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About

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INSIGHT Journal focuses on social science and humanities research. The main aim of INSIGHT Journal is to provide an intellectual forum for the publication and dissemination of original work that contributes to the understanding of the main and related disciplines of the following areas: Accounting, Business Management, Law, Information Management, Administrative Science and Policy Studies, Language Studies, Islamic Studies and Education.

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FOREWORD BY DEPUTY RECTOR OF RESEARCH, INDUSTRIAL LINKAGES & ALUMNI

Since 2018, the INSIGHT JOURNAL (IJ) from Universiti Teknologi MARA Cawangan Johor has come up with several biennial publications. Volume 1 and 2 debuted in 2018, followed by Volume 3 this year as well as Volume 4 with 19 published papers due to the great response from authors both in and out of UiTM. Through Insight Journal, lecturers have the ability to publish their research articles and opportunity to share their academic findings. Insight Journal is indexed in MyJurnal MCC and is now an international refereed journal with many international reviewers from prestigious universities appointed as its editorial review board members.

This volume 5 as well as volume 6 (which will be published in 2020) are special issues for the 6th International Accounting and Business Conference (IABC) 2019 held at Indonesia Banking School, Jakarta. The conference was jointly organized by the Universiti Teknologi MARA Cawangan Johor and the Indonesia Banking School Jakarta. Hence, the volumes focus mainly on the accounting and business research papers compiled from this conference, which was considered a huge success as over 66 full papers were presented.

Lastly, I would like to thank the Rector of UiTM Johor, Associate Professor Dr. Ahmad Naqiyuddin Bakar for his distinctive support, IJ Managing Editor for this issue Dr. Noriah Ismail, IJ Assistant Managing Editor, Fazdillah Md Kassim well as all the reviewers and editors who have contributed in the publication of this special issue.

Thank you.

ASSOCIATE PROF. DR. SAUNAH ZAINON
Deputy Rector of Research, Industrial Linkages & Alumni
Editor-in-Chief for INSIGHT Journal
Universiti Teknologi MARA Cawangan Johor

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Environmental Experiences and Positive Environmental Deviance towards Environmental Disclosure Quality: A Conceptual Framework for Internal Corporate Governance

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Abstract

This paper presents a theoretical proposition based on an institutional theory for environmental disclosure quality. The argument is based on an internal behavioral governance mechanism, namely the cognitive influence of a board of directors' and chief executive officer's environmental experience on environmental disclosure quality using positive environmental deviance as the mediator. This paper contributes to the literature by providing a fundamental explanation of how organizations deviate positively from their peers who focus solely on external motivation for corporate environmental reporting practices, whereas the internal motivation, the cognitive influence of internal governance members, should be the focus for better environmental disclosure practices. The concept of positive environmental deviance is relatively new, so it offers an interesting avenue for further research, especially in the context of developing countries. Overall, this paper sheds light on the internal behavioral governance mechanism and positive environmental deviance of environmental disclosure quality. This will hopefully attract researchers, practitioners and policy makers to view, more seriously, this area of concern.

Keywords: Environmental disclosure quality, positive environmental deviance, internal corporate governance, institution, environmental experience.

1. Introduction

Malaysia and other ASEAN (Association of Southeast Asian Nations) economies are increasingly vulnerable to the impact of climate change, biodiversity losses and water scarcity. These problems are allied with serious social and economic implications, which affect the security and stability of the region. Typhoon Haiyan in the Philippines, a major water crisis in one of the most populace states of Malaysia, devastating floods along the east coast of Malaysia and air pollution caused by forest fires in Kalimantan and Sumatra all make us apprehensive about the region's future. A recent study by the Asian Development Bank showed that economic losses due to disasters have outpaced the region's economic growth, and will continue to threaten the economic gains of these emerging markets (Asian Development Bank, 2013).

