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EDITORIAL

Sustainability reporting and risk governance

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Over the last decade, corporate reporting has become more and more complex by integrating different layers of non-financial information. For instance, companies voluntarily amended their traditional financial reports by information on carbon emissions, waste reductions or occupational safety and local regulators increasingly require this kind of information. Many companies are also using additional sustainability reports or are posting such information on their web pages and social media accounts. Of course, the different information channels, content and requirements limit the comparability and overall informativeness of such reports. As stakeholders request credible disclosures on social and environmental aspects of business models to assess sustained development and corporate impact on society as a whole, the EU started an initiative to regulate sustainability reporting in 2014. However, the Directive 2014/95/EU on disclosure of non-financial and diversity information by certain large undertakings and groups provides rather general disclosure requirements than specific standards or indicators that companies should use for reporting purposes. Therefore, the European Commission issued on 21 April 2021 their proposed changes to strengthen the extent and nature of sustainability reporting over the next years. Private standard-setters such as the IASB are also investing in the development of standardized reporting frameworks for non-financial information (e.g. Becker et al. 2021) and, thus, meeting the market demand for an improved and more comparable sustainability reporting (e.g. Christensen et al. 2021).

Although various frameworks and reporting guidelines exist, sustainability reporting by itself is still not a clear-cut concept. While studies have documented market reactions to non-financial disclosure in general (e.g. Grewal et al. 2019),

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under both mandatory and voluntary reporting regimes, stakeholders are questioning the reliability and authenticity of sustainability reporting. There are various reasons for these shortcomings, such as issues with the recording and gathering of non-financial information that in practice (e.g. Niehues and Dutzi 2019) or dissenting reporting styles, management discretion, and limited assurance. Therefore, scholars of different disciplines have invested much effort to identify motives, drivers, and characteristics of corporate CSR activities and sustainability reporting. Moreover, researchers have started to develop measurement concepts to capture the extent and the quality of sustainability reporting. Hence, the literature is rich with evidence on the impact of CSR and sustainability reporting on performance (e.g. Downar et al. 2021; Pham and Tran 2020; Orlitzky et al. 2003), consumers' perceptions and reputation (e.g. Stanaland et al. 2011; Brammer and Millington 2005), or cost of capital (e.g. Dhaliwal et al. 2011; El Ghoul et al. 2011; Michaels and Grüning 2017). Although prior studies contributed much to our understanding of sustainability activities and reporting, it seems that we know relatively little about other conditions like firms' risk governance settings that could affect outcomes as well. Risk governance as a concept strives for proactive control throughout the entire company and is committed to the norms of good corporate governance (Stein and Wiedemann 2016). In that way, clear ethical signals with regard to risk-related sustainability could be sent to various kinds of stakeholders (e.g. Klinke and Renn 2010). The aims of risk governance include recognizing non-financial types of risk at an early stage and evaluating their impact on the company and its business model. Thus, a sound risk governance could possibly enhance the reliability and informativeness of corporate reporting by fostering a more sustainable organization. The special issue reflects this kind of associations and covers a wide range of topics in the research field of sustainability reporting and risk governance.

Boland et al. adopt an experimental design to examine whether charitable donations, as an example for popular CSR activities, have an impact on internal firm operations. More precisely, the authors investigate whether the presence and structure of such donations influences employees' excessive risk-taking behaviour. Therefore, the study stresses important links between incentive structures, employee empowerment and corporate outcomes in the field of CSR. The results of that experiment that involved 99 participants suggest that individual compensation plans that link project outcomes to donation programs are negatively related to excessive risk-taking. Interestingly, the findings are contrary to common practice, where charitable donation programs are tied to overall firm profitability. In respect thereof, Boland et al. provide relevant insights as there could be an optimal level of employee empowerment in CSR activities, which is beneficial for firms and the society. Furthermore, risk governance can help to increase risk awareness throughout the organization, making it easier to realize sustainability-driven business strategies in practice.

The paper by Neitzert & Petras has a different focus and analyses the impact of certain CSR activities on bank risk. Based on prior research about the relationship between CSR and firm risk (e.g. Gramlich and Finster 2013), the authors question whether the concept of sustainable banking reduces bank risk as well. Their empirical-archival study addresses a research field that is an integral part of the European green deal and could help to better understand what kind of CSR activity

mitigates risk. Neitzert and Petras use a worldwide sample of 582 banks and run a panel regression over the period from 2002 to 2018. Their results suggest that a higher alignment with CSR measured with Thomson Reuters ESG scores is negatively related to bank risk. Interestingly, this negative relationship seems to be most significant for environmental activities whereas social and governance activities do not show similarly unambiguous results. Hence, this study implies a need to examine further the interaction of CSR and bank risk with respect to CSR motives.

In this regard, Lopatta et al. explore the relationship between sustainability and firm risk more deeply. Their empirical-archival study aims to explain the interaction between sustainability performance, sustainability reporting, and CEOs' reporting style and their joint relationship with a firm's cost of capital. Understanding the impact of CEOs' reporting style is crucial (e.g. Bochkay et al. 2019). Therefore, the study contributes to the literature in several ways. Most important and based on 7149 company-year observations, the findings of a CEO fixed effects estimation model indicate that investors recognize the specific style of a CEO as signaling the true motives behind corporate engagement in sustainability in their evaluation of future perspectives and risks. In more detail, the study shows that improved sustainability performance is associated with increased cost of equity when a, potentially self-interested, CEO exerts a strong personal influence on sustainability reporting. In contrast, the cost of equity declines if a CEO's influence on the reporting of improved sustainability performance is low.

Gleißner et al. conjecture that financial sustainability is underrepresented in both research on and practice of sustainability management and reporting. Although the necessity of financial sustainability for private corporations is obvious, the approaches to measure financial sustainability are rarely examined in prior literature (e.g. Zabolotnyy and Wasilewski 2019). Therefore, the authors refine the measurement concept of financial sustainability as one of the three pillars of the triple bottom line approach (people, planet and profit) and empirically test the validity of this new measure. Gleißner et al. propose that four conditions (1) profit growth rate, (2) the company's ability to survive, (3) an acceptable overall amount of earnings risk exposure to owners, and (4) an attractive earnings risk profile can capture the long-term financial success of companies. Their results indicate that the proposed measurement concept is linked to excess market returns, making it a helpful control parameter for risk and sustainability management.

Finally, Gerwing et al. examine associations between sustainability reporting quality and several corporate governance mechanisms. Based on a thorough content analysis of 220 reports of German firms, they construct a novel sustainability reporting quality score. As the authors rely on the first year of mandatory sustainability reporting according to the European CSR Directive (2014/95/EU), the scoring model tries to capture the reporting quality for mandatory CSR reports (MSRQ). The results of the study suggest an important role of certain governance settings in ensuring high MSRQ, which they call sustainable corporate governance (SCG) mechanisms. For this reason, Gerwing et al. propose further research about the impact of certain SCG mechanisms and the consequences of MSRQ on reporting firms and their stakeholders.

All five papers address the different aspects of sustainability reporting, management and risk governance settings. Although, the results provide several theoretical and practical implications many questions about the relationship between sustainability reporting and risk governance are still not answered.

In this vein, we hope that the special issue encourages further research in the field. We would also like to thank all authors and reviewers for their contributions to this special issue.

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