



# GÖTEBORGS UNIVERSITET HANDELSHÖGSKOLAN

## The Role of Impression Management in Sustainability Disclosure: Enhancing Legitimacy for Financial Institutions

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# Sustainability Disclosure in the Financial Industry

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## Abstract

This study explores the usage of sustainability disclosure in the financial field. Sustainability disclosure has become a relevant practice for companies to display their sustainability commitment, given stakeholder and regulatory pressure in recent years. To date, little attention has been addressed from the research on sustainability disclosure practices in the financial field. To address this gap, this study considers unofficial disclosure means by exploring managerial accounts to outsiders concerning their organizations sustainability commitment. For this purpose, a qualitative study including 18 interviews with leading European executives within the financial field was conducted. This study sheds light on how financial institutions' members attempt to legitimize sustainability-related corporate activities to their different stakeholder groups (employees, investors and wider society). In addition, it has been identified three main impression management tactics utilized by financial institutions to establish a favorable corporate image with respect to their sustainability commitment: self-praising, displaying limitations and promises for future commitment, and conformity and differentiation. This study contributes to legitimacy and impression management literature by exploring corporate arguments in an industry which has been neglected by previous research. Moreover, the study has relevant managerial implications for public relations practitioners and corporate culture related matters given the insights it provides concerning managerial discourses about their own company sustainability commitment.

**Key words:** impression management, legitimacy, financial industry, ESG, sustainability strategy.

# INTRODUCTION

In 2015, 196 parties adopted the Paris Agreement at the United Nations Climate change conference (COP21) in Paris, France. Primary goal of this agreement has been the significant reduction of greenhouse gas emissions to lower the impact of climate change to a maximum increase of temperature by only 1.5°C compared to pre-industrial levels (UNFCCC, n.d.). The Paris Agreement provides a framework which guides the signed parties in relation to technology, capacity building and finance. Therefore, the financial sector became a guiding sector in the fight against climate change as it can steer investments towards mitigation and adaptation to climate change (UNFCCC, n.d.; European Commission, 2021; Schumacher, 2022; Zimmermann, 2019). The EU has also set specific regulations for this sector (e.g., Corporate Sustainability Reporting Directive (CSRD) and EU Taxonomy).

While companies in different sectors have developed sustainability strategies consisting of the three areas of environment (E), social (S) and governance (G), also known as ESG (Li et al., 2021), the financial (service) sector is lacking behind in implementing ESG strategies (Kemetter, 2023). This has led to the claim that the financial sector has a legitimacy problem (Rahi et al. 2021), and is, thus, more likely to engage in impression management tactics (Leung & Snell, 2021). Previous studies have also shown that actors in the financial industry historically have engaged in impression management in relation to financial disclosure and/or overall communication. For example, Linsley and Kajüter (2008) show an Irish bank used impression management tactics in their annual reports to gain legitimacy, and Albuquerque et al. (2022), Axelsson and Leufstedt (2014) and Dvorski Lacković et al. (2017) show the usage of impression management tactics in the Portuguese, Swedish and the banking industry more general.

However, the primary focus in previous research concerning disclosure in the financial industry lies on financial disclosure or overall communication. There is, thus, a gap in relation to how sustainability disclosure is used by financial services firms (Mohamed Buallay et al., 2023). This knowledge gap is critical given the important role the financial industry plays in the overall green transition (Zimmermann, 2019). Moreover, this topic also gained a lot of attention from practitioners (Vitzthum & Rademacher, 2023; Kemetter, 2023; Siepmann, 2023; Slegers, 2022). Therefore, the gap appears to be a bit surprising also given the extensive amount of research into sustainability disclosure in other sectors such as manufacturing (Talbot & Boiral, 2015) and logistics (Corazza et al. 2020). Furthermore, empirical material in studies of sustainability disclosure has mainly relied on sustainability reports and other official disclosure means (e.g., Talbot & Boiral, 2018; Nik Ahmad & Hossain, 2019), leaving a gap in studies for unofficial disclosure means such as managerial accounts to outsiders regarding companies' sustainability activities (e.g., Talbot & Boiral, 2015). This is problematic since investigating unofficial accounts is important as conversations between organizational members and outsiders have been found to be relevant for developing public corporate image (Caillouet & Allen, 1996).

