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PERCEPTION VS. REALITY THE ROLE OF LINGUISTIC FRAMING IN ESG REPORTING AND ITS BEHAVIORAL EFFECTS ON INVESTMENT DECISIONS

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Abstract

This study investigates the impact of linguistic framing in ESG (Environmental, Social, and Governance) reporting on investor perception and decision-making behavior, with a comparative perspective between Indonesian and Thai participants. Using an experimental design, 120 respondents were exposed to either positively framed or neutrally framed ESG disclosures. Quantitative data were analyzed using PLS-SEM, and qualitative insights were derived from follow-up interviews to deepen the interpretation of investor responses. The findings reveal that linguistic framing significantly enhances investor perception, which in turn positively influences their investment intention. Moreover, cultural context plays a moderating role: Indonesian investors exhibited greater sensitivity to positive ESG narratives than Thai investors, who tended to prioritize factual clarity. These results demonstrate that ESG communication is not only about what is reported but also how it is linguistically framed. The study contributes to behavioral finance and accounting literature by integrating cognitive framing theory with cross-cultural insights, highlighting the role of language in shaping investor behavior. Practically, the research offers guidance for companies and regulators in designing ESG disclosures that are both ethically persuasive and culturally adaptive. The novelty lies in combining experimental, linguistic, and cultural lenses to examine ESG reporting behaviorally in a Southeast Asian context.

Keywords: linguistic framing, ESG reporting, investor perception, behavioral finance, cross-cultural communication

INTRODUCTION

In the era of stakeholder capitalism and increased awareness of environmental, social, and governance (ESG) issues, the landscape of corporate reporting has evolved beyond the financial domain. Companies are now expected not only to disclose sustainability-related information but also to communicate it persuasively and ethically through narratives embedded in ESG reports. These narratives, however, are not neutral. Emerging literature in critical accounting and behavioral finance reveals that language choices—ranging from tone and word selection to syntactic structure—can influence how investors perceive a company's ESG performance, regardless of its substantive achievements. This phenomenon, commonly referred to as linguistic framing, serves as a strategic device that can either enhance transparency or obscure reality (Craig & Amernic, 2018; Cho et al., 2012).

The increasing role of ESG reporting in shaping investment behavior, particularly in emerging markets like Indonesia and Thailand, calls for a deeper examination of how such framing practices function and whether they lead to perceptual biases among investors. Despite growing investor demand for sustainable and responsible investment, numerous studies have shown that ESG narratives are prone to "greenwashing," wherein positive impressions are crafted through language without corresponding operational commitment (Delmas & Burbano, 2011). This disconnect between perception and reality raises critical concerns about investor vulnerability, especially in regions where financial literacy and regulatory enforcement may vary. Behavioral theories further suggest that decision-makers often rely on mental shortcuts, such as the framing effect, leading to irrational or biased judgments when faced with complex disclosures (Tversky & Kahneman, 1981). Thus, understanding the influence of linguistic framing in ESG reporting is crucial in protecting investors and ensuring the integrity of capital markets.

This study aims to investigate how linguistic framing in ESG disclosures affects investor perception and decision-making behavior, with a specific focus on comparative responses between Indonesian and Thai investors. It explores the extent to which narrative strategies in corporate ESG communication shape investor attitudes, intentions, and preferences in allocating capital. The study adopts a mixed-methods approach combining content analysis of ESG reports with behavioral experiments involving investors from both countries. This methodological design allows not only for the identification of rhetorical patterns in ESG narratives but also for the measurement of their cognitive and behavioral consequences on actual investment judgments.

Theoretically, this research contributes to the interdisciplinary intersection of accounting communication, behavioral finance, and critical discourse analysis by introducing a cross-cultural behavioral lens in examining the real-world effects of sustainability disclosures. While most ESG research focuses on quantitative scores or third-party ratings, this study highlights the persuasive power of language, emphasizing how financial and non-financial narratives are interpreted differently depending on cultural and psychological contexts. Practically, the research offers guidance to regulators, standard setters, and corporate communicators regarding the ethical boundaries of ESG disclosures, while empowering investors with a more critical understanding of narrative techniques that may influence their investment decisions. It also helps mitigate the risk of narrative manipulation in ESG communication, which is especially relevant given the regional push for sustainability integration in ASEAN markets (PwC, 2023).

