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Conceptual framework to improve financial performance via institutional pressures and voluntary environmental information disclosure

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Abstract This study delves into the intricate relationship between institutional pressures and financial performance, with a focus on the mediating role of voluntary environmental information disclosure (VEID). Grounded in institutional theory and the resource-based view (RBV), the study investigates how coercive, normative, and mimetic institutional pressures drive firms to adopt VEID, which in turn impacts their financial performance. VEID plays a pivotal role in allowing firms to convey their environmental performance, promoting transparency, and bolstering stakeholder trust. This heightened trust significantly contributes to improved financial performance by enhancing the firms' reputation and credibility. In addition to external communication, VEID also acts as a mechanism for internal performance enhancement, aligning firms' environmental strategies with institutional pressures. Through the integration of VEID practices, firms are better positioned to meet regulatory requirements, align with stakeholder expectations, and enhance operational efficiency. The findings underscore the critical importance of integrating voluntary environmental information disclosure within both institutional and resource-based strategies to attain sustainable financial performance and ensure long-term success in a competitive and environmentally conscious market.

Keywords: institutional pressures, voluntary environmental information disclosure, financial performance

1. Introduction

China's environmental problems have been multifaceted and deeply intertwined with its rapid economic development over the past few decades. The country has experienced significant industrial growth, which has led to severe air, water, and soil pollution, largely due to the extensive use of fossil fuels and inadequate environmental regulations in the early stages of development (El-Garaihy et al., 2022). Despite these challenges, China is making strides toward addressing its environmental issues through ambitious policies aimed at achieving carbon neutrality by 2060 and implementing nationwide reforestation and ecological restoration programs (Schmid & Xiong, 2023).

Firms play a crucial role in environmental protection, and their organizational behavior significantly impacts their environmental performance. Stakeholder interactions, particularly those involving employees, investors, and NGOs, are critical drivers of corporate environmental responsibility and positively influence firm performance (Brekke & Pekovic, 2018). A coherent corporate environmental strategy, encompassing green product design, supply chain management, and eco-branding, can generate competitive advantages and enhance a firm's reputation (Dragomir, 2020). Managerial attitudes and stakeholder pressures play a significant role in shaping a firm's environmental intentions and performance, highlighting the importance of proactive environmental strategies over reactive ones (Liston-Heyes & Vazquez Brust, 2016). Thus, firms as organizations are pivotal in protecting the environment, and their strategies, legal frameworks, stakeholder interactions, and managerial attitudes collectively determine their environmental impact.

Disclosure can significantly reduce information asymmetry between companies and investors, thereby increasing trust and potentially lowering the cost of equity (Atasel et al., 2020; Kalıpçı Çağıran et al., 2021). Additionally, firms that engage in voluntary environmental disclosure often see improvements in sustainability outcomes, such as fewer work-related injuries and lower toxic releases, which can enhance their overall sustainability ratings and firm value (Bochkay et al., 2022). Moreover, companies that disclose environmental information voluntarily are better positioned to manage stakeholder expectations and mitigate risks associated with environmental incidents, as evidenced by the case of Vale S.A. (dos Santos Queiroga et al., 2023). Furthermore, voluntary disclosure can positively impact firm profitability and value, as seen in studies conducted on firms in Turkey and Nigeria (Atasel et al., 2020; Abba et al., 2020). Despite the absence of statutory requirements in some regions, voluntary disclosure can still play a crucial role in enhancing corporate transparency and accountability, which are essential for long-term sustainability (Chijoke-Mgbame & Mgbame, 2018). Therefore, while there are costs associated with voluntary

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environmental disclosure, strategic advantages, including improved stakeholder trust, reduced information asymmetry, and increased firm value, suggest that the benefits can significantly outweigh the disadvantages (Wahyuningrum et al., 2022).

However, the belief that voluntary environmental information disclosure is more disadvantageous and costly is not entirely supported by empirical evidence. While it is true that voluntary disclosure can incur costs, such as higher auditing fees and the need for robust internal governance structures (Zheng & Ren, 2019), the benefits often outweigh these costs. Therefore, can voluntary environmental information disclosure improve the financial performance of enterprises? There is no consensus yet. This paper aims to explore the relationships among institutional pressures, voluntary environmental information disclosure and financial performance so that enterprises attach importance to voluntary disclosure and improve their financial performance. At the same time, it provides advice to the government to formulate relevant environmental policies. For example, institutional pressures can help enterprises improve the degree of voluntary environmental information disclosure.

