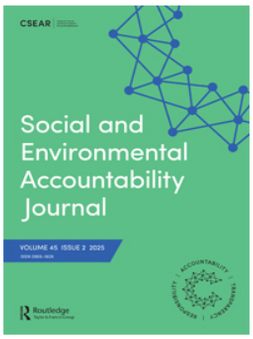
Corruption, accounting and consequences for financial institutions: a view from inside



Routledge
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Social and Environmental Accountability Journal

ISSN: 0969-160X (Print) 2156-2245 (Online) Journal homepage: www.tandfonline.com/journals/reaj20

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To cite this article: Christoph Frederic Biehl (20 Nov 2025): Corruption, Accounting and Consequences for Financial Institutions: A View from Inside, Social and Environmental Accountability Journal, DOI: 10.1080/0969160X.2025.2585890

To link to this article: https://doi.org/10.1080/0969160X.2025.2585890

Published online: 20 Nov 2025.

SOCIAL AND ENVIRONMENTAL ACCOUNTABILITY JOURNAL
https://doi.org/10.1080/0969160X.2025.2585890

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Corruption, Accounting and Consequences for Financial Institutions: A View from Inside

Christoph Frederic Biehl

ICMA Centre, Henley Business School, University of Reading, Reading, UK

ABSTRACT

Why do accounting researchers assume that financial institutions and investors care about accounting disclosures, voluntary or mandatory? Why do they assume that employees of financial institutions will choose to act as quasi-enforcers of regulators or standard setters? And who are these homogenous financial institutions and investors, and their model employees? A common argument is that changing sustainability disclosure standards are driven by demands from the mythical investor [Young, J. 2006. Making up users. *Accounting, Organizations and Society* 31, no. 6: 579–600] or more vaguely by the '*capital markets*'. These ambiguous, powerful but underspecified accounting users appear to be constantly searching for value-relevant disclosures, happy to enforce any disclosure changes that will enable them to make more sustainable decisions, which in turn will change the behaviour of the managers in the companies they hold power over, whilst disregarding the impact on the bottom line that building up or extending disclosures has. The power of financial institutions comes in many forms, and while they undoubtedly have this power, what is it that makes us assume they are able and incentivised to use this power to make the world a more sustainable place? And who specifically are *they*?

ARTICLE HISTORY
Received 31 October 2025
Accepted 2 November 2025

KEYWORDS
Financial industry; ESG; sustainability accounting; sustainability disclosure; accountability disclosure

An economist walks into a supermarket that stocks two products, product A and product B.

When academic assumptions meet reality.

Why do accounting researchers assume that financial institutions and investors care about accounting disclosures, voluntary or mandatory? Why do they assume that employees of financial institutions will choose to act as quasi-enforcers of regulators or standard setters? And who are these homogenous financial institutions and investors, and their model employees? A common argument is that changing sustainability disclosure standards, e.g. by IASSB, EFRAG and CSRD, are driven by demands from the mythical investor (Young 2006) or more vaguely by the 'capital markets'. These ambiguous, powerful but underspecified accounting users appear to be constantly searching for value-relevant

CONTACT Christoph Frederic Biehl chris@cfbiehl.com ICMA Centre, Henley Business School, University of Reading, Whiteknights Reading, Berkshire, RG6 6UR, UK

disclosures, happy to enforce any disclosure changes that will enable them to make more sustainable decisions, which in turn will change the behaviour of the managers in the companies they hold power over, whilst disregarding the impact on the bottom line that building up or extending disclosures has. The power of financial institutions comes in many forms, such as position reduction up to asset disposal, voting rights, asset ownership rights, board positions, loan covenants, interest rate variations, foreclosure, securities, withholding of future funds or investor activism. While *they* undoubtedly have this power, what is it that makes us assume *they* are able and incentivised to use this power to make the world a more sustainable place? And who specifically are *they*?

One of the core themes of this commentary is the importance of understanding the assumptions made by researchers. To achieve this, the first step is making explicit any underlying theories of how change happens, i.e. for researchers to make their assumptions explicit when evaluating current, past or future accounting reforms, particularly in how they evaluate the possible impact of any 'new-improved' disclosures. These evaluations are heavily dependent on a chain of assumed behavioural dynamics based on theories of institutional logics, which, in my experience, are at best partially representative of practice and, in the worst case, unable to capture the reality on the ground, leading to a perpetuation of the problematic, unsustainable actions the changed requirement was intended to resolve. In this regard, I would like to illustrate these concerns with how ESG data is used in the context of corruption disclosures from the perspective of those inside financial organisations. This is a personal reflection from a career that has included periods within academia and within several high-profile financial institutions.