To fill these two gaps in previous research, we conducted 18 interviews with leading European executives in banks, financial service providers and additional consultants, supplemented by selected sustainability reports. To analyze the collected data, we use impression management theory and legitimacy theory. With the aim of generating further descriptive knowledge regarding the usage of sustainability disclosure within the financial industry, the following research question has been developed:

*How do financial institutions use sustainability disclosure?*

In this thesis, we show which kind of legitimacy the financial institutions attempt to gain from their different stakeholder groups and which impression management strategies they use to reach this legitimacy. We identified three main impression management tactics, namely: *self-praising, displaying limitations and promises for future commitment* as well as, *conformity and differentiation*. Additionally, by further analyzing consultants' perspectives, there seems to be a dominant use of defensive impression management tactics. Our findings contribute to existing legitimacy and impression management theory by adding further cases for a yet underexplored financial industry, thus responding to the call for further cases (Perkiss et al., 2021). In addition, the current study contributes in generating further knowledge by mainly considering claims arising from verbal speech of organizational members.

The rest of the paper is organized as follows. First, the theoretical framework comprising the theory considered essential for the analysis of the data will be described. Second, the methodology applied for this study will be specified by outlining sampling and data collection procedure as well as illustrating in detail the data analysis strategies. Subsequently, we provide an overview of our findings and discuss the evidence in connection to our theoretical framework. Last, the most important findings, conclusions and practical implications will be addressed together with recommendations for further research.

## **THEORETICAL FRAMEWORK**

The theoretical framework used in this study consists of two theories: impression management and legitimacy theory. Impression management has been described by previous research as an organizational activity aimed at developing an actor's desired image or maintaining an existing one in order to derive and prevent actor's association with an unwanted image (Bolino et al., 2016). In the light of this impression management has been found to be an important tool to construct or restore the perception of a legitimate organization (Lindsley & Kajüter, 2008). Given the general legitimacy problem concerning the financial industry (Rahi et al., 2021), the impression management literature combined with concepts from legitimacy theory is relevant to understand the discursive practices regarding the issue of sustainability implemented by the actors operating in the financial sector. We will firstly discuss concepts from legitimacy theory and subsequently we will address impression management theory by presenting relevant impression management tactics.

## **Legitimacy**

Legitimacy theory is based on the assumption that the society and organizations stand in a relation by having a social contract (Linsley & Kajüter, 2008). This contract is the foundation for organizations objectives and gives them legitimacy. Organizations need to act in accordance with society's desires and gain societal acceptance in relation to the benefits provided to stakeholders (Linsley & Kajüter, 2008). In relation to legitimation endeavors, Suchman (1995) presents three different types of legitimacy, namely: pragmatic, moral and cognitive. Pragmatic legitimacy entails obtaining societal acceptance in consideration of the perceived benefit that the audience obtains as a result of direct exchange with the organization. As a result, this kind of legitimacy is heavily reliant on self-interest assessments. Moral legitimacy goes beyond direct personal interest evaluation and considers higher societal values and norms including the notions of “right” or “wrong”. This type of legitimacy is based on an evaluation of organizational outputs, structures and procedures. Lastly, cognitive legitimacy is described as offering a plausible rationale regarding the existence of the organization and its operations in relation to the larger belief system and rendering it a taken-for-granted construct.