Given the emergence of environmental issues and their massive impact on our economy, over the past decade there has been growing pressure on corporations to be more transparent when disclosing their business-related environmental impacts. Increasing CSR (corporate social responsibility) and sustainability awareness have driven corporate sustainability reporting to be more focused on the material issues of interest to stakeholders and investors. In fact, the importance of environmental sustainability concerns has led companies worldwide to improve their corporate environmental sustainability practices by measuring, managing, and reporting on their environmental impacts beyond regulatory compliance and their corporate environmental responsibility practices. Nowadays, environmental issues are a major concern for the majority of the world's largest corporations, including the 250 top global (G250) companies (KPMG, 2015).

To ensure environmental accountability, the implementation of high standards and best practices, the Global Reporting Initiative (GRI) has been recognized as the most recognized voluntary standard-setting device and is regarded as the "de facto global standard" for sustainability reporting worldwide (Hahn & Kühnen, 2013). The performance indicators listed in the GRI framework have been widely used to measure and report on the economic, social and environmental performance of corporations. This is also known as 3P (people, planet and profit) or triple bottom line disclosure.

The results of a survey involving practitioners came up with a diverse array of corporate motivations for sustainability reporting practices. These include external motivation arising from external pressures on CSR related behavior, as well as internal motivations for improved sustainability management related practices at the organization level (Perez-Lopez, Moreno-Romero, & Barkemeyer 2013). For instance, external motivation includes (1) compliance to legal requirements and social norms, (2) transparency for stakeholders, (3) credibility and reputation management, (4) communication efforts and (5) obtaining operating licenses. Meanwhile, internal motivation covers: (1) risk management improvement, (2) identification of strategic opportunities, (3) resource allocation and cost reduction, (4) collaboration and process improvement within the organization, (5) employee motivation and (6) innovation and learning (Perez-Lopez, Moreno-Romero & Barkemeyer, 2013).

Previous research examined various kinds of determinants that lead to environmental disclosure quality or sustainability disclosure quality. Nevertheless, only corporate size and corporate visibility has been found to have consistently positive results in terms of environmental disclosure quality and sustainability disclosure quality (Hahn & Kühnen, 2013). Furthermore, less clarity exists from the institutional perspective when the pattern of corporate environmental reporting practices does not meet institutional expectations which is the harmonization of the reporting practice worldwide (KPMG, 2015). In reality, companies do not adopt uniform responses to institutional expectations as some companies report their environmental information in great detail, whereas others disclose only limited information (Pedersen, Neergaard, Pedersen, & Gwozdz, 2013). Therefore, this paper will fill in the gaps by providing insights into the underlying mechanism of institutional deviance by recognizing the role of the internal behavioral governance mechanism in the interpretation of institutional pressures and their subsequent implication for organizational deviance in the quality aspect of environmental disclosure. The framework of this study contribute to corporate environmental reporting literature by highlighting the substitute effects of the internal governance (as the micro-level mechanism) and the external institution (as the macro-level mechanism) on improving the environmental disclosure quality.

2. Literature Review

2.1 Environmental Disclosure Quality

Corporate environmental reporting is one of the components of environmental accountability (Alrazi, de Villiers, & van Staden, 2015). Environmental reporting is a practice to measure, and then report to external and internal stakeholders on the organizational environmental performance in terms of its pursuit of sustainable development (Othman, Nath, & Laswad, 2018). There are various forms of environmental reporting ranging from inclusion in hardcopy annual reports, sustainability reports, as standalone reports or availability online (Wangombe, 2013).

There are various definitions of corporate environmental reporting. Wilmshurst & Frost (2000, p.16) define environmental reporting as; “those disclosures that relate to the impact company activities have on the physical or natural environment in which they operate”. Berthelot et al. (2003, p.2) define environmental reporting as, “the set of information items that relate to a firm’s past, current and future environmental management activities and performance. [It]...also comprises information about the past, current and future financial implications resulting from a firm’s environmental management decisions or actions.” Specifically, the environmental information disclosed should cover risky and uncertain environmental issues, such as climate change, biodiversity and water scarcity, which have a significant impact on the future performance and prospects of an organization (Iatridis, 2013).

