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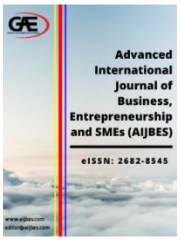

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A NARRATIVE REVIEW OF CORPORATE GOVERNANCE OVERSIGHT AND THE RISE OF GREENWASHING IN ENVIRONMENTAL REPORTING

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Abstract:

Amid growing global attention to environmental sustainability, companies have intensified environmental reporting as a strategic tool to demonstrate ecological commitment and maintain stakeholder trust. However, the rapid expansion of such reporting has raised growing concerns about its credibility and reliability. Some companies exaggerate or misrepresent their environmental claims, leading to a practice known as greenwashing. This misleading practice undermines the reliability of environmental reporting and erodes stakeholder confidence. Although research on greenwashing has grown substantially, most existing reviews have focused on defining its forms, causes, and effects, with limited exploration of the role of corporate governance in mitigating this practice. In response to this gap, this study aims to review and synthesize the theoretical and empirical insights into the role of corporate governance in mitigating greenwashing within environmental reporting. The findings reveal that while governance mechanisms play a crucial role in mitigating greenwashing, their effectiveness remains context-dependent and empirically inconsistent across governance settings. Current evidence predominantly focuses on board attributes and specialized board committees, such as sustainability and Corporate Social Responsibility (CSR) committees, while other potentially influential board committees, including environmental committees, risk management committees and audit committees, remain underexplored. Moreover, limited studies have examined the interaction between internal and external governance mechanisms in addressing greenwashing. The review further highlights a theoretical imbalance, with agency theory currently dominating research and limited integration of socio-environmental and behavioral perspectives. Conceptually, this study contributes to the literature by underscoring the need for multi-theoretical and

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behavioral-integrative approaches to explain corporate engagement in greenwashing. Contextually, it extends global sustainability discourse by incorporating emerging markets evidence, particularly Malaysia, where governance effectiveness is shaped by ownership concentration, regulatory transitions and cultural norms. Collectively, this study advances understanding of governance as a key control mechanism, and guides future research on mitigating greenwashing across diverse contexts.

Keywords:

Corporate Governance, Sustainability Environment, Greenwashing, Environmental Reporting, Narrative Review

Introduction

Environmental, Social, and Governance (ESG) principles have emerged as a global benchmark for evaluating corporate sustainability and long-term value creation (Kim et al., 2023). ESG encompasses three core pillars: (1) environmental, (2) social, and (3) governance, which serve as a structured lens for assessing corporate sustainability performance, with companies expected to disclose related practices in their annual reports (Deloitte, 2024). In response, ESG integration has gained prominence as businesses are held accountable for financial performance, sustainability, climate risk management, and the well-being of their stakeholders (Wang et al., 2022). These pillars are intentionally designed to capture corporate activities and impacts that are not reflected in traditional financial reporting (Chen et al., 2024).

Among the three ESG pillars, the environmental pillar is particularly critical, as it communicates a company's impact on climate change, resource use, and ecological sustainability (Senadheera et al., 2021). However, environmental reporting faces persistent challenges, such as a lack of standardization (Lokuwaduge & De Silva, 2022), the absence of mandatory requirements (Bernini & La Rosa, 2023), and inaccurate or unaudited data (Sun et al., 2023; Pucker, 2021). These challenges raise concerns about credibility and may incentivize managers to enhance corporate image by disclosing positive environmental information rather than reflecting actual impact, a practice known as "greenwashing" (Eliwa et al., 2023; He et al., 2022).

Greenwashing refers to the unethical exaggeration or misrepresentation of environmental disclosures that create a misleading impression of sustainability (Hu et al., 2023; Delmas & Burbano, 2011). Although environmental disclosures are intended to enhance transparency, many companies adopt symbolic sustainability practices to secure legitimacy, rather than pursue substantive environmental accountability (García-Sánchez et al., 2022). Consequently, this practice distorts the integrity of environmental information (Boiral et al., 2019), erodes investor confidence (Jamil & Wahyuni, 2024b; Yang et al., 2020), and impedes progress toward Sustainable Development Goals (SDG) 13: Climate Change (Jamil & Wahyuni, 2024b; Pears et al., 2023). These consequences are substantiated by recent findings from RepRisk (2024), which reveal that although the total number of greenwashing cases declined by 12%, the incidence of high-risk greenwashing cases increased by over 30%. This escalation is further compounded by repeat offenses, with nearly 30% of companies involved in greenwashing in 2023 reoffending in 2024.

