Corporate Governance, Sustainability Reporting Quality and Political Connections: A Conceptual Framework

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Abstract: This paper conceptualises a framework on the potential moderating effect of political connections on the association between corporate governance attributes and sustainability reporting quality in the context of Malaysian firms. This paper takes an approach of reviewing the potentially relevant local factors for good sustainability reporting quality. A conceptual framework that links corporate governance attributes, sustainability reporting quality and political connection is proposed. The focus on political connection opens an interesting awareness concerning its influence on either support or disrupt sustainability reporting quality in Malaysia. This concept can potentially guide managerial decisions on the relevant factors for quality sustainability reporting practices thus companies fulfilling their corporate accountability. It offers essential insights that pertains to future strategies' formulation towards enhanced sustainability reporting quality amongst Malaysian firms.

Keywords: Sustainability reporting quality, corporate governance, political connections, green governance.

1. INTRODUCTION

The rapid surge in global sustainability reporting (SR) can be attributed to the rising demand for sustainability information and mandatory reporting requirements (Erin et al., 2021; Lai & Stacchezzini, 2021). According to the KPMG's annual survey, sustainability reporting has become ubiquitous, with almost 96% of companies worldwide disclosing sustainability information (KPMG, 2022). This represents a substantial increase from 1999, when only 35% of companies published sustainability reports. Notably, Malaysia is leading the charge in SR, with an impressive 99% of the top Malaysian companies disclosing sustainability information. This is higher than the global average of 75% and the Asia Pacific average of 89%.

Although there has been a growing trend towards SR worldwide, there are concerns about the quality of the information provided in these reports. Several recent studies on SR have shown that there are issues with the quality of the information, particularly in terms of relevancy, consistency, and comparability (Xiao & Shailer, 2022). The literature has also suggested that the roots for lower SRQ could be attributed to low support from top management (Farooq et al., 2018), lack of understanding in SR (Esty & Cort, 2020), cost constraint (Zahid et al., 2020) and limited adoption of external SR assurance (Schrobback & Meath, 2020). These findings are further amplified by the lack of reporting standardisation, enabling firms to potentially be involved in impression management and opportunistic disclosure (Abernathy et al., 2017).

Several scholars have also indicated that SRQ is influenced by CG (e.g. Ananzeh, 2022; Ludwig & Sassen, 2022). CG is the system by which companies are directed and controlled to protect the interest of shareholders. Based on the stakeholder theory, the paradigm has shifted and companies realised their responsibilities lie beyond shareholders, but to a wide range of stakeholders due to the direct and indirect impacts of business activities' on the economy, environment and society (Al Maeeni et al., 2022).

While the reporting rate for sustainability information in Malaysian companies is praiseworthy, there are concerns about the usefulness and quality of the information provided, as the reporting mainly responds to listing requirements. According to a report by Bursa Malaysia in 2020, the average quality score for SR among Public Listed Companies (PLCs) was only 68%, despite a high reporting rate of 99% (see Hashim, 2021). The report emphasised problems including the overuse of broad boilerplate and non-value-adding comments in the SR, showing that businesses place a higher priority on satisfying the reporting obligation than on giving decision-makers relevant information (Bursa Malaysia, 2021). Ernst & Young (2020) research, which was based on the recommendations made by the Task Force on Climate-related Financial Disclosures (TCFD), revealed that only 34% of Malaysian companies reported climate risk disclosure, with a quality score of just 12%. Surprisingly, the financial services industry had one of the lowest disclosure

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quality scores at 8%, compared to other industries, even though the TCFD was introduced to the financial sector in 2017.

Another issue that may arise from the low quality of sustainability reporting is the potential hindrance to Malaysia's national agenda. Malaysia is committed to adopting a circular economy model in its 12th Malaysian Plan, which aims to promote sustainability and environmental friendliness. The success of this plan depends on increased green financing, investments, and changes in inclined green practices and behaviours. Several challenges have been identified following the 11th Malaysia Plan that may impede the growth of the green economy, including inadequate reporting and monitoring, lack of quality data for informed decision-making, and limited financing (Prime Minister's Department, 2021). As companies improve the quality of their sustainability reports, Malaysia can move closer to achieving its goal of becoming a high-income nation.

