Exploring the Nexus between Corporate Governance and Corporate Greenwashing: A Study of Firm and Market Level Determinants

Nazim Hussain*[1] and Monika Wieczorek-Kosmala*

[1]University of Groningen – Groningen, Netherlands

Abstract

This paper investigates the relationship between multiple discrete corporate governance mechanisms at the firm level (such as board size, independence, and gender diversity) and market level (such as analyst coverage and institutional ownership), along with examining the joint effect of these mechanisms on the degree of greenwashing practices among firms. This paper draws on agency and legitimacy theory to posit that information asymmetry and pressure from stakeholders and society drive firms to engage in greenwashing practices. Building on this theoretical framework, we argue that effective implementation of corporate governance mechanisms can reduce information asymmetry and agency conflicts and, as a result, decrease the degree of greenwashing. Based on an international sample of 32,911 observations from 5,451 firms spanning the period 2006-2017, we found that board independence and gender diversity, as well as analysts coverage and institutional ownership, decrease the degree of greenwashing, while board size increases it. Our results also indicate that the nature of the industry and national differences moderate these effects, and that the level of corporate social responsibility (CSR) and governance orientation further strengthen the main findings. Additionally, we found that the interaction between certain mechanisms can complement or substitute the effect of individual corporate governance mechanisms on reducing greenwashing. Our findings are consistent, as we subjected our findings to multiple different conditions. Furthermore, we gather meaning for theoretical and practical implications for the domain of corporate governance and CSR.

*Speaker