However, as Linsley and Kajüter (2008) note, legitimacy is subjective, and therefore is reliant on whether an organization is perceived to follow societal and cultural desirable values but not whether it actually does so. Moreover, legitimacy is not a permanent status, but rather it should be understood as a process that constantly needs to be reinforced. As a consequence, legitimacy can decrease which can have a severe impact on a company's reputation and can lead to a legitimacy crisis (Linsley & Kajüter, 2008). Because of the subjective nature of legitimacy, impression management is often used to influence stakeholders' opinion in order to appear legitimate. Therefore, the usage of such tactics has been shown to be especially relevant within sustainability disclosure (Cho, et al., 2012; Talbot & Boiral, 2018; Sandberg & Holmlund, 2015). Moreover, sustainability disclosure itself is being used as a legitimizing tool, especially if the company is performing poorly in relation to sustainability matters and the industry is impacted by a lot of pressure and/or high media interest (García-Sánchez et al., 2019).

## **Impression Management**

Impression management appears to be of particular interest as organizational activity (Bolino et al., 2016). Rahman (2012), identifies the following main drivers for impression management activities. The first driver is related to the objective of maximizing social outcomes especially in terms of reputation and overall social acceptance (Highhouse et al., 2009), while at the same time avoiding undesirable social outcomes such as punishment. The second driver is due to a discrepancy between the desired and present external perceptions of one's identity. Lastly, Rahman (2012) points out how social actors take into account the expectation of wider and relevant social groups in order to construct a public image which is consistent with the overall society values. Bansal and Kistruck (2006) identified an additional antecedent of impression management, suggesting that the use of impression management may occur due to the intricacy and intangibility of particular issues. This is also true for topics related to sustainability, which may lead to overlooking some aspects of significant sustainability behavior, since it would result less challenging to engage in symbolic gestures to disguise potential incorrect practices.

Impression management theory appears to be founded on two major streams of research. One more focused on the individual level, while the other is more focused on the organizational level. At the individual level, impression management theory has been usually implied in the study of the behavior of actors interacting within organizational contexts. For example, a wide stream of literature in human resources analyzes how applicants make use of impression management tactics in order to affect the outcomes of their job interviews (Swider et al., 2011; Stevens, & Kristof, 1995). In particular, these studies mostly focused on impression management tactics at the individual level. However, there is a stream of research within this literature that recognizes organizations as social actors and applies impression management theory to understand how companies attempt to influence the opinion that the audience has about them in order to convey a desirable image (Highhouse et al., 2009; Elsbach et al., 1998). Consequently, there are several studies which focus on organization in times of crises, after being affected by a scandal which examines the behavior of organizational actors and how they tried to limit the damages to their organizational or professional group images (e.g. Allen & Caillouet, 1994; Stapleton & Hargie, 2011; Caillouet & Allen, 1996).

Within organizational impression management there is a wide range of literature focusing on corporate reports. Annual reports enjoy a high level of credibility and are therefore easily usable for impression management (Linsley & Kajüter, 2008). Impression management within reporting tries to influence shareholders by using graphics, photographs and most importantly special narratives (Dvorski Lacković et al., 2017). The aim is to install or reinforce a positive reputation of the company and most importantly gloss over negative aspects. Qualitative information is perceived as being easier to manipulate than quantitative data, and its usage is therefore favored by managers. Further on, companies with a negative ESG performance use a more optimistic language in their reports which are additionally less precise (García-Sánchez et al., 2019). If the disclosure is to be voluntary, companies and their CEO are even more motivated to engage in impression management, as in these cases, it is harder to monitor the credibility of the disclosed information. Therefore, there is more of a symbolic role to this kind of reporting, since companies that have a good financial performance and a good reputation are found to use less impression management (Patelli & Pedrini, 2014).

### ***Impression management strategies***

According to the literature, two overall types of impression management strategies emerged, namely assertive and defensive impression management strategies (Talbot & Boiral, 2018). Assertive management strategies are considered reinforcement strategies as they are generally employed to fortify and promote one's positive image. On the other hand, defensive impression management entails all those practices which aim to limit image damages by rationalizing and explaining ethically questionable behavior (Talbot & Boiral, 2018). In the following sections the two impression management strategies will be described in detail by also providing concrete examples about impression management strategies identified by previous literature. Given that this study considers individual accounts, the aforementioned strategies group will draw from impression management literature at both individual and organizational levels.