Experts have also called for a closer examination of the relationship between SRQ and CG (Al Lawati et al., 2021). While the Malaysian Code on Corporate Governance (MCCG) is based on several principles, the principle of effective audit and risk management has been given the least attention in SR research, indicating a need for further investigation. One recent development in CG is the concept of green governance, which refers to the structures and processes governing a company's sustainability objectives (Haque, 2021). Despite the growing importance of sustainability, the application of green governance has been limited to the environmental sustainability field. Therefore, as companies are expected to embed sustainability practices, it is crucial to focus on the green governance structure that guides and monitors their sustainability performance, including SRQ (see Minutiello & Tettamanzi, 2021). The latest revision to the MCCG in April 2021 has included elements of green governance, but the extent to which Malaysian companies respond to it has not been extensively investigated; which reveals a literature gap. Despite numerous studies on CG and SRQ, many areas remain to explore due to conflicting findings, constantly evolving CG best practices, and limited applicability across the countries. With the government's increasing emphasis on CG, it is also crucial to determine the level of CG adoption among Malaysian firms.

Given the institutional context in Malaysia, it is relevant to investigate the impact of political connections on the study, particularly since many banks are owned by Government Linked Investment Companies (GLICs). Qian and Chen (2021) has emphasized the need to consider political connections when studying disclosure behaviour in developing countries, an area that has been largely neglected in previous research. Moreover, the recent update to the MCCG discourages the appointment of politicians and those closely linked to executive powers in PLCs, underscoring the potential influence of political connections on governance. Following the prevalent role of government in Malaysian businesses, this study will introduce political connections as a moderator. This study will examine the relationship between CG and SRQ among Malaysian firms with political connections as moderator.

2. LITERATURE REVIEW

2.1. Sustainability and Sustainability Reporting

The history of sustainability reporting (SR) began in 1962 through the publication of Silent Spring by Rachel Carson, which had raised the awareness of the impact of pesticides on the environment (Gokten et al., 2020). Then, greater attention has been grasped following the Chernobyl nuclear accident in 1986 and the Exxon oil spill in 1989, which led stakeholders to demand information on companies' environmental impact. These incidences have led to the expansion of reporting practices from environmental reports to corporate social responsibility (CSR) reports. Apart from the Triple Bottom Line (TBL) approach was introduced to integrate economic, environmental, and social aspects of a company's performance (see Elkington, 1998). This concept was later extended to economic, environmental, social and governance aspects, which is the foundation of SR as we know it today.

SR is defined as the practice of measuring, disclosing, and being accountable to internal and external stakeholders for organizational performance towards sustainable development (Global Reporting Initiative, 2013). While the differences between various non-financial reports may be clear, there has been various terms and concepts used interchangeably; this which encompass environmental reporting, TBL reporting, CSR reporting, and SR being used interchangeably in the literature.

2.2. Sustainability Reporting in Malaysia

The Malaysian government continuously focuses on promoting sustainability, especially with foreign investors urging corporations to pay more attention to environmental and social issues (The ASEAN Secretariat, 2021). Accordingly, to raise the public awareness of business sustainability practices, the government has implemented several initiatives, such as the publication of the Silver Book in 2006 to guide Government Linked Companies (GLCs) in creating value through social responsibility. In 2014, Bursa Malaysia introduced an internationally benchmarked Environment, Social, and Governance (ESG) Index to encourage improved disclosure and support the transition to a more sustainable economy.

Listed companies in the Main and ACE markets have been required to issue a sustainability statement in 2015, which expanded the existing CSR reporting requirement (Arsad et al., 2020). The third edition of the Sustainability Reporting Guide has been published by Bursa Malaysia in 2022, following the revised Listing Requirement which require companies to provide sustainability disclosures. The new disclosure requirement includes mandatory climate change reporting, the inclusion of 3 years' financial data for reported indicators, and the statement of independent assurance. This initiative imply a holistic approach for an improved sustainability.

