



UNIVERSITI PUTRA MALAYSIA

***EFFECTS OF CORPORATE GOVERNANCE AND
ENVIRONMENTAL DISCLOSURE ON PERFORMANCE***

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**EFFECTS OF CORPORATE GOVERNANCE AND
ENVIRONMENTAL DISCLOSURE ON PERFORMANCE**

By

NG YEN HONG

**Thesis Submitted to the School of Graduate Studies, Universiti Putra Malaysia,
in Fulfillment of the Requirements for the Degree of Master of Science**

October 2017

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Abstract of thesis presented to the Senate of Universiti Putra Malaysia in fulfilment
of the requirement for the degree of Master of Science

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October 2017

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Shareholders are the owners of business, however, the shareholders are usually not decision-makers on day-to-day operational decisions. Thus, the separation of ownership and control has resulted possible conflict of interest between the shareholders (principal) and board of directors (agent). Corporate governance, hence, acts as a monitoring mechanism to reduce the conflict of interest between them. On the other hand, companies today, are not just being expected to provide shareholders with good financial returns. The companies are expected to “give back” to the society, by involving in sustainability activities. However, the real commitments from companies to perform in sustainable manners are questionable. Over the years, environmental disclosure quality remained low among Malaysian listed companies.

This study applies agency theory, stakeholder theory and legitimacy theory in assessing the effects of corporate governance and environmental disclosure quality on financial performance. Many past researches focus on the effects of corporate governance on financial performance; effects of environmental disclosure quality on financial performance; and effects of corporate governance on environmental disclosure quality separately. This study also intend to extend the current models and evaluate the mediating effect of environmental disclosure quality in between corporate governance and financial performance.

This study is carried out in Malaysia among companies in environmentally sensitive industry as the operations of environmentally sensitive industry is considered to be more detrimental to the environment. Data are extracted from companies’ annual reports over five years’ duration, namely year 2011 to 2015. The data collected is then being analysed using panel data analysis. Results show non-duality of CEO

significantly improve companies' return on asset. Besides, the proportion of independent directors and non-duality of CEO are significant in improving the environmental disclosure quality of Malaysian listed companies. However, the environmental disclosure quality does not have significant influence towards companies' financial performance. Lastly, environmental disclosure quality is an insignificant mediator between corporate governance and financial performance.

This study provides empirical evidence to policymakers as to the importance of authority's interference in bringing corporate governance and environmental disclosure quality to greater heights. Stricter regulatory requirements may be a necessity by regulators in order to further strengthen the corporate governance and environmental disclosure quality among Malaysian companies.



Abstrak tesis yang dikemukakan kepada Senat Universiti Putra Malaysia sebagai memenuhi keperluan untuk ijazah Master Sains

KESAN TADBIR URUS KORPORAT DAN PENDEDAHAN ALAM SEKITAR KEPADA PRESTASI

Oleh

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Pemegang saham merupakan pemilik perniagaan, tetapi pemegang saham biasanya tidak terlibat dalam pengurusan perniagaan harian. Oleh itu, pemisahan antara pemilikan dan pengurusan telah menimbulkan konflik kepentingan antara pemegang saham (prinsipal) dan Piagam Lembaga Pengarah (ejen). Oleh itu, tadbir urus korporat bertindak sebagai pemantauan mekanisme yang mengurangkan konflik kepentingan antara mereka. Selain itu, syarikat masa kini bukan sahaja diperlukan untuk memberi keuntungan yang baik kepada pemegang saham malahan dijangka untuk “mengembalikan semula” kepada masyarakat dengan pelaksanaan aktiviti kemampanan. Walau bagaimanapun, komitmen sebenar syarikat dalam pelaksanaan aktiviti kemampanan dipersoalkan. Sejak bertahun-tahun, kualiti pendedahan alam sekitar yang dilaporkan oleh syarikat tersenarai awam di Malaysia kekal rendah.

