahkan keputusan ini, memperkukuh kesahan dan kebolehpercayaan penemuan empirikal kajian ini.

CEO POWER AND ESG PERFORMANCE IN ASEAN EMERGING COUNTRIES: THE MEDIATING ROLE OF MANAGERIAL RISK-TAKING

ABSTRACT

Business sustainability emphasises corporate responsibility within the framework of the Environmental, Social and Governance (ESG) agenda, which is essential for the long-term sustainability of both companies and the broader economy. The Upper Echelons Theory suggests that organisational outcomes are shaped by the value and cognitive bases of its powerful actors. As the primary decision-maker, the CEO wields considerable influence over the company's decisions. This study takes a comprehensive approach to enhance the Upper Echelons Theory by integrating the CEO power framework with the managerial risk-taking framework to examine how ESG outcomes are influenced by CEO power and risk-taking propensity. Using a sample of 1,044 firm-year observations from public listed non-financial firms in ASEAN emerging countries (Indonesia, Malaysia, the Philippines, and Thailand) over the period 2009–2019, this study employs a panel data structural equation modelling (SEM). The statistically robust results reveal that CEO power exerts a generally negative but mixed influence on ESG performance, with outcomes differing across power dimensions. Importantly, CEO power is linked to higher levels of financial leverage and R&D, but its influence on risk-taking behaviour is not consistent across proxies. These forms of risk-taking display divergent implications for ESG: financial leverage and R&D are positively related to ESG outcomes, while long-term investments show a negative association. Taken together, these results suggest that while concentrated CEO power may weaken ESG performance overall, its impact is not uniform, and certain risk-taking strategies can partially offset this effect. The mediating role of managerial risk-taking is found to be modest and inconsistent, indicating that it explains part—but not all—of the relationship between CEO power and ESG performance. Overall, the study highlights the complex and context-dependent nature of CEO power in ASEAN emerging markets. It contributes to the Upper Echelons Theory by showing that CEO power is not a monolithic construct, but one whose influence depends on the specific form of power exercised and the type of managerial risk-taking pursued. The robustness analysis confirms these results, reinforcing the validity and reliability of the empirical findings.

CHAPTER 1

INTRODUCTION

1.1 Introduction

This chapter outlines the structure of the research study. It begins with a background of the study in Section 1.2, followed by the problem statement in Section 1.3. Sections 1.4 and 1.5 explore the research questions and objectives of the study. Section 1.6 describes the scope of study. Section 1.7 discusses the significance of the research, highlighting its importance. Definitions of key terms are provided in Section 1.8. Finally, the organisation of the thesis is presented at the end of this chapter, offering a brief overview of the remaining chapters in the study.

1.2 Background of Study

1.2.1 Overview of ESG

The origin of the concept of "sustainability" is discovered in the 18th century, but it only gained prominence in the 20th century as concerns about environmental degradation, social inequality, and corporate governance issues intensified. Business organisations are often criticised for prioritising profit maximisation and increasing shareholder value at the expense of the social and environmental impacts of their activities (Porter & Kramer, 2011). Conventionally, the primary goal of a company is to maximise the wealth of its shareholders. However, from a stakeholder perspective, it's argued that communities, customers, employees, suppliers, banks, regulatory bodies, society, and the environment are also part of the concerned parties. Preston and Sapienza (1990) suggest that these major stakeholders can be seen as a community of interests, and their benefits are mutually beneficial. Thus, the concept of business sustainability suggests that a company should look beyond just maximising short-term shareholder profits, but also take into account the impact of their business operations on the well-being of all stakeholders (Freeman, 1984). This leads to a better connection between companies and their stakeholders, which in turn leads to long-term success.

Tonello and Singer (2015) define business sustainability as “the pursuit of business growth strategy by allocating the corporation’s financial or in-kind resources to Environmental, Social and Governance (ESG) practices”. It involves adopting a long-term approach and a broader range of responsibilities that positively affect the ecosystems, societies, and environments of the future (Ameer & Othman, 2012). These approaches and practices enable companies to create long-term firm value by identifying opportunities and managing economic, social and environmental risks simultaneously (López et al., 2007). In this respect, ESG provides the measurable and practical framework for assessing how companies translate the broad principles of sustainability into concrete practices. Accordingly, ESG is not separate from business sustainability, but rather represents its most widely recognised operationalisation in contemporary research and corporate reporting.

