

The Impact of Management under the Executive's Experience on Sustainability Reporting and Returns

¹Natha Sawatenarakul, and ²Yutthajakr Uttajarearn

Faculty of Business Administration, King Mongkut's University of Technology North Bangkok, Thailand

E-mail: ¹natha.s@fba.kmutnb.ac.th, ²yutthajakr.u@fba.kmutnb.ac.th

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Abstract

The objective of this study was to analyze the impact of management under the executive's experience on sustainability reporting and returns in agriculture, food, and natural resource businesses. The aim was to instill confidence in potential investors or those interested in investing in these business sectors. The research used structural equation modeling with territorial data. The results from both business sectors revealed that executive experience has a direct and positive influence on environmental, social, and governance (ESG) reporting and business performance. ESG reporting (ESE) has a direct and positive impact on business performance.

Keywords: Impact; Executive's Experience; Sustainability Reporting; Returns

Introduction

Due to escalating and intricate environmental and social issues, leading to increased risks in current business operations, the nature of conducting business in each industry group confronts distinct challenges. Therefore, business disclosure must align with operational efficiency addressing environmental, social, and governance issues (ESG). Each organization thus selects top-level executives with suitable characteristics to manage the organization effectively, ensuring sustainable and efficient operations for the future (Soheilyfar et al., 2014).

Managing an organization to achieve its goals is a challenging task that requires various components, particularly the knowledge, abilities, and experience of the top executive, the Chief Executive Officer (CEO), who plays a crucial role in organizational oversight (Soheilyfar et al., 2014). The CEO is responsible for managing operations, providing regular business guidance,

proposing alternatives and strategies aligned with board policies and/or company boards, executing strategies and business plans, defining organizational structures, issuing orders, regulations, announcements, and records within the company. This ensures that company operations adhere to policies and preserve the company's interests. The CEO is involved in examining, monitoring, and evaluating the performance of the company's management, offering recommendations for addressing various challenges and reporting operational results to the company's board every quarter. Thus, the CEO is a pivotal figure in steering the organization toward its business objectives (Peni, 2014; Soheilyfar et al., 2014; Ting et al., 2015).

Therefore, holding positions and backgrounds of executives, such as work experience, influence decision-making behavior. Executives with specific industry experience lead companies towards higher efficiency, especially in high-growth company groups (Huang et al., 2023). Executives are pivotal figures in the board of directors, exerting significant influence on strategic decision-making within the company. This influence primarily impacts financial reporting, non-financial reporting, financial performance, and non-financial performance (Javeed & Lefen, 2019). Thus, researchers investigate the specific characteristics of management under work experience's influence on sustainability reporting and business performance in agriculture, food, and resource businesses registered in the Stock Exchange of Thailand. The goal is to instill confidence in investors and those considering investment in these business sectors.

This research paper presents structure and content of the article to be presented. It is usually written on purpose, or issues according to the topic of the article and benefits that will occur to academic circles or society.

From the issues above, this research article therefore presents the impacts that will occur under the experience of executives. That may affect financial reporting and returns in order to develop confidence and sustainability for users of financial statements, investors who want to invest in particular businesses, and so on.

Objectives

To examine the impact of management under the influence of the executive's experience on sustainability reporting, returns, and investment decisions in agriculture, food, and resource businesses registered on the Stock Exchange of Thailand.

Literature Review

Relevant Theories

The theoretical concepts applied in this study include the Agency Theory by Jensen and Meckling (1976), which asserts that managers have authority and discretion in managing and making decisions across various aspects of the organization on behalf of the owners. The Chief Executive Officer (CEO) is one individual within the management team or board of directors of the company. Additionally, the Stakeholder Theory is one of the main approaches in social, environmental, and sustainability management research. It aids in understanding the influence of stakeholders on organizational actions and how organizations respond to these influences. Stakeholders, who have both interests and impacts, often attempt to influence the philosophy and practices of the organization in sustainability reporting. The participation of stakeholders can be defined as 'collaboration based on trust between individuals and social institutions with different objectives, which can be achieved through cooperation' (Wang, 2017). Successful businesses must be able to manage relationships and create satisfaction for stakeholders who can influence the company's outcomes (Freeman & Philips, 2002).

