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The Relationship of Board Characteristics and Carbon Management Strategy of Listed Companies in Malaysia

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Abstract

There has been overwhelming scientific evidence that climate change presents severe risks to humanity, requiring an urgent global response to avoid its catastrophic impact. Board characteristics are critical in deciding a company's carbon management strategy since the board's makeup, competence, and dedication to sustainability have a substantial impact on the strategic decisions and policies implemented for environmental management. Diverse and competent boards are more likely to prioritise and effectively implement carbon-reduction plans and promote sustainable practices. The study's main objective was to investigate the relationship between board characteristics in terms of board size, board gender, board independence, educational level of board members and, nationality of board members, and carbon management strategy (CMS). 288 samples of publicly listed companies in Bursa Malaysia for the year 2016 had been examined. The data were collected from both annual reports and company websites. The results show that board characteristics don't impact carbon management strategy, challenging the idea that factors like gender diversity or independence directly drive sustainability efforts. Future research should look into other factors influencing CMS adoption. Companies need to expand their approach to integrating sustainability into board decisions, considering factors like stakeholder engagement and organizational incentives alongside board composition to improve commitment to initiatives like carbon management.

Keywords: Climate Change, Corporate Governance, Diversity and Boardroom

Introduction

In Malaysia, as a developing nation, addressing climate change is imperative, necessitating the implementation of carbon management strategies to mitigate carbon emissions. Despite this urgency, there remains a notable absence of specific regulations mandating carbon disclosure reports in companies' annual reports (Bakar et al., 2019). This gap in regulatory mandates highlights the need for more accountability and transparency measures to address the escalating environmental concerns and support stakeholders in making well-informed decisions. Stakeholders have consistently called for corporate responsibility towards climate change, reflecting a growing demand for environmentally sustainable practices and transparency in business operations.

In line with the demand of stakeholders, board directors who serve as top management always claim that the action is environmentally clean. For instance, the board of directors should discuss strategies for reducing carbon emissions within a company or organization. They are responsible for the approval of methodologies used to assess "additionality" of current companies' performance and discussion about projects that may be able to reduce their carbon emissions. There is a strong reason for all companies and organizations to implement this strategy because the carbon management strategy plays a vital role in reducing emissions and turning the companies into low-carbon companies in the future (Damert et al., 2017). This is important to the board because these stakeholder groups are stressing this issue and putting pressure on the board of directors.

This study provides insights into the impact of board characteristics on carbon management strategies in Malaysian listed companies. Through analysing this relationship, investors and consumers acquire vital knowledge about the current trends in carbon management methods among Malaysian companies. This comprehension empowers individuals to make better-informed decisions, be it in terms of investment selections or consumer behaviours, thereby facilitating the advancement of environmentally sustainable practices within the corporate domain in Malaysia.

Many investors demand corporate information regarding the changing climate (Haque & Islam, 2015). An investor group hopes that the companies can disclose their carbon emissions data so that the group can determine their achievement as well as the ways or strategies for handling carbon emissions (VicSuper, 2016). When a company implements this strategy, it will strongly increase investors' confidence in the company or organization. They will believe that the company is making an effort to make a change in preventing the issue of climate change. Hence, the company will get more investment from those investors since they are practicing eco-type organizations.

For consumers, the carbon management strategies giving them ability to evaluate a company's commitment to sustainable practices. The comprehension of this concept enables consumers to make well-informed decisions, hence exhibiting a preference for businesses that prioritise environmental stewardship. In addition, by their support of these companies, customers play an active role in promoting the adoption of comparable methods, thus cultivating a culture of accountability and transparency among the corporate community. In essence, this research serves as a catalyst for promoting environmentally conscious company practices throughout Malaysia, so making a valuable contribution to the wider endeavours of environmental sustainability.

Literature Review

This section is structured into four sections: an overview of legitimacy theory and agency theory, which are crucial for understanding the empirical link between board characteristics and carbon management strategy; literature reviews on board characteristics and carbon