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The rising prevalence and recurrence of greenwashing cases have prompted a surge in scholarly review studies to advance understanding of this phenomenon over the past few years (Forliano et al., 2025; Munir et al., 2025; Sneideriene & Legenzova, 2025; Santos et al., 2024; Bernini & La Rosa, 2023; Talpur et al., 2023; Yulinar Sari, 2023; de Freitas Netto et al., 2020; Yang et al., 2020). The earlier reviews primarily focused on defining and categorizing greenwashing behavior, as well as identifying its various forms. For example, de Freitas Netto et al (2020) analyzed the conceptual and typological aspects of greenwashing, while Yang et al. (2020) examined the concept, taxonomy, impact, and mitigation of greenwashing in Asian Multinational Companies (MNCs). Bernini & La Rosa (2023) advanced this discussion by exploring the conceptual foundations, theoretical frameworks, and economic implications of greenwashing. Some authors have even linked the phenomenon to the decoupling of Corporate Social Responsibility (CSR), focusing on its causes and consequences (Talpur et al., 2023), while Yulinar Sari (2023) highlighted potential mitigating factors of greenwashing. More recently, Santos et al. (2024) provided a systematic overview of the greenwashing literature, focusing on its impact on stakeholders, Sneideriene & Legenzova (2025) performed a systematic analysis of greenwashing prevention in ESG disclosure, and Forliano et al. (2025) mapped the theoretical landscape of greenwashing research. Lastly, Munir et al. (2025) explored the drivers of greenwashing within business, management, and accounting literature during the post-pandemic period. Collectively, existing reviews have enriched the understanding of greenwashing practice by consolidating its conceptual dimensions, theoretical foundations, and emerging trends. However, insufficient attention has been given to the role of corporate governance as a control mechanism in mitigating the practice of greenwashing. This represents a crucial omission, given that professional accountants and auditors view effective governance structure as vital to restraining greenwashing by embedding monitoring and verification processes into companies' environmental claims (KPMG, 2022).

In this respect, this study aims to review and synthesize the theoretical and empirical evidence on the role of corporate governance in mitigating greenwashing within environmental reporting. Specifically, it seeks to: (i) identify the governance mechanisms most frequently investigated; (ii) evaluate their theoretical and empirical foundations; (iii) assess the contextual conditions under which they operate effectively; and (iv) examine existing studies on greenwashing in Malaysia to understand the influence of governance factors on environmental reporting practice. Conceptually, this study advances the literature by advocating the need for multi-theoretical and behavioral-integrative approaches that move beyond structural monitoring to capture the socio-cognitive and institutional drivers of greenwashing. Contextually, it extends global discourse by incorporating evidence from emerging markets, particularly Malaysia, where concentrated ownership, regulatory evolution, and cultural norms shape governance conditions in distinctive ways. Together, these contributions strengthen understanding of governance as a critical mechanism for enhancing the credibility and authenticity of environmental reporting, and guide future research on strategies to reduce greenwashing practices. To clarify the role of corporate governance in mitigating greenwashing, it is essential first to understand the evolution of sustainability reporting over time, which will be reviewed in the following section.

Evolution of Sustainability Reporting

The practice of sustainability reporting has evolved from voluntary corporate philanthropy to a formalized system of ESG accountability (Credibl, 2023). Growing concerns over environmental risks, combined with rising stakeholder expectations, climate urgency, and accountability pressures, have led to the emergence of structured ESG frameworks (Deloitte,

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2024). Globally, frameworks such as the Global Reporting Initiative (GRI), Sustainability Accounting Standards Board (SASB), Task Force on Climate-related Financial Disclosures (TCFD), and International Sustainability Standards Board (ISSB) have consolidated global reporting norms, providing structured guidance for non-financial disclosures (Chen et al., 2024; Peligrino, 2023). In Malaysia, Bursa Malaysia introduced mandatory sustainability reporting for Public Listed Companies (PLCs) in 2016, requiring the disclosures on ESG impacts (Raj, 2022). However, while these developments enhanced disclosure accountability, they also created new challenges. The absence of global uniformity and the complexity of reporting standards have allowed room for symbolic or misleading disclosures, a phenomenon widely recognized as greenwashing (Erol & Cankaya, 2023; Lokuwaduge & De Silva, 2022).

Greenwashing in Environmental Reporting: Concepts and Motivations
Greenwashing has emerged as one of the most pressing credibility issues in contemporary environmental reporting, with 94% of investors expressing scepticism toward sustainability disclosures due to unsupported claims (PriceWaterhouseCooper, 2024). Initially used in marketing to describe deceptive environmental claims, the concept of greenwashing has evolved to include corporate-level misrepresentation of sustainability reporting (Torelli et al., 2020; Delmas & Burbano, 2011). Due to its interdisciplinary nature, there is an absence of a universally accepted definition of greenwashing (Zioło et al., 2024; Lyon & Montgomery, 2015). Scholars commonly describe greenwashing as the selective disclosure of positive environmental information while concealing adverse practices (Tateishi, 2018; Lyon and Maxwell, 2011; TerraChoice, 2009), misleading stakeholders about companies' actual environmental impact (Gregory, 2023; Yu et al., 2020). Others conceptualize it as a divergence between corporate communication and actual environmental performance (Eliwa et al., 2023; García-Sánchez et al., 2022). Meanwhile, some others interpret greenwashing as a symbolic strategy to strengthen their legitimacy rather than achieve genuine environmental improvement (Liu et al., 2023; Walker and Wan, 2012).