The Executive's Experience

The characteristics of top-level managers, measured through prior tenure, contribute to their knowledge and capabilities. Having extensive experience enables them to address challenges comprehensively and utilize insights gained from past experiences, making decision-making more straightforward. This efficiency enhances organizational effectiveness, and efficiently utilized financial data (Ting et al., 2015). CEOs with prolonged tenures may have vast business networks, leading to various benefits for the company (Peni, 2014). Companies with long-tenured CEOs tend to exhibit better performance as the CEO's extensive experience aids in managing operations effectively during their tenure (Chou & Chan 2018, Ernestine & Setyaningrum, 2019). CEOs with low efficiency are typically removed early on. CEOs with deeper experience tend to have more abilities. CEOs with deep experience indicate high personal abilities and improved company efficiency (Huang et al., 2023, citing Allgood & Farrell, 2000). Research by Huang (2013) found that CEOs play a crucial role in decision-making and performance related to the company's social responsibility. Velte (2020) found that empowered CEOs can have a positive influence on Environmental, Social, and Governance (ESG) aspects and financial performance. Ernestine & Setyaningrum (2019), and Huang et al. (2023), discovered that CEO tenure positively impacts company performance.

Environmental, Social, And Governance (ESG) Report

A ESG report is a document that discloses comprehensive, accurate, and transparent information of a registered company. It is a crucial mechanism that helps build confidence and attract the interest of investors. In addition to financial information, environmental, social, and governance (ESG) operational data is considered essential and influences the decisions of investors. Businesses must face increasing economic, social, and environmental risks and challenges. ESG data provides insights into the business from a broader perspective. In addition, it helps increase confidence among stakeholders regarding the long-term business potential (The Stock Exchange of Thailand, 2023). This results in a competitive advantage and contributes to the success of business operations. In other words, it results in improved financial performance (English and Schooley, 2014). Research conducted by Tang et al. (2012) found that companies demonstrating social responsibility through disclosure of social, environmental, and governance aspects tend to have improved Return on Assets (ROA). This is attributed to the positive impact of socially responsible operations, contributing to both tangible and intangible assets, ultimately benefiting the company's profitability. Similarly, Chen et al. (2015) discovered a positive correlation between social disclosure, including human rights, community, and product responsibility, and Return on Equity (ROE). This suggests that responsibility towards products positively influences the brand value and enhances competitiveness in the market, thereby impacting overall business performance. Waworuntu et al. (2014) studied ESG reporting in 34 companies listed on the FTSE/ASEAN 40 Index in 4 countries: Singapore, Malaysia, Indonesia, and Thailand, during the years 2009–2011. The overall findings indicated a moderately positive correlation between ESG reporting and operational performance measured by Return on Assets (ROA), Return on Equity (ROE), and Earnings per Share. However, when analyzed separately by country, the correlation was considered relatively weak for Malaysia and Thailand.

Business Performance

The measurement of business performance from operations is done using financial indicators (Mishra & Suar, 2010; Huang et al., 2023), measured by Return on Assets (ROA) and Return on Equity (ROE). This is because these indicators can effectively reflect operational performance from the perspective of management and serve as tools for decision-making in organizational management. Additionally, investors determine to invest based on the returns of the business that can be considered from financial instruments in terms of ROA, ROE, etc.

Summary of the literature review to show that the authors took the theory/How are the concepts reviewed for use in research, in what areas?

Research Methodology

1. The population in this study consists of companies registered on the Stock Exchange of Thailand. Data was collected for 5 years, from the year 2018 to 2022, totaling 631 companies. A specific and targeted sample group was selected, including 190 companies in the agriculture and food business and 175 companies in the resource business (Stock Exchange of Thailand, 2022).

2. The research tool used to assess the level of sustainability reporting is a checklist. The researchers developed this checklist based on a review of academic literature and relevant research. This tool allows for a numerical analysis of the financial statements presented, aiming to achieve the research objectives.