Kajian ini menggunakan *agency theory*, *stakeholder theory* dan *legitimacy theory* dalam penilaian atas kesan tadbir urus korporat dan kualiti pendedahan alam sekitar kepada prestasi kewangan. Kebanyakan kajian dahulu bertumpu kepada kesan tadbir urus korporat kepada prestasi kewangan; kesan kualiti pendedahan alam sekitar kepada prestasi kewangan; dan kesan tadbir urus korporat kepada kualiti pendedahan alam sekitar berasingan. Kajian ini melanjutkan model semasa dan menilai peranan kualiti pendedahan alam sekitar sebagai pengantara antara tadbir urus korporat dan prestasi kewangan.

Kajian ini bertumpu kepada syarikat industri sensitif alam sekitar di Malaysia kerana operasi syarikat tersebut lebih memudaratkan alam sekitar. Data sepanjang lima tahun, iaitu dari tahun 2011 sehingga 2015, diekstrak daripada laporan tahunan syarikat. Selepas data dikumpulkan, analisis *panel data* dijalankan. Hasil kajian

menunjukkan bahawa pemisahan antara peranan Pengerusi Lembaga Pengarah dan Ketua Pengawai Eksekutif (iaitu, ketidak dualiti Ketua Pegawai Eksekutif) mendorong kepada *return on asset* syarikat yang lebih baik. Selain itu, kadar Pengarah Bebas dan ketidak dualiti Ketua Pegawai Eksekutif meningkatkan kualiti pendedahan alam sekitar secara ketara kepada syarikat tersenarai awam di Malaysia. Tetapi, kualiti pendedahan alam sekitar tidak mempengaruhi prestasi kewangan secara ketara. Akhir sekali, kualiti pendedahan alam sekitar tidak memainkan peranan yang signifikan sebagai pengantara antara tadbir urus korporat dan prestasi kewangan.

Kajian ini memberikan bukti empirikal yang penting kepada kerajaan. Peranan kerajaan adalah penting untuk meningkatkan tadbir urus korporat dan juga kualiti pendedahan alam sekitar. Keperluan kawal selia harus diketatkan untuk meningkatkan tadbir urus korporat dan kualiti pendedahan alam sekitar.

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This thesis was submitted to the Senate of the Universiti Putra Malaysia and has been accepted as fulfilment of the requirement for the degree of Doctor of Philosophy. The members of the Supervisory Committee were as follows:

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LIST OF ABBREVIATIONS

| | |
|-----------|---|
| ACCA | Association of Chartered Certified Accountants |
| Blueprint | Corporate Governance Blueprint 2011 |
| BPLM | Breusch and Pagan's Lagrange Multiplier |
| BS | Board size |
| CEO | Chief Executive Officer |
| CG | Corporate governance |
| Code | Malaysian Code on Corporate Governance |
| CSR | Corporate social responsibilities |
| EDQ | Environmental disclosure quality |
| EI | Environmental initiatives |
| EL | Environmental litigation |
| EP | Environmental preservation |
| ESI | Environmentally sensitive industry |
| FA | Financial aspects |
| FEM | Fixed effects model |
| FP | Financial performance |
| FS | Firm size |
| GRI | Global Reporting Initiative |
| LEV | Leverage |
| MaSRA | ACCA Malaysia Sustainability Reporting Awards |
| MCCG 2012 | The Malaysian Code on Corporate Governance 2012 |
| MESRA | ACCA Malaysia Environmental and Social Reporting Awards |
| MO | Managerial ownership |

| | |
|------|-------------------------------------|
| NDC | Non-duality of CEO |
| OE | Environmentally related information |
| PA | Pollution abatement |
| PID | Proportion of independent directors |
| POLS | Pooled ordinary least square model |
| REM | Random effects model |
| ROA | Return on assets |
| ROE | Return on equity |
| SGR | Sales growth rate |
| VIF | Variance inflation factors |

CHAPTER 1

INTRODUCTION

1.1 Introduction

This research work is a study in assessing the effects of corporate governance and environmental disclosure quality on financial performance of Malaysian listed companies. Chapter one is divided into six sections. Section 1.1 serves as an introduction to the layout of chapter one. Section 1.2 provides the background of the study, while section 1.3 covers the problem statement which discusses the issues leading towards this study. Section 1.4 then lists out the research questions and objectives. Lastly, section 1.5 justify the significance and contributions of the study and section 1.6 provides a summary of chapter one.