Despite these conceptualizations, greenwashing is increasingly recognized as a strategic response driven by various motives. Delmas & Burbano (2011) identified two main drivers of greenwashing: external and internal. External drivers arise from consumer and investor demand, as well as competitive pressure, while internal drivers originate from managerial incentives, weak governance controls, and misaligned performance goals. Recent empirical studies further demonstrated that companies in environmentally sensitive industries tend to exaggerate their environmental efforts to maintain legitimacy and avoid reputational penalties associated with poor environmental performance (García-Sánchez et al., 2022; Borgstedt et al., 2017; Walker & Wan, 2012). From an institutional perspective, greenwashing practices are also driven by coercive and mimetic pressures such as governmental regulations, investor expectations and peer imitation (Chakraborty et al., 2025; Marquis et al., 2016). The motives behind greenwashing suggest that it is not merely a communication issue, but rather a reflection of failures in oversight, accountability, and ethical governance. Hence, this phenomenon reinforces the centrality of corporate governance as a monitoring and control mechanisms that safeguard the integrity of environmental reporting and limits the potential for symbolic disclosure.

Corporate Governance and Greenwashing
Corporate governance can be defined as the system, principles, and structure through which companies are directed or controlled (Chanakya, 2023; Cadbury, 1992). The collapse of major corporations such as Enron and WorldCom underscored the critical importance of effective

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corporate governance in protecting stakeholders' interests (Hossain et al., 2024). Note that effective governance ensures that companies operate with transparency, accountability, and integrity, which are essential qualities for balancing the interests of various stakeholders (Efunniyi et al., 2024). Beyond its traditional role in corporate management, governance mechanisms are increasingly recognized for their influence on the companies' performance (Wong et al., 2019; Norazlan et al., 2017), reporting quality (Abdalla et al., 2024; Issa et al., 2021), and earnings management (Dakhlalh et al., 2021; Che-Ahmad et al., 2020).

Within the context of sustainability and environmental reporting, corporate governance has emerged as a key mechanism for mitigating the risk of misleading or symbolic disclosures (Pereira et al., 2024; Eliwa et al., 2023). As summarized in Table 1, recent studies have examined various governance mechanisms that may influence greenwashing practices, broadly categorized into internal and external mechanisms, each exerting distinct influences on companies' engagement in greenwashing practices.

Table 1: Summary of Corporate Governance Mechanisms in Greenwashing Literature

Governance Mechanisms		**Authors**
Internal	Board of Directors (BOD)	Cotugno et al. (2025); Ma et al. (2025); Velte, (2025); Pereira et al. (2024); Eliwa et al. (2023); Ghitti et al. (2023); Zahid et al. (2023); Gull, Hussain, Khan, Nadeem, et al. (2022); Sensharma et al. (2022); Yu et al. (2020); Jain and Zaman (2019)
	Chief Executive Officer (CEO)	Xu & Lyu (2025); Niu et al. (2024); Velte, (2024); Gull, Hussain, et al. (2023); Shahab et al. (2022)
	Top Management Team (TMT)	Chen et al. (2025); Zhang et al. (2023)
	Sustainability Committee	Gull, Sarang, et al. (2023)
	CSR Committee	Gull, Hussain, Khan, Khan, et al. (2022)
External	Investors	Pereira et al. (2024); Zhi et al. (2024); Liu, Li, et al. (2023); Yu et al. (2020)
	Regulatory Frameworks	García-Sánchez et al. (2022) Sun and Zhang (2019)
	Government Environment Attention	Fang & Tao (2025)
	Media Scrutiny	Wang et al. (2023)
	Analyst Coverage	Liu, Zhang, et al. (2023)

Source: Author's Own Creation

Internal Governance Mechanisms

Internal governance mechanisms, which include the BOD, the CEO, the TMT, and specialized committees, play a central role in shaping the quality of environmental disclosure. Among these, BOD remains the most widely examined governance structure due to its perceived influence on greenwashing practices. Moreover, empirical evidence suggests that a higher proportion of board independence is associated with reduced greenwashing practices, independent oversight enhances objectivity and limits managerial opportunism (Pereira et al., 2024; Sensharma et al., 2022). These findings align with agency theory, which posits that independent oversight mitigates the impact of symbolic disclosures (Jain and Zaman, 2019).

