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Determinants of Environmental, Social, and Governance (ESG) Disclosure in Fashion Industry: An Empirical Study

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Abstract. The fashion industry has shifted due to the rise in environmental, social, and governance (ESG) awareness, and many investors consider ESG when making investment decisions. This study aims to determine the impact of board and audit committee characteristics on ESG disclosure and to analyze whether firm size can moderate the influence. This study examines 106 companies in the fashion industry located in 22 countries from 2016 to 2021. Both panel data OLS regression analysis and moderated regression analysis are used in this study. The findings of this study demonstrate that the characteristics of board and audit committee positively impact ESG disclosure. Meanwhile, firm size was found to moderate the impact of board diversity (weaken) and board independence (strengthen) on ESG disclosure. However, this study did not discover the moderating variable's effect on audit committee size and meeting. This study contributes new literature on ESG disclosure and governance research by focusing on the fashion industry. This study shows empirical evidence that suggests various essential determinants of environmental, social, and governance (ESG) in the fashion industry.

Keywords: ESG Disclosure, Fashion Industry, Board Diversity, Board Independence, Audit Committee, Firm Size, Moderating

1. Introduction

Sustainable investing has changed the investment world. Currently, companies are judged not only on their ability to make money but also on their environmental, social, and governance performance. This is a result of investors' growing interest in funding sustainable companies. Investors may consider a firm a risky investment prospect if the company's disclosure is poor. (Venkataramani, 2021). In five key markets (United States, Canada, Japan, Australasia, and Europe), worldwide sustainable investment has climbed by 15% over the past two years (Global Sustainable Investment Alliance, 2020). The term "sustainable investment" refers to an investment that considers ESG factors. ESG has emerged as the most popular standard indicator of sustainability for holding businesses accountable (Howard-Grenville, 2021).

ESG disclosure is still voluntary in many countries. However, many companies have recognized the importance of ESG disclosure. Companies that report environmental, social, and governance data have experienced exponential growth during the past 25 years (Amel-Zadeh et al., 2017). This growth of sustainability reporting practices is related to societal awareness of ESG issues, which makes companies accountable for their environmental and social performance (Junior et al., 2014). The legitimacy theory can be used to explain this. Legitimacy theory is concerned with how businesses and society interact. This idea argues that a "social contract" exists between a company and the society in which it operates, encouraging each decision made by the company to be viewed favorably by others (Caesaria and Basuki, 2016). Due to the rise in public awareness, this "social contract" pushes businesses to measure and publish environmental, social, and governance data even though it is still voluntary.

In addition to pressure from society, investors also put pressure on the company. Ilhan et al. (2021), who examined one of the ESG disclosure (climate risk) with institutional investors, found that these investors demand high-quality, informative disclosure because they believe that the current disclosure quality and availability are insufficient to make informed investment decisions. Additionally, investors no longer find financial information satisfactory and demand greater transparency, argue Ching and Gerab (2017). Over the past few decades, this demand for greater transparency has consistently been made for businesses in the fashion industry.

The fashion industry generates enormous profits in world markets, yet little is known about how, where, and by whom a product is made (Somers, 2017). One of the most harmful and polluting industries on the earth is the fashion and textile business, especially fast fashion. Currently, companies in the fashion industry are starting to take initiatives to limit climate change. Many companies already address their effort for this, such as reducing GHG emissions (e.g., H&M, Kering, Levi Strauss & Co.) and investing in a more energy-efficient warehouse (e.g., Burberry, Levi Strauss & Co.) (Dugal, 2023). However, fast fashion companies still use "sweatshop" to manufacture their products. Sweatshop is an unlawful factory with cruel labor conditions (long working hours, very low wages, unsafe and unhealthy working conditions). Sweatshop is nothing new and has been the subject of media attention for decades (Nguyen, 2022). However, to this day, sweatshops still exist and are still used by several fast fashion companies to maximize their profits. Sadly, there are only a few companies that address these social issues. Fashion Transparency Index 2022, a report that analyzes and ranks the transparency of 250 companies in the fashion industry, found that only 4% of companies disclose the number of workers in their supply chain who are paid a living wage, and only 24% of companies disclose the occurrence of modern slavery-related violations and risk factors (Fashion Transparency Index, 2022).

The issue with the fashion industry continues. Most companies in the fashion industry generally still need better awareness of the circumstances that animals go through in their supply chain (FOUR PAWS, 2021). Because of the fashion industry, millions of wild animals are abused and slaughtered every year (Hardy, 2022). Particularly luxury brand firms that use animals under the name of "luxury." The companies are making good progress, but it is still not enough. According to Animal Welfare in

Fashion Report, more companies are starting to address animal welfare, with 57% of 111 brands assessed in the report having a formal animal welfare policy but luxury brands are found to be the worst-rated brands (FOUR PAWS, 2021). As consumers become increasingly conscious of the impact of a company's operations, companies are under pressure to address all these issues.

