# EDITORIAL: Innovation and sustainability in the corporate governance framework

*Dear readers!*

The recent issue of the journal *Corporate Ownership and Control* highlights a variety of important topics explored by scholars from many countries in the world.

Previous research has increasingly highlighted the strategic importance of innovation in driving value creation and securing competitive advantage for businesses, particularly small and medium-sized enterprises (SMEs) (Bustinza et al., 2019; Hoskisson et al., 2002; Crossan & Apaydin, 2010; Teece et al., 2016). SMEs, which represent the bulk of businesses globally (Barroso-Castro et al., 2022; Ejdemo & Örtqvist, 2020), face unique challenges and opportunities in fostering innovation. The processes through which innovation is achieved are complex and influenced by multiple factors, with the board of directors (BoD) playing a crucial role in this context (Baum et al., 2022; Srinivasan et al., 2018). Particularly in SMEs, the BoD serves as a strategic resource, essential for navigating the competitive landscape and achieving sustained growth (Arzubiaga et al., 2018; Puthusserry et al., 2021).

The impact of the BoD on innovation extends beyond its composition to include various board-related processes (Forbes & Milliken, 1999; Pugliese et al., 2015). While traditional research has focused heavily on board structure, recent studies emphasize the significance of board dynamics and interactions in driving organizational performance and innovation (Johnson et al., 1996; Pearce & Patel, 2018; Kurzhals et al., 2020). However, understanding these processes fully remains challenging due to issues of confidentiality and limited access to comprehensive data (Klarner et al., 2020; Leblanc & Schwartz, 2007). Future research is likely to continue exploring these dimensions to better capture the nuanced ways in which BoD processes influence innovation outcomes.

The global financial landscape has been punctuated by multiple crises, such as the global financial crisis of 2008, which have exposed the vulnerability of stock markets to external shocks and investor overreactions (Lim et al., 2008; Luchtenberg & Vu, 2015). These events, along with the unprecedented impact of the COVID-19 pandemic, have underscored the necessity for robust risk management strategies and heightened investor focus on environmental, social, and governance (ESG) performance (Chen et al., 2023). Companies that demonstrated strong corporate social responsibility (CSR) during the pandemic were notably more resilient, emphasizing the importance of integrating ESG factors into business strategies (Ding et al., 2021; Engelhardt et al., 2021).

In response to these financial and environmental challenges, there has been a significant shift in corporate governance practices towards greater consideration of ESG factors. Initiatives like the European Green Deal and China's "dual carbon" goals, which aim for peak carbon emissions and carbon neutrality, reflect this growing awareness (Principale & Pizzi, 2023). Investors are increasingly valuing non-financial metrics such as ESG ratings, which provide a more comprehensive view of a company's sustainability and growth prospects. These ratings help mitigate informational asymmetry, thereby facilitating better-informed investment decisions and enhancing the quality of corporate growth (Cappucci, 2018; Kotsantonis et al., 2016).

Moreover, legislative reforms following the 2008 financial crisis, such as Directive 2014/95/EU and Italy's non-financial reporting Decree-Law No. 254/2016, have sought to enhance transparency and accountability in corporate reporting (Principale & Pizzi, 2023; Venturelli et al., 2017; Antonicelli et al., 2021; Muserra et al., 2019; Grimaldi et al., 2020). These reforms aim to address challenges like information overload and greenwashing, where companies may manipulate ESG disclosures to present a more favorable image (Mahoney et al., 2013). By improving the quality of non-financial information, these regulations strive to align corporate practices with broader societal and environmental goals, thus enhancing overall corporate governance.

The relationship between ESG performance and earnings management has attracted considerable academic interest, although findings have been mixed (Bozzolan et al., 2015; Velayutham, 2018). While some studies suggest that robust ESG practices reduce the likelihood of earnings management, others find no significant impact or even a positive correlation (Gaynor et al., 2016; Borralho et al., 2022). This variability highlights the need for more granular research that considers different measurement methods and theoretical frameworks, as well as the specific contexts in which these relationships are examined.

Overall, the evolving landscape of corporate governance reflects a broader shift towards integrating financial and non-financial performance metrics. As the importance of ESG factors and innovation continues to grow, research will increasingly focus on how these elements influence corporate behavior, risk management, and long-term sustainability. This holistic approach aims to provide deeper insights into the mechanisms through which good governance practices can drive not only economic performance but also positive social and environmental outcomes.

Global research delves deeply into the interconnectedness of innovation, ESG performance, risk management, and earnings management within the context of corporate governance and other issues. Examining diverse corporate governance practices and their implications highlights how both innovation and ESG factors are becoming integral to investment decisions and corporate growth strategies. Innovation and ESG performance have become globally significant research topics over the past decade. Scholars worldwide contribute new findings related to national markets, enriching the collective understanding of how corporate governance practices can be optimized to improve performance, sustainability, and innovation.

We hope that readers will find the articles in this issue both enlightening and valuable, as they offer nuanced perspectives and practical recommendations for enhancing corporate governance and fostering innovation in varied organizational and cultural settings.

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