ENVIRONMENTAL, SOCIAL, AND GOVERNANCE DISCLOSURE: THE ROLE OF RELIGIOSITY AT A CROSS-COUNTRY LEVEL

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Abstract

Recent studies highlight the influence of religiosity on corporate decisions defining religion as a proxy of culture and as a key factor in affecting beliefs and behavior (Kennedy & Lawton, 1998). It was shown how religiosity has an impact on the cost of debt (Chen, Huang, Lobo, & Wang, 2016), on financial reporting irregularities and accruals-based earnings manipulation (Du et al., 2014; Dyreng et al., 2012; Kanagaretnam et al., 2015; McGuire et al., 2012), on risk exposure (Hilary & Hui, 2009; Jiang et al., 2015), on tax avoidance (Boone et al., 2012), on the volatility of the stock price (Blau, 2017; Callen & Fang, 2015), on attitudes toward business ethics (Mazzi et al., 2017), and on Integrated Report development (Gelmini, 2017).

Our study extends this stream of research by investigating the relationship between religiosity and ESG disclosure at the cross-country level, more preciously, by arguing that the salience of the religious social norms in the local community affects corporate behaviors, thus the extent of the ESG disclosure. Furthermore, because religions rely on

different principles, we analyze the strength of the effect of every particular faith regarding ESG disclosure.

By applying the institutional theory, we argue that country-level determinants related to general contextual factors, among which religiosity, may improve an ESG disclosure level. Additionally, employing social norms theory, we underline that firms have to comply with the social norm of local stakeholders, including the religious ones.

According to previous researchers (Barro & McCleary, 2006; Kanagaretnam et al., 2015; McCleary & Barro, 2009; Roth & Kroll, 2007; Griffin & Sun, 2018), we apply WVS to develop a measure of religiosity. WVS is a national representative survey regarding human beliefs and involves 100 countries. Literature suggests that religiosity is defined by three different dimensions: cognitive (knowing), affective (feeling), and behavioral (doing) (Cornwall, Albrecht, Cunningham, & Pitcher, 1986; Parboteeah, Hoegl, & Cullen, 2008). The first dimension refers to both religious knowledge and religious beliefs. The effective one relates to individuals' emotional feelings about religion. The last dimension stresses personal prayer, church attendance, and regular religious donations. We gather the responses from three questions asked by WVS, each of them reflects the appropriate aspects. The selected questions are respectively:

- Would you say that you are a religious person?
- How important is religion in your life?
- How often do you attend religious services?

Based on these questions, we compute a score for each dimension of religiosity distinguishing by the countries in the sample. We use factor analysis to combine these dimensions of religiosity into one comprehensive measure for each country.

Our study is able to produce two main findings. First, we expect a significant interaction effect between religiosity and ESG disclosure so that firms located in high intensive religious countries disclose more intensively than firms located in countries with a weaker level of religiosity. Second, we capture the trend of ESG disclosure intensity through the dominant religion affiliations shedding light on the ESG benefits of religious diversity.

The conclusions of this study may also help standard-setters, regulators, and managers. As religious social norms potentially represent a mechanism in enhancing ESG disclosure, providing evidence on the positive association between religiosity and ESG disclosure could be relevant for shaping appropriate non-financial reporting standards.

For managers, these results have clear implications for the firm's non-financial disclosure policies. Managers usually make ESG disclosure decisions in the best interests of the firm. Our results proof whether local religious norms have to be considered among values affecting ESG disclosure process or not. Here is a key point because it would be costly and inefficient for managers to deploy ESG disclosure policies without consideration of the religious norms of their local community.

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