EDITORIAL: Environmental risk and firms dividend policy

Dear readers!

The editorial team is pleased to present the third issue of volume 15 of the journal *Risk Governance and Control: Financial Markets & Institutions* for the year 2025. In this issue journal has introduced 13 new papers on various interesting and timely topics, including efficacy and risks of the commercial banking system, environmental risk and its effects on the financial performance, risk of inflation and gross domestic product (GDP), and volatility of currency exchange rate risk in the emerging market.

In developing nations, environmental valuation is crucial for demonstrating the economic worth of natural resources, including rivers, forests, and biodiversity (Hasan, 2024; Liça et al., 2024). But there are also significant risks involved. The possibility that financial interests will sway judgment is one significant issue. Natural resource prices are frequently set by governments or private businesses just to increase profits, disregarding the requirements of local communities or the long-term ecological balance (Bin Sulaiman & Abbas, 2025; Quah & Tan, 2019; Sarwosaputro et al., 2025). Capital degradation is an additional danger. Overexploitation and devastation may result when the environment is viewed primarily as a source of income. If land, water, and forests are sold or privatized, impoverished communities that rely on them directly may lose their means of subsistence. Because investors frequently get the benefits rather than locals, this can further exacerbate inequality (Hasan & Al-Najjar, 2024). As a result, environmental valuation needs to be done cautiously, even though it might aid policymakers in appreciating the value of nature. In addition to market prices, social, cultural, and ecological aspects should be considered. Otherwise, it could degrade the very capital that is necessary for future development and turn natural richness into short-term money (Martin et al., 2024).

These environmental issues are causing greater problems for all kinds of economies, regardless developed or developing. Some businesses try to divert their investor concentration by announcing higher dividends and higher returns (Hasan & Al-Najjar, 2024). Because, based on human psychology, we know that investors are more interested in increasing their short-term wealth than long-term wealth. And we know that even though dividend is heavily taxed but still investors are more interested in getting higher dividends than capital gain (Hasan, 2021, 2022). Hasan and Al-Najjar (2024) found that more green firms pay less dividends than polluted firms. Because through the announcement of higher taxes, polluted firms are trying to send a strong message to the investors that businesses having higher returns means that businesses are doing well. Similar kinds of findings were documented by Boubaker et al. (2024), and they said that the stock market responds less favorably (more unfavorably) to announcements of dividend increases (decreases) if investors own disproportionately high carbon emitters and the correspondingly elevated carbon risk stocks. In addition, the stock market responds less favorably (more unfavorably) to announcements of dividend increases (decreases) if companies undervalue their carbon risk.

Prior studies have attempted to examine the function of dividend payments in reducing agency expenses in a more comprehensive manner (Muttaqi & Nur, 2025). According to those studies, dividend policies have the ability to benefit all stakeholders, especially those who are impacted by environmental problems. This is consistent with the tenets of sustainable corporate finance, which suggest that value maximization and wealth creation cover more than just shareholders and should be approached from a more inclusive and moral standpoint (Kostyuk et al., 2016). However, prior research also raises a number of important issues, such as how businesses balance shareholder interests with environmental responsibilities. What effects would be giving one priority over the other have in the long run? To clarify these intricate dynamics and guide business strategies in a world that is becoming more and more focused on environmental, social, and governance (ESG), further study in this area is crucial.

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