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Contrary to these findings, Ghitti et al. (2023) challenged this view by showing that independent directors may also have reputational incentives to endorse the company's green image, thereby enhancing their own credibility. Notably, recent findings by Ma et al. (2025) revealed that dissenting independent directors help curb greenwashing, especially those with environmental expertise. However, entrenched boards limit their influence, suggesting that independence alone is insufficient without domain-specific knowledge and an empowered board structure. Similarly, the role of board size remains a subject of contention. While larger boards may offer diverse expertise and resources that enhance environmental accountability (Jain and Zaman, 2019), other studies challenge this assumption. Sensharma et al. (2022) and Yu et al. (2020) argued that having larger boards may not effectively monitor environmental performance, as the benefits of board expansion may be offset by coordination inefficiencies and the free-rider problem (Gull, Sarang, et al., 2023). Gender diversity on boards has also received growing attention, particularly the role of female directors in enhancing disclosure integrity. Furthermore, empirical evidence indicates that the presence of women directors is associated with improved monitoring quality and reduces symbolic disclosure, attributed to women's stronger ethical sensitivity and aversion to manipulation (Cotugno et al., 2025; Velte, 2024; Eliwa et al., 2023; Zahid et al., 2023). Studies by Gull, Hussain, Khan, Nadeem, et al. (2022) further demonstrated that ethically attuned female directors can mitigate managerial opportunism by reducing information asymmetry. Similarly, female representation on audit committees has been shown to strengthen monitoring effectiveness and curb greenwashing (Velte, 2025). However, a study by Ghitti et al. (2023) cautioned that female directors may inadvertently contribute to the practice of greenwashing due to role overload, which limits their capacity to monitor environmental initiatives effectively.

Beyond the board level, executive leadership has also emerged as a crucial mechanism for understanding greenwashing practices. Niu et al. (2024) provided evidence that CEO turnover is more likely to affect the symbolic environmental practices. Newly appointed CEO, particularly those recruited externally, often face higher performance pressure and limited resources to pursue short-term performance. In such a context, greenwashing serves as a reputational tool to signal commitment to sustainability and preserve legitimacy. This practice aligns with signaling theory, which posits that companies may use misleading disclosure as a signal to shape stakeholders' perception. Complementing this, Gull, Hussain, et al. (2023) and Shahab et al. (2022) discovered that powerful CEOs may engage in greenwashing practices to maintain a sustainable image while securing their short-term benefits, reflecting agency theory's concern that CEOs may prioritize personal and reputational gains over substantive environmental performance. Extending this behavioral lens, recent findings have discovered that CEOs with poverty experience tend to avoid greenwashing practices due to a strong sense of integrity, awareness of their reputation, and a responsibility toward stakeholders. However, this effect is shaped by their power, green experience, and individualism (Xu & Lyu, 2025).

Continuing the exploration of internal governance mechanisms, Zhang et al. (2023) analyzed the impact of TMT attributes on greenwashing engagement in Chinese heavy-polluting industries. Their findings revealed that a diverse functional background among managers hinders consensus on environmental priorities, reinforcing a symbolic response to stakeholders' pressure. Conversely, higher education attainment among TMT members is negatively associated with greenwashing, implying that well-educated executives possess stronger ethical reasoning and a clearer understanding of long-term environmental implications. Implementing these insights, recent research has explored the role of TMT social networks, proving that connectedness among executives is positively associated with

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greenwashing practice. Nevertheless, this effect is weakened in companies with strong internal governance mechanisms (Chen et al., 2025).

The establishment of sustainability and CSR committees represents a more specialized form of governance. Empirical evidence indicates that the presence of sustainability committees with a greater proportion of independent directors is less likely to tolerate symbolic disclosures (Gull, Sarang, et al., 2023). On the other hand, Erol & Cankaya (2023) and Gull, Hussain, Khan, Khan, et al. (2022) affirmed that larger CSR committees generally exhibit higher experience, diversified knowledge and stakeholder representation, thus reducing tendencies toward greenwashing practices.

External Governance Mechanisms

Governance extends beyond corporate boundaries, with external mechanisms such as investor scrutiny, regulatory oversight, and media attention exerting pressure on companies to align disclosures with actual environmental performance. For instance, Yu et al. (2020) and Pereira et al. (2024) discovered that companies exposed to greater investor attention exhibit lower tendencies towards greenwashing, as active investors narrow the gap between actual sustainability performance and disclosure. Zhi et al. (2024) further revealed that investor attention mitigates greenwashing by alleviating financing constraints and encouraging transparency. In contrast, Liu, Li, et al. (2023) determined that distracted institutional investors, those managing diversified portfolios with limited engagement, are less effective in monitoring corporate behavior, allowing greenwashing to persist. The evidence suggests that institutional investors do not uniformly function as effective monitors of environmental performance, whereby their monitoring capacity is shaped by their engagement intensity, rather than merely ownership presence.