Corporate environmental reporting implementation can be structured, based on environmental reporting guidelines or formulated independently. With the most comprehensive and influential reporting guidelines (GRI), the quality and inconsistency of environmental disclosure have improved tremendously (KPMG, 2015). With regard to the extent of environmental disclosure (volume of information) disclosure, environmental reporting is preferred by stakeholders because it covers the quality of corporate governance, company risk management, reputation and future financial prospects (Iatridis, 2013), This makes it more reliable and credible (Darus, Othman, & Arshad, 2014) because there are several quality reporting criteria that are included: (1) strategies, risks and opportunities, (2) materiality, (3) target setting and indicators, (4) suppliers and the value chain, (5) stakeholder engagement, (6) governance and (7) transparency and balance (KPMG, 2015).

Previous environmental reporting research on the determinants of the quality of disclosure has ranged from descriptive disclosure research to specific, quantifiable, and monetary data (Hahn & Kühnen, 2013). Among the determinants that have been researched are: (1) corporate size, (2) the board's characteristics, (3) financial performance, (4) ownership structure, (5) industry affiliations, country-of-origin, and legislative requirements, (6) board effectiveness and (7) corporate visibility. Moreover, high quality environmental disclosure has been proved to propel environmental innovation (Yin & Wang, 2018) and enhance company's investment recommendations (Al-Shaer, 2018).

In the Malaysian context, very little research has been carried out on the quality of environmental reporting based on GRI requirements (Jaffar, Adinehzadeh, & Rahman, 2015). Most of the previous research on the extent or levels of environmental disclosure has focused on a very narrow scope namely, the location of environmental disclosure in annual reports and environmental sub-themes (environmental preservation, environmental expenditures and investments, pollution abatement and environmental preservation). Hence, in the absence of specific environmental reporting guidelines, it is vital to improve the robustness, reliability, credibility and consistency of environmental disclosure. This leads to a call for further investigation into the role of the internal governance member in the environmental reporting process because they have the ultimate responsibility for dealing with the regulative pressures to disclosure environmental information. Therefore, this paper suggests that positive environmental deviance plays an important role in improving the quality of environmental disclosure.

2.2 Positive Environmental Deviance

Positive deviance describes individual and organizational behavior that deviates from the norm (rules that regulate and regularize behavior) of a reference group, is positive in terms of intention or effects and conforms to hyper norms, like they are not harmful to other groups or to society as a whole (Mertens & Recker, 2017; Mertens, Recker, Kohlborn, & Kummer, 2016). In corporate environmental management practices, positive deviance can be described as the strategic behavior of the corporation to improve the impact of environmentally sustainability practices beyond the required regulations and which, in turn, may lead to the elevation of the organization's and industry's norms associated with broader scale changes (Walls & Hoffman, 2013). Positive environmental deviance can be regarded as more sustainable corporate sustainability practices (Dossa & Kaeufer, 2014) and is related to more sustainable behavior which is appreciated, benevolent, caring, enduring, well positioned and reciprocal (Sadler-Smith, 2013). While normal environmental behaviors can be regarded as environmentally responsible sustainable corporate practices (Dossa & Kaeufer, 2014), they can also be related to less unsustainable behavior that still complies with the law, adheres to business norms and does what is required (Sadler-Smith, 2013).