This aligns with PwC's research on holiday season purchasing behavior, which shows that consumers (especially millennials) are firmly committed to sustainability (PwC, 2021). Millennials are the world's largest adult generation, the most educated, and the most influenced by the media (Neufeld, 2021; Pastore, 2020). Social media impacts people’s lives since it connects them to the rest of the world. As a result, companies cannot simply disregard the societal pressure.

Building consumer satisfaction until they become loyal is crucial for the business to survive. Therefore, to maintain loyalty, pressure from various parties has forced several companies in the fashion industry to disclose sustainability information (Egels-Zanden et al., 2015; Strahle et al., 2017). In addition to consumers, other external stakeholders like governmental and non-governmental groups require sustainable production of goods that do not harm the environment or workers across the production chain (Hiller-Connell & Kozar, 2017). As companies must continuously change to maintain their survival and success, they must release information about sustainability to the public to address the issues regarding ESG.

However, due to the voluntary nature of disclosure, several companies in the fashion industry continue to choose not to disclose ESG information. According to them, becoming more transparent requires a radical shift in business strategy (Vaccaro & Madsen, 2009), in which companies are expected to disclose "proprietary" information (Doorey, 2011). As a result, these companies have decided not to reveal this personal information. This is a problem because disclosure allows companies to be held accountable for their actions. Lack of ESG disclosure could lead companies to operate without considering the consequences of their actions.

The board of directors and audit committee (AC) are established to oversee and supervise managers' decisions and business operations, as well as ensure that stakeholder needs are met (Bamahros et al., 2022). The role of the company's board of directors and AC is essential for the effectiveness of ESG disclosure to reduce information asymmetry and conflicts of interest. Board of directors’ characteristics, especially board diversity and board independence, have received attention because of their significant relationship with issues related to sustainability (Cambrea et al., 2023). Female board members are more committed to ethics and tend to consider various stakeholders' interests (Kray et al., 2014). Meanwhile, Manita et al. (2018) discovered no significant association between board diversity and ESG disclosure, presumably because the effect between board diversity and ESG disclosure is insignificant when there are fewer than three female directors. Therefore, there is a gap that should be addressed in this study. On the other hand, Holtz and Sarlo Neto (2014) and Kamaludin et al. (2022) found that a company's board of directors is more likely to disclose ESG if there are more independent board members.

The efficiency and performance of AC are influenced by various characteristics, such as size and number of meetings, according to the recommendations of the Blue Ribbon Committee (BRC) in 1999. Several previous studies examining AC characteristics also state that the effectiveness of AC depends on its characteristics (Akhtaruddin et al., 2010; Dhaliwal et al., 2010; Li et al., 2012). According to Appuhami and Tashakor (2017), a larger audit committee size is more effective because it will lead to a diversity of knowledge and experience. Meanwhile, Edirisinghe and Abeygunasekera (2022) found that audit committee size did not have a significant effect on disclosure. In terms of audit committee meeting, Li et al. (2012) discovered that at least four meetings per year have a significant impact on the level of disclosure, and the more active the audit committee, the more opportunities its members will have to discuss and assess the issues regarding the company's reporting practices.

Aside from the influence of the board of directors and audit committee, the firm size also impacts ESG disclosure. Large companies, as opposed to small companies, have more money to invest in ESG activities because their finances are more stable (Shakil, 2020). Larger companies also receive more attention than smaller companies, resulting in greater pressure from stakeholders regarding the company's ESG activities. Previous studies have found that the size of a company moderates the impact of variables on ESG/CSR (Ahmad et al., 2021; Abdi et al., 2022; Ilyas et al., 2022; Lin et al., 2019; Zaiane and Ellouze, 2022). Meanwhile, Shakil (2020) found no moderating effect in the ESG-stock price volatility nexus.

Earlier studies have examined the relationship between ESG and several variables, like audit committee (e.g., Bamahros et al., 2022; de Almeida et al., 2022; Arif et al., 2021; Bravo et al., 2018) and board of directors (e.g., Bhatia et al., 2022; Chebbi et al., 2022; Suttipun, 2021; Lavin et al., 2021; Arayssi et al., 2020; Cucari et al., 2018; Tamimi et al., 2017). ESG has also been studied in various industries, including agriculture (Buallay, 2021), airline (Abdi et al., 2022), GCG bank (Al-Khouri et al., 2022), digital business services (Belousova, 2022), food and beverages (Raimo et al., 2020). Another similar study was done by Shakil (2020), which focused on 44 textile and apparel firms but did not include ESG disclosure as a dependent variable. Therefore, this research aims to fill the gap in the literature for the fashion industry by determining the impact of board and audit committee characteristics on ESG disclosure and analyzing whether firm size can moderate the influence.

