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Green Corporate Governance and Environmental Disclosure

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Abstract
Strong governance frameworks are essential for effective environmental reporting, especially green corporate governance, which integrates environmental factors into decision-making. By bringing operations into line with sustainability objectives, this strategy enhances stakeholder confidence, risk management, and transparency. Government programs in Malaysia encourage green governance by pushing businesses to use sustainable practices and improve environmental disclosure, which benefits both the environment and business. Agency theory supports the idea that a green corporate governance framework reduces agency costs by aligning shareholders' and managers' interests, fostering greater environmental transparency. Establishing environmental management systems and committees can improve disclosure and reduce conflicts of interest. Green governance research, still emerging, emphasizes its role as a strategy for sustainable resource management and its commitment to long-term ecological, economic, and social sustainability. Studies show that companies adopting green technologies, Environmental, Social, and Governance (ESG) policies, and environmental management systems are more likely to disclose environmental impacts. Furthermore, stakeholder engagement, director compensation linked to environmental performance, and financial factors like leverage and company size also influence environmental disclosure practices.

Keywords: Sustainability, Corporate Governance, Environmental and Agency Cost

1. Introduction

In recent years, environmental sustainability has become a critical focus for companies worldwide, driven by the growing urgency to address global issues like climate change, pollution, and resource depletion. As the world grapples with these challenges, companies are increasingly recognizing the importance of reducing their environmental impact. In response, many companies have begun adopting environmentally responsible practices and policies, aiming not only to protect the environment but also to enhance their reputation and ensure long-term sustainability. This shift towards sustainability reflects a broader understanding that corporate responsibility goes beyond financial performance and must also include ecological stewardship (Habbash, 2015) [5].

Environmental disclosure plays a crucial part in this shift toward sustainability. It refers to the practice of companies reporting on their environmental effect, which can offer stakeholders crucial information regarding a company's environmental performance. Transparent environmental disclosures assist companies to demonstrate accountability, improve risk management, and boost their brand. They also help assure compliance with increasingly demanding environmental requirements. However, the amount and quality of environmental disclosure often depend on the governance systems in place, notably green corporate governance, which emphasizes the integration of environmental factors into business strategy and decision-making (Oncioiu *et al*, 2020) [17].

Green corporate governance establishes a framework for companies to synchronize their operations with environmental objectives. It entails the formulation and execution of procedures and policies that emphasize environmental conservation and sustainable ecological stewardship. A good green governance system enables businesses to accurately assess, track, and disclose their environmental impact. In the absence of such a system, corporations may be deficient in the requisite tools and processes to deliver precise and thorough environmental disclosures. Furthermore, green governance promotes enhanced transparency and accountability in environmental reporting among enterprises, thereby cultivating trust with stakeholders and advancing sustainable practices (Habbash, 2015) [5].

The relationship between green corporate governance and environmental disclosure is essential for fostering sustainable company practices. Companies that include green governance in their operations are more inclined to offer substantial environmental disclosures, enabling stakeholders to evaluate the company's dedication to sustainability. Governments have implemented several policies and efforts to advance green governance, including the national green technology strategy and subsidies for renewable energy. These programs seek to establish a more sustainable future, with firms playing a crucial role in fostering environmental change through enhanced governance and transparent reporting. Green corporate governance and environmental disclosure are interrelated ideas that enhance both economic success and environmental conservation (Li *et al*., 2020; Habbash, 2015) [10, 5].

2. Literature Review

2.1 Agency Theory

The agency theory of management is a model that attempts to explain the interactions that exist inside corporate companies as well as the self-interests of its members. The fundamental idea behind agency theory is that one party allots work to another party, which is referred to as an agent in the theory. It shows how to create interactions in which one party (the principal) decides the task, and another party (the agent) executes or makes choices on the principal's behalf to accomplish the mission (Jensen & Meckling, 1976) [14].

This study utilizes agency theory to support the reasons why corporations should build a green corporate governance framework to improve environmental transparency and reduce agency conflicts. However, agency conflict occurs when there is a mismatch between the interests of shareholders and managers, and the managers act in their own best interests rather than the best interests of the shareholders (Jensen & Meckline, 1976) [14]. Conflicts of interest between shareholders and management are inherent, according to Jensen and Meckling (1976) [14]. As a result, an adequate governance structure must be designed to protect the interests of shareholders.

Agency theory posits that the establishment of a green corporate governance framework may facilitate the agent's disclosure of environmental information to the principal, guaranteeing the agent acts in the principle's best interests. This study indicates that a green corporate governance structure, specifically the establishment of a sustainable governance framework, a structured environmental management system (EMS), and an environmental risk management committee (ERMC), can influence the quality of environmental disclosure.

