

UNIVERSITI TEKNOLOGI MARA

**THE EFFECT OF CORPORATE
ENVIRONMENTAL DISCLOSURE
ON EARNINGS MANAGEMENT
AND FINANCIAL PERFORMANCE:
THE MODERATING ROLE OF
BOARD MONITORING**

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ABSTRACT

Environmental sustainability and corporate transparency have become critical priorities worldwide, with Malaysia embedding these principles into national strategies such as the Twelfth Malaysia Plan and Bursa Malaysia's sustainability reporting framework. Despite these developments, there is ongoing debate, particularly in emerging markets, about the relationship between Corporate Environmental Disclosure (CED), earnings management, and financial performance. This study investigates the effects of CED on earnings management and financial performance, as well as the moderating role of board monitoring, within Malaysian public-listed manufacturing companies. Using a sample of 258 firms (1,548 firm-year observations) from 2016 to 2021, this study applies panel data analysis with the Generalised Method of Moments (GMM) to address endogeneity and ensure robust results. CED quality was assessed through content analysis based on the Global Reporting Initiative and Bursa Malaysia guidelines. Financial performance was measured using Tobin's Q, Return on Assets (ROA), and Return on Equity (ROE), while earnings management was proxied through accrual-based (AEMJ) and real activity measures (abnormal cash flows: ABCFO, and abnormal discretionary expenses: ABDIS). A Board Monitoring Index (BMI), comprising board size, independence, competency, gender, and tenure, was constructed to capture governance strength. The results provide mixed evidence. CED exhibits a significant positive relationship with accrual-based earnings management but a significant negative relationship with real earnings management (ABCFO and ABDIS), suggesting that, while disclosures may at times serve symbolic purposes, they can also constrain opportunistic managerial behaviour. In terms of financial performance, CED shows significant negative associations with Tobin's Q, ROA, and ROE, indicating potential short-term costs of disclosure practices. Earnings management demonstrates varied effects: accrual- and cash flow-based measures are positively associated with financial performance, while discretionary expenses show a negative effect, reflecting the complex nature of managerial strategies. Furthermore, board monitoring produces both strengthening and weakening effects across the tested relationships, underscoring its multifaceted role in governance. This study contributes by offering sector-specific evidence from Malaysia and by introducing the Board Monitoring Index as a moderator in disclosure-performance dynamics. The findings highlight the need for regulators and policymakers to enhance governance mechanisms to ensure that CED functions as a genuine tool of transparency rather than a symbolic or opportunistic practice. For practitioners, the results underline that while environmental disclosure can strengthen accountability, its immediate financial implications depend on how it is managed and overseen.

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CHAPTER 1

INTRODUCTION

1.1 Chapter Overview

This chapter presents an overview of this research thesis. Section 1.2 discusses the background of the study, focusing on Corporate Environmental Disclosure (CED) and its growing significance in business decision-making and transparency. Section 1.3 covers the Environmental Quality Act of 1974 and its role in pollution prevention and environmental governance in Malaysia. Section 1.4 outlines the problem statement, emphasising environmental issues, regulatory enforcement, and corporate environmental reporting challenges. Section 1.5 presents the study's objectives, which include examining the effects of CED on earnings management and financial performance, alongside the moderating role of board monitoring. Section 1.6 defines the research questions that guide this investigation. Section 1.7 delimits the study's scope, focusing on Malaysian public-listed companies in the manufacturing sector. Lastly, Section 1.8 highlights the value of the study, particularly for enhancing corporate transparency, addressing greenwashing concerns, and contributing to the literature on CED and financial performance.

1.2 Research Background

Environmental sustainability has become a major global and national priority, guided by various international and local agendas. In 2015, the United Nations launched the 2030 Agenda for Sustainable Development, which established 17 Sustainable Development Goals (SDGs) as a universal call to action to end poverty, protect the planet, and improve the lives and prospects of everyone (United Nations, 2015). Among these, SDG 13 specifically urges immediate and sustained actions to combat climate change and its impacts, while SDG 12 calls for responsible consumption and production to reduce environmental degradation. SDG 9 also highlights the importance of building resilient infrastructure and promoting inclusive and sustainable industrialisation, thereby directly linking industrial activities to environmental and social outcomes.