In terms of regulatory frameworks, García-Sánchez et al. (2022) revealed that the adoption of GRI standards reduced ESG decoupling, reinforcing the role of standardized reporting guidelines in promoting disclosure consistency and curbing selective disclosure. However, the impact of regulations depends on the effectiveness of enforcement mechanisms. For example, Sun & Zhang (2019) emphasized the role of government-imposed penalties, demonstrating that when penalties for greenwashing exceed potential reputational or market benefits, companies are more likely to engage in substantive rather than symbolic actions. In addition to standardized reporting frameworks and enforcement penalties, recent findings have shown that increased government environmental intention significantly curbs greenwashing practices. This influence operates through the benefit from improved access to financial resources, fostering innovation and shifts in managerial perception toward genuine sustainability (Fang & Tao, 2025). From a media perspective, Wang et al. (2023) established that companies exposed to intensive media scrutiny face greater pressure to maintain credible ESG reporting. The study highlighted that media coverage increases the perceived risk of being exposed, thus acting as a monitoring mechanism. Similarly, Liu, Zhang, et al. (2023) reported that analyst coverage on ESG-related issues enhances corporate transparency and helps to reduce information asymmetry. This visibility pressures companies to align their ESG disclosures with actual performance, thereby reducing ESG decoupling. However, there are also indications that analyst attention can heighten short-term pressure, especially in non-state-owned companies or those with short-term investors. This pressure may divert resources from genuine environmental efforts and increase the risk of greenwashing (Zhang & He, 2025). Therefore, analyst scrutiny can promote disclosure integrity and may also incentivize superficial compliance, depending on the company context.

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Overall, existing studies confirm that corporate governance mechanisms play a crucial role in shaping companies' engagement in greenwashing practices. However, much of the current research has focused on board attributes, and the empirical findings remain inconsistent across governance settings, reflecting variations in institutional environments, boards structures and managerial dynamics. Some evidence suggested that even well-structured boards may fail to mitigate symbolic disclosure (Ghitti et al., 2023; Sensharma et al., 2022; Yu et al., 2020). These mixed results underscore the need to extend the focus beyond traditional board attributes and examine specialized board committees, whose establishment has become increasingly common among large companies (Fu et al., 2020). Other board committees, such as the environmental committee, risk management committee, and audit committee, remain underexplored in the greenwashing literature, despite their potential roles in enhancing monitoring effectiveness (Alduneibat, 2023; Gerged et al., 2023; Olagunju et al., 2023; de Villiers et al., 2022). Furthermore, most studies examined internal governance mechanisms independently (Pereira et al., 2024; Ghitti et al., 2023; Gull, Hussain, Khan, Nadeem, et al., 2022; Jain and Zaman, 2019), offering limited insights into their interaction with external governance mechanisms. Future research should adopt an integrated perspective that explores how internal and external governance mechanisms collectively function to deter greenwashing practice. Building on the review of governance mechanisms that shape greenwashing practice, it is essential to examine the theoretical lenses that underpin this relationship. The following section examines the key theories employed in governance-greenwashing research, providing conceptual clarity on how governance structures influence companies' symbolic environmental disclosures.

Theoretical Lenses of Governance-Greenwashing

Research exploring the intersection between corporate governance and greenwashing practices has drawn upon multiple theoretical lenses to explain the role of governance mechanisms in shaping environmental disclosure behavior, as summarized in Table 2.

Table 2: Summary of Theories Underpinning Governance - Greenwashing Literature

Theory	Governance Mechanisms Applied	Findings on Greenwashing	Authors	Authors Country
Agency Theory	Board Gender Diversity	Positive	Ghitti et al. (2023)	Italy, France
	Board Independence	Mixed	Ghitti et al. (2023); Jain & Zaman (2019)	Italy, France New Zealand
	Board size	Negative	Jain & Zaman (2019)	New Zealand
	CSR Committee Size	Negative	Gull, Hussain, Khan, Khan, et al. (2022)	France, Vietnam, Netherlands, UK, Finland, Pakistan
	CSR Committee	Negative	Erol & Cankaya (2023)	Istanbul
	Sustainability Committee Independence	Negative	Gull, Sarang et al. (2023)	France, Vietnam, Pakistan