1.2 Scope of Study

This research examines both direct and indirect effects of corporate governance attributes and environmental disclosure quality on financial performance of Malaysian listed companies. Malaysia is the selected country as Malaysia is an emerging country whereby the economy is developing. Malaysian listed companies is targeted in this study as these companies contributed well to Malaysia's economy. Good corporate governance is essential as it strengthens investors' confidence and increases Malaysia's capital market. On the other hand, environmental disclosure quality leads to investors' attention and recognition, which in turn attracts socially responsible investors to invest in Malaysian listed companies. Subsequently, this may lead to improvement of companies' financial performance which is essential to the national economic growth.

1.3 Background of the Study

Companies (which is also known as corporations or organizations) are usually formed with ultimate objectives in producing maximum returns to its shareholders with the given resources. According to Colley, Doyle, Logan, & Stettinius (2003), companies are entities which possessed the quality of immortality and individuality. In other words, the companies will continue to operate and function even if there are changes in ownership or when the owners deceased, as companies' life span are unlimited (Colley et al., 2003). Despite changes in ownership, companies' ultimate goals in maximizing shareholders' wealth remained unchanged. A company is a legal entity, legally separated from its owners or shareholders. This legal entity has to be operated by human beings who held the positions of Managers, Directors, Chief Executive Officer, and etc (Cheah & Lee, 2009). Though the shareholders are the owners of the companies, the powers in running the business, setting policies and making decisions lies in the hands of the board of directors (Cheah & Lee, 2009). The shareholders

usually have limited powers, even though they can exercise their voting rights during the Annual General Meeting. This phenomenon is known as separation of ownership and control. The company's ownership is with the shareholders while, control is in the hands of board of directors.

The phenomenon of separation of ownership and control leads to conflict of interest (Htay, Syed Ahmed, & Ahamed Kameel, 2013). This is because operational decisions which are made by the board of directors may not always be in the best interest of the shareholders. As a result, corporate governance was introduced. Corporate governance acts as the monitoring mechanism to ensure proper checks and controls are in place. Corporate governance encourages fairness, accountability and transparency within an entity (Parul, Neha, Sunil, & Sharma, 2017). With corporate governance in place, balance of power among the board members (i.e. board of directors) could be ensured. This, in turn, improves the board of directors' accountability to the shareholders. Besides, corporate governance also supports timely reporting and enhance disclosures through companies' annual reports. Hence, companies with good corporate governance may enjoy better corporate image, as well as, improved confidence from its shareholders. With better corporate image and increased confidence, companies would be gaining better access to scarce and limited resources and funds. This in turn, provides companies with improved growth and ability to continue operation.

Companies today, however, are not just being expected to provide its shareholders with good financial returns. Companies today are also expected by its stakeholders to "give back" to the society and have greater involvements in sustainability activities (i.e. increase of companies' social performance) (Joshi & Li, 2016). Stakeholders refer to other interested parties of the companies, such as customers, suppliers, lenders, government, employees, general public, and etc. Stakeholders today expect companies to take more responsibility in its corporate decisions and actions. This includes taking responsibilities over companies' own operational impact towards the environment, social and economic. In other words, companies are expected to take full responsibilities over its manufacturing processes' damages towards the environment. Similar expectation applies to companies in the service industry. Such expectations from stakeholders have hence, resulted the necessity of companies in making environmental disclosures or reporting in the companies' annual reports. Reporting of these voluntary involvements represents a kind of investments for sustainable development (Chen, Feldmann, & Tang, 2015).

