# EDITORIAL: Corporate CSR/sustainability governance practices — Practical challenges and future directions

*Dear readers!*

We are pleased to share with you the recent issue of our journal *Corporate Governance and Organizational Behavior Review*, which is focused on very interesting topics such as consumer behaviour, boardroom characteristics, CSR disclosure, and firm performance.

*Corporate CSR/sustainability governance practices:* There is no doubt that both corporate governance and corporate social responsibility (CSR) play a central role in shaping the performance and reputation of business firms (Moussa, Kotb, & Helfaya, 2022). As both areas grow very fast, the interconnection between them becomes more common. Accordingly, the research stream that links corporate sustainability governance characteristics (e.g., boardroom diversity and independence, the existence of a CSR committee, issuing CSR/sustainability report, and executive compensation/incentives to non-financial performance) to CSR practices (both performance and disclosure) has been drawing progressively more attention over time (Eliwa, Aboud, & Saleh, 2021; Moussa et al., 2022).

In practice, business firms use these two managerial mechanisms — corporate governance and CSR — to regulate and control their operations to legitimize their existence and meet the expectations of their stakeholders (Solomon, 2020). On the one hand, corporate governance in financial markets is precisely defined as a mechanism that protects and maximizes shareholder value (Solomon, 2020). On the other hand, CSR is recognized as a management tool by which business firms can integrate social and environmental issues into their business operations and interactions with their stakeholders. Thus, CSR is commonly seen as being the way through which a business firm can achieve a balance of economic, social, and environmental responsibilities (i.e., the 3Ps approach: Profit, People & Planet) (Carrol, 2016).

Consequently, the integration of the two managerial mechanisms together into the corporate CSR/sustainability governance mechanism will help the boardroom directors to achieve the shareholders' interests without compromising the ability to meet the expectations of other non-shareholder stakeholders, including customers, suppliers, employees, communities, governments, civil society, and the environment (see, for more details, Carrol, 2016; Eliwa et al., 2021; Moussa et al., 2022). Otherwise, the non-shareholder stakeholders of a business firm are not willing to unreceptively accept the boardroom's decisions, particularly when their expectations and interests clash with the expectations and interests of the shareholders (Solomon, 2020). The CSR/sustainability governance mechanism will facilitate the integration of business objectives and operations by which the interests of all stakeholders, including shareholders, customers, suppliers, employees, communities, governments, civil society, and the environment, are reflected in the firm's policies, strategy, and actions (Helfaya & Moussa, 2017).

Over the last few decades, CSR/sustainability governance activities have become an essential investment for firms to maintain their social and environmental license and create value on a wide scale (Eliwa et al., 2021; Global Reporting Initiative [GRI], 2021; Moussa et al., 2022). Of course, this growing importance of corporate CSR/sustainability governance practices has raised fundamental questions in financial markets: Does CSR/sustainability governance practice enhance shareholder value or stakeholders' value? Is it a managerial mechanism the boardroom's directors can use to build their own empires or meet stakeholders' expectations? Is it a way to achieve the firm's objectives and renew its license to operate? or Is it a greenwashing tool to purify the firm's poor performance in the public eye? etc.

To answer these questions, business firms need to use a CSR reporting mechanism to communicate their business policies, strategies, objectives, efforts, and outcomes to both internal and external stakeholders via CSR reports (Helfaya & Moussa, 2017). In the last three decades, CSR reporting practice has enhanced into the mainstream business practice on a voluntary base. The CSR reporters (i.e., companies) adopted this voluntary CSR reporting practice to discharge their accountability and transparency to stakeholders (Helfaya & Kotb, 2016; GRI, 2021). Nowadays, reporting on CSR/sustainability activities is driven by growing regulation and demands from shareholders, investors, environmental activists, and civil society who are increasingly interested in the connectivity between corporate CSR/sustainability governance factors and both firm value and performance (Eliwa et al., 2021; Moussa et al., 2022).

*Practical challenges:* In the last few decades, both corporate governance and CSR/sustainability reporting mechanisms have faced some critical practical challenges. For example:

– As more companies are following different corporate governance models, codes, and regulations, they are witnessing diversity in their governance practices. This will affect the overall quality of governance practice and the way of creating value for both shareholders and non-shareholder stakeholders.

– As CSR/sustainability is a voluntary-based practice in many countries, the reporters have a limited understanding of the scope of CSR disclosure, and of course, this will affect the content of CSR reports.