Positive environmental deviance behavior is a business's strategic response that recognizes the importance of environmental responsibility in their business operations (Toppinen, Li, Tuppura, & Xiong, 2012). Furthermore, this proactive strategic response also involves voluntary practices to improve environmental performance (González-Benito & González-Benito, 2006). The companies that deviate positively in their environmental practices address environmental issues with sustainable solutions that require the coordination of various teams within the organization. These include the environmental teams, engineering, production, marketing, and distribution managers (Albertini, 2013). They have also developed some specific environmental capabilities such as historical orientation, network embeddedness, endowments, managerial vision, top management skills and human resources (Walls, Phan, & Berrone, 2011). In addition, they always address the requirements of environmental regulation at any given time (Albertini, 2013). The potential impact of a company that deviates positively in their corporate environmental practice is examined on two levels: (1) environmental performance and (2) environmental capital expenditures or ECEs (Rodrigue, Magnan, & Cho, 2013). Environmental performance is measured as either regulatory or voluntary. Regulatory performance represents a reactive approach to corporate environmental management practices, while voluntary performance such as pollution prevention constitutes a proactive environmental strategy aiming to exceed compliance expectations (Walls & Hoffman, 2013). Environmental capital expenditures are measured regarding capital expenditure dedicated to pollution control and abatement and represents specific environmental management decisions based on their relevance to regulatory, strategic and financial purposes (Rodrigue et al., 2013), as well as represent a significant part of corporate environmental strategies and contribute to environmental performance management (Clarkson, et al., 2011).

Besides environmental performance and environmental capital expenditures, organizations that deviate positively in their corporate environmental management practices also emphasize internal motives for environmental reporting (internal practices of corporate environmental management practices) along with the external motives of environmental reporting (external communication of corporate environmental management practices) (Perez-Lopez et al., 2013). Perez-Lopez and colleagues (2013) found that focusing solely on external requirements does not guarantee any of the internal benefits frequently associated with environmental reporting. Previous studies revealed that companies which deviated positively in their corporate environmental management practices provided higher quality environmental reporting (Albertini, 2013; Walls et al., 2011). A company with a positive environmental deviance culture will increase their employees' environmental behavior and "spread" the positive environmental deviance behavior throughout the organization. As the positive environmental deviance may lead to improvement in the environmental disclosure quality, this relationship can be explained more clearly by studying the mechanism behind it.

2.3 Internal Governance Members' Environmental Experience

The board of directors and chief executive officer are crucial to understanding the connection between the organizational field and the organizational internal corporate governance (Rodrigue et al., 2013; Walls & Hoffman, 2013). Boards of directors and the chief executive officer are the keepers of knowledge and resources that can directly or indirectly affect corporate strategies through either board decisions or by forming board committees (Kim & Ozdemir, 2014). Recently, it has become normal for boards of directors and chief executive officer to oversee material sustainability issues that affect corporate performance. In fact, globally, large numbers of firms have set up dedicated board members to oversee sustainability related issues (KPMG, 2015).

Boards of directors and the chief executive officer interpret the institutional pressures based on the experience of its members and shape organizational responses based on their interpretations (Walls & Hoffman, 2013). Some boards seek additional expertise by recruiting directors with environmental backgrounds while others steer their executives' behavior by incorporating environmental incentives into their executive compensation schemes (Rodrigue et al., 2013). It is argued that internal governance members have two functions that are complementary but which also create some tension. These include the monitoring of managerial decisions and control systems as well as providing resources, advice and counsel for management. The monitoring function encourages boards of directors to protect stakeholders, particularly shareholder interests by monitoring their managers' behavior while the advice function implies that board members shape and evaluate strategic decisions that will help facilitate access to the resources necessary for corporate success (Rodrigue et al., 2013). Walls and Hoffman (2013) argued that the board's participation in decision making relating to environmental sustainability is fitting due to possible problematic environmental issues which are often institutionally complex.

Environmental governance mechanisms which originated with the boards of directors and chief executive officer can be seen as two approaches (Rodrigue et al., 2013). The first approach is the substantive approach by which internal governance members implement environmental governance mechanisms to respond to stakeholders' environmental expectations, address environmental performance issues and monitor the firm's environmental performance. The second approach is symbolic and suggests that environmental governance mechanisms are merely symbols of an internal governance members' environmental involvement but lack any real influence on environmental investment decisions. Regardless of these approaches, all of these environmental governance mechanisms are influenced by the filter of the decision internal governance members' prior experience.