2. Literature Review and Hypothesis Development

This study combined several theories to fully understand the relationship between ESG disclosure with board and AC characteristics. Previous studies on ESG disclosure have highlighted several theories, including agency theory, legitimacy theory, and stakeholder theory. Agency theory focuses on the relationship of management as agent and owner or shareholder as principal. According to agency theory, the principal entrusts the agent to work according to the principal's interest and report their work to the principal. However, in practice, there is a tendency for agents to engage in opportunistic behavior and make decisions according to their own interests, which can lead to information asymmetry. To prevent information asymmetry, monitoring the agent's actions is necessary. Monitoring is one of the duties of the board of directors and audit committee. According to these arguments, the board of directors and audit committee will mitigate information asymmetry by monitoring the activities. On the other hand, disclosing ESG information will decrease opportunistic behavior and information asymmetry. Therefore, ESG disclosure, board of directors, and audit committee all have a similar purpose: to reduce the likelihood of information asymmetry.

Legitimacy theory, in contrast to agency theory, focuses more on the company's relationship with society. According to legitimacy theory, the company continuously tries to act in accordance with social norms so that society would perceive the company's actions as legitimate (Deegan, 2002). Based on this theory, the company would voluntarily disclose ESG information to act following the social norms. Companies would disclose ESG initiatives to get legitimacy from society as organizations should strive to operate within the expectations and norms of many stakeholder groups rather than just the expectations and standards of investors (Abdul Rahman and Alsayegh, 2021).

On the other hand, stakeholder theory focuses on the interconnected relationships between a company and their stakeholder. According to stakeholder theory, stakeholders' interests must be considered, and firms should create value for all stakeholders, not just shareholders (Freeman, 1994). ESG disclosure acts as a bridge between the company and its stakeholders. ESG thus become a tool for addressing shareholder and stakeholder needs and providing them with the information they need to assess business practices (Daugaard and Ding, 2022). Therefore, based on these theoretical viewpoints, this study claims that companies in the fashion industry disclose information about ESG to reduce

information asymmetry (agency theory), legitimize their business (legitimacy theory), and provide information to their stakeholders (stakeholder theory).

2.1. Board Diversity on Environmental, Social, and Governance (ESG) Disclosure

In recent years, gender equality has received a lot of attention. The percentage of female board members is considered to represent SDG 5's goal, which is to improve gender equality. SDG 5.5 mainly aims to ensure that women participate fully and effectively, as well as have equal opportunities for leadership at all levels of decision-making in political, economic, and public life (sdgs.un.org). The participation of female board members is expected to play a role in disclosing ESG information. According to Kray et al. (2014), female board members are more committed to ethics, and they are more likely to consider the interests of various stakeholders. Glass et al. (2016) found that female executives differ from their male counterparts in terms of leadership style, career path, and prioritization of organizational needs. Previous studies have also found that the presence of female board members plays a positive role in increasing ESG disclosure (Nicolo et al., 2022; Suttipun, 2021; Gurol and Lagasio, 2023). Based on this, the proposed hypothesis is:

H1: ESG disclosure is positively impacted by board diversity.

2.2. Board Independence on Environmental, Social, and Governance (ESG) Disclosure

Independent director is a board member who has no affiliation with the company and serves to provide the board of directors with unbiased opinions and decisions. According to Post et al. (2014), independent directors may be more responsive to stakeholder pressures on sustainability than insiders. According to stakeholder theory, independent directors can reduce stakeholders' conflicts of interest since they are more responsive to stakeholder pressure. As a result, companies with a higher percentage of independent directors are assumed to be more responsible and transparent.

Holtz and Sarlo Neto (2014) found that the more independent a company's board, the more effective its decisions and the motivation to disclose more ESG information. This is because independent directors are less involved with the company's day-to-day operations, which indicates that a board with many independent directors is less controlled by management (Arayssi et al., 2020; Jizi, 2017). Furthermore, independent directors encourage employees to work effectively and efficiently while improving disclosure quality (Dah et al., 2018). Rao et al. (2012) also found that independent directors promote board effectiveness. Prior research found that board independence positively impacts voluntary disclosure (Muttakin and Subramaniam, 2015; Chebbi and Ammer, 2022; Menicucci and Paolucci, 2022). Hence, the proposed hypothesis is:

H2: ESG disclosure is positively impacted by board independence.