In December 2014, Bursa Malaysia became the first in ASEAN to introduce an internationally benchmarked ESG Index, the FTSE4Good Bursa Malaysia Index (F4GBM)

(Wong & Sargunaraj, 2020). The index has been designed to identify companies with exemplary sustainability practices, encourage improved disclosure, and support the transition to a more sustainable economy.

2.3. Sustainability Reporting Quality

Sustainability reports provide both quantitative and qualitative data that pertain to company's economic, environmental, social, and governance performance. Nevertheless, sustainability report alone does not guarantee the quality or accuracy of the information presented. Scholars have criticized the quality of sustainability information, and commented that it is often symbolic in nature and used as a marketing tool or a method of impression management (Adaui, 2020). This has led to a lack of completeness and declining confidence in the reported information, with firms often adhering to reporting frameworks simply to check the boxes (Khan et al., 2020)..

Despite these concern, sustainability reports remain an important mechanism for companies to communicate their sustainability performance to various stakeholders (Adu et al., 2022; Ludwig & Sassen, 2022), manage their reputation, and mitigate risks (Aman et al., 2021). There is no consensus on the definition and conceptualization of SRQ. Some argue that accuracy, transparency, accountability, and verifiability are key aspects of SRQ (Azman & Rashid, 2020), while others focus on relative quantity, density, accuracy, and managerial orientation (Michelon et al., 2015) as well as relevance, comparability, verifiability, clarity, and neutrality (Chauvey et al., 2014).

Many of the existing studies also focused on the developed countries' perspective while considerably less attention had been given to the developing countries (Soobaroyen et al., 2022; Zahid et al., 2020). Scholars have also singled out Malaysia as having comparably little empirical evidence on reporting behaviour compared to other countries. The scant research in the literature most uses outdated data and does not reflect the current SR landscape of the country which has transformed from voluntary reporting to mandatory reporting while focusing on certain industries.

2.4. Potential Influencing Factors for SRQ

2.4.1. Board Leadership

Board of Directors (BOD) is an important mechanism of internal governance, protecting stakeholders' interests, minimizing agency issues, and improving reporting transparency (see Al Maeeni et al., 2022; Ludwig & Sassen, 2022). Recent updates to the Malaysian Code of Corporate Governance (MCCG) in 2021 highlight the need for an effective BOD to establish good corporate governance (CG) procedures and sustain and enhance corporate performance. While research on the role of the BOD in sustainable practices has been conducted extensively in industrialized nations, limited studies have been done in developing economies, such as Malaysia (Dwekat et al., 2021; Shaheen et al., 2021). Due to the complexity and the scope of board leadership, most scholar focused on some board characteristics and not the other which failed to provide a robust insight into the impact of board leadership to the disclosure activities. Hence, this study aims to investigate the board leadership qualities required by the MCCG (Securities Commission Malaysia, 2021), other CG policies, and prior literature to gain a comprehensive understanding of their impact on disclosure activities.

2.4.2. Audit and Risk Management Effectiveness

In recent years, companies have been focusing more on the importance of audit and risk management in corporate governance. Effective audit and risk management help companies foresee future issues, approach risk more strategically, and improve financial decision-making. Previous research has mainly focused on audit effectiveness alone, but this study aims to examine both audit and risk management effectiveness. Particularly, this study focuses on the impact of audit committees and internal auditors on sustainability reporting. Despite mixed results in previous studies, there is evidence that audit committees and internal auditors positively impact the quality of reporting. Internal audit effectiveness is a broad concept, but for this study, it relate to the disclosure requirement in the MCCG (Securities Commission Malaysia, 2021). The importance of the internal audit function has been highlighted in the latest update to the Sustainability Reporting Guide by Bursa Malaysia.

Studies on CG in Malaysia have shown that BOD and audit committee (AC) are the two most commonly discussed mechanisms, while risk management (RM) has received less attention as an effective governance mechanism (Nahar & Mohamad, 2022). The responsibility for RM lies primarily with the risk management committee (RMC), which is a subcommittee of the board (AbdulKareem et al., 2021; Harymawan et al., 2021). Effective monitoring by the RMC is critical for boosting the effectiveness of enterprises that use risk-related instruments, thereby enhancing RM effectiveness. In Malaysia, the lack of literature on RM among corporations and its relationship to disclosure practices signifies the need for more empirical evidence to understand the nexus between the two.