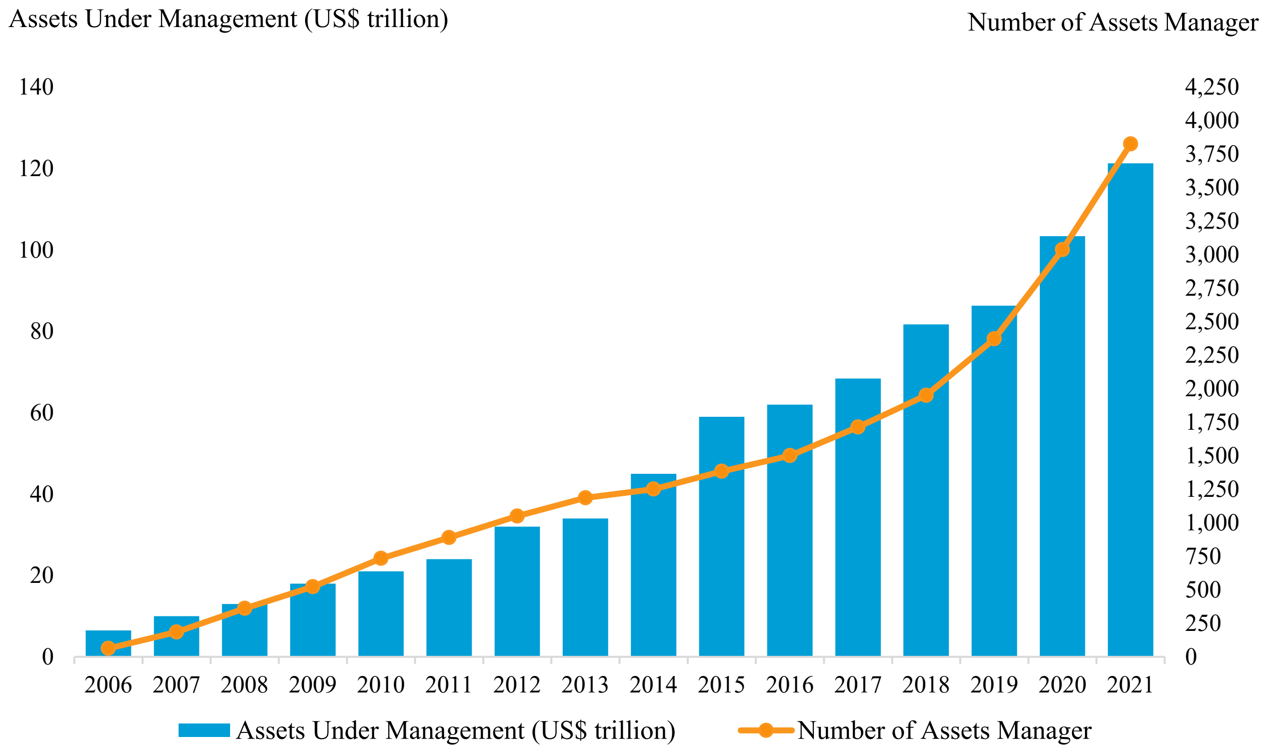
ESG is vital for the long-term success and sustainability of businesses, as it promotes better corporate governance and a deeper concern for environmental and social impacts. From an environmental standpoint, companies are under increasing pressure to tackle environmental challenges, such as reducing their carbon footprint and addressing climate change, to create a healthier environment for the community and future generations. Not doing so could lead to damage to the company’s reputation, regulatory penalties, and a loss of customers and investors who are increasingly focused on sustainable practices. From a social perspective, companies are expected to emphasise their social responsibility and address social issues like discrimination, human rights violations, labour practices, and community involvement. Companies that neglect these aspects could face negative repercussions such as regulatory risk, reputation damage, legal action, boycotts, etc. From a governance perspective, companies are expected to have robust and effective governance practices, including board structure, board oversight, director elections, executive payment, corruption and risk management to create value for shareholders and protect the interests of other stakeholders. Strong governance can help reduce agency costs, scandals, reputational risk and foster confidence in stakeholders.

The present ESG-related sustainability literature suggests that ESG or related sustainability initiatives benefit companies in terms of value creation for the company and lower the cost of borrowing. For example, Lau (2019) finds that ESG initiatives contribute to better market performance such as enhancing a firm’s market value and lowering the cost of debt and equity. Similarly, the study by Henisz et al. (2014) and Cheng et al. (2014) show that firms investing in ESG or related sustainability help to reduce both the cost of capital and the cost of equity. Many other studies (i.e., see Borghesi et al., 2014; Crifo et al., 2015; Dhaliwal et al., 2011; Ghoul et al., 2011; Mackey et al., 2007; Sharfman & Fernando, 2008; Wong et al., 2021) also share similar findings, their results enlighten that firms with socially responsible and environmentally sustainable practices have lower cost of equity. Indeed, ESG has numerous foreseeable advantages such as producing sustainable profits, cost savings from eco-friendly supply chains, limiting environmental risks and legal expenses, strengthening company reputation, better product quality and consumer satisfaction (Toronto Stock Exchange, 2014).

Facing today’s increasingly challenging and constantly changing business landscape, companies must continually improve their strategic adaptability and make necessary strategic changes and transformations, aiming for corporate sustainability in such a highly competitive setting. The objective of enhancing a firm's value and long-term success can be realised when the firm's management takes into account the interests of all stakeholders and incorporates the three dimensions of ESG performance (environmental, social and governance) into the management's strategic decision-making, the company's culture, business model and operational activities.

Moreover, the focus on ESG issues is growing rapidly among investors, regulators, and companies around the world to ensure that businesses are aligned with these goals (Tonello & Singer, 2015). ESG investments have experienced a remarkable increase and transformation over the past decade. This growth can be attributed to a heightened awareness of sustainability issues, environmental impacts such as global warming, carbon emissions, regulatory demands, and a shift in investor preferences. As a result, ESG has evolved from a niche area to a mainstream approach, increasingly considered by major institutional investors, including pension funds and asset managers, in their investment portfolios and decision-making processes. This shift has led to a significant increase in funds and investment products with an ESG focus. As illustrated in Figure 1.1, as of 2021, over 3,800 assets managers incorporate ESG factors into their investment analysis and decision-making processes, committing beyond $120 trillion. This number has grown exponentially compared to merely 63 assets managers with a value of $6.5 trillion 15 years ago[1].

[1] Statistics were retrieved from the Principles for Responsible Investment (PRI) database at https://www.unpri.org/about-us/about-the-pri. Developed by an international group of institutional investors to reflect the growing importance of ESG issues, the PRI database compiles information from its signatory organisations worldwide. The most recent data available is up to 2021; hence, this study reports statistics only up to that year.



Source: Principles for Responsible Investing (PRI)

Figure 1.1 The Rise of ESG Investments

In addition to investors, regulatory bodies are increasingly focusing on ESG issues. Governments and regulatory agencies around the world are adopting or enhancing ESG reporting standards to align with international guidelines. With the increasing recognised of ESG initiatives, stock exchanges are taking steps to promote these practices. For example, requiring PLCs to disclose their sustainability reporting to capital markets under the name of ESG (Murphy & McGrath, 2013). In 2010, a survey by the Sustainable Stock Exchanges (SSE) initiative revealed that only 6 stock exchanges had made strides in improving ESG practices among the listed companies (Sustainable Stock Exchanges, 2010). By 2014, another SSE survey indicated that 55 stock exchanges, particularly those from developing countries, had significant development and involvement in advocating sustainability reporting, giving guidance on ESG-related matters and producing sustainable investment products (Sustainable

Stock Exchanges, 2014). As of 2025, 74 stock exchanges monitored by the SSE have issued ESG reporting guidelines for their listed companies (Sustainable Stock Exchanges, 2025). Facing the increasing awareness of social and environmental issues today, the growth of the number of stock exchanges joining the SSE initiative reflects that ESG is more important now than ever before.