In view of the relationship between internal environmental governance mechanism and positive environmental deviance, Rodrigue et al. (2013) found that the existence of environmental committees, the proportion of environmentally aware directors on boards and the presence of environmental incentives as part of executive remuneration, all have a negative relationship with positive environmental deviance. These internal environmental governance mechanisms are basically symbolic and designed to manage stakeholders' perceptions of the corporate environmental management. This study argues that the inconsistency between these internal governance mechanisms and the quality of environmental reporting, as well as positive environmental deviance, may be attributable to the lack of research from the behavioral governance perspective.

2.4 Internal Governance Members' Environmental Experience

Previous studies revealed that environmental reporting was subjected to different levels of pressure which influenced the state of environmental disclosure quality (Wangombe, 2013). As the Malaysian publicly listed companies (PLCs) faced external pressures such as the mandatory requirement of the CSR framework instigated by Bursa Malaysia in 2007, it is worthwhile to examine environmental disclosure quality from the institutional perspective. According to seminal papers, the institutional context includes internal structures and external rules, such as public norms, environmental policies, environmental legislation and regulations (DiMaggio & Powell, 1983). Institutional theory underlines how organizations opt for certain behavior or practices such as environmental reporting through isomorphism. Therefore, institutional theory offers a possible lens through which to examine environmental disclosure quality.

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Previous studies have also investigated the association between the extent of CSR disclosure and the organizational governance structure from the institutional perspective (Hahn & Kühnen, 2013). The study found that organizations with higher government ownership, more diverse and larger board sizes, and more independent board members, related positively to the extent of CSR disclosure. Amran et al. (2012) used institutional theory to explain the relationship between firm attributes, ownership structure, and business networks and climate change mitigation efforts, whereby company size, profitability, industry membership, government ownership and business networks were found to be positively related to environmentally related practices. Institutional theory explained the importance of regulatory, normative and cognitive pressures that influence an organization to adopt specific organizational structures and practices.

As an extension to those two studies (Amran et al., 2012; Ntim & Soobaroyen, 2013), this study employed institutional theory to investigate the role of internal governance mechanisms, rather than the institutional context, to examine the differences in organizational responses. This study adopted the idea from Walls and Hoffman (2013) to explain why some organizations deviate from institutional norms to improve their environmental management practices at the company level. With this kind of positive environmental behavior, companies emphasize the technical and organizational elements that would be needed to integrate corporate environmental reporting practices into corporate environmental management practices rather than focusing solely on the external motivation of CER (Perez-Lopez et al., 2013).

2.5 Proposition Development

Not without its critics, CSR practice has been gaining momentum steadily over the years. Many governments have implemented mandatory CSR disclosure requirements. For instance, all PLCs in Malaysia are required to disclose CSR information in their annual reports (Bursa Malaysia, 2007). Since then, the number of Malaysian companies disclosing their environmental information has increased tremendously due to this mandatory stock exchange requirement (KPMG, 2015). Observations indicate that the information disclosed is in a heterogeneous manner and reveals company responses to institutional pressure in various ways (KPMG, 2015).

Variation and inconsistency of environmental information disclosed by Malaysian companies have been highlighted by several researchers. Their research found that information disclosed was incomplete or not particularly comprehensive and was largely confined to general, narrative statements which could not be verified (Othman, Darus & Arshad, 2011; Ahmad & Mohamad, 2013; Darus, et al., 2013). Most of the environmental information reported was merely drawn up to meet the Bursa Malaysia reporting requirements, and not due to the strategic value of disclosure (ACCA, 2013). Besides, some of the companies obtained independent third-party assurance for their environmental reports (ACCA, 2013; Yam, 2013), whereas others opted for voluntary standard assessment systems such as GRI, Sustainability Reporting Guidelines and GRI Application Level Checks for their corporate environmental reporting practices (Alazzani & Wan-Hussin, 2013; Samuel, Agamuthu, & Hashim, 2013). Conversely, other companies went the extra mile to disclose their business carbon footprint and climate change business strategy (Kweh, Alrazi, Chan, Abdullah, & Lee, 2017).