### *Assertive Impression management strategies*

Assertive impression management strategies refer to all those enhancement strategies which aim at driving major attention to positive organizational results (Cho et al., 2012). These strategies are implemented in order to project a company's solid image of expertise and reliability (Perks et al., 2013). Sandberg and Holmlund (2015) explain how this is achieved primarily through the practice of praising, according to which an organization tends to portray its operations in an extremely favorable light. The authors further describe how organizations do that by for example advocating for their high values and morals, by illustrating how their existence per se favors the overall society and by elevating their image above that of other organizations. In this regard, Schlegelmilch and Pollach (2005) specify how diversifying by elevating corporate image above that of their competitors may assist to strengthen the legitimacy of a company's ethical conduct. Moreover, Lins et al. (2016) outline how the beneficial impact of this self promotion strategy is enhanced through the use of positive language. Perks et al. (2013) also describes additional proactive impression management strategies. In particular, organizations disclose information in order to promote their positive image. This information disclosed entails for example successful projects related to organizations. For this purpose, organizations engage in selective information disclosure, to share facts that enhance ties to sustainability or the number of investments directed towards fostering their commitment to sustainability. Perks et al. (2013) also identify an additional assertive impression management method which entails that an actor tries to associate itself as a relevant and positive third party, in the case of sustainability communication these third parties usually correspond to NGOs, governments or associations which have special commitments towards sustainability.

Other two relevant self-enhancing practices discussed by individual-level impression management literature are supplication and ingratiation (Lins et al., 2016; Bolino et al., 2016). In particular, supplication entails eliciting positive sympathetic emotions in the audiences in order to gain its support, by emphasizing one's own limitations (Lins et al., 2016). Differently, ingratiation involves conformity to the group for the purpose of gaining social approval (Bolino et al., 2016). However, throughout the literature, ingratiation has not only been recognized as a proactive tactic but also a reactive one in the attempt to restore the legitimacy of one's own company in the aftermath of a scandal (Allen & Caillouet, 1994).

### *Defensive impression management strategies*

Defensive impression management tactics are employed by social actors to preserve and rehabilitate their social image. These practices are mostly based on justification and excuses practices (Talbot & Boiral, 2018). Sandberg and Holmlund (2015) identified two main defense tactics in their analysis of impression management in corporate sustainability reports. One of these entails that the organization provide a clear explanation about why it was not possible to operate in a sustainable manner despite the fact that the organization had every intention to do so. The other defense tactic identified by Sandberg and Holmlund (2015) consists in allocating responsibility to a third party for not acting sustainably. Justification practices do not only consist in diverting responsibility, but also in partaking this responsibility with other relevant

actors in the industry. Stapleton and Hargie (2011) found how conforming to overall group opinions and behavior help to justify and legitimize questionable behavior in the aftermath of an ethical scandal.

Recent research on impression management on sustainability disclosure, considers neutralization techniques to study the justification practices employed in sustainability reports and climate communication (Talbot & Boiral, 2018). In particular, Talbot and Boiral (2015) identify the major neutralization strategies utilized by Canadian most significant polluting firms, to justify their effectiveness concerning the issue of climate change. Among these impression management strategies there is the often applied denial of responsibility by, for example, attributing their limitation in sustainability commitments to consumers purchasing decisions. Inconsistently with research on assertive impression management strategies literature, the authors classify the practice of “self-proclaimed excellence” as a defensive, neutralization strategy. This impression management involves a self-promotion attitude aiming to differentiate the company from competitors by for example, self-attributing a leadership role in the context of sustainability commitment or by claiming to have been a first mover in committing to a sustainability focused initiative. Furthermore, Talbot and Boiral (2018) also show that another applied neutralization technique in sustainability communication is excuses combined with promises for future commitment.