For a long time, the sustainable investment sector has faced challenges that are by no means unique: a disconnect between academia and industry, compounded by a disconnect between sustainable investors and mainstream investors, and even more granular sustainability teams and investment teams. Academics researching sustainable investment (including the impact of sustainability disclosures on investor behaviours) do not speak the same language as the people employed to implement sustainable investment strategies in the financial industry. This communicative disconnect leads to problematic theoretical assumptions on what data investment professionals need, how they might use this data, the decision processes or protocols they apply, how any analysed data is interpreted and contextualised, how it might change decisions within financial institutions and perhaps a bigger leap of faith, how those working in unsustainable businesses will respond to the decisions or signals from financial institutions, mediated through the capital markets. At the risk of giving away the ending, the dominant theoretical assumptions of researchers, and underlying research methodologies, are by far too simplified and deterministic to provide a compelling evaluation of the impact of disclosure changes. Note this criticism also applies to accounting standard setters who rely on similar theoretical assumptions in the design of these 'new-improved' disclosures (see also Young 2006)

In the beginning

In 2010, one of my first part-time jobs in sustainable investing was as a consultant to the PRI (United Nations supported Principles of Responsible Investment). As the PRI Academic Knowledge Manager, my role was to foster the exchange between academia and the financial industry. I was employed as a stockkeeper of research deemed useful for the

financial industry and a translator between these two very different worlds, who on the surface shared a common language, but sharp divides emerged during conversations, especially when diving deep into details. This was an example of George Bernard Shaw's observation of Britain and America as two countries divided by a common language!

I was and still am passionate about bridging the divide, as I consider effective communication between academics and industry professionals a key driver of progress. In addition to the PRI academic-industry translation work, I also co-organised the MSCI[1] ESG Leadership Fora (2012, 2013), which brought together a broad range of actors impacting on and impacted by responsible investment. These fora attempted to understand the gaps and then bridge those gaps between stakeholders, and it soon became evident that there was even more translation work needed to interpret not only the languages of the different stakeholders but also the different underlying assumptions to enable a constructive dialogue as a precursor for collaborative action. My experience back then was of a disparate, fragmented set of actors working and interacting according to different logics and competing objectives, occasionally aligning in moments of need, but rather by accident than design, interpreting parts of each other's work based on their own assumptions and context. This was very different from the conceptual simplicity of modern portfolio theory, efficient market hypothesis, principal agent modelling, rational economic humans or legitimacy theory. This is not to say one world was better or worse, just as it is very difficult to argue that German poetry is a better than Japanese poetry, or English poetry, but we can agree they are definitely different languages and follow different assumptions on how a sonnet should be structured. Even if nicely translated into English, a Rilke[2] sonnet would sound strange to the Shakespearean ear. And if it was changed to match the rhyme scheme of a Shakespearean sonnet, it would lose parts of its original context and intended meaning.

So now, after more than a decade, a period which personally involved working in academia and in the sustainable finance industry, where do we stand? Have these disconnects or communication gaps grown bigger, smaller, shifted in content or have these different actors maintained their implicit and potentially problematic assumptions about each other, themselves, and the concepts we are working with on a daily basis. The investment industry, regulators and academic researchers continue to be characterised by a significant disconnect, a lack of constructive knowledge sharing and little evidence of co-production of new techniques, models or theories of change.

For example, academic research has become more sophisticated, moving away from trying to find 'alpha[3]' in ESG to trying to understand the systemic interconnections at play in the market. It is beyond the scope of this commentary to discuss all these modelling innovations, pricing mechanisms and attempts at theory building given the explosion of this field over the last decade, including attempts to model sustainability performance. The salient point is that in the mainstream and sustainability financial industry, these developments have mainly gone unnoticed, with a focus on business as usual. The focus in financial institutions remains fixated on short-term financial incentives driven by short-term financial performance or fund inflows, despite apparent claims of 'new-improved' models by researchers. In 2025, the question at the forefront of investment professionals remains – *does sustainability pay in the short-term*?