Hence, corporate environmental reporting practices in Malaysian companies raised questions as to whether the diversity and inconsistency is attributable to the institutional deviance which makes some of them deviate from institutional norms (Hoffman & Georg, 2013). This confirms institutional pressures by the uncoupling of their core activities from the practices and procedures forced upon them externally (Marquis & Toffel, 2013) or proving that institutional pressures led to the improvement of their environmental sustainability management practices at the company level, beyond what is required by the regulations (Walls & Hoffman, 2013).

As such, various institutional pressures lead companies to behave in a tokenistic and substantive manner in their corporate environmental reporting practices, hence, there is a critical need to examine environmental disclosure quality based on the criteria that reflect the companies' strategic approach toward institutional pressures (Rupley, Brown, & Marshall, 2012).

One of the possible avenues to understand this kind of institutional deviance is by identifying a company's strategic approach towards institutional pressures (Scott, 2008; Walls& Hoffman, 2013). Normally, the strategic approach stems from external motivation which focuses on the external communication of sustainability related information (Perez-Lopez et al., 2013). Nevertheless, a recent study called for an investigation pertaining to institutional pressure which stems from internal motivation, and relates to the improvement of sustainability related practices internally (Perez-Lopez et al., 2013).

The organization's strategic approach to institutional pressure is closely related to the internal governance mechanism of the organization. Hence, CER should be assessed from the internal strategic perspective, as the board of directors governs the company operations through corporate disclosure practices and risk management processes (Ben-Amar & McIlkenny, 2014).

From the managerial perspective, decision makers always respond strategically to the external institutional context (Walls & Hoffman, 2013) which involves experience (Snook, 2000). Therefore, a board of directors and chief executive may influence the environmental reporting practices of an organization, through their cognitive influence, as this internal governance mechanism helps them to interpret the institutional pressure, based on their skills and experiences (Walls & Hoffman, 2013). Previous studies which focused on the structure and characteristics of the internal governance mechanism for the improvement of environmental disclosure quality or sustainability disclosure quality (Ben-Amar & McIlkenny, 2015), fall short in providing a consistent result for the link between internal governance mechanism and environmental disclosure quality. This provides more opportunities for the internal behavioral mechanism to explain the relationship. Since previous research has revealed the inconsistency of the relationship between various kinds of determinants of environmental disclosure quality (financial performance, ownership structure, sector affiliation, country-of-origin and legal requirements, board effectiveness, board characteristics), apart from corporate size and corporate visibility, it is necessary to scrutinize the internal behavioral governance mechanism as a determinant of environmental disclosure quality.

The environmental experience of the board of directors and chief executive officer enables a company to deviate positively from institutional norms (Walls & Berrone, 2015; Walls & Hoffman, 2013) in environmental disclosure quality by disclosing the results of their improvement in pollution control and abatement, environmental management decisions related to their relevance for regulatory, strategic, and financial purposes (Rodrigue et al., 2013). Moreover, the presence of positive environmental deviance through the corporate environmental governance mechanism and the intensity of environmental capital expenditures (Rodrigue et al., 2013), as well as a proactive environmental strategy (Jaaffar & Amran, 2017) has led to openness, comparability and sufficient transparency of environmental and social performance which are the key principles today. By contrast, without positive environmental deviance in a corporate environmental governance mechanism and intensity of environmental capital expenditure, which show substantial investment and a long term commitment to the environment, companies may not reach a level expected of positively environmental deviated companies since is not easy, risk-free or without cost (Toppinen & Korhonen-Kurki, 2013). This positively deviated company will signal its exceptional environmental efforts and increase the transparency of its reports. This will lead to an improvement in the quality of their environmental disclosure (Clarkson, et al., 2013). Hence the following propositions are suggested:

Proposition 1: The cognitive influence of an internal governance members' environmental experience will be positively related to positive environmental deviance.

Proposition 2: Positive environmental deviance will positively relate to environmental disclosure quality.