The novelty of this study lies in its explicit focus on linguistic framing as a behavioral determinant in ESG-based investment decisions within a comparative Southeast Asian setting. While prior literature has examined ESG and investor behavior separately, few studies have empirically tested how ESG narrative framing functions across different investor cultures. By bridging this gap, the research provides a fresh perspective on ESG transparency, offering both academic insight and actionable implications for enhancing sustainable investment practices.

The scope of this research includes ESG reports from publicly listed companies in Indonesia and Thailand, investor participants from both countries, and ESG-related textual framing analysis in relation to behavioral reactions. By integrating linguistic, psychological, and financial perspectives, the study aspires to inform a more transparent and ethically grounded ESG communication framework in the region.

LITERATURE REVIEW AND HYPOTHESIS FORMULATION

Linguistic Framing in ESG Reporting

Linguistic framing theory originates from the field of cognitive psychology and communication, primarily developed by Tversky and Kahneman (1981), which posits that the presentation of information influences decision-making processes. In accounting and sustainability communication, linguistic framing has become a crucial concept to understand how companies construct narratives that may affect stakeholders' interpretation of disclosed information.

Recent studies in sustainability reporting emphasize that ESG disclosures are not merely factual records but are embedded with rhetorical devices and language strategies aimed at shaping positive perceptions (Craig & Amernic, 2018; Cho, Michelon, & Patten, 2012). Companies may use framing techniques such as selective emphasis, positive lexical choices, and metaphorical language to enhance the attractiveness of their ESG reports, which may affect investor cognition and attitudes (Merkl-Davies & Brennan, 2017).

Empirical evidence from accounting research supports that such linguistic framing can influence investor reactions. For example, Cho et al. (2012) found that graphs and textual narratives in sustainability reports often enhance perceived performance without corresponding operational improvement. Similarly, Tang, Qian, and Shen (2021) showed that positive linguistic framing in ESG reports led investors to increase capital allocation, sometimes irrespective of underlying fundamentals.

Therefore, the first hypothesis examines the influence of linguistic framing on investor perception.

H1: Linguistic framing in ESG disclosures significantly influences investor perception of corporate sustainability performance.

Investor Perception as Mediator

Investor perception refers to the cognitive and emotional interpretation formed when investors process corporate information. Behavioral finance literature has demonstrated that investors do not act solely on rational analyses but are heavily influenced by affective and heuristic processing (Ricciardi & Simon, 2000; Laskin, 2018). The framing effect causes investors to interpret the same factual information differently depending on how it is presented (Tversky & Kahneman, 1981).

In the context of ESG investing, perception plays a mediating role between disclosure and decision-making. PwC's (2023) report on Asia-Pacific ESG investment highlights that investor perception is a key driver of investment behavior, especially where ESG literacy is still developing. This mediating role aligns with dual-process theories, which suggest that intuitive and affective reactions—triggered by narrative framing—mediate rational evaluation (Kahneman, 2011).

Prior research confirms this mediating function. For instance, Barker and Impey (2021) found that investor perception of CSR disclosures influenced investment preferences. Consequently, it is hypothesized that investor perception mediates the effect of linguistic framing on investment decisions.

H2: Investor perception mediates the relationship between linguistic framing and investment decision-making.

Investment Decision-Making Behavior

Investment decision-making involves evaluating information and choosing among alternatives to allocate resources. Traditional finance models emphasize rational decision-making based on quantitative data, but behavioral studies document that narratives and framing substantially affect these decisions (Laskin, 2018).

Tang et al. (2021) provide empirical support that investors are more likely to invest in companies whose ESG reports are framed positively, even when objective ESG scores do not differ significantly. This finding underscores the behavioral impact of framing on decisions, as framed disclosures may evoke trust, reduce perceived risk, or create moral appeal, influencing the allocation of capital (Delmas & Burbano, 2011).

Therefore, the third hypothesis concerns the direct influence of investor perception on investment decisions.

H3: Investor perception of ESG performance significantly influences their investment decision-making behavior.

Moreover, given the mediating role of investor perception, the indirect effect of linguistic framing on investment decisions is posited.

H4: Linguistic framing in ESG disclosures has a significant indirect effect on investment decision-making through investor perception.

Cultural Context as a Moderating Variable

Cultural differences influence how individuals perceive and interpret communication. Hofstede's cultural dimensions theory (2010) is widely used to explain variations in communication styles and decision-making across countries. Thailand and Indonesia, though geographically close, exhibit distinct cultural profiles, particularly in terms of uncertainty avoidance, power distance, and communication context (Suttipun, 2021).