2. Literature Review

2.1. Institutional pressures

Research in institutional theory explores the reasons behind isomorphism, which refers to organizations adopting similar structures, strategies, and processes (Deephouse, 1996). DiMaggio and Powell (1983) argue that when organizations form a field, rational actors within these organizations strive to make them increasingly alike. Both internal and external forces push organizations toward similar business practices (Zsidisin et al., 2005). A fundamental idea from the sociological perspective of institutional theory is that organizational isomorphism enhances legitimacy (Deephouse, 1996). In this context, managerial decisions are motivated by the pursuit of legitimacy rather than the outcomes of the decisions themselves (Gopal and Gao, 2009). Legitimacy is understood as a general perception that an organization's actions are appropriate and desirable within a socially constructed system of norms, values, beliefs, and definitions (Suchman, 1995). This legitimacy is crucial for competition, driving organizations to adopt processes that result in isomorphism (Gopal and Gao, 2009). DiMaggio and Powell (1983) identify three mechanisms leading to institutional isomorphism: coercive, mimetic, and normative.

Coercive isomorphism arises from both formal and informal pressures imposed on organizations by other organizations they depend on, as well as societal expectations (DiMaggio and Powell, 1983). For instance, a dominant firm may exert pressure on its partners to adopt operational practices that serve its own interests (Liu et al., 2010). Companies face pressure from stakeholders, such as customers and government entities, to integrate social, environmental, and economic responsibilities into their operations (Zhu and Sarkis, 2007; Tate et al., 2010; Sarkis et al., 2011). These pressures compel companies to conform to be perceived as legitimate (Zhu and Sarkis, 2007). While coercive pressures can lead to the adoption of certain practices, institutional theorists note that this does not always result in increased efficiency (Miemczyk, 2008).

Normative isomorphism is the second form of pressure identified by (DiMaggio and Powell, 1983). These normative forces stem from professionalization, which involves members of an occupation defining the conditions and methods of their work to enhance their profession's legitimacy (Gopal and Gao, 2009). When many employees share similar educational backgrounds and industry experiences, they are likely to perceive problems and process information in similar ways (DiMaggio and Powell, 1983), leading to increased homogeneity over time (John et al., 2001). DiMaggio and Powell (1983) highlight two aspects of professionalization that contribute to isomorphism: formal education and the cognitive legitimation provided by university specialists, as well as the expansion of professional networks through which new models are disseminated.

Mimetic isomorphism, the third form of pressure, arises from the uncertainty that drives organizations to imitate others (Zsidisin et al., 2005). The more ambiguous the connection between actions and outcomes, the more likely an organization is to emulate those perceived as successful (DiMaggio and Powell, 1983). According to Selznick (1996), imitation is more deeply rooted in anxiety than in rational efforts to avoid duplicating efforts. Mimetic isomorphism occurs within industry groups, as organizations imitate successful strategies to maintain legitimacy and reduce the risk of being pioneers in new markets (Miemczyk, 2008). Benchmarking is a common approach associated with mimetic pressures (Liu et al., 2010). However, best practices do not always work universally due to contextual differences (Sousa and Voss, 2008), and imitation can sometimes lead to suboptimal outcomes.

2.2. Voluntary environmental information disclosure

Voluntary environmental information disclosure is driven by multiple motivations, including regulatory pressures, stakeholder demands, and the desire to enhance corporate reputation and performance. Companies often adopt VEID to meet the expectations of specific customers, parent companies, and local communities, as well as to communicate their sustainability efforts to a broader audience (Carmo & Miguéis, 2022). Peer pressure, sustainability-focused institutional ownership, and firm visibility also play significant roles in prompting companies to adopt sustainability standards (Bochkay et al., 2022). Additionally, environmental penalties can incentivize companies to improve their VEID practices, although such penalties may sometimes reduce the quality of the disclosed information (Ding & Shahzad, 2022). The impact of VEID on environmental sustainability is multifaceted. It promotes green innovation and the green upgrading of industrial structures, thereby enhancing corporate sustainability performance (Ding et al., 2022). Companies that disclose environmental information tend to perform better financially, operationally, and in the market, as transparency helps them align with stakeholder expectations and regulatory requirements (Alodat et al., 2024). Moreover, higher levels of VEID increase public trust and improve the long-term value and sustainable development prospects of enterprises, particularly in environmentally conscious markets (Li et al., 2023). The completeness, clarity, and accuracy of these disclosures are crucial, as they affect market valuation and reputation risk differently (Andrus et al., 2023). In the context of nonlisted companies, VEID is often driven by the need to legitimize their operations and signal their commitment to sustainability (Carmo & Miguéis, 2022). Furthermore, the engagement of online communities in sustainability discussions can reduce informational asymmetries and foster prosocial behavior, enhancing the overall impact of VEID on environmental sustainability (Fait et al., 2020). Overall, VEID serves as a critical tool for companies to navigate environmental challenges, improve their sustainability performance, and achieve both economic and social benefits.