The United Nations Global Compact (2013) advocates that non-financial ESG dimensions of sustainability performance are just as crucial as financial performance, offering investors new risks and opportunities in evaluating the value of their investment portfolios. Nowadays, stakeholders consider beyond a company's financial performance and have begun to look into ESG performance (Berjillos et al., 2009; López-Arceiz et al., 2018; van Duuren et al., 2016). For instance, global businesses and investors started to employ sustainability performance data in their business and investment decisions (Rogers, 2015). Statistics reveal that about three-quarters of investment professionals consider ESG performance factors in their investment decisions and are more devoted to sustainable companies with an ESG focus (CFA Institute, 2018; Investor Responsibility Research Center Institute (IRRCi, 2018).

The Wall Street Journal highlighted that investors are becoming more discerning in their investment choices, focusing more on companies that align with their values, particularly in social and environmental matters. This shift has led to an increase in the amount of money invested in companies that demonstrate positive social or environmental behaviours, while reducing investments in those involved in activities deemed unethical (Avetisyan & Ferrary, 2013). For instance, Hamilton (1995) finds a sharp decline in the company stock price when the company announces a toxic release. Godfrey et al. (2009) discovered that companies with a strong commitment to sustainability can lessen the impact of negative environmental events on their stock prices. Moreover, a recent study by Hoepner et al. (2024) shows that companies that are actively involved in ESG, especially those prioritising environmental concerns, can lessen their risk during a crisis. Stakeholders conjecture that a company with a strong ESG track record should also excel in market performance (Frooman, 1997; Schuler & Cording, 2006). Therefore, stakeholders will acknowledge such good behaviour by investing, purchasing and achieving increased product efficiency (Li et al., 2018).

Various groups of stakeholders, regardless of primary or secondary stakeholders, are exerting pressure on companies to surpass the minimum legal standards for ESG practices, aiming to enhance their positive influence on society and the environment (Eliwa et al., 2021). Even credit rating agencies take into account ESG factors in their credit risk and credit rating assessments. As reported by the Principles for Responsible Investment (2017), over a hundred institutional investors and credit rating agencies are dedicated to factoring ESG aspects into their credit risk evaluations and credit rating processes. Besides, financial institutions also evaluate a company's ESG disclosure and performance in their credit decision-making processes. The finding of Eliwa et al. (2021) proves that companies with stronger ESG performance tend to have lower borrowing costs.

According to PwC (2022), 90% of asset managers believe that incorporating ESG into their investment strategies could enhance overall returns. Additionally, 60% of institutional investors have reported that ESG investments have outperformed those without an ESG focus. While Bloomberg Intelligence (2023) revealed that 85% of investors and companies participating in the survey are committed to ESG. In the face of geopolitical challenges and macroeconomic conditions, they still intend to increase their ESG investment for the next five years. 85% of the surveyed investors report that ESG helps to build more resilient portfolios, leading to greater investment returns. 84%

of the company's executives claim that ESG contributes to a more vigorous corporate strategy. Hence, both investors and executives view ESG performance as a crucial element of business success (United Nations Global Compact, 2013). ESG scores are seen as the primary financial indicator in assessing a company's ESG performance (Friede et al., 2015). From the investors' perspective, ESG scores help to reduce the risk a company encounters in the event of social controversy or environmental concerns, as investors will predict the possibility of adverse effects on their investments in such circumstances (Escrig-Olmedo et al., 2010, 2019). Therefore, a high ESG score suggests a greater likelihood of keeping away from such events, indicating that ESG indirectly reflects a company's ability in managing and extenuating risks related to stakeholders (Díaz et al., 2021).

Traditional beliefs assert that ESG activities and investment give rise to opportunity costs and do not provide any financial benefits due to inefficient allocation of capital (Ambec & Lanoie, 2008; Aupperle et al., 1985; Friedman, 1970; Palmer et al., 1995; Walley & Whitehead, 1994). Nonetheless, recent studies find that ESG offers numerous financial benefits, such as improving firm performance (Broadstock et al., 2021; Buallay, 2019; Krüger, 2015), increasing firm value (Fatemi et al., 2018; Ghoul et al., 2017; Wong et al., 2021) and lowering the cost of debt or cost of equity (Borghesi et al., 2014; Crifo et al., 2015; Dhaliwal et al., 2011; Eliwa et al., 2021; Ghoul et al., 2011; Mackey et al., 2007; Sharfman & Fernando, 2008; Wong et al., 2021).

Besides financial benefits, ESG activities also provide non-financial benefits as documented in various literature. For instance, reducing the consumption of material and increasing product efficiency (Aras & Crowther, 2008; Porter & van der Linde, 1995; Russo & Fouts, 1997), fostering customer loyalty and overall customer satisfaction (Albuquerque et al., 2019; Pérez & Rodríguez del Bosque, 2015; Ramlugun

& Raboute, 2015; Sen & Bhattacharya, 2001; Walsh & Bartikowski, 2013), extenuating from regulatory burden (Freeman, 1984; Neiheisel, 1995), improving company's competitive advantage (E-Vahdati & Binesh, 2022; Godos-Díez et al., 2011; Russo & Fouts, 1997), enhancing company's reputation and strengthening its interactions with stakeholders (Branco & Rodrigues, 2006; Quazi & O'Brien, 2000) and developing long-term relations with key stakeholders (Donaldson & Preston, 1995; Freeman, 1984, 2010).

Taken together, ESG can be seen as a strategic tool for companies. Hence, it is believed that the benefits of a company engaging in ESG activities could offset the costs associated with ESG activities. Focusing on ESG performance can open up opportunities for companies to identify suitable operational strategies, strategic changes and transformation that could render better financial performance, company valuation and sustainability in the long run (Al-Najjar & Anfimiadou, 2012; Kiron et al., 2013; Porter & Kramer, 2011).

1.2.2 ESG Initiatives in ASEAN Emerging Countries

The Association of Southeast Asian Nations (ASEAN)'s role in pioneering ESG practices in Southeast Asia is becoming increasingly apparent. The ASEAN sustainability initiative began in 1967, coinciding with the growth of member countries' economies and the intensification of global challenges related to environmental issues and social inequality. The bloc recognised the necessity for a unified approach to sustainable development, especially as ASEAN's emerging countries positioned themselves as key drivers of global economic growth. Given Southeast Asia's rich biodiversity, climate change poses significant existential threats to the region.