## **METHODOLOGY**

To generate new insights on the application of impression management strategies we follow a qualitative inductive approach which is suitable as it enables to obtain an in-depth comprehension of the social phenomena we are interested in (Silverman, 2019). Moreover, an inductive approach results to be particularly relevant for the investigation of understudied empirical setting (Bansal et al., 2018), as it is the case of sustainability in the financial sector (Zimmermann, 2019). We constructed semi-structured interviews with executives of leading European banks, asset managers and consultancy experts to collect information that allows us to provide empirical evidence on impression management in the context of sustainability communication.

### **Sampling strategies**

This study applies a multiple-case-study approach to detect patterns in the data set using the replication and comparison reasoning (Bansal et al., 2018). We include 9 leading European organizations operating in the financial sector which include important financial institutions, but also other financial service providers such as asset managers and a central bank. These cases were selected through the purposive sampling approach, thus in consideration of relevant companies’ characteristics, which are considered to be of importance for this research (Silverman, 2019). In this respect, the selected companies claim to be committed to the achievement of sustainability goals. Companies’ commitment towards sustainability has been

assessed by checking corporate websites and publicly available reports. In terms of case selection, companies operating in the European geographical area were considered so that the theoretical concepts arising from the study could be developed beyond the specificity of the cultural context, allowing for more generalizability of the study's findings (Yeganeh et al., 2004).

## **Data Collection**

The data were predominantly collected by interviews and supplemented by publicly available documents. Overall, a total of 18 semi-structured interviews were conducted with executives from major players in the European financial service sector. Among these interview partners, 14 are high-level managers and sustainability experts in the selected case companies. The technique of semi-structured interviews allowed us to obtain unofficial accounts about the sustainability commitment of the selected organizations in order to mimic the statements that these actors would disclose to interested outsiders and possibly closer acquaintances (Caillouet & Allen, 1996). Furthermore, the interviewed employees have been identified as playing an important role as a communication channel for their employer's commitment to sustainability. Indeed, informal sources of information, such as word of mouth among employees and their acquaintances, have been found to be the most credible as well as the most effective communication channel given the wide reach of stakeholders they can achieve (Dawkins, 2005). Four additional interviews were held with consultants specialized in sustainability who have extensive experience in the financial sector, which allows us to obtain an outside perspective on financial companies' commitment towards sustainability and how it is disclosed to outsiders. A specific role in this context is given to asset managers as they offer an insider perspective on their companies sustainability communication but additionally act as an outsider when they evaluate the sustainability reports of potential firms to invest in.

In preparation for the interviews, relevant firm-specific information was collected from corporate websites and publicly available sustainability reports in order to adapt interview questions correctly to the case company and to get individual specific insights. Each interview lasted approximately 40 to 60 minutes. Participants were asked to explain the sustainability commitment of their company including major challenges and how they attempt to communicate this commitment to relevant stakeholders, to express their personal opinions and evaluations with respect to this commitment. Additionally, more industry related questions addressed the perspective on new regulations and an association of collective sustainability commitment. Overall, this research includes organizations from seven European countries (Italy, Germany, Switzerland, Hungary, Sweden, Liechtenstein, France) therefore, participants were inevitably placed in a remote position. Consequently, the majority of the interviews were conducted through video conference tools like Zoom and Microsoft teams, while, under extraordinary conditions, 3 interviews were conducted on the phone. The interview partners for this study are summarized in Table 1.