2.3. Voluntary environmental information disclosure as a mediator

Institutional pressure plays a significant role in influencing voluntary environmental information disclosure by companies. Various forms of institutional pressures, including regulatory, normative, and cultural pressures, impact both the decision to disclose and the quality of the information disclosed. Regulatory pressures, such as environmental regulations and policies, positively influence companies' decisions to disclose environmental information but do not necessarily affect the quality of the disclosure (Ding et al., 2022). Normative pressures, including societal expectations and industry norms, increase both the propensity to disclose and the quality of the information reported (Mateo-Márquez et al., 2021). Cultural pressures, such as prevailing cultural values and practices, positively impact the quality of disclosure but do not influence the decision to disclose (Mateo-Márquez et al., 2021). In China, external institutional pressures, including environmental regulations and cultural factors such as Confucianism, significantly drive corporate carbon information disclosure, with peer influence acting as a mediating factor (Tang et al., 2022). The European Union's regulatory framework, including the European Green Deal, has also been effective in promoting environmental transparency among multinationals, although the impact varies by the category of information disclosed (García-Sánchez et al., 2023). Additionally, public pressures from the government, media, and institutional investors are crucial in driving environmental information disclosure, with environmental policy uncertainty acting as a moderating factor (Wu & Memon, 2022). Peer effects, driven by institutional ownership and competitive pressures, further encourage voluntary disclosures among industry peers (Lin et al., 2018). In the context of BRICS countries, legal, regulatory, and social pressures significantly influence the level of environmental disclosure (Oliveira et al., 2017). Moreover, voluntary corporate social responsibility (CSR) disclosures are influenced by political and managerial motivations, with companies often opting for smaller audit firms despite higher fees, especially in weaker institutional environments (Zheng & Ren, 2019). Collectively, these findings underscore the multifaceted impact of institutional pressures on voluntary environmental information disclosure across different contexts and regions.

From another perspective, voluntary environmental information disclosure has been shown to positively impact financial performance across various contexts and industries. Studies indicate that such disclosures can enhance a company's operational, financial, and market performance by fostering transparency and trust among stakeholders, which in turn can lead to better financial outcomes (Alodat et al., 2024; Meiryani et al., 2023). For example, in the manufacturing sector, corporate social responsibility (CSR) disclosures, which include environmental information, have been found to significantly affect return on assets (ROA) and improve corporate image, thereby attracting more investors and increasing profitability (Meiryani et al., 2023). Similarly, in heavily polluting industries in China, both mandatory and voluntary environmental disclosures have been linked to improved financial performance, with economic development and information penetration playing mediating roles (Wu & Li, 2023). In the context of nonfinancial firms listed on the Nairobi Securities Exchange, voluntary disclosures have been positively associated with stock market returns, suggesting that such transparency can enhance investor confidence and market performance (Nabosu et al., n.d.). Additionally, in the banking sector, studies from Nigeria and Iraq have shown that voluntary disclosures can significantly improve financial performance by enhancing the efficiency of asset use and attracting investors (Wisdom et al., 2022; Almshabbak & Chouaibi, 2023). Furthermore, research on Turkish firms indicates that environmental disclosures can reduce the cost of equity while positively affecting firm value and profitability (Atasel et al., 2020). Finally, investor sentiment has been identified as a mediating factor in the relationship between environmental information disclosure and financial performance, further underscoring the importance of transparency in fostering positive financial outcomes (Wang, 2023). Overall, the evidence suggests that voluntary environmental information disclosure is a strategic tool that can enhance a company's financial performance by building trust, improving corporate image, and attracting investment.