In response, ASEAN has prioritised environmental preservation. Initiatives such as the ASEAN Agreement on Transboundary Haze Pollution and the ASEAN Centre for Biodiversity highlight the bloc's commitment to addressing regional environmental challenges. The adoption of the ASEAN Community Vision 2020 in 2003 laid the groundwork for integrating ESG principles. This vision subsequently led to the establishment of the ASEAN Socio-Cultural Community (ASCC) in 2009, which became the primary vehicle for promoting social development and environmental protection among member states. The ASCC's blueprint encompasses a variety of ESG themes, including climate change mitigation, biodiversity conservation, worker rights, and corporate social responsibility (CSR). Additionally, the ASEAN Capital Markets Forum (ACMF) has created the ASEAN Taxonomy for Sustainable Finance framework to support member states in adopting sustainable finance practices and transitioning to low-carbon and sustainable development.

ASEAN's emerging countries are increasingly incorporating ESG principles into their development strategies, aligning closely with the United Nations Sustainable Development Goals (SDGs). From an environmental perspective, for example, Indonesia and Malaysia's sustainable palm oil initiatives contribute to SDG 12 (Responsible Consumption and Production) while also protecting biodiversity by reducing fossil fuels and emissions, aligning with SDG 13 (Climate Action). Social aspects of ESG, to promote equal opportunities and responsible corporate practices such as fair labour practices and gender equality, align with SDG 5 (Gender Equality), SDG 8 (Decent Work and Economic Growth) and SDG 10 (Reduced Inequalities). From a governance perspective, which encourages responsible business practices and sustainable industrialisation, supports SDG 9 (Industry, Innovation, and Infrastructure), while transparency and anti-corruption measures reinforce SDG 16 (Peace, Justice, and Strong Institutions). Despite challenges such as weaker regulatory and high compliance costs, ASEAN's commitment to ESG-driven policies is fostering sustainable economic growth and a more resilient future in line with the SDGs.

Rapid economic growth often conflicts with environmental sustainability, presenting challenges in harmonising development with ESG principles. Nonetheless, ASEAN's dedication to sustainable development is evident through initiatives like the ASEAN Community Vision 2025, which aims for a resilient and inclusive future that balances economic growth with environmental and social welfare. Recognising the complexities and global nature of ESG challenges, ASEAN has actively pursued collaboration with external entities. Partnerships with organisations such as the United Nations, the World Bank, and various NGOs have been instrumental in shaping ESG policies, research, and initiatives throughout Southeast Asia.

With the growing recognition of sustainability's significance, ESG reporting in ASEAN is on the rise. ASEAN emerging economies have made substantial strides in ESG reporting, requiring public listed companies (PLCs) to disclose their sustainability reports to the capital markets. For instance:

Bursa Malaysia (the stock exchange of Malaysia) launched the FTSE4Good Index in 2014 and has mandated that all PLCs submit annual sustainability statements as part of their annual reports since 2016. These reports must address ESG risks, management practices, and performance. Additionally, the Malaysian Code on Corporate Governance (MCCG) encourages companies to adopt strong governance practices that align with ESG principles, including ethical business conduct and effective risk management.

The Stock Exchange of Thailand (SET) has encouraged listed companies to voluntarily demonstrate their commitment to ESG responsibility since 2015. This initiative has since become mandatory, with a requirement to report on ESG matters in the annual sustainability report starting in 2022. The Thai Corporate Governance Code emphasises ESG factors and mandates that listed companies adopt sustainable and transparent practices, while also promoting the integration of ESG principles into business strategies.

The Financial Services Authority of Indonesia (OJK) has been advancing a sustainable finance agenda and developing related regulations since 2013, but ESG was formally introduced only in 2017, aimed at improving environmental, social performances and governance effectiveness. However, OJK requires financial institutions and PLCs to publish sustainability reports that disclose their ESG-related activities or include them as an integral part of their annual reports since 2021.

The Securities and Exchange Commission (SEC) of the Philippines introduced the Sustainability Reporting Guidelines in 2019. The SEC mandates that PLCs disclose non-financial information related to environmental, social, and governance factors and submit their sustainability report annually starting in 2025.

The implementation of ESG regulations across the four ASEAN emerging economies has produced several notable impacts. In general, mandatory reporting requirements have enhanced corporate transparency, improved the quality of sustainability disclosures, and increased investor confidence. Malaysia and Thailand have seen stronger inclusion of listed firms in international ESG indices and significant growth in sustainable finance instruments, such as green sukuk and ESG ratings. Indonesia has pioneered sovereign green sukuk issuances since 2018, while the Philippines is gradually transitioning from a voluntary “comply-or-explain” framework toward a fully mandatory disclosure regime by 2025, signalling greater alignment with global standards. Collectively, these initiatives have expanded the sustainable finance market, strengthened corporate accountability, and positioned ASEAN firms more competitively in attracting international capital, although adoption remains uneven and still faces significant challenges in ASEAN emerging countries.