2.4.3. Green Governance

Green governance refers to the structures and processes that companies use to achieve their sustainability objectives, and it is a specialized branch of CG (Haque, 2021; Zhong et al., 2020). However, there has been little effort to understand green governance alongside other CG mechanisms. Research into the impact of green governance on sustainability practices is still in its early stages, and understanding of the concept remains weak, despite the increasing importance of sustainability (Ananzeh, 2022; Ludwig & Sassen, 2022). Most studies have measured green governance by examining the existence of a sustainability committee at the board level, embedding sustainability into the company's vision and strategies, and corporate involvement in sustainability programs (Radzi et al., 2020; Shah et al., 2022). These practices demonstrate a company's commitment to sustainability and can guide and monitor sustainability performance.

The adoption of green governance practices by Malaysian firms has not been thoroughly examined despite the growing interest in corporate sustainability studies. Only a few studies have investigated green governance in the Malaysian context. Shah et al. (2021) for instance, developed a conceptual framework that linked sustainability board characteristics to firm performance for oil and gas companies based in Malaysia. This framework was then expanded to become the foundation of the green governance framework, which focuses on the oil and gas industries and includes three components: green board committee, ESG risks, and sustainability practices (Shah et al., 2022).

2.5. State and Business Nexus in Malaysia

The extent of governmental participation in Malaysian business has been thoroughly documented in the literature. Understanding the socioeconomic context of Malaysia is crucial to comprehend the complex relationship between the state and business. In the early stages after gaining independence, the economy was marked by an unequal distribution of wealth, with Malays owning only a small fraction of the equity. This economic disparity led to the 1969 riots, which marked a turning point in Malaysia's history, resulting in increased state intervention in the economy (Gomez & De Micheaux, 2017). To address this issue, the government introduced the New Economic Policy (NEP) in 1971, which aimed to achieve economic parity (Gist & Wahab, 2021). The government's intervention in the NEP involved the establishment of public enterprises that played a developmental role in the economy and the promotion of entrepreneurial firms that drove industrialization. These public enterprises are now commonly referred to as Government-Linked Companies (GLCs).

GLCs are companies with government institutions as their largest shareholder. The majority of GLCs in Malaysia are owned by the 'Big 7' Government-Linked Investment Companies (GLICs), which are investment companies that allow the federal government to appoint board members and senior management. These boards typically include government representatives who report directly to the Ministry of Finance (Gomez, Padmanabhan, et al., 2018). The 'Big 7' GLICs include Permodalan Nasional Bhd (PNB), Employees Provident Fund (EPF), Khazanah Nasional, Lembaga Tabung Angkatan Tentera (LTAT), Lembaga Tabung Haji (LTH), Kumpulan Wang Persaraan Diperbadankan (KWAP), and Minister of Finance Incorporated (MoF Inc.). These GLICs have been crucial to Malaysia's development, and they have facilitated the growth of key economic sectors. The GLICs manage assets worth RM1.7 trillion, which is equivalent to 120% of Malaysia's GDP and accounts for over a quarter of the market capitalization at Bursa Malaysia. The largest companies listed on Bursa Malaysia are predominantly owned by GLICs, including Maybank, CIMB, Sime Darby, and Axiata. The International Monetary Fund (IMF) supports this view, as highlighted in a 2013 report that indicates that the GLICs have a significant ownership stake in the financial sector and exert substantial influence in the Malaysian capital market, with strong interconnectivity.

The state-business relationship in Malaysia has resulted in the appointment of politicians and well-connected individuals to positions of power within GLCs and GLICs (Tee, 2018; Wahab et al., 2020). While politicians were barred from holding directorships in 2005 through the GLC transformation program, their involvement has increased again in recent years. Well-connected individuals, including those with business or family ties to politicians or elites, have also played a significant role in the state-business relationship (Gomez, Fisal, et al., 2018). These individuals have benefited from state patronage through contracts and loans from government-owned banks, with some of the most notable beneficiaries being Rashid Hussain, Vincent Tan, and Ananda Krishnan (Dettman & Gomez, 2019; Gomez & De Micheaux, 2017). Political connections were so rampant in the 1990s that most of the largest firms were tied to one of the three most powerful politicians at the time: Mahathir Mohamad, Anwar Ibrahim, or Daim Zainuddin (Gist & Wahab, 2021; Wahab et al., 2020).