2.3. Audit Committee Size on Environmental, Social, and Governance (ESG) Disclosure

The audit committee manages risks, monitors the organization's internal control system, audit process, and financial reporting process, and communicates with management and the board. According to agency theory, audit committees monitor the management to reduce the likelihood of agency problems that result in agency costs. The size of the AC is the number of members in the AC. According to Section 94 of the Companies Act, AC must have at least three members. According to Fahad and Rahman (2020), a large AC comprised of competent and experienced members could help monitor the manager's performance, particularly regarding social and environmental issues, which will increase disclosure. Madi et al. (2014) also claim that more AC members will be able to provide the company with more valuable knowledge, experience, and expertise. Previous research found that audit committee size positively impacts disclosure (Buallay and AlDhaen, 2018; Musallam, 2018; Rifai and Siregar, 2021). This leads to the following proposed hypothesis:

H3: ESG disclosure is positively impacted by audit committee size.

2.4. Audit Committee Meeting on Environmental, Social, and Governance (ESG) Disclosure

Audit committee meeting is the frequency of meetings conducted by AC. The frequency of meetings is essential to the audit committee's characteristics. According to Li et al. (2012), the more active the AC, the more opportunities its members will have to discuss and evaluate issues concerning the company's reporting practices, and a minimum of four meetings per year significantly affect the level of disclosure. Due to time constraints, the AC is sometimes unable to detect fraud or irregularities, therefore, the AC should meet more frequently in order to maintain the quality of disclosure (Arif et al., 2021). Agyei-Mensah (2018) found that AC that meets regularly tends to disclose excellent voluntary information. Previous research found that audit committee meeting positively impacted disclosure (Balasundaram, 2019; Bravo and Reguera-Alvarado (2018); Musallam, 2018). Thus, the proposed hypothesis is:

H4: ESG disclosure is positively impacted by audit committee meeting.

2.5. Firm Size as Moderating Variable

According to agency theory, large firms must provide risk information, which reduces agency costs (Novianty and Setijaningsih, 2020). Large firms are considered to have clear strategies and objectives for monitoring their operations, making them more capable of managing sustainability projects (Abdi et al., 2022). However, the larger the company's size, the higher the likelihood of agency problem. Agents may engage in opportunistic behavior due to agency problem, resulting in information asymmetry. As a result, the roles of boards of directors and audit committees will become increasingly important in monitoring agent behavior.

One way to reduce opportunistic behavior that can result in information asymmetry is through disclosure. In Bangladesh, the world's second-largest exporter of textile goods, companies use CSR disclosure to reduce opportunistic behavior, according to research by Muttakin et al. (2015). Scholtens and Kang (2012) argue that CSR disclosure can reduce agency problem between managers and shareholders. Moreover, female board members had a positive impact on voluntary disclosure of GHG emissions, and more independent members tend to be more transparent about ecology, according to Liao et al. (2015), who analyzed the largest corporations in the UK. Furthermore, Reddy and Jadhav (2019) discovered that firm size is one of the factors influencing the representation of female directors on boards. Jizi et al. (2014) stated that a more independent board of directors is an internal mechanism of corporate governance that promotes the interests of shareholders and other stakeholders. The study also discovered that board independence is related to CSR disclosure (Jizi et al., 2014).

Haji (2015) discovered that AC size and AC meeting had a positive and significant effect on intellectual capital disclosure in large Malaysian firms. Furthermore, Buallay and AlDhaen (2018) discovered that AC size and AC meeting had a significant positive effect on sustainability report disclosure. Although no previous research has analyzed the moderating effect of firm size on the impact of board and audit committee characteristics on ESG disclosure, based on the above description, the proposed hypothesis is as follows:

H5a: The impact of board diversity on ESG disclosure is strengthened by firm size.

H5b: The impact of board independence on ESG disclosure is strengthened by firm size.

H5c: The impact of audit committee size on ESG disclosure is strengthened by firm size.

H5d: The impact of audit committee meeting on ESG disclosure is strengthened by firm size.

3. Research Methodology

3.1. Data and Sample

The study's initial sample includes 200 firms in the fashion industry from 2016 to 2021. This study covers the years from 2016 until 2021 to investigate ESG disclosure after Paris Agreement and 2030

Agenda for Sustainability Development that happened in 2015. However, the final samples consist of 106 companies from 22 countries. The other firms are excluded due to the unavailability of ESG disclosure scores and other data.

The companies included in this study consist of two industries: Textile, Apparel & Luxury Goods and Specialty Retail. Therefore, to control industry effect, this study used dummy variables: 0 for companies in the Textile, Apparel & Luxury Goods industry and 1 for the Specialty Retail industry. Meanwhile, country names are written based on numbers 1 to 22. This study used the Global Industry Classification Standard (GICS) to categorize the industry. The sub-industries of the textile, apparel & luxury goods industry include apparel, accessories & luxury goods, footwear, and textile. Although the specialty retail industry has many sub-industries, only the apparel retail sub-industries are included since this study focuses on the fashion industry. The countries included in this study are described in Table 4.1, and Table 4.2 describes the sub-industry.