In 2007, Bursa Malaysia requires all public listed companies in Malaysia to report its corporate social responsibilities (CSR) involvements in the companies' annual reports. CSR information comprises of four focal areas: community, workplace, employees and environment (Sulaiman, Abdullah, & Fatima, 2014). In fact, Bursa Malaysia has mandate CSR disclosures as one of the listing requirements starting from 2007. Since then, disclosures on CSR moves to cover more aspects. Today, these reports and disclosures are commonly known as "sustainability reporting". Sustainability reporting covers broader aspects on environment, social responsibility and economy performance (which is also known as triple bottom line). As commented by Goh,

Suhaiza, & Nabsiah (2006), triple bottom line results in companies having advantages in terms of financing, marketing, and other areas. The sustainability reporting forms a vital communication between the companies itself with its stakeholders (Giannarakis, Konteos, & Sariannidis, 2014). Through sustainability reporting, information with regards to the companies' past involvements and performances, as well as the future plans and strategies, are being disclosed. Such disclosures attract investors to invest in the companies (Joshi & Li, 2016). The disclosures could be made in the companies' annual reports, as well as in the standalone sustainability reports. Some Malaysian listed companies, though not many, do prepare and publish standalone sustainability reports and make these reports available at the companies' websites. Hence, similarly to having good corporate governance, companies with good sustainability disclosure are out to gain better reputation and better corporate image.

Nevertheless, although there are numerous benefits for companies in enhancing its corporate governance mechanism, as well as producing good sets of sustainability disclosures, there are still plenty of rooms for improvement by Malaysian public listed companies in both corporate governance and sustainability disclosures.

1.4 Problem Statement

One of the biggest environmental risk towards human health today is due to industrial pollution (Walsh, 2013). There are also issues on global warming, which have resulted increasing occurrences of natural disasters worldwide. Malaysia, as one of the developing countries, is also not spared from environmental problems. For example, erosion, biodiversity loss, air and water pollution (Ong, Soh, Teh, & Ng, 2015), as well as, toxic waste dumping, open burning and deforestation (Norsyahida & Maliah, 2012) have resulted serious environmental problem in Malaysia. As a result, this raised public concerns which regularly questions the role of companies towards the society and environment (Norsyahida & Maliah, 2012). Companies could contribute towards the environment by operating the business with minimum pollution level or/and spending additional expenses to reverse the existing damages. In Malaysia, companies are required to comply with Environmental Quality Act, 1974. Penalties could be imposed on companies for non-compliance. For instance, a Malaysian manager was fined and jailed after being found guilty in causing forest fires in Indonesia which led to haze pollution in Malaysia and Singapore (Widhiarto, 2014). On top of that, as reported by Naidu (2016), the Ministry of Natural Resources and Environment is planning to review and amend current legislation to strictly enforce liability on companies behind environmental pollution. As such, if companies are not watchful in its environmental damages, penalties and fines could be imposed. This would then result in adverse financial performance in companies.

On the other hand, there are plenty of past literatures which reports the benefits of companies in making environmental-friendly moves. For instance, sustainability efforts could improve companies' values through cost reduction, product differentiation, lower cost of capital and etc (Joshi & Li, 2016). However, at the same time, it has been argued that companies' environmental-friendly initiatives result in

lower financial performance. For example, sustainability activities drain companies' resources which could be used on investments and productivity-enhancing activities (Joshi & Li, 2016). Thus, this leads to mixed arguments. Nevertheless, when companies performed environmental-friendly activities, the companies could make such disclosures in the companies' annual reports in gaining better corporate images and reputation. However, there are a few observations (further discussed below) which seemed to indicate the lack of commitments in Malaysian listed companies towards environmental engagements.