In addition to well-connected individuals, political involvement in business can also be observed through former bureaucrats holding positions as directors in PLCs. Bureaucrats are defined as civil servants who lack experience in the private sector, and during the NEP, they were placed in Chinese private companies to gain experience and received special treatment from the government in return (Dettman & Gomez, 2019). Today, many former senior bureaucrats serve as functional directors to assist with government dealings and streamline bureaucratic processes (Lim et al., 2021). The appointment of former bureaucrats as directors indicates political influence in the company's operations.

The process of appointing board members for the financial sector in Malaysia is regulated by Bank Negara Malaysia (BNM), which ensures that active politicians are not appointed to the board. The Securities Commission (SC) has recently discouraged the appointment of active politicians to the board of listed companies due to regulatory expectations and increasing shareholder activism. SC also recommends that well-connected individuals holding executive powers should not serve on boards as it may compromise their independent judgment. These guidelines have been outlined in the latest amendment to the MCCG.

2.5.1. Typology of Political Connections

There are various ways to define political connections, but one of the most influential studies on the subject was conducted by Faccio (2006). This study involved 47 countries and concluded that a firm is considered a politically connected corporation (PCC) if a Member of Parliament (MP) occupies the top position in the company or if an MP owns at least 10% of the shares, either directly or indirectly. This definition also applies to Ministers or the Head of State and extends to their relatives. If any spouse, child, sibling, or parent of a Minister or Head of State is a top company official or holds significant shares in the company, it is considered a PCC. The third channel of political connections is through relationships with top officials. If a political party or friends of a Minister or MP are top company officials or significant shareholders, the company is deemed a PCC. Faccio's definition has been widely adopted in the literature on political connections and adapted to the specific political climate of each country.

For example, in China, political connections are defined by board members who are members of the Party, government, or National People’s Congress (Kim & Koo, 2022) while in Indonesia, the definition includes relationships with military personnel (Nugrahanti, 2021; Wati et al., 2020). Researchers have also used proxies such as financial contributions to political campaigns, equity ownership by politicians, state ownership, social ties to politicians, and lobbying activities (Preuss & Königsgruber, 2021)

In Malaysia, among the seminal papers that have become the main references for political connections literature is Gomez and Jomo (1997), which define politically connected firms as those with top officers or major shareholders with close relationships with three key government officials, Tun Mahathir Mohamad, Tun Daim Zainuddin, and Anwar Ibrahim. The list was later updated by Johnson and Mitton (2003) to a total of 72 firms. Faccio (2006) identified 94 Malaysian companies with political connections for the period between 1996 and 1999.

Recently, in Malaysia, researchers have utilized more alternative indicators to detect political links, as the relationship between the government and businesses has become more intricate, and to capture the extensive influence the government has over companies. Various indicators used for political connections include government ownership (Kamarudin et al., 2021; Qasem et al., 2022), political appointments (Shen et al., 2015), and Bumiputera directors (Gist & Wahab, 2021). Additionally, some studies have considered golden shares as a trait of politically connected companies, which refers to a single share owned by the government granting them special privileges to override decisions by other shareholders (Rusli et al., 2019). Currently, the government possesses golden shares in 32 companies, including Pos Malaysia Bhd, Malaysia Airports Bhd and Tenaga Nasional Bhd.