High-context cultures, such as Thailand, rely more on implicit communication and may be more sensitive to subtle framing cues than Indonesia, which tends toward a lower-context communication style (Hofstede Insights, 2010). This cultural difference is likely to moderate how linguistic framing influences investor perception.

Supporting this, Suttipun (2021) showed that CSR messages are interpreted differently in Thailand and Indonesia due to cultural factors, impacting behavioral responses. Therefore, the following hypothesis is formulated:

H5: The effect of linguistic framing on investor perception is moderated by cultural context, differing between Indonesia and Thailand.

RESEARCH METHODS

This study employs a quantitative experimental research design aimed at investigating the causal effect of linguistic framing in ESG reporting on investor perception and investment decision-making behavior. The experimental design includes two groups: a control group receiving neutral framing and a treatment group exposed to positively framed ESG disclosures. This design enables the identification of the direct impact of linguistic nuances on participants' cognitive and behavioral responses.

The population targeted consists of undergraduate students in their final year majoring in accounting or finance, primarily from Indonesia and Thailand, as well as, where feasible, active retail investors familiar with financial markets. The choice of students is due to their foundational knowledge in accounting and investment, which ensures a meaningful understanding of the ESG reports and investment contexts used in the experiment. The sample includes 120 respondents in total, split evenly between Indonesia and Thailand (60 respondents each), with equal division between control and treatment groups (30 respondents per group per country). In Indonesia, data are collected from universities. In Thailand, participants come from Rajamangala University of Technology Krungthep, within the accounting and finance study programs.

Data collection is conducted using a structured online questionnaire administered immediately after participants are exposed to the ESG framing stimuli. The questionnaire is developed based on validated scales from recent literature, measuring perceptions of linguistic framing, investor cognitive and affective perceptions of corporate sustainability, and hypothetical investment intentions. The instrument is initially prepared in English, then translated into Bahasa Indonesia and Thai using back-translation techniques to ensure semantic equivalence and cultural relevance. The materials used include textual ESG statements exemplifying two different linguistic framings: the control statement presenting a straightforward financial decline and the treatment statement adding a positive interpretative layer to the same financial information.

Data analysis is performed using Partial Least Squares Structural Equation Modeling (PLS-SEM) to evaluate measurement validity and reliability, test the hypothesized structural relationships, and conduct multi-group analyses comparing the Indonesian and Thai samples. The use of PLS-SEM supports the examination of complex relationships, including mediation and moderation effects, which are central to testing the study's hypotheses.

Regarding tools and materials, the research employs an online survey platform (e.g., Qualtrics or Google Forms) to administer questionnaires efficiently and securely across geographic locations. The ESG framing statements are carefully crafted text materials designed to simulate real-world ESG report excerpts, ensuring ecological validity.

Ethical considerations are strictly followed, including informed consent, confidentiality, and voluntary participation. The research timeline encompasses preparation, translation, pilot testing of instruments, data collection phases in both countries, and subsequent data analysis.

This methodological approach allows for robust examination of linguistic framing effects on investment behavior within a controlled setting, while also accounting for cultural differences between Indonesia and Thailand. Limitations include reliance on student samples and hypothetical investment scenarios, which are acknowledged and discussed in the study.

RESULTS AND DISCUSSION

Results

The measurement model was first evaluated to ensure construct reliability and validity. All constructs met the required thresholds, with composite reliability values exceeding 0.70 and Average Variance Extracted (AVE) values above 0.50. Discriminant validity was confirmed using the Fornell-Larcker criterion, demonstrating that each construct was empirically distinct.

Structural model analysis using Partial Least Squares Structural Equation Modeling (PLS-SEM) revealed that linguistic framing had a significant positive effect on investor perception ($\beta = 0.48$, $p < 0.001$), supporting the hypothesis that positively framed ESG disclosures enhance how investors perceive corporate sustainability performance. Furthermore, investor perception had a strong influence on investment intention ($\beta = 0.62$, $p < 0.001$), confirming its mediating role. The direct effect of linguistic framing on investment intention was also significant ($\beta = 0.22$, $p = 0.036$), suggesting that framing not only influences perception but can also independently shape investment decisions.

Multi-group analysis comparing Indonesian and Thai respondents showed notable differences. The framing effect on perception was stronger among Indonesian participants ($\beta = 0.55$) compared to their Thai counterparts ($\beta = 0.41$), with a statistically significant difference ($p = 0.028$). This suggests that Indonesian investors may be more receptive to narrative cues in ESG communication, potentially due to cultural factors such as higher uncertainty avoidance or communication style preferences.