– The existence of non-mandatory and multiple CSR/sustainability reporting frameworks/ guidelines (e.g., GRI, ISO, DEFRA, AA1000 APS) badly affects the usefulness of these reports, and therefore, many companies to started to use these reports as a "greenwashing" tool to manage the perceptions of their readers.

– The target audience (i.e., potential users/readers of CSR reports) is another challenge for reporters to meet the different expectations of their diverse target audience (i.e., stakeholders).

– The confusion of reporting cycles, given the lack of mandatory reporting, especially in the era of integrated reporting and digitalization of corporate reporting.

– Reporting on companies' commitment to meet national and global sustainability targets such as: fighting climate change, advancing social justice, and adopting sustainable development goals.

*Future directions:* The future holds exciting prospects for corporate CSR/sustainability governance mechanisms. For example, today's CSR/sustainability governance trends and innovations suggest that implementing this mechanism will help the boardrooms directors to know how to lead their companies to achieve long-term success and engage with their communities (i.e., the corporate management will make decisions in the best interests of the stakeholders). Therefore, the future directions of corporate CSR/sustainability governance include:

– Harmonising (convergence of) the different corporate governance codes to set a generally accepted corporate governance code to be applied by all companies across the world (Solomon, 2020).

– In the new business normal, both regulators and standard setters should deal with COVID-19 and future similar epidemics as a new systematic risk facing business companies, investors, and society at large.

– New corporate governance codes should focus on embedding the integrating reporting and UN sustainable development goals into corporate business models and help firms to integrate social, environmental, and financial pillars into corporate strategy and risk management systems.

– The boardroom's characteristics (e.g., female directors, boardroom independence, executive compensation, and the existence of a CSR committee) should be reviewed to cope with the new business environment. For example, setting a quota for female directors in the boardroom, senior leadership team, etc.

– Convergence of CSR/sustainability reporting standards and frameworks. As seen in the last few years, there has been a substantial increase in sustainability reporting regulations issued by government bodies around the world such as International Financial Reporting Standards (IFRS) Foundation, the U.S. Securities and Exchange Commission (SEC), the European Financial Reporting Advisory Group (EFRAG), the UK mandatory Taskforce on Climate-related Financial Disclosures (TCFD), and the more recent additions is the China Securities Regulatory Commission (CSRC), which has introduced mandatory broad ESG disclosures for all listed companies and bond issuers in 2020. By 2030 firms can expect that they will be reporting based on dominant, widely accepted global sustainability standards (Abela, 2022; Adams & Mueller, 2022; Giner & Luque-Vilchez, 2022).

– Integrated reporting (IR) — the one report — is another new direction all corporate reports need to consider as the main document of reference for all company stakeholders, compared to the traditional annual report for shareholders only. This IR will enhance the firm's ability to create financial and non-financial values on a wide scale and to present the connectivity between CSR and financial information. Of course, this new reporting fashion is still new and has its challenges (de Villiers, Rinaldi, & Unerman, 2014; Hossain, Bose, & Shamsuddin, 2022).

– The target audience of CSR reporting. As expected by 2030, CSR reporting will be mandated and all companies will be required to present their commitment to engage with all stakeholders, meet their expectations, and respond to the concerns they raised. So, a good CSR reporter should start with a clear definition of who the target audience are, understand what matters to them, and then decide what to report, how, and where (considering the fact that "A one-size-fits-all tactic" simply can't meet the different needs of different stakeholders).

– Corporate digital reporting. Due to the advanced technology and digital competencies, corporate reporters can benefit from this to improve the quality of both content and layout of their CSR reports. Digitalization can play an important role in presenting and analyzing CSR performance data. During the next few years, all corporate reporters (not just big and multinational companies) can expect that their financial and non-financial reports should be available in multiple digital formats (e.g., XBRL) to meet the needs of different users (Almeida, Pérez-López, & Abreu, 2022; Cho, Kajüter, & Stacchezzini, 2022; Andrew & Baker, 2020).

The above future directions of corporate CSR/sustainability governance are avenues for future research. Accordingly, corporate governance and organizational behaviour researchers are encouraged to investigate them to cover the gaps in the existing literature on corporate CSR/sustainability governance. This, of course, will affect the corporate directors' and decisions makers' behaviours and preferences of making rational judgments and taking decisions under uncertain conditions and turbulent times (e.g., financial crises, corporate scandals, business collapse, outbreak of dangerous diseases, and natural disasters, new national and global targets for tackling climate change problems, adopting sustainable development goals, etc.).

Finally, we hope that the readers of the journal of *Corporate Governance and Organisational Behaviour Review* will find this issue worth reading.

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