Table 1: Country Description

	Number of companies	Percentage
Australia	1	0.94%
Bermuda	5	4.72%
British Virgin Islands	1	0.94%
Canada	1	0.94%
Cayman Islands	7	6.60%
China	7	6.60%
Denmark	1	0.94%
France	4	3.77%
Germany	3	2.83%
India	8	7.55%
Indonesia	1	0.94%
Italy	5	4.72%
Japan	3	2.83%
Luxemburg	1	0.94%
South Africa	3	2.83%
South Korea	4	3.77%
Spain	1	0.94%
Sweden	1	0.94%
Switzerland	2	1.89%
Taiwan	6	5.66%
United Kingdom	2	1.89%
United States	39	36.79%
Total	106	100%

Table 2: Sub-Industry Description

	Number of companies	Percentage
Textile	18	16.98%
Apparel, Accessories & Luxury Goods	47	44.34%
Footwear	13	12.26%
Apparel Retail	28	26.42%
Total	106	100%

3.2. Methodology and Model Specification

This study used quantitative analysis. The data in this study are combined using panel data method, combining cross-section and time series data. In order to test for a hypothesis, this study uses pooled ordinary least squares (OLS) and moderated regression analysis. Pooled OLS model assumes that the behavior of company data is consistent across periods. Next, moderated regression analysis is used to investigate whether the moderating variable has an impact on the relationship of independent variables to the dependent variable. Below is the conceptual framework of this study.

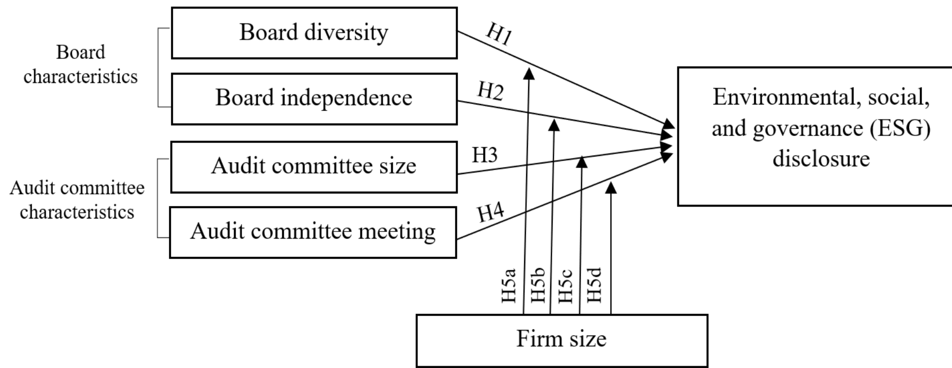

Fig. 1: Conceptual Framework

Figure 1 shows the conceptual framework for this study, which consists of one moderating variable, one dependent variable, and four independent variables. The moderating variable in this study is firm size, which is the natural logarithm of the company's total assets. ESG disclosure is the dependent variable of this study, it is defined as the company's ESG disclosure score. Board characteristics in this study consist of two variables: board diversity and board independence. Board diversity is calculated by dividing the number of female board members by total number of board members. Board independence is the number of independent directors divided by the total number of board members. This study's audit committee (AC) characteristics include two variables: audit committee (AC) size and audit committee (AC) meeting. AC size is the total number of audit committee members, and AC meeting is the meeting frequency of the audit committee. This study also has two control variables, as seen in model 1 and 2. The control variables of this study are GDP per capita and return on assets. GDP per capita (GDPPC) is the amount of income earned per person in the company's country and return on assets (ROA) is net income divided by total assets.

The data for this study is retrieved from various databases and websites. Lists of company names in the fashion industry are retrieved from Osiris database. Meanwhile, ESG disclosure scores are retrieved from Bloomberg ESG database, ranging from 1-100. Several previous studies have used Bloomberg to retrieve ESG disclosure scores (e.g., Bermejo Climent et al. 2021; D'Amato et al. 2021; Gurol and Lagasio 2023; McBrayer 2018). Other variables (board diversity, board independence, AC size, AC meeting, firm size, and ROA) are also taken from Bloomberg. Meanwhile, data for GDP per capita are retrieved from World Bank, Statista (Taiwan), UNData & UNCTADSTAT (British Virgin Islands). The equations below are the model for this study. Model 1 tests whether the board and AC characteristics have an impact on ESG disclosure. Model 2 tests whether firm size moderates the impact of board and AC characteristics on ESG disclosure.

