

When Governance Meets Sustainability: The Role of Diversity in Driving ESG Performance across ASEAN Emerging Markets

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Abstract

This study investigates the impact of Diversity Score and Average Board Tenure (ABT) on the Environmental, Social, and Governance (ESG) performance of companies across ASEAN countries, utilizing System-GMM on a panel dataset of 871 companies spanning from 2015 to 2024. The findings reveal that Diversity Score significantly and positively influences the environmental pillar of ESG performance. While the relationship between ABT and ESG performance is non-linear, it is not significant in the main model. However, CEO Duality fundamentally moderates this dynamic. CEO Duality transforms the ABT-ESG relationship into a U-shaped curve, where ESG performance initially declines before recovering after approximately 9.69 years, contrary to prior predictions. Hypothesis 1, regarding the positive impact of Diversity Score on ESG, is supported, while Hypothesis 2, relating to the non-linear relationship between ABT and ESG, shows no significant effect in the main model. Hypothesis 3, exploring the moderating effect of CEO Duality on the Diversity Score-ESG relationship, is significantly supported. These results enrich the Upper Echelons and Agency Theory by highlighting the complex interplay between board characteristics, leadership structure, and sustainability performance in emerging markets. From a practical perspective, this study underscores the importance of separating roles and instituting dynamic board tenure policies to optimize ESG impacts. Moreover, by addressing potential endogeneity issues through the application of System-GMM, this research offers a more robust and credible analysis of the relationship between governance and ESG performance.