These results provide robust evidence that linguistic framing can act as a subtle yet powerful communication strategy to shape investor cognition and behavior, and that its effects may vary by cultural context.

Table 1. Measurement Model Evaluation

Construct	Indicator Loading	Composite Reliability	AVE	Cronbach's Alpha
Linguistic Framing	0.75 – 0.89	0.91	0.62	0.88
Investor Perception	0.72 – 0.86	0.89	0.60	0.86
Investment Intention	0.77 – 0.90	0.92	0.65	0.90

Table 2. Structural Model Path Coefficients and Hypothesis Testing

Path	β (Standardized Coefficient)	t-Statistic	p-Value	Result
Linguistic Framing → Investor Perception	0.48	5.22	<0.001	Supported
Investor Perception → Investment Intention	0.62	6.18	<0.001	Supported
Linguistic Framing → Investment Intention (Direct)	0.22	2.10	0.036	Supported

Table 3. Multi-Group Analysis: Path Coefficients by Country

Path	Indonesia (β)	Thailand (β)	Difference Significance (p)
Linguistic Framing → Investor Perception	0.55	0.41	0.028
Investor Perception → Investment Intention	0.67	0.56	0.074

Table 4. Comparison of Framing Effect on Investor Perception by Country

Country	Mean Investor Perception (Treatment Group)	Mean Investor Perception (Control Group)
Indonesia	4.1	3.3
Thailand	3.7	3.2

Alongside the quantitative experimental findings, qualitative data were collected through semi-structured interviews with a subset of nine participants from both Indonesia and Thailand. The interviews aimed to explore deeper insights into how linguistic framing in ESG reports influenced their thought processes, feelings, and investment considerations.

Thematic analysis of interview transcripts revealed several key themes. First, many participants acknowledged that positive linguistic framing helped them to better understand the company's resilience and strategic responses, which were not immediately apparent in neutral statements. One Indonesian student remarked, "The positive framing made me feel the company is still strong despite setbacks, so I would be more confident to invest." This illustrates how framing can enhance cognitive framing and emotional reassurance.

Second, cultural differences emerged in narrative interpretation. Thai participants tended to focus more on factual content and expressed some skepticism about overly optimistic language, indicating a preference for conservative information processing. A Thai respondent commented, "I prefer straightforward information; if it sounds too positive, I become cautious." This aligns with quantitative results showing a smaller framing effect in Thailand.

Third, interviewees highlighted the importance of trust and transparency in ESG reporting. Participants emphasized that framing must be balanced and credible to avoid perceptions of manipulation. Several noted that linguistic framing might be persuasive but should not replace substantive performance data.

These qualitative findings enrich the quantitative results by elucidating the cognitive and emotional mechanisms behind framing effects, as well as contextual factors influencing investor responses. They suggest that linguistic framing acts as a heuristic cue shaping investor judgment, but its effectiveness depends on cultural expectations and trust in the information source.

In practice, companies should tailor ESG communication strategies to their target investor cultures, combining clear factual data with carefully crafted narratives that enhance positive perception without sacrificing credibility. Regulators and standard setters might consider guidelines encouraging transparency alongside narrative flexibility to support informed investor decision-making.

H1: Linguistic framing in ESG reporting has a significant effect on investor perception.

The results strongly support this hypothesis. Participants exposed to positively framed ESG statements—such as emphasizing resilience despite declining profits—reported significantly more favorable perceptions of the company's ESG performance than those in the control group who received a neutral statement. This finding confirms that framing acts as a cognitive cue that shapes the way individuals interpret sustainability-related information, even when the core data remains constant.

These results are consistent with prior literature suggesting that narrative elements can influence cognitive processing and impression formation (Cho et al., 2015; Entman, 1993). This study extends those findings to the ESG context, demonstrating how carefully constructed language in sustainability reporting can serve as a soft form of impression management. The higher sensitivity to framing observed among Indonesian participants further suggests that cultural orientation—such as higher uncertainty avoidance—amplifies reliance on narrative cues.

This insight has practical implications: companies can use strategic framing to build stakeholder trust and project stability, but they must remain truthful and avoid misleading overstatements, particularly in highly regulated or skeptical markets.

H2: Investor perception significantly affects investment intention.

The findings also confirm the second hypothesis. Investor perception—enhanced through positive ESG framing—was found to significantly influence their intention to invest. Participants who perceived the company as more responsible and future-oriented were more willing to invest hypothetical funds. This result echoes existing behavioral finance theory, particularly the affect heuristic (Hirshleifer, 2015), where emotional impressions often guide financial decision-making more than objective evaluations.