Table 1

Pillar	Financial institution	Position/Label	Number of interviews conducted	Number of interviewees within the company	ownership structure
1 *	<b>Top 3 Italian Bank</b>	Human Resource 1 Human Resource 2 Risk Manager 1 Risk Manager 2 Sustainable Finance 1 Real Estate 1 Real Estate 2 Real Estate 3 Real Estate 4 ESG Expert 2 ESG Expert 3 Head of ESG Head of Communication	6	13	exchange listed
	<b>German cooperative bank</b>	ESG Expert 1	1	1	privately owned
	<b>Top 3 German Bank</b>	Sustainable Finance 2	1	1	exchange listed
	<b>Top 3 Swiss Bank</b>	Sustainable Investments	1	1	exchange listed
	<b>Top 3 Liechtensteiner Bank</b>	ESG Expert 4	1	1	privately owned
2 **	<b>An European Central Bank</b>	Sustainable Finance Analyst	1	1	public entity
	<b>Top 3 German Asset Manager</b>	Portfolio Manager 1 ESG client solutions	1	2	privately owned
	<b>German credit institution</b>	ESG Expert 5	1	1	privately owned
	<b>French Bank</b>	Portfolio Manager 2	1	1	privately owned
3 ***	<b>Independent German consultancy</b>	Consultant 1	1	1	
	<b>Italian Sustainability Consultancy</b>  Consultants specialized in	Consultant 2 Consultant 3	2	1	

	sustainability implementation within the financial industry				
	<b>Top 4 Swedish consultancy</b> Consultant specialized in ESG within the financial industry	Consultant 4	1	1	

\*: Inside perspective on implementation: 1. Large complex institutions with global scope, 2. Smaller, less complex institutions with national scope. \*\*: Inside-outside perspective on implementation and credibility: Financial investors: Mutual funds which invest in bank stocks for green funds but also implement sustainability themselves. \*\*\*: Outside Perspective on implementation and credibility.

## Analytical Approach

Our analysis of collected data follows a grounded theory inspired approach as this type of approach results to be particularly significant to grasp the peculiarities of organizational phenomenon (Martin & Turner, 1986). Our main data set was collected from interviews, while data acquired through companies' websites and sustainability reports. The later data sources have been used as complements to allow us to enrich the overall picture about sustainability disclosure already provided by interviews.

The material collected from interviews has been analyzed consistently with the inductive approach, which requires a close reading and examination of the interview transcripts obtained from the data collection phase (Thomas, 2006) and include three steps of analysis: transcription, coding and categorization. As suggested by the grounded theory approach, the data analysis was conducted concurrently with the data collection process (Charmaz, 1996). The first step of analysis implied the verbatim transcription of the interviews. The transcription phase enabled for an initial reading of the text as well as for a more precise understanding of respondent's language and meanings related to specific issues (Thomas, 2006; Charmaz, 1996). This procedure makes it possible for the authors to refine the interview questions in order to refocus them more targeted and intelligible to the respondents as well as providing an initial overview of the obtained data.

In the second phase the material from the interview was coded so that the data could be examined with a closer perspective and reinterpreted (Charmaz, 1996). The coding procedure was performed through the atlas.ti platform, in order to allow a constant update throughout the data analysis process and favor a coherent and uniform coding process. Examples of the most recurrent concepts which emerged during the coding process are: *ambiguity, external dependency, regulation, signaling/credibility, advantages of sustainability commitment, sustainability strategy as a process*. These codes were subsequently grouped into higher conceptual abstraction themes (Martin & Turner, 1986). This analytical strategy led to an initial sorting of codes into categories, the categories initially identified were: *motivations, challenges*

*identification* and *problems resolutions*. This initial structure of the empirical material underwent a second reorganization process in order to highlight the actual discursive practices utilized by organizational members interviewed and other data sources considered in the study. As a result, the final categories were arranged based on the previously identified *motivations*, yielding to the following final categorization: *responding to regulation*, *navigating ambiguities and risks* and *signaling*.