3 . The data collection method for this research is a quantitative study, gathering information from annual reports, specifically the sustainability reports disclosed to the public. The data were collected from the 56 –1 annual reports and sustainability reports of companies that provided comprehensive information as follows:

Executive's experience, measured based on the duration in the executive position

Sustainability reporting uses criteria for scoring information disclosure in sustainability reports. If a company discloses sustainability information, it will receive a score of 1; conversely, if it does not disclose information as specified, it will receive a score of 0 (Mohd Ghazali, 2007). The index for information disclosure is calculated using the following formula:

$$\text{CSR Index} = \text{FS/TS}$$

Note: CSR Index = Corporate Social Responsibility Disclosure Index

FS = Actual score obtained by each company

TS = Maximum total score that each company anticipates obtaining

Where $0 < \text{CSR Index} < 1$

The Return on Assets ratio (ROA) is calculated by dividing the net profit (or loss) by total assets (Velte, 2020; Huang et al., 2023).

The Return on Equity Ratio (ROE) is calculated by dividing the net profit (or loss) by total equity (Huang et al., 2023).

4. The statistics used in the research involve assessing the influence by presenting them in the form of a Structural Equation Model. The statistics for evaluating the goodness-of-fit of the model against the observed data include the following indicators: (1) Chi-square Probability Level (p-value), (2) Relative Chi-square (CMIN/df), (3) Comparative Fit Index (CFI), and (4) Root Mean Square Error of Approximation (RMSEA).

Results of Data Analysis

Agriculture and Food Business

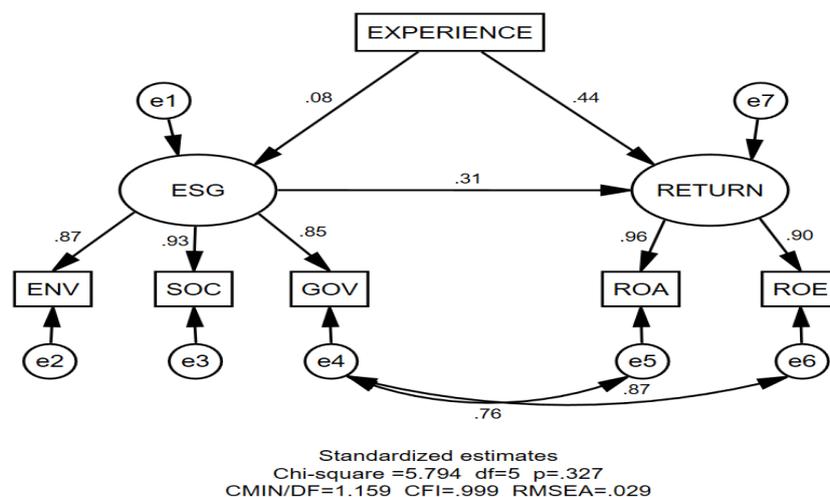


Figure 1 illustrates the analysis of the overall fit index of the Agricultural and Food Business model.

Table 1 shows the analysis of the overall fit index of the Agricultural and Food Business model

| Index | Criteria | Results | |
|---------|----------|-----------|------------|
| | | Statistic | Evaluation |
| p-value | >0.050 | 0.327 | Pass |
| CMIN/DF | <3.000 | 1.159 | Pass |
| CFI | >0.900 | 0.999 | Pass |
| RMSEA | <0.080 | 0.029 | Pass |

From Figure 1 and Table 1, it is found that the overall model fit indices meet the criteria for each item. This indicates that the model is consistent with the observational data.

Table 2 shows the regression coefficients and weights of the components for the agriculture and food business

| | Variables | b | beta | S.E. | C.R. | P | R ² |
|--------|-----------------|-------|-------|-------|--------|-------|----------------|
| ESG | <--- EXPERIENCE | 0.079 | 0.012 | 0.011 | 1.044 | 0.297 | 0.006 |
| RETURN | <--- EXPERIENCE | 0.435 | 0.067 | 0.009 | 7.080 | *** | 0.189 |
| RETURN | <--- ESG | 0.311 | 0.315 | 0.065 | 4.854 | *** | 0.097 |
| ENV | <--- ESG | 0.868 | 1.217 | 0.078 | 15.614 | *** | 0.753 |
| SOC | <--- ESG | 0.928 | 0.943 | 0.056 | 16.892 | *** | 0.861 |
| GOV | <--- ESG | 0.854 | 1.000 | | | | 0.729 |
| ROA | <--- RETURN | 0.959 | 1.000 | | | | 0.920 |
| ROE | <--- RETURN | 0.896 | 1.257 | 0.094 | 13.414 | *** | 0.803 |