This suggests that perception functions as a mediating cognitive mechanism linking ESG communication to investor action. In essence, how a company is perceived in terms of sustainability—

not just what it does—can have real behavioral consequences. For corporate communication strategists, this emphasizes the importance of not only complying with ESG standards but also communicating them effectively and persuasively.

Furthermore, this supports the practical relevance of ESG reporting beyond compliance—well-framed ESG narratives can enhance market engagement, especially among retail investors and younger, values-driven market segments.

H3: The effect of linguistic framing on investor perception differs between Indonesian and Thai participants.

This hypothesis is supported by both quantitative and qualitative findings. Statistically, the effect of positive framing on investor perception was stronger in the Indonesian sample than in the Thai sample. The qualitative data offers plausible explanations: Indonesian participants viewed optimistic language as a sign of corporate resilience and capability, while Thai participants expressed skepticism toward what they perceived as promotional or overly optimistic language.

These cultural differences can be understood through Hofstede's cultural dimensions (2010), which highlight differences in uncertainty avoidance, collectivism, and high-context communication preferences. Indonesians, generally more collective and responsive to relational communication, were more receptive to positively framed narratives. Thais, favoring directness and clarity, were more cautious when the tone appeared excessively optimistic.

The implication is clear: framing strategies should be culturally adaptive. What works in one market may not yield the same result elsewhere. Multinational corporations and global investment firms must consider these nuances when crafting ESG narratives for diverse audiences.

Integrated Discussion and Theoretical Implications

The findings from all three hypotheses collectively reinforce the central argument that linguistic framing is not merely cosmetic—it shapes cognition and behavior. This research empirically validates the extension of framing theory (Tversky & Kahneman, 1981) into the domain of ESG reporting and investor decision-making, with cultural context acting as a moderator.

Theoretically, this study contributes to the intersection of behavioral finance and sustainability communication by integrating cognitive framing with cross-cultural interpretation. The introduction of cultural sensitivity as a contextual layer in framing theory suggests that future models should not assume universal processing of narrative cues. These results support calls for expanding behavioral finance beyond Western-centric models (Pinto & Schmid, 2023).

Practically, the study recommends that companies, especially those in international markets, adopt tailored ESG communication strategies that resonate with the cultural and psychological profiles of their target investors. Regulators and standard setters may also consider incorporating narrative integrity guidelines in ESG disclosure frameworks.

CONCLUSION

This study confirms that linguistic framing in ESG (Environmental, Social, and Governance) reporting significantly influences investor perception and, subsequently, investment intention. Positively framed disclosures enhance investors' views of a company's resilience and sustainability performance, increasing their willingness to invest. This effect is more prominent in Indonesian respondents than in Thai participants, suggesting that cultural context moderates how framing is interpreted. The findings demonstrate the behavioral relevance of language in financial decision-making and emphasize the importance of culturally sensitive communication in ESG reporting.

Implications of this research are both theoretical and practical. Theoretically, this study contributes to the integration of framing theory and behavioral finance, especially in the context of sustainability communication. It introduces the cultural lens as a moderating factor in the framing effect, expanding the generalizability of narrative-based financial behavior studies. Practically, the findings offer strategic guidance for corporate communicators and ESG report designers: well-framed sustainability disclosures—crafted with attention to cultural nuances—can influence investor engagement and improve stakeholder trust. Regulatory bodies may also benefit by considering not only the content but also the framing style of mandated disclosures.

Despite its contributions, this research is not without limitations. First, the sample consists primarily of final-year accounting and finance students and a small number of retail investors, which may not fully represent the broader investor population, especially institutional investors or experienced financial analysts. Second, the experimental setting uses hypothetical investment scenarios, which may not capture the full emotional or financial stakes involved in real-world decision-making. Third, the cultural analysis is limited to two countries—Indonesia and Thailand—so broader generalizations must be approached with caution.

Based on these limitations, several suggestions for future research are proposed. Future studies could include a more diverse respondent pool, involving professional investors, ESG fund managers, or corporate decision-makers to enhance external validity. Expanding the research to include more countries with varying cultural dimensions would allow for a richer understanding of how linguistic framing interacts with global investment behavior. Furthermore, longitudinal or field studies involving real investment decisions or eye-tracking and sentiment analysis tools could provide deeper insights into the cognitive processing of ESG narratives. Lastly, future research may explore other narrative elements—such as tone, metaphor, or visual framing—to further uncover the nuanced effects of communication strategies in sustainability and finance.

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