Guest editorial: Sustainability reporting in different institutional and regulatory environments

1. Introduction

As sustainability reporting has increased, countries worldwide have launched reforms to enhance the quality of sustainability reporting. These actions have come in response to bankruptcies caused by the financial crisis. A number of countries have instituted laws mandating the disclosure of sustainability information because they recognize the importance of this information to all stakeholders. However, while sustainability reporting is required and regulated in some countries, it is voluntary and unregulated in others (Junior *et al.*, 2014). Thus, it can be seen that the concept of environmental, social and governance (ESG) disclosure has become a subject of intense focus in the corporate world. Numerous empirical studies have investigated the relationship between a firm's ESG disclosure and its financial performance. Despite this, many researchers claim that the results of this research are ambiguous, inconclusive or contradictory (Brooks and Oikonomou, 2018). On the one hand, many researchers have found a significant positive relationship between ESG integration and firm performance (Deng and Cheng, 2019; Aouadi and Marsat, 2018; Zhao *et al.*, 2018; Velte, 2017; Lins *et al.*, 2017). On the other hand, other scholars have identified a negative relationship (Duque-Grisales and Aguilera-Caracuel, 2019; Landi and Sciarelli, 2019; Buallay and Alhalwachi, 2022; Buallay, 2020; Mokadem and Muwafak, 2021; Awwad and El Khoury, 2021) or an insignificant relationship (Atan *et al.*, 2018) between the two. Benlemlih and Bitar (2018) state that sustainability reporting and its effect on firm performance vary with the institutional and regulatory setting. Beside this, Brooks and Oikonomou (2018) state that earlier studies are unable to confirm the relationship between sustainability reporting and firm performance, and there is still much to study about this relationship. For that reason, this special issue aims to address this gap by highlighting SR in multi-country setting (i.e. institutional and regulatory disclosure environments) and the opportunities and challenges of SR from institutional, environmental and social perspectives. This can be achieved by examining the influence of formal institutions (e.g. laws and regulations, tertiary education and firm-level technology absorption) and informal institutions (e.g. culture and social norms) on the development of different types of SR activities in different institutional and regulatory economies.

This special issue is expected to have a theoretical and practical contribution in the field of sustainability reporting. The rest of the editorial is organized as the following: Section 2 part is concerned with the literature review in addition to discussing the 10 articles that were accepted in this special issue. Section 3 is concerned with conclusions and future studies.

2. Lecturer and special issue review

The sustainability reports expansion of the disclosure by firms is driven by many factors, such as stakeholder pressure (del Mar Alonso-Almeida *et al.*, 2014), firm value creation (Hughen *et al.*, 2014) and government regulation (Buallay *et al.*, 2022; Perego *et al.*, 2016). However, the main challenge in disclosing sustainability information is governing the disclosure of the three sustainability dimensions (economic, environmental and social). Another challenge to disclosing sustainability reports is the lack of mandatory disclosure

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laws, which exposes a gap between what firms do and what is disclosed (Clarkson *et al.*, 2011; Al Amosh and Khatib, 2022). The two challenges are interrelated. Today, government regulation plays an important role in the disclosure of sustainability reports. Laws mandating sustainability reports mitigate debates about the credibility of these reports (Buallay *et al.*, 2021; Birkey *et al.*, 2016; Dhaliwal *et al.*, 2014; Ruhnke and Gabriel, 2013). Issues with sustainability reporting are confirmed by many authors (Birkey *et al.*, 2016). They have argued that unregulated and voluntary disclosure of sustainability is a core challenge to the stakeholders, as they cannot determine whether the sustainability information is complete and credible, as recommended by the GRI (2016). As sustainability reporting grows worldwide, there is a need for laws to regulate these disclosures (Cohen and Simnett, 2015). However, there are many countries that have no laws with regard to sustainability disclosure. A country's lack of sustainability reporting laws opens the door for doubt about the value of sustainability reporting, as it is not restricted by governmental oversight (Gürtürk and Hahn, 2016). In traditional financial reporting, past researchers found that disclosure laws have a positive impact on firm value. La Porta *et al.* (2000) argued that mandatory disclosure increases firm value by improving return on assets. However, other researchers have found negative impacts of mandatory disclosure on firm value due to increases in costs. The impact of sustainability disclosure regulations on firm value is not clear and is complicated by the fact that the audience for sustainability disclosures is not only shareholders but also other stakeholders such as employees, suppliers and governments. On the one hand, past literature has found that the availability of more ESG information leads to more efficient operations (Schlenker and Scorse, 2012; Sisaye, 2021, 2022; Alhawaj *et al.*, 2022; Al Hawaj and Buallay, 2022). Thus, disclosure regulations may be forcing firms to adopt many practices that decrease the environmental and social effects of their operations. Sustainability disclosure laws may reveal the commitment of the firms to sustainability to various parties (government, employees and society). On the other hand, ESG disclosure laws may reduce firm value by bringing additional costs. Forcing firms to increase sustainability disclosure through laws increases the demands from other stakeholders to expand social and environmental practices. For example, civil organizations might demand the purchase of more costly machines to ensure that these machines will not have a negative impact on employees. Therefore, and according to both arguments, this study investigates the relationship between the level of sustainability reporting and firms' performance (operational, financial and market) in mandatory sustainability reporting law countries.