$$\text{ESGD} = \alpha + \beta_1\text{BoardCharacteristics} + \beta_2\text{ACCharacteristics} + \beta_3\text{FirmSize} + \beta_4\text{Control} + \beta_5\text{IndustryDummy} + \beta_6\text{CountryEffect} + e \quad (1)$$

The above model is the OLS regression model to test for hypothesis 1 to 4, and the model below shows the moderated regression analysis model to test hypothesis 5a to 5d. In model 2, firm size acts as the moderating variable for board and AC characteristics by adding the interaction variable BoardCharacteristics*FirmSize and ACCharacteristics*FirmSize.

$$ESGD = \alpha + \beta_1 BoardCharacteristics + \beta_2 ACCharacteristics + \beta_3 FirmSize + \beta_4(BoardCharacteristics*FirmSize) + \beta_5(ACCharacteristics*FirmSize) + \beta_6 Control + \beta_7 IndustryDummy + \beta_8 CountryEffect + e \quad (2)$$

4. Results and Discussion

4.1. Descriptive Statistics

Table 3 shows the result of descriptive statistics. This study found that the average score of ESG disclosure in the fashion industry is below 50, which is considered poor. Furthermore, with only 23% of female board members on average, men still dominate the board of directors in the fashion industry. Meanwhile, the average board independence is 60%, AC size is 3.73, and AC meeting is 5.79. Three of these independent variables of companies in the fashion industry have fulfilled the minimum requirement. This study used winsorizing top and bottom 5% to remove outlier data.

Table 3: Descriptive Statistics

	Obs	Mean	Std. Dev.	Min	Median	Max
ESG Disclosure	636	43.00976	9.885704	27.1	42.59	60.165
Board Diversity	636	0.236413	0.142035	0	0.22222	0.5
Board Independence	636	0.604569	0.216692	0.27273	0.6	0.9091
Audit Committee Size	636	3.738994	0.975828	3	3	6
Audit Committee Meeting	636	5.795597	2.776569	2	5	12
Firm Size	636	21.65966	1.001402	20.19214	21.48144	23.90734
GDP per capita	636	49334.93	27935.65	1974.378	57866.75	106885.9
Return on Assets	636	7.192173	6.612621	-5.93	6.3055	20.38

4.2. Correlation Matrix and Variance Inflation Factor

The outcome of the correlation matrix is shown in Table 4. This test aims to determine the relationship between the independent and control variables. The result shows that ESG disclosure (ESGD) has a positive association with board diversity (BDIV), board independence (BIND), AC size (ASIZE), firm size (FSIZE), GDP per capita (GDPPC), and Return on Assets (ROA). Meanwhile, ESG disclosure has a negative association with AC meeting. The result also demonstrates a negative association between AC size and AC meeting, and ROA has a negative association with board independence, AC meeting, and GDP per capita. A positive association exists between every other variable. In addition to that, the value of each correlation is below 0.90, therefore, it can be assumed that there is no multicollinearity.

Table 4: Correlation Matrix

	ESGD	BDIV	BIND	ASIZE	AMEET	FSIZE	GDP	ROA
ESGD	1							
BDIV	0.3129	1						
BIND	0.0681	0.3927	1					
ASIZE	0.1062	0.1152	0.1922	1				
AMEET	-0.0392	0.2193	0.4191	-0.0523	1			
FSIZE	0.4633	0.2598	0.0451	0.1592	0.0378	1		
GDPPC	0.14	0.0303	0.3222	0.0752	0.0952	0.1691	1	
ROA	0.1077	0.0315	-0.0282	0.1251	-0.047	0.041	-0.0596	1

Table 5: Variance Inflation Factor

	VIF	1/VIF
Board Independence	1.63	0.61
Board Diversity	1.31	0.76
Audit Committee Meeting	1.25	0.79
GDP per capita	1.18	0.84
Firm Size	1.15	0.87
Audit Committee Size	1.11	0.90
Return on Asset	1.02	0.97

This study, however, calculated the variance inflation factor (VIF) to confirm the absence of multicollinearity. Table 5 shows the results of the VIF analysis. A value of VIF higher than 10 might be a sign of multicollinearity. Therefore, the result of VIF confirms that this data does not suffer from multicollinearity. For the heteroscedasticity test, the result is 0.197. Therefore, this data is homoscedasticity.

4.3. Mean Difference

Table 6 shows the mean difference of the variables for companies with ESG disclosure scores greater and lower than the median. According to this study, companies with greater ESG disclosure scores have higher board diversity, firm size, GDP per capita, ROA, and lower board independence, AC size, and AC meeting than companies with lower ESG disclosure scores. Therefore, this study demonstrates that larger firms in the fashion industry will, on average, disclose more ESG data than smaller firms.