Voluntary environmental information disclosure (VEID) plays a crucial mediating role between institutional pressure and financial performance, as evidenced by multiple studies. Institutional pressures, including coercive, normative, and mimetic pressures, significantly influence firms' adoption of environmental practices and disclosure of environmental information. For example, coercive pressure from regulatory bodies and normative pressure from industry standards drive firms to implement environmental management accounting (EMA) and strategies, which in turn enhance sustainable business performance (Kadir et al., 2024; Gupta & Gupta, 2021; Gunarathne et al., 2021). VEID not only helps firms communicate their environmental performance to stakeholders but also serves as a tool for government monitoring and public accountability, thereby improving corporate reputation and investor sentiment (Wang, 2023; Wu & Memon, 2022; Abgineh et al., 2023). Empirical studies have shown that environmental disclosure positively impacts financial performance, with variables such as return on assets (ROA), return on equity (ROE), and profit margins being significantly affected (Wu & Li, 2023; Abgineh et al., 2023). Additionally, the mediating role of VEID is further supported by the fact that it enhances nonfinancial performance, which in turn positively influences financial outcomes (Liu et al., 2022). The relationship between institutional pressure and VEID is also moderated by factors such as economic development and information penetration, which can either strengthen or weaken this relationship (Wu & Li, 2023; Tang et al., 2022). Moreover, environmental and social cost disclosures have been found to significantly affect financial performance, which is mediated by earning management practices (Al-Naser et al., 2021). Overall, VEID acts as a bridge that translates institutional pressures into improved financial performance by fostering transparency, enhancing corporate image, and meeting stakeholder expectations, thereby contributing to long-term sustainability and profitability.

2.4. Financial performance

Financial performance refers to the measure of a company's profitability, efficiency, and overall financial health, typically assessed via indicators such as return on assets (ROA), return on equity (ROE), profit margins, and Tobin's Q (Abgineh et al., 2023). The correlation between financial performance and voluntary environmental information disclosure has been extensively studied, revealing a generally positive relationship. For example, studies on manufacturing firms in the LQ45 Index show that corporate social responsibility (CSR) significantly impacts ROA, enhancing a company's image and profitability (Meiryani et al., 2023). Similarly, research on heavily polluting enterprises in China indicates that both mandatory and voluntary environmental disclosure positively affect financial performance, with economic development further strengthening this relationship (Wu & Li, 2023). In Nigeria, a positive and significant relationship was found between financial performance and voluntary disclosure among listed deposit money banks, suggesting that better financial performance motivates more comprehensive disclosures (Wisdom et al., 2022). The overarching trend suggests that voluntary environmental disclosures generally enhance financial performance by improving corporate image, reducing the cost of equity, and increasing firm value and profitability (Atasel et al., 2020). This positive correlation underscores the strategic importance of environmental transparency in achieving sustainable competitive advantage and fostering investor trust.

3. Theory of Institution Theory and the Resource-Based View

Institutional pressures significantly influence the VEID of companies, as explained through the lens of institutional theory. These pressures can be categorized into coercive, normative, and mimetic pressures, each of which play a distinct role. Coercive pressures, such as government regulations and environmental policies, compel companies to disclose environmental information to comply with legal requirements and avoid penalties (Kadir et al., 2024; García - Sánchez et al., 2023). Normative pressures arise from societal expectations and professional norms, encouraging firms to adopt best practices in environmental reporting to gain legitimacy and meet stakeholder demands (Alnaim & Metwally, 2024). Mimetic pressures involve companies imitating the practices of industry leaders to remain competitive and credible in the market (Khdair & Abd Aladheem, 2022; Lin et al., 2018). Research shows that these institutional pressures collectively increase the propensity of firms to disclose environmental information and improve the quality of such disclosures (Mateo - Márquez et al., 2021; Alnaim & Metwally, 2024). For example, in China, the government's environmental regulations and media attention have been found to drive companies toward better VEID practices, with institutional investment preferences further reinforcing this behavior (Wu & Memon, 2022). Additionally, the European Union's regulatory framework, including the European Green Deal, has positively impacted the environmental disclosures of multinationals, although the effect varies by the type of information disclosed (García - Sánchez et al., 2023).