2.5.2. Political Connections and Corporate Disclosure

Several studies have explored the effect of political connections on corporate disclosure, but many of these studies have focused on specific institutional contexts, such as in China and Indonesia. A recent comprehensive study conducted between 2006 and 2020 by Kim and Koo (2022) found that the level of politically connected individuals strongly influenced the adoption of international best practice reporting, specifically the GRI SR. Federal-level politically connected individuals were more likely to adopt such reporting than state-level ones. Meanwhile, Zhou et al. (2021) found that the presence of politically connected individuals in Chinese companies may reduce the transparency of information disclosed. Other researchers suggest that political connections may further decrease sustainability disclosures of Chinese companies (e.g. Li et al., 2021; Qian & Chen, 2021). Rauf et al. (2021) and Rauf et al. (2020) concluded that political ties have a significant negative association with the quality of CSR reporting. These findings however are in contrast to several other studies in China, which suggest that politically connected individuals are more likely to disclose their sustainability performance (Liu & Kong, 2021; Shaheen et al., 2021).

Indonesia has also been the focus of many studies that explore the relationship between political connections and corporate disclosure. For instance, Yudhanti and Tjahjadi (2021) discovered that Indonesian companies with politically connected individuals tend to disclose less information to the public, especially in the voluntary reporting context. Similarly, Wati et al. (2020) studied 871 Indonesian companies and concluded that political connections have a negative impact on the quality of financial reporting. Saraswati et al. (2020) however argued that companies with political ties tend to disclose more information on CSR than those without, although government-owned companies tend to disclose more than companies with politically connected directors. Based on the literature review conducted, it can be seen that limited studies have been conducted against the backdrop of Malaysian corporate disclosures and its relationship with political connections (Hoang et al., 2021; Manap & Ya'acob, 2020).

3. DEVELOPMENT OF CONCEPTUAL FRAMEWORK

3.1. Underpinning Theories

The present study is underpinned by two theories; namely, the agency theory and the institutional theory. Jensen and Meckling (1976) posit the presence of an agency relationship within firms, where shareholders function as principals and managers assume the role of agents entrusted with the responsibility of maximizing shareholders' wealth. Agency conflict arises when a divergence exists between the interests of shareholders and managers, leading managers to prioritize their personal benefits over the maximization of shareholder interests (Jensen & Meckling, 1976). Viewed through the lens of agency theory, it is argued that the implementation of effective CG mechanisms in a company's operations is thought to play a crucial role in diminishing managers' opportunistic behaviour.

This notion holds relevance to the concept of disclosure quality, as robust governance practices often enhance the transparency and reliability of information disclosed by companies. By establishing strong governance mechanisms, such as independent oversight by the BOD, strong internal controls and clear reporting guidelines, organizations can foster an environment of accountability and reduce the likelihood of managers engaging in self-serving actions or withholding critical information (Nahar & Mohamad, 2022; Xiao & Shailer, 2022). When the CG is effective, managers are more inclined to act in the best interests of shareholders and provide accurate and timely disclosures (Rauf et al., 2021). This promotes the overall quality of information available to stakeholders, enabling them to make well-informed decisions. Furthermore, high disclosure quality helps mitigate information asymmetry between managers and shareholders, reducing agency conflicts and increasing the confidence and trust of investors (Adu et al., 2022).

The institutional theory suggests that organizations are influenced by societal norms, rules, and practices, which shape their behaviour and decision-making processes (Dwekat et al., 2021). In the context of SR, institutional pressures play a significant role in shaping the quality of reporting practices in PLCs. As SR becomes more institutionalized and expected by stakeholders, companies are motivated to adopt and improve their reporting practices to conform to these norms and maintain their legitimacy. Therefore, institutional theory suggests a positive relationship between the strength of institutional pressures, such as industry standards, stakeholder expectations, and regulatory frameworks, and the SRQ in PLCs (Adaui, 2020).

The influence of political connections on SRQ can also be examined through the lens of institutional theory. In some instances, political connections may create favourable conditions for companies to engage in SR and enhance the quality of their disclosures. The strength and nature of institutional pressures as well as the transparency surrounding political connections can influence the impact of these connections on SRQ in PLCs (Wahab et al., 2020). The institutional theory helps to understand how external institutional pressures and the interplay of political connections within the institutional environment can influence the SR practices. By considering the dynamics between CG and institutional pressures, we can gain insights into how political connections contribute to SRQ in Malaysian PLCs.