The purpose of the first study in this special issue is to aim to investigate the ESG determinants in the banking sector of the Middle East and North African countries using data for 38 listed banks for the period 2011–2019. Results indicate that banks' ESG scores are negatively affected by performance and positively affected by size. The level of economic development exerts a negative impact on the environmental pillar, whereas social development exerts a positive impact on ESG and governance pillar. Corruption is the only country-level that gathers a homogenous effect on ESG scores. Finally, the three pillars follow heterogeneous patterns (El Khoury *et al.*, 2022a). Kassamany *et al.* (2022) study examined the relationship between risk disclosure practices on stock return volatility, market liquidity and financial performance for insurance companies in the UK and Canada. The results indicated that the compulsory risk disclosure practices positively affect the volatility of stock returns for insurance companies in the UK, but not for Canadian companies. In the same context, Eldaia *et al.* (2022) study found that governance and the efficiency of the board of directors affect the performance of Malaysian companies. The study of Al-Ajmi *et al.* (2022), which included two parts. The first is to study the impact of

environmental disclosure on the performance of banks, and the second is to investigate the moderate role of the country's economic activities and institutional quality in the relationship between environmental disclosure of activities and the operational, financial and market performance. The study sample included 246 banks from emerging markets during the period 2008–2020. This study reached many results, the most important of which is that it revealed a negative relationship between environmental disclosure and the performance of banks, lending credence to the agency and neoclassical theories. Almansour *et al.* (2022) investigate the dynamic return volatility connectedness among S&P, Dow Jones (DJ) sustainability indices and their conventional counterparts. The results show that there is a high degree of correlation between the S&P and DJ indices and their relative sustainability indexes over the entire sample (December 1, 2012 to December 8, 2021) before and during the Covid-19 pandemic. Krasodomska *et al.* (2022) study aims to identify changes in the share of large Public Interest Entities in European Union member states that submit Sustainable Development Goals (SDG) reports and the factors that influence their decisions to submit SDG reports. The results of the study showed that there is a significant positive change in the share of companies providing reference to the SDG in 2019 compared with 2017.

Awwad *et al.* (2022) study investigates whether there is a relationship between women's presence on boards of directors and companies' financial performance and corporate social responsibility (CSR) disclosure and, if so, whether this relationship is positive, negative or neutral. The presence of women on the board of directors positively affects a company's financial performance and disclosure of CSR. However, measuring the CSR disclosure sub-components separately shows a decrease in the disclosure index toward both the environment and employees. Moreover, the level of female representation on the boards of directors of the Palestinian companies studied is generally low; the results supported by the second paper results as the developed sustainability index is a valid proxy for sustainability measures and directly relates to stock performance. Besides, the evidence indicates that non-FinTech companies display superior sustainability and stock performance compared to FinTech companies. The present results corroborate with stakeholder theory, which implies that quality sustainability performance will alleviate the agency issue and safeguard the shareholders' interest (Najaf *et al.*, 2022). The relationship between managerial characteristics and CSR was investigated in the study of Theiri and Alareeni (2022), which found a positive relationship between managerial characteristics and CSR under certain financial constraints related to the size and indebtedness level. The aim of the El Khoury *et al.* (2022b) study 2022 was to test the impact of ESG on the performance of the health-care industry. This study used a sample of 912 companies operating in 38 different countries during the period from 2012 to 2020. The results of this study indicated that countries with different levels of disclosure show different patterns. It was also shown that the environmental pillar has an impact on the return on assets. Sharma *et al.* (2022) study aims to assess consumer behavior toward adopting sustainable practices in hotels. Consumer satisfaction has been found to have a moderating effect on the relationship between consumer attitude and willingness to pay a premium price. Finally, CSR disclosure, it is positively and statistically associated with firm value proxied by Tobin's Q. In addition, it is positively and statistically associated with firm financial performance proxied by ROE and ROA based on the last article by Alshurafat *et al.* (2022) in the current special issue.

3. Concluding remarks and future research

There is a huge debate in ESG disclosure research about whether sustainability reporting enhances firm performance. These studies are mostly based on either stakeholder theory,

legitimacy theory or a combination of both theories. The uniqueness of this special issue is that we have multiple political economy environments and it fills a gap given the increase in awareness about the importance of sustainability reporting in developing and developed markets. Future research could use mixed research methods (quantitative and qualitative). Supporting the analysis of secondary data with some primary sources, such as interviews with firms' managers, might allow for a better understanding of motivations behind the sustainability practices. It would be interesting for future research to distinguish between the effects of ESG information disclosed in stand-alone reports and in integrated reports on firm performance. Finally, a fruitful avenue for further research would be to investigate the changes in the demand for and the amount of sustainability reporting being produced over time.

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