Table 6: Mean Difference

	ESGD > Median	ESGD < Median	p-value
Board Diversity	0.26	0.20	0.0000
Board Independence	0.58	0.62	0.0545
Audit Committee Size	3.80	3.67	0.0738
Audit Committee Meeting	5.44	6.15	0.0013
Firm Size	22.04	21.27	0.0000
GDP per capita	52908.24	45761.62	0.0012
Return on Assets	8.04	6.34	0.0012

4.4. The Impact of Board and Audit Committee Characteristics on ESG Disclosure

This study used Pooled OLS regression model to control industry and country effects. The regression result of model (1) is presented in Table 7. Overall, this study found that 64.09% of ESG disclosure can be explained by board diversity, board independence, AC size, and AC meeting. In addition, this study found that variables in this study have a simultaneous impact on ESG disclosure.

Table 7: Regression Result

	Coef.	t	p-value
Board Diversity	5.539	2.1	0.036
Board Independence	17.512	7.42	0.000
Audit Committee Size	0.083	0.27	0.785
Audit Committee Meeting	0.445	3.7	0.000
GDP per capita	0.00063	7.49	0.000
Return on Assets	0.059	1.47	0.142
Constant	31.314	11.7	0.000

Industry Dummies	Included	Included	Included
Country Effect	Included	Included	Included
Number of obs	636		
Prob > F	0.0000		
R-squared	0.6409		
Adj R-squared	0.6243		

From the results in Table 7, this study found that the coefficient of board diversity is positive ($\beta = 5.539$). Thus, supporting H1. Furthermore, it is discovered that board diversity has a significant positive impact ($p < 0.05$) on ESG disclosure. This finding suggests that greater board diversity leads to greater ESG disclosure. This finding is consistent with findings from Gurol and Lagasio (2023), Nicolo et al. (2022), Suttipun (2021), and Velte (2016). This is in line with the idea that female directors would influence the board to make better decisions and disclose more ESG information since they are more concerned about ESG issues.

Regarding board independence, this study found that board independence has a positive ($\beta = 17.512$) influence on ESG disclosure, thus supporting H2. Additionally, it is found that board independence significantly improves ESG disclosure ($p < 0.05$). The result of this study is in line with findings from Chebbi and Ammer (2022), Menicucci and Paolucci (2022), and Kamaludin et al. (2022). This finding implies that companies with more independent directors will disclose more ESG information. Since independent directors are not affiliated with the company, they are expected to encourage the company to disclose more ESG information.

This study found that AC size has a positive ($\beta = 0.083$) influence on ESG disclosure, thus supporting H3. Previous research, such as Fahad and Rahman (2020), Edirisinghe and Abeygunasekera (2022), and Sallehuddin (2016) discovered an insignificant effect of AC size on voluntary disclosure. Meanwhile, Alyousef & Alsughayer (2021) and Arif et al. (2021) discovered a positive but insignificant effect. This finding implies that companies with more AC members will disclose more ESG information. When the audit committee has many members, the committee's perspective will vary due to the diverse experiences of each member. Audit committee is expected to represent a broader range of interests and participate in monitoring. Therefore, a larger AC size will encourage management to disclose more ESG information.

Lastly, this study found that AC meeting is positive ($\beta = 0.445$). Thus, supporting H4. The influence of AC meeting on ESG disclosure is also found to be significant ($p < 0.05$). This finding is in line with other findings from Allegrini and Greco (2013), Arif et al. (2021), Buallay and Al-Ajmi (2019), Bravo and Reguera-Alvarado (2018), Li et al. (2012). This finding suggests that companies that hold AC meetings more frequently will disclose more ESG information. More AC meeting will allow the members to monitor the company's disclosure content even more. Therefore, the AC members will be able to encourage management to provide more information related to ESG.

4.5. Moderating Effect of Firm Size

The results of model (2) are shown in Table 8. Model (2) shows the moderating role of firm size by using total assets as the proxy. Overall, this study discovered that 71.84% of ESG disclosure could be explained by the independent and moderating variable, which shows an increase from R-squared when compared to the result of model (1). When firm size is introduced as a moderating variable, the coefficients and significances of the model change. Despite differences in direction, this study found that firm size moderates the relationship between board diversity and board independence on ESG disclosure. Moreover, the direction of board independence is positive. This finding suggests that the relationship of board independence on ESG disclosure become stronger in large companies. Thus, supporting H5b.