3.2. Board Leadership, Audit and Risk Management Effectiveness, Green Governance and Sustainability Reporting Quality

Board independence is an important aspect of board leadership that can improve the quality of disclosure by monitoring management's behaviour (Khaireddine et al., 2020). Based on the agency theory, several authors argue that a board with more independent directors has better monitoring of management's behaviour towards shareholders and this may improve the quality of disclosure (Dwekat et al., 2021). In Malaysia, the MCCG has requirements for board independence, such as limiting the tenure of independent directors and prohibiting the board Chairman from chairing other board level Committees.

An effective AC is important for monitoring the relationship between the company's management and its shareholders. Studies have found that the independence of AC has a positive impact on sustainability disclosure, as they are free from conflicts of interest (Bamberg & Spremann, 1987; Talpur et al., 2018). Additionally, having more female directors on the board has been linked to a greater concern for climate change and better quality CSR reports, suggesting that gender diversity in the AC could lead to more effective audit function (Wang et al., 2021). Implementing RM strategies is another way to monitor and manage issues in the corporation, which can contribute to a better sustainability disclosure practice. Companies that implement green governance frameworks are expected to have better sustainability performance and disclosure (see Zhong et al., 2020). As green governance is a relatively new concept in Malaysia and that it is an extension of CG, this study aims to extrapolate the hypothesis based on prior research. Previous studies conducted in Malaysia did not investigate the relationship between green governance and disclosure quality. Rather, focused on understanding the extent of sustainability practices in companies and their adoption of green governance. For example, Ahmad (2020) used an index that included the presence of a sustainability committee, green business certification, and awards for green initiatives to measure green governance (Radzi et al., 2020; Shah et al., 2022). Radzi (2015) proposed that internal governance factors, such as a sustainability committee, could influence the environmental disclosure quality of certified ISO14001 Malaysian companies. The emphasis on sustainability governance in the MCCG underscores its importance and impact on a company's sustainability performance.

3.3. The Moderating Role of Political Connections

Researchers in the business field have become increasingly interested in political factors due to the varying political environments. In developing countries, governments have a significant amount of power, and government pressure can greatly impact a company's reporting (Dieleman & Widjaja, 2018). Thus, this study aims to use political connections as a moderator, as suggested by previous scholars (e.g. Farisyi et al., 2022; Zamil et al., 2021) who noted that the indirect relationship between political factors and company reporting had been overlooked in prior studies. There is a need to better evaluate this indirect association to understand the complexity of disclosure and its determinants. The lack of research on the link between board leadership, audit and risk management effectiveness, green governance, and SRQ calls for the introduction of a moderator.

Other scholars have also proposed state ownership and government intervention as potential moderators for future studies (Dartey-Baah & Amoako, 2021; Velte, 2020). Given that most Malaysian banks are politically influenced by government shareholdings and connections (Gomez, 2021), political influence is a suitable moderator to include. As highly regulated businesses, financial institutions must comply with governmental regulations and standards(Nugrahanti, 2021; Qian & Chen, 2021). Therefore, if sustainability is deemed desirable by the government, firms' actions should then reflect this. Previous research has established that politically oriented businesses tend to nurture governmental policies and adhere to them equally (Ervits, 2021; Kim & Koo, 2022).

4. CONCLUSION

This study suggests a conceptual framework for future empirical research that focuses on the relationship between CG attributes, such as board leadership, audit and RM effectiveness, green governance, and SRQ for Malaysian firms. Previous studies have shown the benefits of CG practices, such as improving information quality, transparency, and reducing regulatory risk, as well as enhancing reputation and brand value, and increasing the organization's value and market position.

The proposed framework has potential significant implications not only for understanding the relationship between CG and SRQ, but also for providing insights to academics and practitioners about the role of political connections in the business environment. It is hypothesized that the impact of CG practices on the SRQ may be more significant in firms with stronger political connections. The concept of SRQ offers opportunities for further research, where the proposed framework can be tested and validated empirically. Additionally, the impact of other factors such as corporate reporting integrity and stakeholder management, which are documented in the MCCG, on the level of SRQ can also be explored. Finally, by utilizing the proposed framework, a comparison of SRQ levels among various industries in Malaysia can be conducted.

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Received: July 20, 2023 Revised: July 26, 2023 Accepted: Nov 19, 2023