The answer to this question is a resounding 'it depends'. This is exactly the point where industry should actively foster collaborations with academia: in what cases does sustainability pay off and market effects will fix the underlying sustainability problem (short-term

focus), in what cases does the democratic process have to decide on a desirable outcome and implement regulation (long-term focus), and what cases will simply drop from the public gaze (deemed immaterial). It looks like the recent shift in populous political discourse is constructing an economic narrative that suggests sustainability or responsible business practices do not pay off in the short term.

A similar comment can be made of the critical accounting research community[4], even though it does directly investigate, produce evidence and comment on the pursuit of profit, power, politics and malign influence of corruption. This research does better represent the experiences, practices, processes – in short, the interconnected systems – that underpin quantitative business results compared to the mainstream finance and accounting research. However, typically, its traction on changing processes or the institutional logics that underpin these behaviours within the financial industry, the wider capital markets, and the real economy, is as limited as the traction of the aforementioned quantitative researchers. While primary academic research is relatively rare within the workings of the financial sector, problems tend to surface in a public way if implicit assumptions do not hold and if the interconnected systems do not function as expected. This usually happens through court cases[5], government investigations[6], NGOs reports[7], non-fictional books (e.g. Lewis 2011; Stevenson 2025; Davies 2024; Bernstein 2019; Bullough 2019; Obermayer and Obermaier 2017) that clearly document the intentional, or unintentional, irrational, criminal or corrupt practices, that challenge the assumed behaviour and response of actors in business, regulators, and the capital markets. The knowledge is out there, but where and how are the lessons learned? Has critical accounting contributed to understanding what were the implicit assumptions that failed, or where the interconnected systems at play stopped working? Or did we see a case of the blame game, based on researchers' own implicit assumptions? Looking at the outcomes, it does not seem that understanding flawed assumptions that result in scandals is making any significant or lasting impact to practice, policy or research. The question that is posed to the readers of this Special Issue is how can we bridge this growing disconnect in a way that can appropriately account for and challenge the unsustainable behaviours in business, which the financial sector is assumed to have the power, willingness, and incentive to govern.

Most people agree that bribery, corruption and exerting undemocratic influence of government are wrong. This is why I am using corruption data as an example to discuss the workings of the financial sector when it comes to SEA disclosures. But do most people agree that the voluntary or mandatory disclosure of the anti-corruption policy and practices, including evidence of non-compliance and criminal convictions, will cause financial institutions to convince those in business not to act corruptly? There is no doubt that financial institutions have the power to sanction, punish or reward, and this assumption is at the core of the theories underpinning accounting standard setters, often explicitly stated as their main theory of change. This commentary is challenging the misunderstanding that, first, financial institutions will respond in the anticipated manner as predicted by the theoretical foundation of sustainability standard setters, and second, that the impact of this behaviour will pass through a complex chain of behaviours in different institutions in different parts of the world to eliminate bribery, corruption and undemocratic influence. This raises the provocation that does changing accounting disclosures increase or reduce the power of capital markets in the governing of businesses? Or does it maybe not make any difference at all?

My experience suggests that it is important to identify what is fuelling these misunderstandings: often false, problematic assumptions, which are mostly implicit or tacit. Looking back at my time in academia and in the financial industry, it is clear that the assumptions that research is built on, do not withstand the test of reality, and on the other hand there seems to be a lack of understanding in the financial industry on how much their implicit assumptions determine how academic research is evaluated, interpreted, interacted with or ignored. This holds true even for high-quality research in social and environmental accounting. Journal rankings and peer-review processes do not moderate the use of research findings outside of academic circles.