Institutional pressures significantly influence the VEID of companies, and this effect can also be understood through the lens of the resource-based view (RBV) theory. Institutional theory posits that coercive, normative, and mimetic pressures drive organizations to conform to societal expectations, which in turn affects their VEID practices. For example, coercive pressures from regulatory bodies and government policies compel firms to disclose environmental information to avoid penalties and enhance their legitimacy (Khdair & Abd Aladheem, 2022; García - Sánchez et al., 2023). Normative pressures, such as industry standards and stakeholder expectations, also play a crucial role in encouraging firms to adopt VEID practices to align with societal norms and improve their reputation (Mateo - Márquez et al., 2021; Saeed et al., 2018). Mimetic pressures, where firms imitate the practices of successful peers, further drive the adoption of VEID as companies seek to maintain competitive parity (Shibin et al., 2020; Lin et al., 2018). RBV theory complements this by suggesting that firms with superior resources and capabilities are better positioned to respond to these institutional pressures by adopting advanced VEID practices, thereby gaining a competitive advantage (Whitelock, 2015). Empirical studies have shown that firms in environmentally sensitive industries, those with higher institutional ownership, and those with better reputations are more likely to engage in VEID, highlighting the interplay between institutional pressures and resource capabilities (Zeng et al., 2012; Lin et al., 2018). Additionally, knowledge acquisition, driven by regulative and normative pressures, mediates the relationship between institutional pressures and environmental innovation, further enhancing VEID practices (Liao, 2018). Overall, the integration of institutional theory and RBV provides a comprehensive understanding of how institutional pressures shape VEID, emphasizing the importance of both external pressures and internal resource capabilities in driving sustainable business practices (Wu & Memon, 2022; Saeed et al., 2018). The conceptual framework interlinks the institutional pressures, voluntary environment information disclosure and financial performance of a company. The whole framework is supported by institutional theory and RBV theory. VEID is the mediator between institutional pressures and financial performance. The mediator model of voluntary environmental information disclosure is proposed in Figure 1.

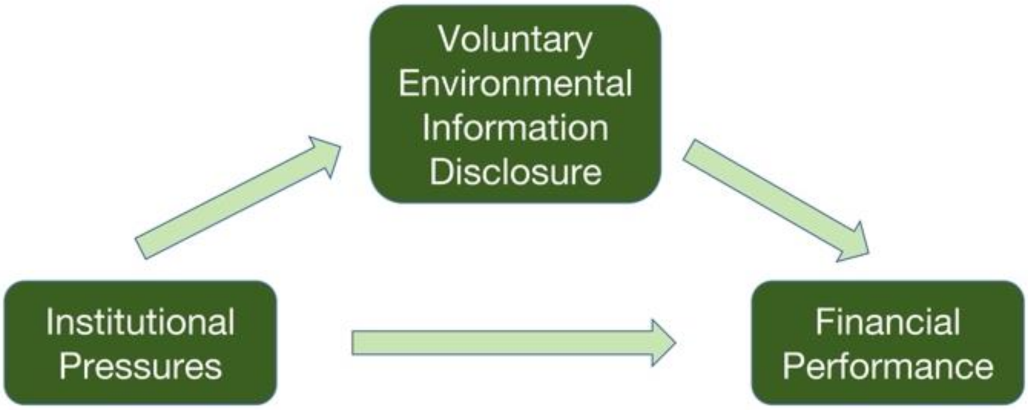

Figure 1 Conceptual framework.

4. Conclusion

Institutional pressures significantly influence financial performance, with VEID acting as a crucial mediator, as supported by institutional theory and RBV theory. Coercive, normative, and mimetic pressures drive firms to adopt environmental practices, which in turn enhance their financial performance by improving their reputation and compliance with regulations (El-Garaihy et al., 2022; Amrozi et al., 2023; Kadir et al., 2024). For example, coercive pressures from government regulations and normative pressures from industry standards compel firms to disclose environmental information, which positively impacts their financial performance by attracting environmentally conscious investors and customers (Wu & Memon, 2022; Gupta & Gupta, 2021). The adoption of VEID not only helps firms communicate their environmental performance but also serves as a tool for government monitoring and investor decision-making, thereby enhancing financial outcomes (Wu & Memon, 2022; Abgineh et al., 2023). Furthermore, the mediating role of VEID is evident, as it bridges the gap between institutional pressures and financial performance, with firms that voluntarily disclose environmental information experiencing better financial metrics such as return on assets (ROA) and return on equity (ROE) (Wu & Li, 2023; Abgineh et al., 2023). RBV theory complements this by highlighting that firms with robust environmental management practices and disclosures can leverage these practices and disclosures as unique resources to gain competitive advantage and improve financial performance (El-Garaihy et al., 2022). Overall, the integration of institutional theory and RBV provides a comprehensive framework for understanding how institutional pressures and VEID mediate the relationship between environmental practices and financial performance, emphasizing the importance of sustainable management in a competitive business environment (Liu et al., 2022).

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Ethical Considerations

Not applicable.

Conflict of Interest

The authors declare no conflicts of intrest.

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