1.2.3 Why ASEAN Emerging Countries?

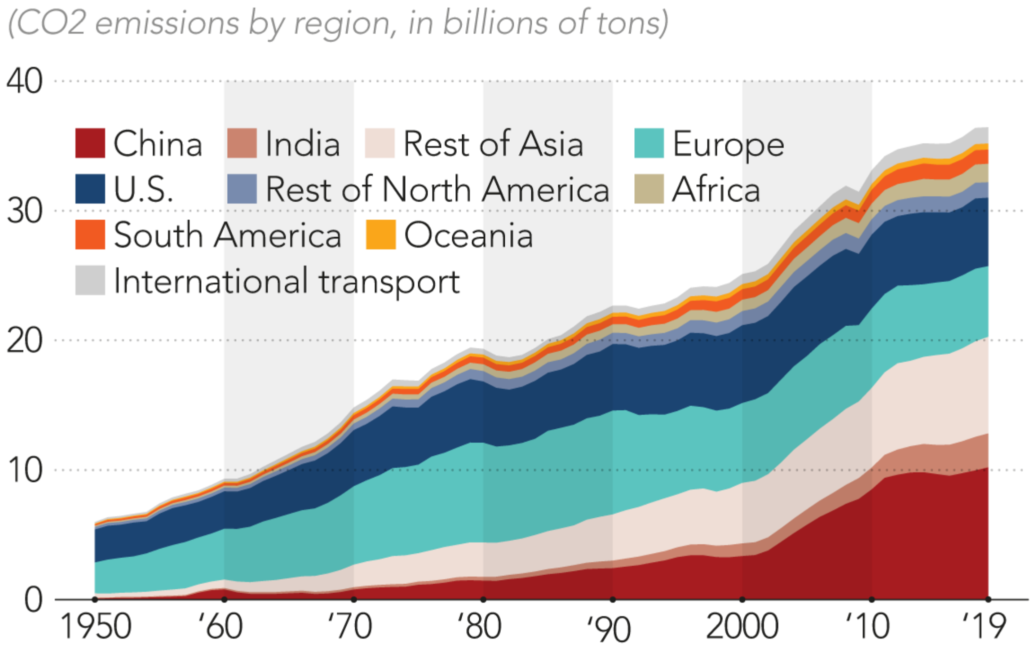
Southeast Asia stands out as a leading economic force, having experienced rapid development over the last two decades and serving as a key driver of global economic growth (IEA, 2022). ASEAN reported a GDP of approximately US$3.6 trillion in 2022, with an annual growth rate of 4.2%, securing the fifth position globally after the US, China, Japan, and Germany (Hong Kong Trade Development Council, 2024). It is projected to be the world's fourth-richest bloc by 2030 (Global Finance, 2024).

Emerging market economies, therefore, play a crucial role in economic growth and transition towards a greener and more sustainable future. They account for 86% of the global population, with Asia leading across all regions (IMF, 2024). As major sources of demand for goods and services, as well as key suppliers of raw materials and manufactured products, these countries now hold a larger share of global GDP and trade than in the past. Their GDP growth rates, averaging 6–7% annually compared to below 3% in developed economies, underscore their increasing economic weight (Corporate Finance Institute, 2022).

However, this rapid economic expansion comes at a cost. Emerging markets, including ASEAN, contribute about 60% of global GDP but also account for 75% of global carbon emissions (Brookings, 2023). Historically, over 85% of global carbon emissions could be traced to the United States and Europe by the 1950s (Nikkei Asia, 2021). Yet, in the 20th century, Asia had become the largest contributor, emitting more than half of the world's carbon emissions (see Figure 1.2). Brookings (2023) further warns that emissions in Southeast Asia could rise by nearly 35% by 2030 due to continued rapid growth (IEA, 2022).

Thus, while ASEAN's economic achievements are impressive, they heighten the urgency of embedding ESG practices into corporate strategies. Despite their commitments to ESG initiatives aimed at fostering sustainable development and resilience, the region continues to encounter considerable sustainability challenges, including huge carbon emissions, vulnerability to climate change, and discrepancies between the adoption of ESG guidelines and their implementation in practices. These issues make examining ESG in ASEAN emerging countries timely and necessary.

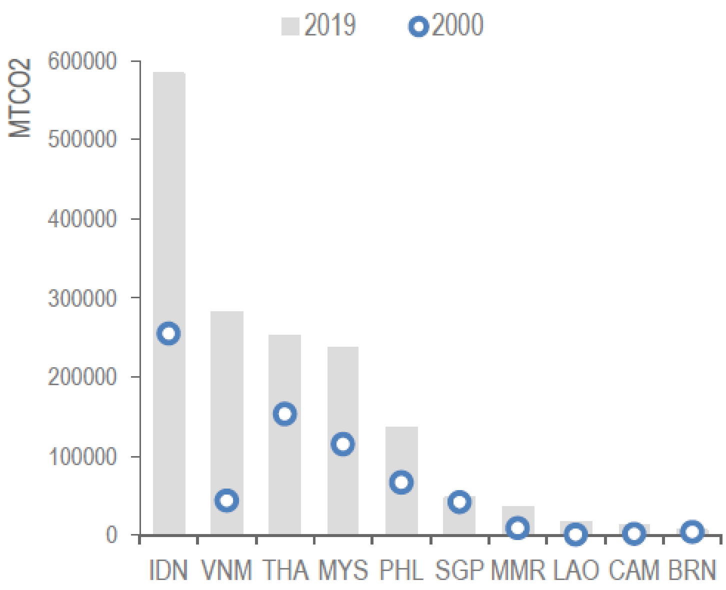
As shown in Figure 1.3, Indonesia, Vietnam, Thailand, Malaysia, and the Philippines are the largest contributors of carbon emissions. This underscores the critical importance of ASEAN's active involvement in achieving global sustainability goals (Brookings, 2023; Goldman Sachs, 2024).



Source: Nikkei Asia (2021)

Figure 1.2 Carbon Emissions CO2 by Region

Note: All figures reflect the most recent data available at the time of thesis preparation.

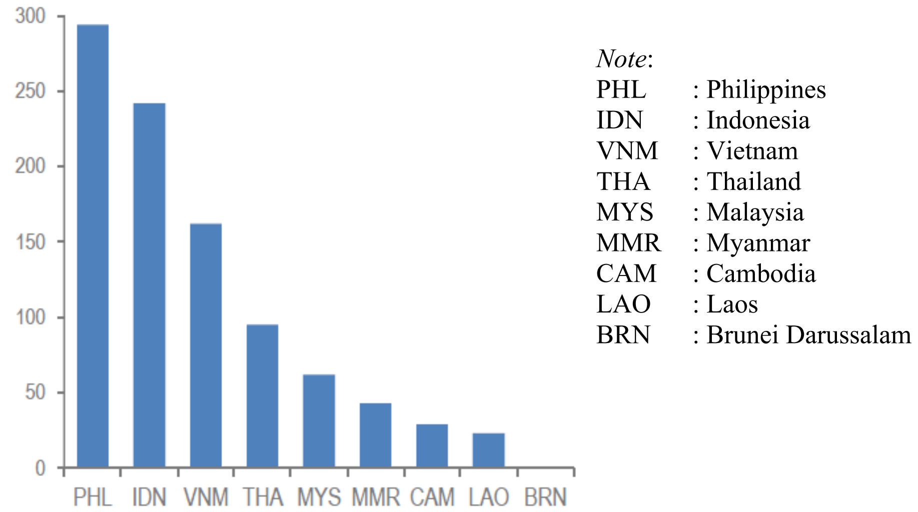


Note:
IDN : Indonesia
VNM : Vietnam
THA : Thailand
MYS : Malaysia
PHL : Philippines
SGP : Singapore
MMR : Myanmar
LAO : Laos
CAM : Cambodia
BRN : Brunei Darussalam

