Governance and Earnings Management as Determinants of Sustainability Disclosure in the Banking Sector

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Abstract:

This study empirically investigates the nexus between earnings management, corporate governance, both internal and external governance, and green banking disclosure within the context of BRICS economies. EM is operationalized through indirect proxies including earnings restatements, insider trading controversies, profit warnings, and accounting irregularities. internal corporate governance is measured via a composite index reflecting board structure and characteristics, while external corporate governance is proxied by national-level governance indicators capturing institutional quality. Using a dynamic panel data approach and applying the generalized method of moments (GMM) to a sample of 37 commercial banks over the period 2010–2019, the findings reveal a statistically significant and positive association between EM and GBD. This suggests that banks engaging in opportunistic reporting may strategically deploy environmental disclosures as a legitimacy mechanism to mitigate reputational risk. Furthermore, internal governance structure exerts a positive influence on green banking disclosure, reinforcing agency-theoretic assertions that robust internal governance can attenuate managerial discretion and enhance disclosure transparency. The effects of external corporate governance on green banking disclosure, however, appear heterogeneous, reflecting institutional divergences across national governance regimes. These findings offer important insights into how governance mechanisms shape environmental accountability in the banking sector and highlight the need for robust multi-level governance frameworks to foster sustainability-oriented disclosure practices.

Keywords:

Green banking disclosure; internal governance mechanism; external governance mechanism; environmental innovation; resource use; greenhouse gas emission.