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Theory	Governance Mechanisms Applied	Findings on Greenwashing	Authors	Authors Country
	Female Audit Committee	Negative	Velte (2025)	Germany
Upper Echelon Theory	TMT Functional Diversity	Positive	Zhang et al. (2023)	China
	TMT Education Level	Negative	Zhang et al. (2023)	China
	CEO Turnover	Positive	Niu et al. (2024)	China
	CEO Poverty Experience	Negative	Xu & Lyu (2025)	China
	Board Gender Diversity	Negative	Eliwa et al. (2023); Zahid et al. (2023)	UK, Egypt China
	Female Chief Financial Officer (CFO)	Negative	Velte, (2024)	Germany
Stakeholder Theory	Board Gender Diversity	Negative	Gull, Hussain, Khan, Nadeem, et al. (2022)	France, Vietnam, UK
	Board Independence	Negative	Jain & Zaman (2019)	New Zealand
	Board Size	Negative	Jain & Zaman (2019)	New Zealand
	CSR Committee	Negative	Erol & Cankaya (2023)	Istanbul
	Sustainability Committee Independence	Negative	Gull, Sarang et al. (2023)	France, Vietnam, Pakistan
Legitimacy Theory	Female Board	Negative	Cotugno et al. (2025)	Europe
	CSR Committee	Negative	Erol & Cankaya (2023)	Istanbul
	TMT Functional Diversity	Positive	Zhang et al. (2023)	China
	TMT Education Level	Negative	Zhang et al. (2023)	China
	Regulatory Framework	Negative	García-Sánchez et al. (2022)	Spain, Netherlands
Institutional Theory	CSR Committee	Negative	Erol & Cankaya (2023)	Istanbul
	Board Gender Diversity	Negative	Eliwa et al. (2023)	UK, Egypt
Critical Mass Theory	Board Gender Diversity	Negative	Zahid et al. (2023); Gull, Hussain,	China

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Theory	Governance Mechanisms Applied	Findings on Greenwashing	Authors	Authors Country
			Khan, Nadeem, et al. (2022)	France, Vietnam, UK
Gender Socialization Theory	Board Gender Diversity	Negative	Eliwa et al. (2023); Zahid et al. (2023)	UK, Egypt China
Managerial Power Theory	CEO Power	Positive	Gull, Hussain et al. (2023)	France, Vietnam, Netherlands
Resource Dependency Theory	Sustainability Committee Independence	Negative	Gull, Sarang et al. (2023)	France, Vietnam, Pakistan
Signaling Theory	CSR Committee	Negative	Erol & Cankaya (2023)	Istanbul
	Government Environment Attention	Negative	Fang & Tao (2025)	China

Source: Author's Own Creation

The synthesis of prior studies revealed that **agency theory** remains the most widely applied framework explaining greenwashing in governance studies, providing a foundational explanation for opportunistic disclosure behavior arising from the separation of ownership and control (Jensen & Meckling, 1976). Grounded in the assumption of information asymmetry between managers and shareholders, this theory posits that corporate governance mechanisms serve as monitoring tools designed to align managerial interests with those of shareholders and enhance the credibility of reporting (Wahab et al., 2024; Jain & Zaman, 2019; Fama & Jensen, 1983). Consequently, empirical evidence consistently supports the notion that effective CSR and sustainability committees, higher board independence, and larger boards are all associated with lower greenwashing tendencies (Erol & Cankaya, 2023; Gull, Sarang et al., 2023; Gull, Hussain, Khan, Khan, et al., 2022). However, the findings are inconsistent across studies. While some research finds that board independence mitigates opportunistic disclosure (Jain & Zaman, 2019), others indicate that even independence and diverse boards may not prevent greenwashing (Ghitti et al., 2023). This inconsistency highlights a key limitation of agency-based explanations, whereby their narrow focus on structural monitoring often overlooks behavioral and societal factors that influence ethical disclosure practices.

Moving beyond managerial opportunism, stakeholder, legitimacy, and institutional theories provide complementary socio-environmental perspectives. **Stakeholder theory** conceptualized greenwashing as a strategic attempt to satisfy the expectations of diverse stakeholder groups, including investors, regulators, and customers (Freeman et al., 2004). Greenwashing occurs when companies emphasize symbolic actions to satisfy these groups while neglecting substantive environmental performance (Torelli et al., 2020). Governance mechanisms such as board diversity, size, and board committees are viewed as mechanisms to

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accommodate diverse stakeholder demands (Jamil & Wahyuni, 2025; Erol & Cankaya, 2023; Gull, Sarang et al., 2023; Jain & Zaman, 2019). **Legitimacy theory** extended this view by framing greenwashing as a symbolic strategy to maintain social acceptance and rebuild reputation following legitimacy-threatening events (Cotugno et al., 2025; Zhang et al., 2023). Correspondingly, empirical studies demonstrate that governance mechanisms, such as CSR committees (Erol and Cankaya, 2023) and standardized frameworks (García-Sánchez et al., 2022), often serve a symbolic function to enhance perceived legitimacy rather than ensuring substantive performance. **Institutional theory** further reinforced this argument, suggesting that companies adopt governance practices such as gender-diverse boards (Eliwa et al., 2023) or CSR committees (Erol & Cankaya, 2023) primarily to conform to coercive, normative, and mimetic pressures, rather than pursuing substantial environmental outcomes (Chakraborty et al., 2025). Collectively, these theories shift the analytical lens from internal monitoring to external legitimacy management, suggesting that governance mechanisms may exist in form but fail in function, thereby encouraging greenwashing practices.