Source: OECD (2023)

Figure 1.3 Carbon Emissions CO2 in Southeast Asia

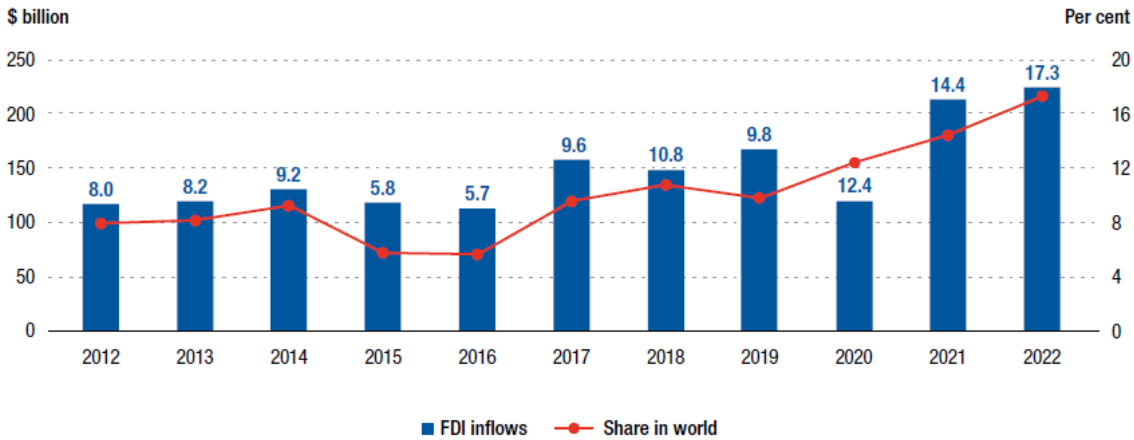
Nonetheless, Bilgin et al. (2021) argue that ASEAN emerging economies are characterised by increased uncertainty due to political, regulatory and economic instability, with significant challenges such as poverty, limited access to funding, governance deficiencies, social disparities, and environmental concerns. All of these could hinder economic development, growth, and long-term sustainability. For example, these countries are particularly vulnerable to global market fluctuations due to their reliance on exports, especially commodities, which leaves them exposed to shifts in demand and changes in commodity prices. Furthermore, Figure 1.4 shows that ASEAN emerging economies are particularly at risk from climate-related events, including rising sea levels and floods, which threaten agricultural output and infrastructure, posing long-term risks to their economic development. Such obstacles create a compelling context for examining how CEO power influences ESG performance within these markets, where sustainability and ESG issues are increasingly important but not always addressed effectively.



Source: OECD (2023)

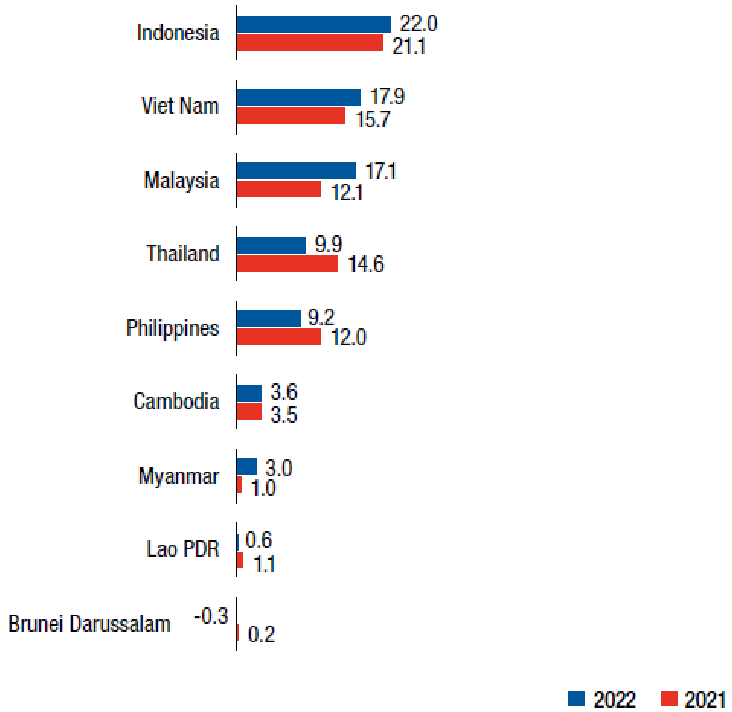
Figure 1.4 Frequency of Climate-Related Natural Disasters in Southeast Asia

However, Khanna and Palepu (2000) suggest that despite the weaker regulations, corporate governance, and transparency in these economies, ESG factors could hold significant value. Kim and Li (2021) and Friede et al. (2015) highlight the importance of ESG in the capital markets of emerging economies, noting that it has led to positive returns in these markets. Moreover, the IMF (2022) shows that investors are showing increasing interest in ESG opportunities in emerging markets. Statistic reveals that ASEAN's FDI inflows continue to be strong, hitting a record high of $224 billion in 2022 (Figures 1.5 and 1.6) despite a drop in global foreign direct investment (FDI) amid the COVID-19 pandemic. Among all, Indonesia is the recipient of the highest FDI inflows, followed by Malaysia, Thailand and the Philippines. It is important to note that ASEAN continues to demonstrate resilience and remains a top destination for FDI (ASEAN Investment Report, 2023). This illustrates their vibrant expansion and strategic significance in the global economy. Nevertheless, global investors are progressively incorporating ESG factors into their investment decisions. Consequently, although ASEAN enjoys substantial capital inflows, the region's capacity to sustain and attract future investments will increasingly hinge on how efficiently companies and governments tackle ESG challenges. Therefore, vigorous economic and FDI growth renders the ESG issue in ASEAN not merely an environmental and social matter, but also a crucial economic necessity.