Back in 2002, the Association of Chartered Certified Accountants (ACCA) organized an annual award, which was then known as "ACCA Malaysia Environmental and Social Reporting Awards" (MESRA). MESRA serves as a way to encourage Malaysian companies to engage more in environmental activities, as well as to disclose more corporate social responsibilities contents in the companies' annual reports. At that time, the number of entrants received for MESRA was low. In 2009, the award was renamed as "ACCA Malaysia Sustainability Reporting Awards (MaSRA)". The new name entail the broader disclosures and reporting expected from companies, covering disclosures in aspects of society, economy and environment. Though in 2009, the award had been carried out for the 8th cycle, MaSRA 2009 had only solicited 56 entrants. The low number of entrants remained to recent years. As shown in table 1.1 below, the number of entrants received for MaSRA for year 2013 to 2016 is only between 48 to 55 companies (*ACCA Malaysia Sustainability Reporting Awards (MaSRA) - Judges' Report*, 2016). If comparison would to be made with the total number of public listed companies (PLC) registered under Bursa Malaysia listing (obtained from Bursa Malaysia's Annual Report 2016), the number of entrants received annually for MaSRA is alarmingly low.

Table 1.1 : Number of entrants for MaSRA and Malaysian PLC

| | 2013 | 2014 | 2015 | 2016 |
|---|------|------|------|------|
| Number of entrants received for MaSRA | 48 | 55 | 51 | 49 |
| Number of public listed companies in Bursa Malaysia | 911 | 906 | 903 | 904 |

Adapted from *ACCA Malaysia Sustainability Reporting Awards (MaSRA) - Judges' Report* (2016) & Bursa Malaysia (2016)

It is worth mentioning, on top of mandatory CSR disclosure imposed by Bursa Malaysia starting from 2007, Securities Commission Malaysia had issued Corporate Governance Blueprint 2011 (Blueprint) in year 2011. The Blueprint continued to stress the importance of corporate growth in a sustainable manner, as well as, advising board of directors to oversee sustainability strategies in taking care of stakeholders' interest. In spite of these measures being taken by respective authorities, it is surprising to observe the low participation rate on MaSRA in year 2013 until 2016.

Another issue on sustainability disclosures are such disclosures are descriptive in nature and the depth of disclosure is on voluntary basis. Though it is now a requirement by Bursa Malaysia for all public listed companies in Malaysia to make sustainability disclosure, the content of disclosures are still overwhelmingly voluntary. Sumiani, Haslinda, & Lehman (2007) conducted a study in Malaysia, taking samples from ISO companies. The results of the study have shown low environmental disclosures by these companies despite of their certifications from ISO 14001. As commented by past literatures (for instances, Norsyahida & Maliah, 2012; and Sumiani et al., 2007), Malaysian companies have low sustainability disclosures quality. In year 2010, Jennifer Lopez, ACCA Malaysia Country Head, commented more could be done to further improve the quality of sustainability reporting in Malaysia ("Malaysia leads in sustainability reporting," 2010). Needless to say, companies would need to invest on sustainability activities before any forms of disclosures could be made. In other words, scarce resources and funds would need to be spent by companies to first conduct those sustainability activities, followed by further resources and funds to be allocated for the reporting to be prepared. Since additional costs are involved, there could be possible negative impacts towards the companies' bottom line. Board of directors may not be genuinely convinced and genuinely committed in setting aside the scarce resources and funds for sustainability activities and reporting. According to "Managing sustainability remains a challenge for ASEAN companies" (2014), the quality of sustainability reporting is far from desired. Only 26% of companies surveyed adopted the global reporting framework in its reporting and 18% have independent third-party assurance for their sustainability reports. On top of that, though 81% of the companies surveyed agreed that social performance is extremely relevant to their businesses, only 35% of companies surveyed have a dedicated team to drive, monitor and measure their sustainability strategies. The disconnection stated above provided evidence that companies are not truly convinced of the financial benefits to be brought in through genuine engagement in performing voluntary sustainability activities and investing in better sustainability reporting. There are numerous past studies which explain the benefits of better disclosures on sustainability activities though. For instance, Giannarakis et al. (2014) argued higher levels of disclosures on sustainability activities could attract social investors and provide companies with greater profits in the future. Nevertheless, unless companies' leaders see the value of performing these costly environmental-friendly activities, as well as, investing in producing quality environmental reports, the preparation of these reports will continue to be prepared for the sake of complying with Bursa Malaysia's requirement. Therefore, this has led to my study in assessing the relationship of environmental disclosure quality with financial performance. This study will provide empirical findings in contribution to the existing literatures, as well as providing practitioners with insights as to how environmental disclosure quality is associated with companies' financial performance.