More recent studies have incorporated behavioral and leadership-oriented theories, marking a shift from structural to cognitive explanations of greenwashing decisions. **Upper echelons theory** emphasized the cognitive bases and values of top executives in shaping the organizational outcomes (Hambrick & Mason, 1984). Evidence demonstrates that CEO turnover and diverse functionality among TMT increase the tendencies of greenwashing practice (Niu et al., 2024; Gull, Hussain et al., 2023), while cognitively diverse, educationally oriented TMT, female CFO, and CEOs' childhood poverty experience significantly reduce greenwashing risks (Xu & Lyu, 2025; Velte, 2024; Eliwa et al., 2023; Zahid et al., 2023; Zhang et al., 2023). **Managerial power theory** complemented this perspective by illustrating that a powerful CEO enables selective disclosure to enhance image (Gull, Hussain et al., 2023). **Critical mass and gender socialization theories** introduced a gendered behavioral dimension, suggesting that female representation promotes ethical disclosure only when female directors reach a threshold of influence within boards (Eliwa et al., 2023; Zahid et al., 2023; Gull, Hussain, Khan, Nadeem, et al., 2022). Meanwhile, **resource dependence theory** aligned governance effectiveness with the ability to establish external linkage and assess sustainability-related expertise (Hillman et al., 2000). Evidence establishes the independence sustainability committee as a valuable external linkage mechanism that enhances access to environmental expertise, thereby constraining opportunistic environmental reporting (Gull, Sarang et al., 2023). Finally, **signaling theory** extended the discussion by interpreting the practice of greenwashing as a communication strategy, positing that governance mechanisms, such as CSR committees, are used strategically to convey environmental commitment even in the absence of substantive performance (Fang & Tao, 2025; Erol & Cankaya, 2023).

Collectively, the reviewed studies demonstrate that governance-greenwashing research has been grounded in diverse theoretical foundations, with agency theory, stakeholder theory, and upper echelons theory being the most dominant. These perspectives help explain the influence of control mechanisms and managerial incentives on greenwashing practices. However, it is often overlooked that human and social factors underlie such practices. Emerging perspectives, such as institutional theory, critical mass theory, gender socialization theory, managerial power theory, resource dependency theory, and signaling theory, remain insufficiently explored, despite their potential to explain the dynamics of environmental disclosures and communication (Erol & Cankaya, 2023; Gull, Sarang et al., 2023). This imbalance suggests that current research tends to view governance mainly as a structural system of control, rather than a process shaped by behavior, interaction, and organizational culture. Therefore, future studies should integrate multiple theories that link the economic, behavioral, and institutional views to provide a more holistic understanding of the mechanisms through which governance can mitigate greenwashing practices and strengthen genuine sustainability. While these theories provide strong conceptual foundations, limited research has examined how governance and reporting practices evolve in emerging contexts, such as Malaysia, where sustainability reporting remains at a developing stage.

Greenwashing Research in Malaysia

Greenwashing has emerged as a pressing concern in Malaysia, particularly as sustainability reporting shifts from a voluntary initiative to a mandatory practice (KPMG, 2024). This regulatory shift was initiated by Bursa Malaysia's 2016 directive, which formally required PLCs to disclose ESG information in their annual reports, thereby marking an increase in the volume of sustainability disclosures. According to KPMG's Survey of Sustainability Reporting 2024, 97% of Malaysian companies now incorporate sustainability content in their annual reports (KPMG, 2024). However, recent watchdog and media investigations have cast doubt on the credibility of these disclosures. For instance, Eco-Business (2025) identified Malaysia as one of the regional hotspots for misleading environmental claims, with carbon offset abuse cited as the most prevalent form of greenwashing among Southeast Asian companies. RimbaWatch's Zero Greenwashing Alliance database further revealed that Malaysia accounted for fourteen cases from nine Malaysian companies in January 2025 (The Edge Malaysia, 2025). Petronas, the national oil and gas company, was implicated in five separate instances of overstating its net-zero carbon commitments (RimbaWatch, 2025). These findings suggest that, despite the formal ESG frameworks, Malaysian companies may still engage in symbolic disclosure practices that resemble greenwashing.

Despite the growing concerns, earlier works reveal fragmented attention to greenwashing phenomena in Malaysia. For instance, Tateishi (2017) examined green initiatives in Iskandar Malaysia's housing projects and exposed the divergence between environmental rhetoric and implementation. Within the financial domain, Ahmed & Elsayed (2019) investigated the decoupling of Islamic and conventional capital markets, revealing symbolic sustainability behaviors. Rahim et al. (2019) examined consumer perceptions of deceptive environmental claims in green advertising, while Ibrahim et al. (2021) investigated the impact of greenwashing on consumer trust and purchasing behavior in the organic food industry. Meanwhile, Quoquab et al. (2022) measured greenwashing practice in sustainable property development, emphasizing the need for ongoing monitoring and deterrence in that sector. Recently, Jamil & Wahyuni (2024a) identified selective ESG metrics and weak assurance practices as indicators of potential greenwashing within the oil and gas industry. In a subsequent quantitative study, Jamil & Wahyuni (2025) demonstrated that board independence, gender diversity, and expertise negatively correlate with greenwashing. Moreover, the presence of dedicated CSR or sustainability committees has been shown to enhance monitoring effectiveness further, suggesting that internal governance mechanisms play a critical role in curbing greenwashing practices in Malaysia.