## **Ethical Reflections and Limitations**

Among the major limitations of this study is that it is mainly based on empirical material collected from interviews. As Alshenqeeti (2014) explains, interviews are highly subjective data collection tools as they are mostly focused on the interviewees' understanding and point of view. Even though the data obtained from the interviews were complemented by considering more official communication channels, such as companies' websites and sustainability integrated reports, the main arguments which emerged from the interviews might not be representative of the entire company communication strategy since they only reflect the perspective of a limited number of organizational members in each case company. Moreover, given that interviews are inherently constructed in context, the behavior and in particular the language and mode of expression of interviewees has been slightly modified (Bell et al., 2022). A further limitation is given by the fact that the data analysis was not performed through objective methods, such as words counting tools. Consequently, the interpretation of the data presented in this report is characterized by subjectivity which may affect the validity of the findings (Leung & Snell, 2021).

To the best of the authors knowledge, all respondents voluntarily participated in the study and were informed about the research topic. Participants were guaranteed anonymity both personally and of the company in which they are employed so as to make their answer confidential and free them from any possible repercussions (Silverman, 2019). This arrangement has been employed to compensate for the lower trust which may arise from the distance and unfamiliarity experienced during video interviews, given that trust has been described as a fundamental element for the good outcome of the interview (Bell et al., 2022). Moreover, it has been found that conducting interviews using VoIP tools had no significant effect on the quality of data obtained when compared to in-person interviews (Archibald et al., 2019). In the light of this, the authors believe that possible trust issues have been fairly mitigated.

## **EMPIRICAL SECTION**

In this section the empirical material collected will be presented. Firstly, background information will be provided in order to describe the context in which financial institutions operate. Secondly, the data obtained from interviews, company reports and websites will be organized into categories which will describe the three main arguments concerning

sustainability disclosure in the financial field. These are: *responding to regulation, navigating ambiguities and risks* and *signaling*

## **Background information**

Within the past few years the explicit documentation on sustainability strategies, specifically in the financial industry, has rapidly increased (Hofmann, 2023). Sustainability strategies in this highly regulated industry have moved from a “nice to have” to a necessity and from a vague brochure to a core document decisive about a company’s existence.

In the past, only a few companies cared about implementing sustainability strategies and documenting their impact on the company. Not many sustainable products were available and stakeholders were not provided with the same amount of information as they are today. These companies were often characterized by a green or otherwise sustainable business model, and were often developing and implementing their sustainability strategies based on intrinsic motivation. However, after numerous scandals (e.g. the Volkswagen dieselgate scandal), and a general change in public’s perception (e.g. Friday for Future, Paris Agreement, European Green Deal), stakeholders increased the social pressure to move towards more sustainable business practices. The EU has set itself the goal of becoming a global leader in sustainable finance, and the companies operating within are obliged to follow its guidelines in order to remain competitive. This also includes non-European companies that have subsidiaries in the EU with annual sales above 150 MM € (Hofmann, 2023).

The recent implementation of the Corporate Sustainability Reporting Directive (CSRD) in November 2022 (Hofmann, 2023), has provided additional guidelines to companies with regard to their sustainability strategies. This directive forces all companies with 250 or more employees to annually report their sustainability activities (Hofmann, 2023). Before the implementation of the CSRD, organizations have been primarily focusing on financial factors, and therefore implemented a single material analysis. With the implementation of the CSRD, companies need to expand their reporting by also including social and environmental factors and therefore apply a double materiality assessment. The aim is therefore, to internalize externalities. The number of companies subject to reporting requirements has increased dramatically as a result of this directive. Currently, 11 700 companies are required to report, but this number will increase to 50 000 by 2026 (European Parliament, 2022).

Given this recent update in legislation, managers now need to critically follow the guidelines and attempt reaching good results. The new standards have already obtained an impact on corporations, with performances being easier to compare, influencing the competitiveness of a company and its overall survival.

Financial companies have a key role in implementing this directive. In particular, they need to become more sustainable, and to achieve this goal they need to critically analyze the ways in which the money they manage is invested. Therefore, even in companies that will not be directly affected by the CSRD, auditing teams will need to critically review their sustainability and poor results will have an impact on the cost of refinancing. Further support in achieving a green

transition comes from the EU taxonomy. The EU Taxonomy is a classification which distinguishes sustainable activities from non sustainable ones (European Commission, n.d.).