Assumptions of Academia about the Financial Industry

Assumption One: Asset Owners Are the Driving Force behind Meaningful Sustainability Integration

What is an investor? In academic research, often the institutional investors are seen as possessing the 'silver bullets' when it comes to sustainability. Asset owners, in general, and pension funds, specifically, with their long-term time horizon, are seen to have an affinity with sustainability. There are many examples supporting this claim, as well as regulation 'motivating' institutional investors. However, not all asset owners act in the same way. A larger asset owner can set up mandates with its asset managers, which provide a set of criteria that any asset in its portfolio must comply with. This could include criteria on greenhouse gas emissions, net biodiversity loss, haram issues in the case of Islamic funds, ethics issues, type of products, absence of corruption or other factors. Sustainability factors, in general, only form a small subset of criteria in any mandate. It is important to keep in mind though, that establishing and maintaining a customised mandate is not cheap. Therefore, in reality, only large asset owners with a sufficient amount of assets under ownership have this option available to them. This, in turn, means that mid-sized and small asset owners, like most of the pension funds in the UK, rely on off-the-shelf products offered by asset managers, where they are one of many investors and therefore cannot customise the factors they want taken into account.

It is worth remembering that buying or selling an asset in the capital market needs a buyer and a seller, therefore if an asset owner, or their contracted asset managers, sell an asset because it does not meet their mandate, e.g. because a defined corruption factor was triggered, they need to find a buyer, someone whose decision-making is not influenced by the new disclosure. This could be someone who does not care about the disclosure, or someone who is unaware of the new disclosure. To the latter, different data providers pick up on disclosures at different points in time. Most investors rely on data providers to turn disclosure into a usable data source for investing. It is therefore easily possible that information asymmetries arise, especially between investors who have the means and willingness to spend on several data sources and the ones who do not. In reverse, we see the same effects if contracted asset managers[8], seek to buy assets, e.g. share or bonds, in a company that has a new anti-corruption policy, i.e. a positive corruption disclosure.

There are only so many assets that can be owned and each asset has an assemblage of attributes that determines the asset's value to an asset owner, or their contracted asset manager. It is only when the disclosure is turned into information that is processible by

the asset owner or their contracted asset manager, and this information about an attribute of a specific asset breaches the acceptability parameters, however those are defined, that the process to sell the asset starts. It is important to note that this is not an instantaneous process, i.e. there is always a grace period in which the search for an alternative asset takes place, or the information can be challenged in a committee.

It is worthwhile to explore some of the previously mentioned points in more detail, starting with the relationship between asset owners and asset managers. Asset owners are not involved in the day-to-day investment decisions, as those are generally outsourced to asset managers. This means that asset managers are tasked with the complex decisions of deciding whether disclosed information breaches their interpretation of what the asset owner considers acceptable. Asset managers are working under two parallel incentive structures that are not aligned in terms of time horizon: The financial performance is likely to be judged and rewarded on a short-term basis, for example, through quarterly financial performance metrics against a set benchmark index. The sustainability performance, including corruption, will only be assessed in a review, which, at best, is carried out once a year, unless it triggers the acceptibility parameters.

As briefly mentioned before, most asset owners and asset managers do not directly use corporate disclosures in their decision-making, especially when it comes to sustainability information. The information has to be delivered in a form that fits into systems that have evolved over time as part of the financial market logic. This means, in reality, this information needs to be delivered by data providers in a similar form as financial data. This explains why many institutional processes that try to evaluate the general sustainability performance of a company are likely to rely on ESG rating scores. The ESG data providers do integrate the corporate disclosures into their ESG rating, subject to their protocols and update intervals. Therefore, the input into asset owners and managers is an indirect translation of corporate disclosures mediated through a range of different, at times implicit, assumptions and rating processes depending on the data provider in question.

My experience suggests that these rating processes are perceived to be black boxes to asset owners and asset managers, and while subject to professional scepticism they are largely considered trusted numbers. However, this professional scepticism often does not extend to reading the hundreds of pages of assumptions and methodologies, underpinning the data creation processes. Therefore, the perception of rating processes as black boxes still dominates, although methodologies are increasingly being published due to recent regulation changes.[9]

Throughout my career, I have investigated a number of these rating processes, which are often either publicly disclosed[10] or shared by data providers with their clients. The key to understanding different ratings is to understand the underlying assumptions. It is to open the black boxes and to understand what assumptions align with the assumptions of any use case. For example, looking into questions of corruption, what standards are being applied to evaluate a company? Is it a global standard, a local standard, a regional standard or is it maybe the law of the land? It is not that any of those approaches is wrong, it is just that they provide us with different information, suitable for different use cases.