Compared to the extensive global literature that identifies diverse determinants of greenwashing (Chen et al., 2024; Pereira et al., 2024; Eliwa et al., 2023; Ghitti et al., 2023; Zahid et al., 2023; Zhang et al., 2023; Yu et al., 2020), Malaysian scholarship remains comparatively limited. Malaysia presents a distinctive setting where the corporate landscape is characterized by concentrated ownership structures, state-linked corporations, and relationship-based governance systems, all of which impact managerial incentives and

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disclosure practices (Laili et al., 2024). Moreover, the unique features of Malaysia's governance environment, including its multicultural business norms, evolving managerial competencies, and regulatory transition, may influence greenwashing decisions in distinctive ways. Taken together, these institutional and cultural dynamics position Malaysia as a valuable context for examining the interaction between governance and environmental disclosure practices. Hence, understanding these governance determinants is crucial for improving disclosure credibility (Abdalla et al., 2024; Jasman et al., 2023; Issa et al., 2021; Jamil et al., 2021) and for preventing Malaysian companies from adopting symbolic rather than substantive sustainability practices. Further research should develop methodological tools to quantify the extent of greenwashing practice among Malaysian companies. Additionally, empirical exploration of governance configurations can offer insights into mechanisms that enhance the authenticity of environmental reporting. Without such governance interventions, Malaysia risks both reputational and investment repercussions, as global stakeholders increasingly scrutinize the authenticity of ESG commitments (The Star, 2022). Malaysian evidence reinforces global theoretical insights by illustrating that institutional pressure, concentrated ownership structures, and evolving in environmental reporting regulations shape the manifestation of greenwashing. These patterns confirm that governance mechanisms are not function uniformly across countries but are embedded within broader socio-regulatory environments that influence both managerial behavior and disclosure strategies. Integrating the Malaysian context into the wider literature therefore highlights the value of contextualized governance research in understanding and mitigating greenwashing.

Conclusion

This study reviews and synthesizes the theoretical and empirical evidence on the role of corporate governance in mitigating greenwashing practices within environmental reporting. The evidence suggests that while governance mechanisms are crucial to ensuring disclosure credibility, their effectiveness remains context-dependent and empirically inconsistent across governance settings. Existing studies have primarily focused on board attributes and, to a lesser extent, specialized committees, such as CSR committees and sustainability committees. However, other committees, such as the environmental committee, risk management committee, and audit committee, remain underexplored despite their potential monitoring functions. Moreover, previous studies provide limited insight into the interaction between internal governance arrangements and external pressures, leaving gaps in understanding how these mechanisms collectively deter symbolic reporting. From a theoretical standpoint, it can be perceived that agency theory continues to dominate the governance-greenwashing literature, explaining greenwashing as an outcome of managerial opportunism. Nevertheless, the field is gradually evolving toward multi-theoretical explanations that incorporate stakeholder, legitimacy, institutional, and upper echelons perspectives to explain the socio-cognitive and behavioral dynamics behind greenwashing practices. However, emerging theories such as institutional theory, critical mass theory, gender socialization theory, managerial power theory, resource dependence theory, and signaling theory remain insufficiently applied in the literature. Conceptually, this study highlights the need for more integrative theoretical frameworks that capture the behavioral, institutional and communication dynamics underlying greenwashing. The inclusion of evidence from emerging markets, particularly Malaysia, adds an important contextual dimension. The Malaysian setting, characterized by concentrated ownership, regulatory transition and multicultural norms, demonstrated that greenwashing persists despite notable regulatory advancements in environmental reporting. This reinforces global theoretical insights by showing that governance mechanisms are not operate uniformly but are shaped by institutional and cultural environments. While this study offers a conceptually integrative

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synthesis, its narrative scope may limit exhaustive empirical coverage. Nonetheless, the synthesis identifies several strategic avenues for future research, including the exploration of a broader range of board committees, a deeper examination of the interplay between internal and external governance mechanisms, and the adoption of multi-theoretical approaches to integrate behavioral, institutional, and communication perspectives. Future research that integrates these theoretical and contextual dimensions from emerging markets can advance a more globally inclusive understanding of governance as a behavioral, institutional and communicative mechanism to mitigate greenwashing and enhance genuine environmental accountability.

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