***p<0.001

From Table 2 and Figure 1, the results of the regression analysis indicate that: 1) Experience in the CEO position (EXPERIENCE) has a direct and positive influence on Environmental, Social, and Governance Reporting (ESE) (0.08) but is not statistically significant. 2) Experience in the CEO position (EXPERIENCE) has a direct and positive impact on financial returns (RETURN) (0.44) with statistical significance at the 0.001 level. 3) Environmental, Social, and Governance Reporting (ESE) has a direct and positive impact on financial returns (RETURN) (0.31) with statistical significance at the 0.001 level.

The variables of Environmental, Social, and Governance Reporting (ESG) have the following weights, listed from highest to lowest: 1) Social aspects, 2) Environmental aspects, and 3) Governance aspects.

The Return (RETURN) variable has the following weights, listed from highest to lowest: 1) Return on Assets ratio (ROA) and 2) Return on Equity Ratio (ROE).

Natural Resource Business

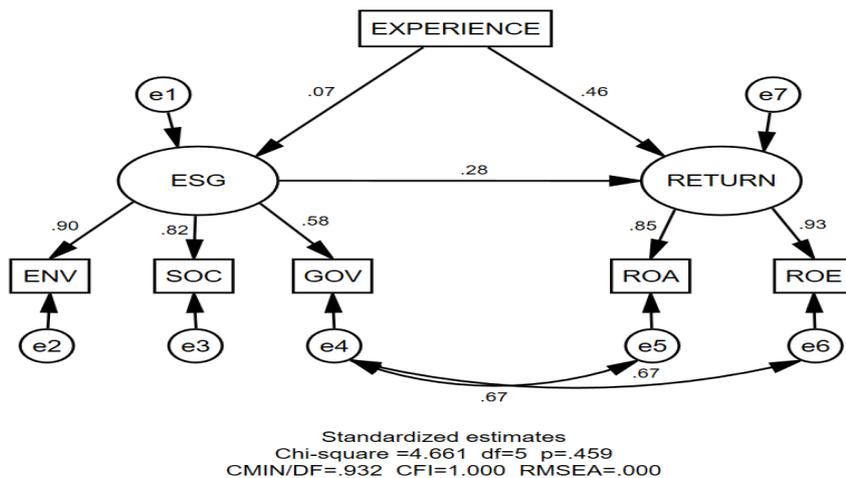


Figure 2 shows the overall analysis of the conformity index of the model for the natural resource business.

Table 3 displays the overall analysis of the conformity index of the model for the natural resource business

| Index | Criteria | Results | |
|---------|----------|-----------|------------|
| | | Statistic | Evaluation |
| p-value | >0.050 | 0.459 | Pass |
| CMIN/DF | <3.000 | 0.932 | Pass |
| CFI | >0.900 | 1.000 | Pass |
| RMSEA | <0.080 | 0.000 | Pass |

From Figure 2 and Table 3, it is evident that the overall conformity index of the model meets the criteria for all aspects. This indicates that the model aligns well with observational data.

Table 4 shows the regression coefficients and weights of the components for the natural resource business

| Variables | | b | beta | S.E. | C.R. | P | R ² |
|-----------|-----------------|-------|-------|-------|-------|-------|----------------|
| ESG | <--- EXPERIENCE | 0.065 | 0.006 | 0.008 | 0.800 | 0.423 | 0.004 |
| RETURN | <--- EXPERIENCE | 0.456 | 0.052 | 0.008 | 6.484 | *** | 0.208 |
| RETURN | <--- ESG | 0.277 | 0.330 | 0.085 | 3.888 | *** | 0.077 |
| ENV | <--- ESG | 0.898 | 1.399 | 0.191 | 7.315 | *** | 0.806 |
| SOC | <--- ESG | 0.820 | 1.016 | 0.134 | 7.582 | *** | 0.672 |
| GOV | <--- ESG | 0.576 | 1.000 | | | | 0.332 |
| ROA | <--- RETURN | 0.848 | 1.000 | | | | 0.719 |
| ROE | <--- RETURN | 0.925 | 1.998 | 0.207 | 9.639 | *** | 0.856 |