Source: ASEAN Investment Report (2023)

Figure 1.5 FDI Inflows in Southeast Asia vs Global



Source: ASEAN Investment Report (2023)

Figure 1.6 FDI Inflows in Southeast Asia (By Country)

Integrating ESG elements into business operations enables emerging-market organisations manage risks, foster resilience, and create long-term value for stakeholders. This approach allows them to achieve positive social and environmental outcomes while also contributing to sustained economic growth and development. Importantly, the adoption of ESG principles is increasingly valued by global investors, many of whom prioritise sustainable investment strategies. For companies in ASEAN emerging economies, strong ESG performance can therefore serve as a competitive advantage, attracting ESG-focused capital, broadening the shareholder base, and strengthening relationships with institutional investors who are highly attuned to these issues (Tonello & Singer, 2015).

1.2.4 Overview of CEO Power

Power is defined as the ability to exert influence over others or strategic choices (Emerson, 1962; Finkelstein, 1992; Yetton & Bottger, 1982). A chief executive officer (CEO) holds the highest rank in an organisation and is typically responsible for managing the company and making major corporate decisions, including setting the company's direction, executing the company's strategy and allocating resources. Daily and Johnson (1997) and Hambrick and Finkelstein (1987) highlight that power is a crucial tool that enables the CEO to assemble resources for strategic action, and this power is inherent to the role (Daily & Johnson, 1997; Norburn, 1989). Thus, as the central decision-maker of an organisation, the CEO wields the greatest power to make critical investment and resource allocation decisions (Barker & Mueller, 2002). Therefore, the CEO is the most influential figure in an organisation and is expected to drive the strategic choices and outcomes of the organisation (Child, 1972; Daily & Johnson, 1997).

Contemporary research continues to underscore that CEO power is multidimensional and should not be evaluated using a single measure (Astley & Sachdeva, 1984; Daily & Johnson, 1997; Fang et al., 2020; Finkelstein, 1992; Krackhardt, 1990; Ting et al., 2017). Finkelstein (1992) suggests that there are no compelling theoretical reasons to favour any particular measure over others, which has led to the adoption of multidimensional approaches to assessing the CEO power construct. Finkelstein (1992) identifies four dimensions through which CEOs acquire power: structural, ownership, expertise, and prestige. This framework of CEO power offers a comprehensive understanding of power dynamics in organisational outcomes.

The primary source of CEO power is structural power, which arises from their hierarchical position within an organisation (Finkelstein, 1992; Hambrick, 1981). As noted by Harrison et al. (1988) and Ocasio (1994), holding multiple formal titles can enhance an individual's power. For instance, when a CEO also serves as the Chairperson of the board, this dual role strengthens their structural power. By holding both roles, the CEO is inferred to have a more dominant position, allowing them to influence the organisation's decisions and outcomes with less oversight from the board (Hayward & Hambrick, 1997). Empirical evidence shows that a CEO's structural power can significantly influence organisational outcomes. For example, it has been found to positively impact risk-taking (Altunbaş et al., 2020; Lewellyn & Muller-Kahle, 2012), enhances financial performance (Fang et al., 2020; Yahaya, 2025), while some hinder firm performance (Han et al., 2016; Ting et al., 2017; Veprauskaitė & Adams, 2013), and CSR engagement (Sheikh, 2019).

The second source of power is ownership power, which refers to the legal rights and entitlements associated with ownership. Specifically, a CEO's share ownership is often viewed as the most direct way to gauge their power (Finkelstein, 1992). CEOs who hold substantial shares in the company generally enjoy greater influence and autonomy, providing them with a strong foundation to shape the company's strategy and direction (Allen, 1981; Mio et al., 2016). These CEOs are somewhat insulated from internal oversight, making it difficult for the board to remove them from their positions (Denis et al., 1997). Therefore, it is argued that CEO share ownership diminishes the board's power and reduces the potential uncertainties or constraints on strategic decision-making that may arise from strong board oversight (Finkelstein, 1992). Empirical studies by Sheikh (2019) indicate that a CEO's ownership power negatively impacts CSR. While Fang et al. (2020) and Ting et al. (2017) find that ownership power improves organisational performance, Onali et al. (2016) and Veprauskaitė and Adams (2013) reach opposing conclusions. This highlights that CEO ownership power has a significant effect on organisational outcomes and performance.

The next source of power is expert power, which is based on the perceived ability derived from knowledge or expertise (Lines, 2007). This type of power tends to increase when the expertise is in an area that is crucial to the organisation (Hickson et al., 1971). Possessing expert power can be advantageous in board decision-making discussions (Firstenberg & Malkiel, 1994) and in managing environmental contingencies (Finkelstein, 1992). CEOs with expert power have greater access to company-specific information and typically exert more control over the accessibility of information by the board (Daily & Johnson, 1997). This empowers CEOs to influence directors (Daily & Johnson, 1997; Finkelstein, 1992) and significantly impacts the company's strategic decisions (Yetton & Bottger, 1982). Studies indicate that expert power helps reduce environmental impact (Walls & Berrone, 2017) and enhances performance (Fang et al., 2020).

Lastly, prestige power is the ability to influence others through personal prestige or status. This includes the respect and esteem CEOs gain due to their perceived accomplishments and attributes (Haleblian & Finkelstein, 1993). CEOs with prestige power often wield power through their reputation and connections with influential people in the business world, providing support from external sources to address institutional environment uncertainties (Wu et al., 2011). Such prestigious CEOs may face less scrutiny from the board (Hengartner, 2006) and may further consolidate their power (Hayward et al., 2004), which significantly influences organisational outcomes. For instance, Fang et al. (2020) found that prestige power enhances performance.