A challenge that remains is the underlying disclosure and how it is turned into the granular data points that are used to form specific ratings, e.g. a corruption rating, that make up the aggregated rating score. Even if the specific rating is based on sound assumptions and best available data, there is still a problem with how this score is

translated into investment decisions. Within the financial industry, there seems to be a lack of scepticism regarding the data providers' approach to transform partial disclosures, most of which are qualitative in nature and not subject to reasonable audit, into granular data points. These data points are perceived to provide quantitative, consistent and comparable data that can be input into decision processes, despite the small print of the raters cautioning against this interpretation.

Given this, will moving from voluntary to mandated corruption disclosures, such as proposed in CSRD and developed in ESRS G1, improve this situation? It is unlikely that we will see a change in the behaviour of the asset owners and asset managers, in the short-term, as they are working within the confines of the financial markets' logic. But if, over time, the data becomes meaningful, standardised and readily available, will the existing processes, with all their previously discussed complexities and challenges, yield better outcomes? There cannot be an assumption that asset owners and asset managers will automatically transform into the drivers of transformative sustainability action when the *right* disclosures are put in place.

Assumption Two – The Rational Interplay of the Logics of the Different Actors in Financial Institutions

We can add another level of complexity by introducing three relevant but conflicting logics that I experience on a daily basis. The financial markets logic, focusing on short-term outperformance (both organisational and individual), the risk logic and compliance logic. As a scholar who used institutional logics as the main theory in my thesis, I am conscious of the rather superficial use of logics in this commentary. The use of logic here is used to support a line of argument rather than to theorise careful gathered and analysed evidence.[11] The interplay of these three logics does however create an extra level of complexity in how disclosures translate or do not translate into a chain of actions, starting with asset owners and asset managers and finishing with the companies in the real economy. The astute amongst you will have noticed there is no sustainability logic in the above list. Sadly, that is because, in financial institutions, most investment decisions are dominated by the financial markets' logic, which has incorporated fragments from sustainability over the last years. Sustainability factors come into play mainly in decisions that require consideration of compliance logics and risk logics. But compliance and risk logics are often taken in account as secondary considerations to confirm or modify decisions, i.e. they only have saliency if they are so material so as to overturn decisions made predominantly using the financial markets logic. My experience suggests that corporate sustainability disclosures may have salience in some scenarios. It is difficult to prescribe all scenarios and as such, the following examples illustrate some of the dynamics that might come into play.

Scenario One – Misaligned Assets?

The disclosures mean that the asset is no longer aligned with the attributes associated with any fund or mandate. In this case, steps will be taken to dispose of it and replace it with an asset that better matches these attributes. Although there is a link between sustainability and the absence of bribery, corruption and undemocratic actions (Apostol 2022; Lauwo 2025), this does not mean that corruption necessarily forms part of the mandates that determine the nature of the assets held in a sustainable fund. Having said that,

corruption triggers are often employed as early-stage screening factors in sustainable and mainstream products, as they are perceived in the financial industry as a reputation risk management tool, not a sustainability tool.

The way it works is that alerts are based on signals that rely on data points from data providers based on ex-post incident information, e.g. newspaper articles. This sounds more complicated than it is: for example, a data provider will provide a colour-coded alert system – green, amber, red – the details of which are buried in the previously mentioned methodology documents. An investor can then set up an automated screening (pre-purchase) and control (post-purchase) system, i.e. flag any asset that shows a red signal on corruption. Given that these screens and controls need to work for all assets, we are talking tens of thousands of companies spread around the globe, it is not realistic to directly use company disclosures. The screening or control system relies on a standardised input available for all companies, which is normally provided by the data providers' traffic light alert system. The consequences of this are that most sustainability disclosures will be translated and interpreted in line with mainstream compliance and risk logics.

Scenario Two – Breached Risk Thresholds?

The disclosures mean that the risk of continuing ownership of a particular asset has breached the acceptable risk threshold of the institution or a particular fund or mandate. This simple statement disguises a complex set of judgements that determine the unacceptability of risk, which is broader in scope than compliance logic. Risk logic extends beyond compliance to include consideration of reputational risk, public perception and other business relationships. As mentioned before, there is a blurred area between certain business practices, proven corrupt practices and perceived acceptability. Investors, customers, business partners may decide to withdraw funds, reduce future business dealing or place new requirements on relationships based on disclosures that, whilst may not breaking the law, infringe on their values, norms or risk appetite.