2.2 The Relationship between Green Corporate Governance and Environmental Disclosure

The study of green government is still very new, and most of it is based on ecological theory. The ways that scholars thought about green governance were very different based on the fields they studied. Definitions are categorized into three sorts. Initially, governance and management are frequently conflated. Green governance, as defined by Rajesh (2020) [18], refers to the government's ambition, strategy, and proactive management of sustainable natural resources. Secondly, governance and governance structure are equivalent terms. Green governance, as articulated by Nansikombi *et al*. (2020) [15], comprises five components: Norms, shared objectives, participation, communication, and resources. The term green governance denotes sustainable growth over the long term. Green governance, as defined by Omri and Ben Mabrouk (2020) [16], encompasses enduring social, economic, and ecological sustainability. The present research on green governance is characterized by the following traits.

Li *et al*. (2017) [9] identified a relationship between sustainable practices and environmental disclosure in their study. Gadenne *et al*. (2011) [3] identified a substantial positive relationship between sustainable practices and the level of environmental disclosure. Companies that embrace sustainable practices, such as utilizing renewable energy sources, minimizing carbon emissions, and executing waste management programs, generally provide more comprehensive disclosures regarding their environmental performance. This discovery underscores the importance of integrating sustainable practices into corporate governance structures to enhance environmental transparency.

Research has shown a positive relationship between environmental disclosure and stakeholder engagement mechanisms. Companies that use extensive environmental engagement frameworks, encompassing stakeholder consultation and engagement strategies, are more inclined to reveal their environmental impacts, initiatives, and performance, as noted by El Ghoul *et al*. (2017) [4]. This illustrates the need to actively engaging stakeholders in environmental decision-making and reporting procedures. Freedman and Jaggi (2005) [2] found that companies with extensive Environmental Management Systems (EMS) were more inclined to divulge environmental information. Moreover, stakeholder engagement strategies, as emphasized by Stubbs and Cocklin (2008) [19], significantly influenced corporations to report their environmental performance to satisfy stakeholder expectations.

The integration of Environmental, Social, and Governance (ESG) policies into corporate governance enhances environmental disclosure. He *et al*. (2023) [7] have shown that companies with strong ESG strategies are more inclined to reveal their environmental practices and performance. Environmental, social, and governance (ESG) policies prioritize the integration of environmental considerations into corporate decision-making, resulting in enhanced transparency and disclosure.

The relationship between director remuneration and environmental disclosure has been examined. Liu (2024) [12] discovered that companies linking director remuneration to environmental performance metrics are more inclined to reveal their environmental activities and achievements. This illustrates the need to motivate directors to emphasize environmental sustainability and transparency.

The implementation of green technology significantly enhances environmental disclosure. Ullah and Wu (2023) [21] found that companies investing in green technologies are more inclined to reveal their environmental practices and performance. The implementation of green technology signifies a company's commitment to minimizing environmental effects, leading to improved environmental transparency. Furthermore, Hartmann *et al*. (2016) [6] and Lin *et al*. (2014) [11] identified a positive relationship between innovation endeavors and environmental disclosure, suggesting that companies prioritizing green technology and innovative solutions were more inclined to reveal their environmental initiatives to stakeholders.

Matrood *et al*. (2023) [13] examined the influence of Environmental Management System (EMS) implementation on environmental disclosure within the manufacturing sector. The research revealed a substantial relationship between EMS implementation and environmental disclosure. Companies that adopted an EMS were more inclined to reveal their environmental practices, performance, and objectives. The findings illustrated the effectiveness of EMS in enhancing environmental disclosure and fostering the ongoing advancement of environmental management.

Financial factors have also been explored in the context of environmental disclosure. Research indicates a relationship between leverage (debt-to-equity ratio) and environmental disclosure (Tilt, 2011; Cho *et al*., 2013) [20, 1]. Elevated leverage ratios are related to increased environmental disclosure, indicating that financial leverage may affect a company's dedication to environmental reporting and openness. Furthermore, business size consistently exhibits a favorable relationship with environmental disclosure (Williams, 2018; Khan *et al*., 2020) [22, 8]. Companies of greater size, determined by the extent of their operations or market capitalization, are more inclined to participate in environmental disclosure standards.

3. Conclusion

According to agency theory, a green corporate governance framework can lower agency costs by bringing together the interests of shareholders and managers, which leads to more environmental transparency. Companies can improve environmental disclosure by setting up structured environmental management systems and committees, which make sure managers act in the best interests of shareholders and reduce conflicts of interest.

Green governance research, still in its early stages, is largely based on ecological theory and varies across different scholarly perspectives. Green governance is defined as an organizational approach to sustainable resource management, a framework comprising norms, communication, and resources, and a long-term dedication to social, economic, and ecological sustainability. The research underscores the favorable relationship between sustainable practices and environmental disclosure, indicating that organizations implementing green technologies, ESG policies, and environmental management systems (EMS) are more inclined to reveal their environmental consequences. Moreover, stakeholder engagement, director compensation tied to environmental performance, and financial variables such as leverage and business size significantly influence environmental disclosure.

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