From a corporate governance perspective, the concentration of power within the CEO position can potentially undermine the effectiveness of corporate governance. According to Daily and Johnson (1997), CEOs, in comparison to non-executive board members, typically have greater access to company-specific information and more control over information accessibility. As CEOs accumulate more power, their ability to influence board initiatives and dictate the outcome of board meetings increases (Morse et al., 2011), thereby limiting the flow of information to other board members and reducing the board's oversight over the CEOs' actions (Fama & Jensen, 1983; Jensen, 1993). Furthermore, scholars like Denis et al. (1997) and Zhang et al. (2016) argue that CEOs often dominate board decisions and resist being removed from their positions, often due to their significant share ownership in the company. Thus, this concentration of power enables CEOs to exert influence over other board members and stakeholders within the organisation (Daily & Johnson, 1997; Finkelstein, 1992).

The Upper Echelons Theory suggests that the strategic decisions and outcomes of an organisation are partially determined by the value and cognitive bases of its powerful actors (Hambrick & Mason, 1984). As the most powerful figure in an organisation, the power associated with the CEO plays a crucial role in shaping the strategic choices of the organisation. This theory proposes that CEO power influences their value and cognitive bases, thereby affecting their attitudes and risk-taking tendencies towards risk. These risk attitudes, in turn, influence the strategic decisions and the overall performance of the organisation (Everaert et al., 2019; Hambrick, 2007; Hambrick & Mason, 1984).

This is supported by existing literature, which indicates that CEO power significantly influences the strategic decisions and outcomes of organisations. For instance, CEO power is found to be a key factor in explaining various organisational outcomes, including company performance (e.g., see Adams et al., 2005; Fang et al., 2020; Han et al., 2016; Onali et al., 2016; Ting et al., 2017; Veprauskaitė & Adams, 2013; Yahaya, 2025), company value (e.g., see Chiu et al., 2021), dividend policy (e.g., see Onali et al., 2016) and CEO compensation (e.g., see Luo, 2015). It also plays a crucial role in understanding an organisation's sustainability, as seen in studies related to CSR engagement (e.g. see Jiraporn & Chintrakarn, 2013; Sheikh, 2019), CSR performance (e.g. see Chu et al., 2023; Harper & Sun, 2019), CSR disclosure (e.g. see Pucheta-Martínez & Gallego-Álvarez, 2021; Rashid et al., 2020), environmental performance (e.g. see Al-Shaer et al., 2023; Francoeur et al., 2021; Walls & Berrone, 2017) and environmental innovation (e.g. see Yi et al., 2023; Zhang et al., 2022). Additionally, CEO power is important in explaining risk-taking behaviour, with empirical research showing its impact on risk-taking (e.g. see Altunbaş et al., 2020; Lee & Hooy, 2024; Lewellyn & Muller-Kahle, 2012; Pathan, 2009; Sghaier & Hamza, 2024; Shahab et al., 2020; Tran et al., 2024; Victoravich et al., 2011) and specifically in areas such as R&D investment (e.g. see E-Vahdati & Binesh, 2022; Naaman & Sun, 2022), crash risk (e.g. see Al Mamun et al., 2020; Kalia, 2024; Shahab et al., 2020), innovation (e.g. see Aibar-Guzmán & Frías-Aceituno, 2021; Qiao & Fung, 2016), leverage (e.g. see Sheikh, 2024) and M&A (e.g. see Zhou et al., 2020).

Although present literature suggests that CEO power plays a significant role in shaping strategic decisions and organisational outcomes, empirical findings remain inconclusive. Empirical studies indicate that CEO power can yield both positive and negative effects on organisational outcomes. For example, powerful CEOs can more effectively manage the success of implementing an organisation's strategy with less resistance (Adams et al., 2005; Haynes & Hillman, 2010). This can lead to enhanced company performance and competitiveness, ultimately contributing to the company's long-term sustainability. However, powerful CEOs may also make drastic decisions that result in rash or poorly considered choices, which can be detrimental to the company's outcomes (Naaman & Sun, 2022; Ting et al., 2017). Therefore, it is evident that CEO power acts as a double-edged sword, capable of shaping an organisation's outcomes for better or worse. This highlights the need to further investigate the effect of CEO power on ESG performance. Specifically in matters of sustainability, powerful CEOs can either support or undermine sustainability initiatives based on their interests and values. While CEOs with a long-term focus can quickly advance and encourage a company to embrace sustainability, those prioritising immediate or short-term financial gains may neglect ESG goals and hinder substantial progress toward sustainable practices.

1.2.5 The Role of Managerial Risk-Taking in CEO Power and ESG Performance

Embracing risk-taking is a crucial strategy and a fundamental approach to decision-making in corporate operations. The business environment is constantly evolving, necessitating strategic decisions that are bold (Khandwalla, 1977). Companies that avoid risk in a changing environment risk losing their competitive edge, failing to survive in the market, and falling behind more assertive competitors (Covin & Slevin, 1991). As argued by Ding et al. (2015), risk-taking can lead to growth, innovation, and prosperity when managed effectively. Therefore, risk-taking is highly valued as a critical strategy for a company's growth, value enhancement and success (March & Shapira, 1987; Younas & Zafar, 2019).

The Upper Echelons Theory suggests that the way managers perceive, understand, and interpret the business environment significantly influences their strategic orientation, including their willingness to take risks (Hambrick & Mason, 1984). As the central decision-makers within a company, the CEOs hold the most power in making critical decisions about investments and resource allocation (Barker & Mueller, 2002). Thus, the choices or preferences CEOs make regarding risks are of paramount importance in decision-making and have a significant impact on the company's performance, growth capabilities, and sustainability (Bromiley, 1991).

Based on the Upper Echelons Theory, a company's behaviour often reflects the personal decision-making style of its CEO (Korkeamäki et al., 2017). This influence becomes particularly pronounced when the CEOs possess dominant power over the allocation of resources and the strategic direction of the company. This power enables the CEOs to exercise their executive power in executing the company's strategies and resource allocation in the way they see fit. CEO power, though abstract, is manifested through executive authority, especially when decision-making lies primarily with the CEO rather than the top management team (TMT) or group consensus. This dynamic is most evident in CEOs who are founders, hold dual roles (being the CEO and board chairperson), own significant company shareholdings, or serve longer tenures in CEO positions. While these power profiles may not be directly observable, they are often revealed through specific financial management styles that reflect the CEO's personal