In some cases, the suspicion of unacceptable behaviour breaching the value threshold is enough for the flow of funds to dry up for specific products or for boycotts of specific businesses to avoid risk contagion effects. One widely accepted example is involvement in controversial weapons, like cluster ammunition. Risk management in financial institutions is heavily influenced by risk-return trade-offs, see earlier discussion on alpha. Financial institutions are not a homogenous mass, and the risk appetite varies enormously between financial institutions, but also between products within the same financial institution. This also means that there are different levels of risk management, which is often not only evaluated at a single asset level but also at portfolio and institutional levels. This is why looking at it from the outside, risk management often appears to be a black box whose outcomes are very difficult to predict for academics trying to create a causal chain between disclosure and organisational change on the ground.

Scenario Three – Breaking the Law?

This includes situations where not acting on disclosures could breach regulations that prohibit providing services to businesses found to be acting corruptly. This in turn could result in a financial institution benefiting directly from proven criminal activities. Examples of this include KYC (know your customer) and AML (anti-money laundering) regulations. However, regulations do not necessarily apply to all operations within a

financial institution, for example, it may be considered unlawful to offer financial services to the owner of a particular company, but lawful to own shares in said company. The judgement of whether a business is 'corrupt' and therefore not suitable for 'ownership' is a legal minefield and likely to be subject to contrary opinions and contestation, especially as there will be several teams involved in such an evaluation, particularly if the stocks or bonds are still publicly traded.

These teams could include the client's relationship manager, onboarding, risk and legal, who collectively determine what is considered unacceptable corruption. Topics of discussion may include, if an employee in one country has been convicted of fraud, does that translate to guilt at the level of the company? Remember the outcome of these discussions will need to be translated into quantitative financial market logic, so the question becomes one of probability. This translation process, which gets started by the data provider when creating the corruption data point, involves consideration along the lines of how many employees have to be convicted how often for fraud, for it to be considered a corrupt business? And then adjusted for any mitigating circumstances since the event. For example, what if the company has now disclosed new policies on fraud prevention?

It is important to note that this is not a problem limited to financial institutions. Like most businesses, regulators and legal institutions, they are trying to classify and categorise the curveballs that reality throws at them. The evidential tests and enforcement for bribery, corruption and undue political influences vary from country to country. There is no clear set of criteria that objectively determines something to be corrupt (Lauwo 2025). For example, what is considered illegal in Germany may be considered acceptable in Central African Republic or not enforced in Niger Delta (Denedo et al. 2019). Where does responsibility lie if these corrupt acts were not disclosed or uncovered by the auditors, regulators or policing authorities. Examples of these corrupt business acts that remained undisclosed and hidden for decades include, tax evasion, money laundering for terrorist organisations, organised crime groups, or drug cartels (Bernstein 2019; Bullough 2019; Obermayer and Obermaier 2017). Is it reasonable to assume that asset owners cannot rely on audited disclosures or the absence of regulatory enforcement? Interestingly the frequency of fines, convictions and regulatory sanctioning in relation to financial crimes is likely to impact institutional risk appetite via the risk logic. This could result in a re-evaluation of the parameters in the corruption translation and therefore what are not appropriate organisations to do business with or assets to own.

Assumption Three – Disclosures Will Drive the Necessary Change in Behaviour

How likely is it that a corruption disclosure, for the sake of argument, assuming it is a full and accurate disclosure of the underlying behaviour, will drive the appropriate response within the financial system and how will that response impact on the behaviour of the managers in the real economy? The tools that are available to the financial sector are manifold: divestment, portfolio rebalancing, adjusting risk ratings with changed expectations of required returns, adjusting interest rates, using active ownership tools including engagement or voting at AGMs or a number of signalling tools. If any of these tools are deployed by one institution, it is expected that the rest of the capital market will react to these actions amplifying the potential impact.

However, a financial institution in general does not publicise the reasoning behind their decisions, or if it does, there will be a time-lag between action and accounting for that action. Any proprietary knowledge and decision models form part of the investors' intellectual property and their ability to outperform the market. So, for the causal chain from disclosure to company action to function, the rest of the market will need to interpret the observable actions of one institution and then act accordingly, which in turn will affect the risk-return profile of the assets under scrutiny.