On the other hand, corporate scandals and failures have resulted substantial losses being suffered by companies' shareholders and investors. As commented by Parul et al. (2017), developed countries (for instances, United States) took measurements of corporate governance in avoiding such corporate failures from occurrence. However, developing countries like Malaysia, are still in the midst of improving the corporate

governance mechanism. On the other hand, many past studies which were conducted in developed countries yields contradictory and inconsistent results (Sheikh, Wang, & Khan, 2013). Whether or not the composition of corporate board aids in improving corporate performance remains as an issue of empirical and theoretical debates (Ujunwa, 2012). In addition, Sheikh et al. (2013) commented that studies in developing countries is in need as developing countries have different institutional structures from developed countries. Besides, the difference in the stage of economic development is likely to affect a country's sustainability involvements and reporting (Tay & Sultana, 2015). Thus, results from developing countries may differ from results conducted in developed countries. In addition, corporate governance past studies conducted in Malaysia usually uses cross-sectional data. Cheah & Lee (2009) recommended longer term data to be collected to see the real effect of corporate governance mechanism. Hence, this has evoked the need for this study to be conducted with five years data to be collected to study the trend and address the limitations of past studies.

In Malaysia, observation of corporate governance code is on voluntary terms. Public listed companies are allowed to deviate from adopting the corporate governance code guidelines, however, reasons for the partial or full deviation have to be reported in the annual reports. Similar goes to environmental disclosures, whereby the disclosure contents are on voluntary basis. This means, it relies on companies to make such voluntary investments in producing good quality environment reporting. This leads to the purpose of this study, which aims to reveal the association of corporate governance, as well as environmental disclosure quality towards financial performance of companies. The findings could motivate companies to further invest in the improvement of corporate governance mechanism and production of good quality environmental reports.

1.5 Research Objectives and Questions

The general research objective and question are shown in Table 1.2 below, while the specific research objectives and questions are shown in Table 1.3 below:

Table 1.2 : General Research Objective and Question

| General research objective | General research question |
|---|--|
| To examine the effects of corporate governance attributes (proportion of independent directors, non-duality of CEO, board size and managerial ownership) and environmental disclosure quality on financial performance of Malaysian listed companies. | Are there significant effects of corporate governance attributes (proportion of independent directors, non-duality of CEO, board size and managerial ownership) and environmental disclosure quality on financial performance of Malaysian listed companies? |

Table 1.3 : Specific Research Objectives and Questions

| Specific research objectives | Specific research questions |
|--|---|
| To examine the effects of corporate governance attributes (proportion of independent directors, non-duality of CEO, board size and managerial ownership) on financial performance of Malaysian listed companies. | Is there significant effects of corporate governance attributes (proportion of independent directors, non-duality of CEO, board size and managerial ownership) on financial performance of Malaysian listed companies? |
| To assess the effects of corporate governance attributes (proportion of independent directors, non-duality of CEO, board size and managerial ownership) on environmental disclosure quality of Malaysian listed companies. | Is there significant effects of corporate governance attributes (proportion of independent directors, non-duality of CEO, board size and managerial ownership) on environmental disclosure quality of Malaysian listed companies? |
| To investigate the effects of environmental disclosure quality on financial performance of Malaysian listed companies. | Is there significant effects of environmental disclosure quality on financial performance of Malaysian listed companies? |
| To evaluate the mediating effects of environmental disclosure quality in between corporate governance attributes (proportion of independent directors, non-duality of CEO, board size and managerial ownership) and financial performance of Malaysian listed companies. | Is there significant mediating effects of environmental disclosure quality in between corporate governance attributes (proportion of independent directors, non-duality of CEO, board size and managerial ownership) and financial performance of Malaysian listed companies? |