Proposition 3: Without the mediating effect of positive environmental deviance, the relationship between the cognitive influences of an internal governance members' environmental experience will not significantly relate to environmental disclosure quality.

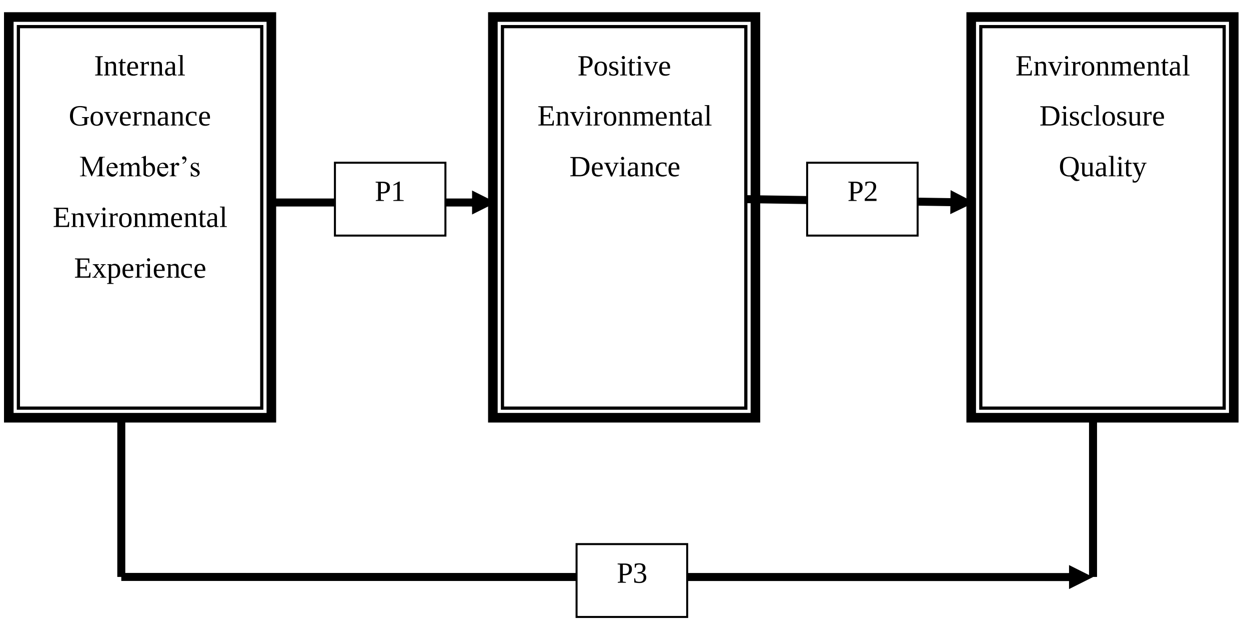

Figure 1 Depicts the Proposed Model and the Relationships between the Variables

3. Conclusion

This paper presents a conceptual framework that describes the relationship between an internal behavioral governance mechanism, positive environmental deviance and environmental disclosure quality. This paper proposed that an internal behavioral governance mechanism would have a positive influence on positive environmental deviance which in turn would lead to better environmental disclosure practices.

The importance of positive environmental deviance is significant to understanding the connection of an internal governance members' environmental experience with environmental disclosure quality. An internal governance members' environmental experience has the potential to drive positive environmental deviance, which could be attributed to proactive strategic responses that recognize the importance of environmental responsibility related issues in the overall business operation. This could ultimately lead to the improvement of environmental disclosure quality. Moreover, the proposed framework is in line with institutional theory which presumes that the presence of institutional pressures, in this context the internal behavioral governance mechanism, could lead to proactive strategic responses based on environmental responsibility, and thereby increase the quality of organizational environmental disclosures.
Lastly, if the empirical findings were found to be supportive, then, the findings can assist practitioners and policy makers to make appropriate decisions and take necessary steps to enhance positive environmental deviance, which in turn will lead to better environmental disclosure quality. Ultimately, this may assist companies to survive is this highly competitive business environment.

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