Next, the managers of said businesses will have to decipher these financial signals and construct a link to their corruption disclosures. Inferring this link is not an easy or straightforward task, unless there is direct communication with a financial institution e.g. if they adopt an active ownership strategy. Let us now assume that the managers of the business have correctly understood the financial market signals message. Now they have to adjust their behaviour in line with the signalled concerns from specific financial institutions and the wider capital markets that led to the observable changes in their risk-return profile, i.e. stop or limit their 'corrupt' practices. The businesses will then disclose their new amended behaviour, policies or practices often with online voluntary disclosures and more formally in their next set of annual reports. It is normally following the annual reports, that these actions will be picked up by data providers during their regular updating cycle, turned into information and provided to financial institutions, and the whole complex dynamic begins again.

Meanwhile, in the world of academia, the accounting and finance researchers prepare to do their calculative alchemy and prove whether a change in disclosure regulations, evidenced by a sample of individual disclosure practices, but more likely by changes in ESG ratings, is in some way correlated to proxies of financial performance. By exploring statistical relationships between data provided by the companies, ESG data from data providers and capital market data, these researchers proclaim whether the change in disclosure was a good or bad thing. It is worth noting that like many in the financial industry, these researchers often do not open the lid of the black boxes that produce the data they use in their analysis. In my experience, researchers are less sceptical and more trusting of ESG data than finance professionals.

Assumption Four: Mandatory Disclosures Are More Effective than Voluntary?

Underpinning recent sustainability reporting changes is an assumption that mandated disclosures will improve the provision of the quality and quantity of data and therefore better align the actions of financial institutions with the intention of the standard setters in shepherding the behaviour of individual businesses. This commentary is not arguing against transparency or enhanced disclosures but rather revisiting standard setters' theory of change, particularly the roles of financial institutions and comparing them with my experiences from within financial institutions.

One important observation is that there is a narrative that financial institutions and related capital markets are largely responsible for changing the behaviour of firms and that past problems were the result of incomplete or inconsistent disclosures. There is strong support for the case that high-quality evidence through verified mandated disclosures can play an important role in making businesses more sustainable. But it is important to understand that making businesses sustainable is not the primary role of financial institutions. Financial institutions are expected to fulfil their role in the efficient allocation of

resources, whilst adhering to fiduciary duties. This allocative role does imply that sustainability disclosures will need to be acted upon if they are deemed material. Of course, materiality is currently a highly contested topic (Biehl, Thomson, and Travers 2020), and while it is an important conceptual link in the chain from disclosure to action, it is beyond the scope of this commentary to discuss in depth (Wang et al. 2025).

All too often, in the research field, the policing of the quality of disclosures is assumed to be the responsibility of financial institutions, in particular, from a sustainability perspective, the responsibility of long-term asset owners. Most of the research that suggests this policing of quality role relies on correlations between proxies for disclosures and proxies of financial performance. Concerns over the construct validity of these proxies have been discussed previously in this commentary, but what seems strange is that researchers (or standard setters) have very rarely considered what information or disclosures finance professionals would need to have this impact or looking at the barriers in wielding their powers. Hopefully, this commentary suggests that these assumptions are in need of an overhaul, as currently they are resulting in problems with research as well as policy and practices. There is a need to work together to bridge any gap to ensure that the actions of financial institutions can be aligned with a sustainable business transition.

Conclusion – Disclosure Is Necessary but Not Sufficient

The purpose of this commentary is not to argue against the mandated disclosure of evidence of corruption or against greater accountability on problematic business practices. Better evidence of corporate behaviour is needed, but disclosure in itself is not enough to change corporate disclosure. Paraphrasing Justice Brandeis (a US Supreme Court judge), sunlight is the best disinfectant to combat corruption, but this line of argument from 1913 assumes that publicising current and past corrupt practices will deter future unethical practices. Over 100 years later, there still seems to be many corporations in desperate need to get more sunlight to shine upon them. Whilst there is some validity in Justice Brandeis' statement, it is far from a universal panacea. It depends on who this corrupt behaviour is made visible to, in what form it is disclosed, who is responsible for verifying the accuracy of these disclosures, what powers of sanction do institutions or individuals have and their ability and motivation to wield these powers.