1.6 Significance and Contributions of the Study

It is timely for this study to be conducted now as the environmental problems today in Malaysia is deteriorating. Companies could contribute towards the environment by operating the business with minimum pollution level, as well as investing some resources in reversing the existing environmental damages. These contributions by companies could then be disclosed in the companies' annual reports in gaining better corporate images and reputation. However, the low number of entrants for renowned annual environmental award carried out by ACCA (ACCA Malaysia Sustainability Reporting Awards) and the environmental disclosure quality which remained low over these years seemed to indicate the lack of commitments among Malaysian listed companies towards environmental engagements.

On the other hand, corporate scandals and failures have resulted substantial losses being suffered by companies' shareholders and investors. Thus, the strengthening of corporate governance in the country is essential in maintaining the confidence of local, as well as foreign investors. With good corporate governance, Malaysian companies would gain better access to scarce and limited resources and funds for stability and continuous growth.

This study contributes by providing empirical evidence in assessing the effects of corporate governance and environmental disclosure quality on financial performance. Corporate leaders, as well as authorities may gain insights as to which corporate governance mechanisms result to improved environmental disclosure quality and financial performance.

1.7 Organization of Chapters

Chapter 1 acts as a fundamental study for readers and to provide a brief picture about the research area. This chapter encompasses the background of the study, problem statement, research objectives and questions, as well as, significance of the study.

Chapter 2 further enhances readers' understanding about the main concept of the study by providing past literature reviews on the dependent and independent variables. The theoretical and conceptual framework and hypotheses would also be developed in this chapter.

Chapter 3 covers the methodology of the study. This chapter describes the data collection method and measurements for the dependent and independent variables. Tests which would be used in generating results would also be developed in this chapter.

Chapter 4 provides the data analysis, results and discussions of the findings. The data are being interpreted and results are being presented in this chapter. Results comprises of descriptive analysis and panel data analysis.

Lastly, Chapter 5 is the final chapter in providing conclusions of this study. The limitations, as well as suggestions for future research are discussed in this chapter.

1.8 Chapter Summary

Corporate governance was introduced in the initial years with the intention to improve the principal and agent relationship between the shareholders and board of directors. According to agency theory, due to the separation of ownership and control, there may be conflict of interest between the shareholders (principal) and board of directors (agent). Corporate governance is then introduced as a monitoring mechanism, in hope to improve the corporate management practices and reporting transparency.

In today's changing environment, companies received different expectations from the socially responsible shareholders and other stakeholders. On top of having good corporate governance, companies are expected to be involved in performing voluntary environmental activities. Despite the fact companies may reap better corporate

reputation and image with good environmental disclosures, there are evidence on the lack of companies' commitment on environmental engagements. Furthermore, there are indications about the low environmental disclosure quality for Malaysian listed companies.

Hence, this study aims to examine the effects of corporate governance attributes (proportion of independent directors, non-duality of CEO, board size and managerial ownership) and environmental disclosure quality on financial performance of Malaysian listed companies. This study will provide contribution to the theoretical foundation through the extension of previous researches. In addition, the findings of this study will provide companies' leaders with a different perspective in companies' environmental disclosure quality. The findings of this study will also provide the regulators in Malaysia with empirical evidence which will enable them to strengthen their points for better corporate governance and environmental disclosure quality. Figure 1.1 provides a summary of Chapter 1.