The scrutiny and pressure that larger corporations face from different stakeholders may cause this. As an outsider of the company, independent director might be more attentive to the stakeholder's interests and will encourage management to disclose more information about ESG. However, the direction of board diversity is negative, which suggests that the impact of board diversity on ESG disclosure is weaker in large companies. This is possible because large companies now understand how crucial it is to disclose ESG, making the board diversity less influential in encouraging management to disclose ESG. Therefore, this study rejects H5a. Additionally, this study found that firm size cannot moderate the impact of AC size and AC meeting. Thus, rejecting H5c and H5d.

Table 8: Moderated Regression Analysis Result

	Coef.	t	P-value
Board Diversity	95.6484	2.06	0.04
Board Independence	-111.63	-3.68	0.000
Audit Committee Size	-10.693	-1.67	0.095
Audit Committee Meeting	-3.4324	-1.5	0.135
Firm Size	-2.3584	-1.74	0.083
Board Diversity*Firm Size	-4.3456	-2	0.046
Board Independence*Firm Size	5.78015	4.21	0.000
Audit Committee Size*Firm Size	0.50099	1.69	0.091
Audit Committee Meeting*Firm Size	0.16938	1.58	0.114
GDP per capita	0.00055	7.17	0.000
Return on Assets	0.02476	0.68	0.496
Constant	88.0383	2.99	0.003
Industry Dummies	Included	Included	Included
Country Effect	Included	Included	Included
Number of obs	636		
Prob > F	0.0000		
R-squared	0.7184		
Adj R-squared	0.7029		

Regarding the moderating effect of firm size on the relationship between AC characteristics on ESG disclosure, it is possible that in large companies, the AC is likely to focus more on overseeing financial information and reports, while supervision and risk management will be assigned to other committees, making the AC's role less influential in increasing ESG disclosure (Deloitte, 2020). This is evident in the fashion industry, where companies such as Hermes, Prada, Nike, Inditex, Kering, and Richemont already have a sustainability committee. As a result, the impact of AC size and meeting on ESG disclosure is not moderated by the firm size.

5. Conclusion

This study offers empirical evidence of environmental, social, and governance (ESG) disclosure based on firms in the fashion industry that are publicly traded. Specifically, this study investigates the influence of board characteristics (board diversity, board independence) and audit committee characteristics (AC size, AC meeting) on ESG disclosure. The results show that board diversity, board independence, AC size, and AC meeting positively impacted ESG disclosure. Moreover, this study also investigates the moderating effect of firm size on the influence of board and AC characteristics on ESG disclosure. The results indicate that firm size strengthens the board independence-ESG disclosure but weakens board diversity-ESG disclosure. Meanwhile, this study found no moderation effect of firm size

on AC size and AC meeting. Overall, this study is in line with the theories that were employed. Board and audit committee are able to positively impact ESG disclosure which can reduce information asymmetry and agency problem, in line with the agency theory. Throughout the study, it is known that societal pressure has caused companies to release more ESG information, which is consistent with legitimacy theory. Companies also begin to take stakeholder interests into account by disclosing ESG information in accordance with stakeholder theory.

This study contributes to ESG disclosure and governance literature by focusing on the fashion industry. However, this study is not without limitations. Despite having 200 companies in the initial sample, this study only includes 106 companies in the fashion industry due to the unavailability of ESG disclosure scores and other data. Even though large firms are most likely to disclose information regarding ESG due to pressure from their stakeholders, this is a limitation because the result might be more accurate if this study has more companies in the sample. Furthermore, this study only uses total assets as a proxy for firm size. This proxy has been used in multiple previous studies and is believed to be a good proxy of firm size. However, future research would benefit from using a different proxy that accurately reflects the company's state. Total sales or revenue can be used in future studies.

This study's findings can benefit companies in the fashion industry, investors, creditors, regulators, and future research. From this study, companies in the fashion industry can learn how important ESG disclosure is to their stakeholders, particularly consumers. This study found a positive impact of the board and audit committee on ESG disclosure. Therefore, the following action that companies can take is to enhance their board and audit committee characteristics. As found in this study, the proportion of female board members in the fashion industry is still low. Since female board members have been found to have a positive impact on ESG disclosure, companies can improve this by appointing more female board members. Adding female board members will boost ESG disclosure in the fashion industry, potentially increasing the average ESG disclosure score.

Investors and creditors may use this study to discover the composition of board and audit committee that tend to disclose more ESG information, since companies that disclose less ESG information can be considered as risky. This study can also be used as a reference for regulators to know which board and audit committee characteristics are most likely to affect ESG disclosure. Therefore, regulators can implement it into the regulation. Additionally, future research is needed to discover more about corporate governance in the fashion industry. Future research could investigate how the sustainability committee impacts ESG disclosure, broaden the sample, and include unlisted companies.

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