The purpose of this commentary is to show that, in the case of financial institutions, this is a very complex web of processes. The theoretical assumptions are that these new, improved sustainability disclosures will make their way into the financial institutions' decision processes and may change these decision outcomes in a way that incentivises or forces decision makers in businesses to, in turn, change their behaviours. This chain of causal assumptions appears compelling on paper, but currently, this is often grossly simplified, so that it cannot effectively represent practice.

Understanding the decision chains in their full complexity should be at the centre of social and environmental accounting research, as these processes are the moderators that determine whether the causal chain from disclosure to action holds or not. There are limited scientific studies on these processes, particularly in financial institutions, and there is very limited secondary evidence of a strong causal link between the consequences of disclosures, despite thousands of attempts to find that clear causal connection between business actions, business disclosures, financial institutions' decision-making,

financial decisions, business actions and financial consequences. The amount of global research effort in this space over the last three decades would suggest that if there was a clear link, it would have been found. There are hints that some things in some circumstances may have some impact, but it is not conclusive. I would argue due to implicit assumptions and a simplification of reality.

It is difficult to come up with a definitive prescriptive conclusion to what is a complex and persistent problem, but there are a few questions I would like to pose to researchers and standard setters to consider when engaging in this field:

- Do the actual or planned disclosures address actual knowledge gaps identified by actors in the financial sector?
- Will the information provided by businesses as part of the actual or planned disclosures arrive at the relevant users? If yes, will it arrive in a decision useful form or will it need to be translated?
- Does the actual or planned disclosures challenge the interplay of logic that drives behaviour across the chain of connected institutions involved with the problematic behaviour?
- Are the disclosures likely to transform the outcome of some or all of the decision-making processes in all the connected institutions? If yes, how will the disclosure achieve this?
- What is the level of confidence in the actual or planned disclosures changing the logics of decision-making and performance measurement and incentives in all the relevant institutions?
- Who really holds the power to enforce or incentivise the desired behaviour and outcomes underpinning any disclosure?
- How valid is any theory of change associated with disclosures, in light of the complexity at play?

Notes

1. MSCI is a USA-based investment research company that provides ESG ratings, equity, fixed income and other asset indices, portfolio risk tools and financial performance analytics. Their stated vision is to strengthen 'global markets by connecting participants across the financial ecosystem with a common language' that serves 'asset managers and owners, private-market sponsors and investors, hedge funds, wealth managers, banks, insurers and corporates'. About Us | MSCI accessed October 2025.
2. Rainer Maria Rilke was a Bohemian-Austrian poet and novelist, widely recongnised as one the most lyrically intense German-language poet (13 Best Rainer Maria Rilke Poems Everyone Should Read - BayArt). William Shakespeare is often referred to as England's national poet and critically acclaimed as the greatest English language writer.
3. Alpha is a shorthand for the difference between the expected rate of return and the unexpected rate of return for each investment strategy and crudely is a measure used to determine the highest return achieved with minimal risk or even more simply beating the market.
4. There are many potential definitions of critical accounting theory, but they share an interest in exposing complex interplay between power dynamics and how accounting reinforces or challenges governance structures within organizations as well as broader societal implications. Critical accounting typically uses qualitative methodologies and a range of different social theories in its analysis of topics such as neo-liberal markets, social justice, accounting standards, regulations, and corporate governance.

5. For example, four imprisoned for demolition industry corruption worth over £600,000 | The Crown Prosecution Service.
6. Tackling fraud and corruption against government.
7. Corruption and the UK | Transparency International UK.
8. Very few asset owners have their own investment teams and even if they do much of the work is still outsourced to asset managers to diversify risk.
9. These include new guidelines from European Securities and Markets Authority, Sustainable Finance Disclosure Requirement, CSRD, CSDDD, IFRS S1 and S2.
10. For example MSCI Corruption Risk Exposure Deduction Key. https://www.msci.com/documents/1296102/34424357/MSCI+ESG+Ratings+Methodology+-+Business+Ethics+Key+Issue.pdf/
11. However, I am happy to engage in a more detailed institutional logics debate with any reader.

Disclosure statement

No potential conflict of interest was reported by the author(s).

ORCID

Christoph Frederic Biehl http://orcid.org/0000-0002-4348-1911

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