***p<0.001

From Table 4 and Figure 2, the results of the regression analysis reveal the following: 1) Experience in the CEO position (EXPERIENCE) has a statistically non-significant and positively directed influence on Environmental, Social, and Governance (ESG) reporting (ESE) (0.07). 2) Experience in the CEO position (EXPERIENCE) has a statistically significant and positively directed influence on financial returns (RETURN) (0.46) at a significance level of 0.001. 3) ESG reporting (ESE) has a statistically significant and positively directed influence on financial returns (RETURN) (0.28) at a significance level of 0.001.

The ESG reporting variables are weighted from high to low as follows: 1) Environmental aspects, 2) Social aspects, and 3) Corporate Governance aspects.

The return variable is weighted from high to low as follows: 1) Return on equity ratio (ROE), and 2) Return on assets ratio (ROA).

Discussion

In this study, the researcher was able to analyze the results to address the objectives related to the impact of CEO experience on sustainability reporting and returns. The findings indicate that businesses in both groups, namely agriculture and food business, and resource business of companies registered on the Stock Exchange of Thailand, have models that align with observational data as follows:

1) Experience in the CEO position (EXPERIENCE) has a direct and positive influence on Environmental, Social, and Governance (ESG) reporting (Velte, 2020; Huang, 2013), but it is not statistically significant. Additionally, experience in the CEO position (EXPERIENCE) has a direct and positive impact on returns (RETURN) (Emestine & Setyaningrum, 2019; Velte, 2020; Huang et al., 2023) with statistical significance. Nevertheless, it can be concluded that the CEO is the most influential person on the board of directors, exerting a significant influence on strategic decision-making within the company. It can be explained that a CEO who has been in the position for a longer time may signal to investors that the company has a higher chance of achieving better business performance. This is because a long-serving CEO is more deeply aware of the company's business processes, overseeing and creating more suitable strategies for the company.

2) Environmental, Social, and Governance (ESG) reporting (ESE) has a direct and positive impact on returns (RETURN) with statistical significance (Tang et al., 2012; Waworuntu et al., 2014; Chen et al., 2015). It can be argued that businesses are motivated to address sustainability issues for various reasons. Several factors contribute to an increased awareness, including

regulations, pressure from investors and customers, internal commitment to environmental responsibility, social considerations, the desire to maintain competitiveness, and the values arising from various activities. ESG reporting also plays a crucial role in helping investors assess the performance of businesses. Therefore, sustainability reporting has become not only necessary for regulatory compliance but also essential for stakeholders, including shareholders and investors, who are interested in making informed investment decisions.

Knowledge from Research

Identify the body of knowledge that is the result of research. Synthesis in the form of diagrams, charts or concept maps with a concise, easy-to-understand format/structure description Executive experience directly influences the returns of business, which can be considered from financial reports, for example, the return on equity (ROE), which indicates a company's profitability on equity and shows the quality of a company's operations, and the return on assets (ROA), which measures how efficiently a company earns a profit compared with total assets. In addition, executive experience will contribute to the sustainability of financial reports that will be presented to government agencies, shareholders, and other external agencies.

Conclusion

The results from this research revealed that the direct experience of top management has a great impact on management in the organization, particularly on building confidence among investors, business partners, and business owners. It is worth the investment to hire an experienced CEO, as high-experienced management leads to high returns for the business. Therefore, the experience of executives can affect the success and sustainability of the business.

Recommendations

Recommendations For Future Research

1. This research investigates the experiences of executives in managerial positions, sustainability reporting, and returns for investors. Future research should include testing relationships with other variables, such as business value, stock prices, and securities returns.
2. Future research endeavors should expand their studies to encompass other business sectors registered on both the Stock Exchange of Thailand and the Market for Alternative

Investment (MAI). This expansion aims to explore differing outcomes across various business categories.

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