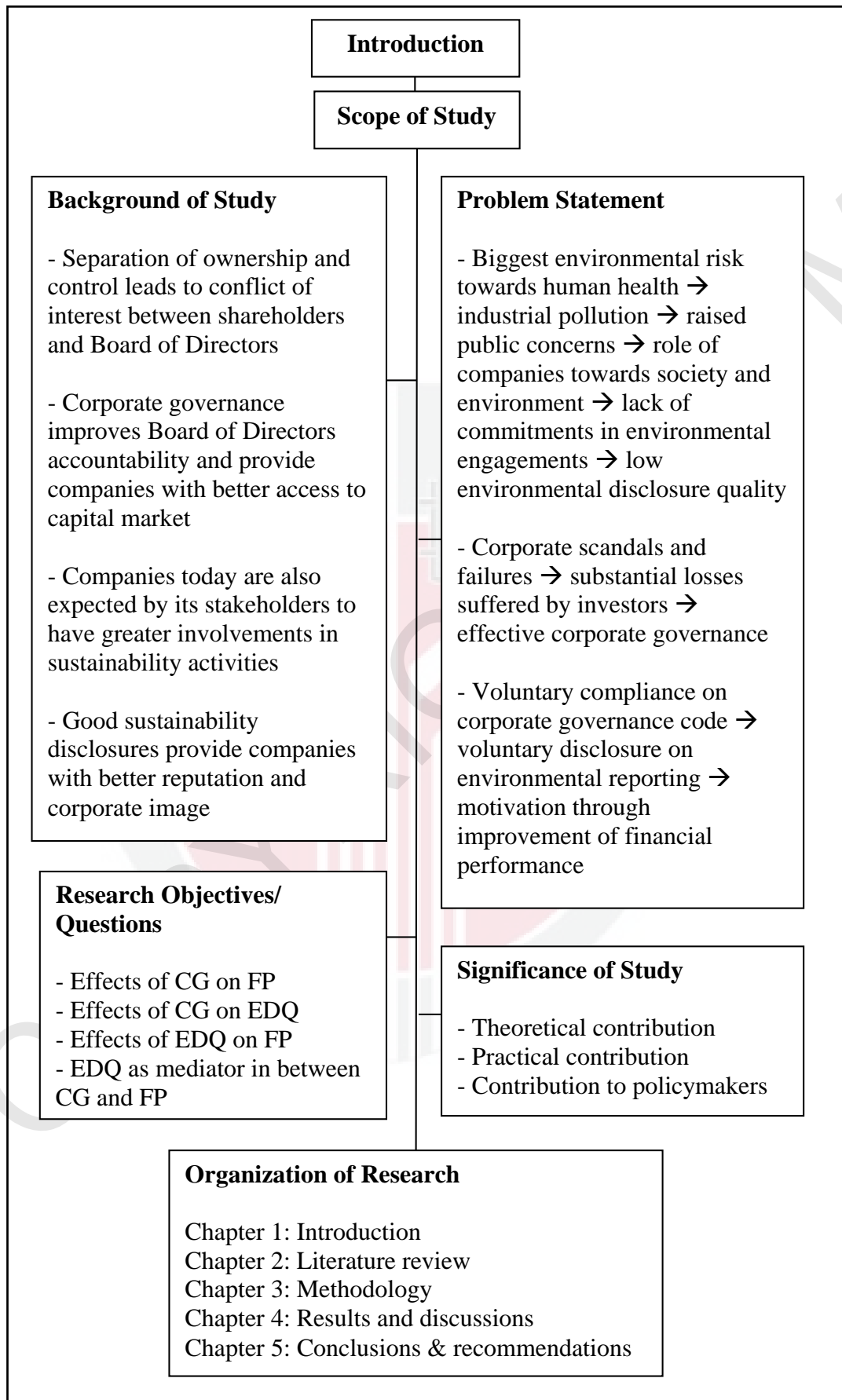


Figure 1.1 : Summary of Introduction

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