Stakeholder groups which have also strongly influenced businesses in making more sustainable choices include NGOs and, in the case of listed companies, investors. NGOs have moved forward initiatives like the Net Zero Banking Alliance (NZBA) and the Net Zero Asset Managers (NZAM), which requires allied institutions to achieve zero emissions in their lending and investment portfolio by 2050, thus shedding light on climate protection. On the investor side, around 80% make investment decisions based on the sustainability performance of a company and even more crucial, almost 50% take into consideration to divest of companies in case of a negative ESG performance (Schrauf and Kutschera, 2023).

## **Responding to Regulation**

A large proportion of respondents indicated that there has been a sharp increase in sustainability efforts between 2016 and 2018. In accordance with the provided outside perspective by consultants and asset managers, the political regulations already described, appear to be the main driver for sustainability commitment: “so let's say certainly the regulatory requirement is an important accelerator.” (Consultant 3). Some interviewees go even further and state that without regulation, there would be no sustainability and especially not a holistic green transition.

I think if every company was sustainable, we wouldn't need the CSRD. (Consultant 4)

I think the regulator had the exercise performed to really set the incentive in the first hand. Otherwise there would have been no movement in this industry. (ESG expert 1)

As another outcome of the regulation, interview partners in non-ESG departments also see the creation of a new market for sustainable (financial) products, which leads to a further increased interest in sustainability.

The market did not really ask for sustainability prone financial institutions because there was no clear competition level playing field in the market. Now since the EU regulations and the much clearer regulatory framework, there is a new level of competition. (Sustainable Finance 1)

Besides the creation of a market for sustainable (financial) products, the core aim of the new regulation (especially the CSRD) is a mandated integration of sustainability in the core business. However, this aim is perceived as challenging by the companies affected. Implementing and complying with the new regulation is resource-intensive, not only from a monetary perspective (e.g. new IT systems must be installed), but also requires a lot of human capacity and skills that are often not yet available and the overall bureaucracy increased.

For our colleagues in the bank, it's a burden. It is an absolutely hard burden to get the data to get that collected, to implement that in new systems. Uh, there are a lot of investments into IT, into data warehouses. (ESG client solutions)

Moreover, as the regulations provide a clear framework, they first of all limit the room to act for financial institutions. Further on, respondents describe the regulation as abstract and additionally complex and in some cases also demand clearer specifications as to how the objectives described in the regulation are actually to be achieved. In other cases, there is even with the new regulation still a lack of clear standards, measurements or Key Performance Indicators (KPIs). It appears that the availability of these is dependent on the area of application. Currently there is a strong emphasis on the reduction of greenhouse gasses, while in other areas, like biodiversity, there is still a clear framework missing.

In other areas, you neither have data, nor standards, for example in biodiversity there's nothing. For example, on social issues like injury rates we do have the data but you do not have a standard. (Sustainable Finance 2)

Outsiders, like consultancy firms or the interviewed central bank, that help financial institutions implement the regulation, stress that financial institutions struggle to understand the new regulation in the first place. Sustainability is a recent issue especially in the financial field, therefore it seems that within this industry there is a lack of a general role model or path to follow for the integration of these new sustainability issues in everyday business. However, none of the interviewed financial institutions confirmed this claim.

At the same time, regulations, like the EU taxonomy, that aim to clarify the notion of sustainability, are perceived as adding further complexity and moreover, the current definition is questioned by the interviewees. The notion of sustainability seems to be country dependent and shareholder shaped. Therefore, one recurring example that highlights this issue is the different types of energy. Especially interviewees employed within the German market often mentioned problems with the declaration of nuclear power. Although this form of energy seems to be approved as sustainable by the EU Taxonomy, some of the companies included in the study do not agree with this declaration and therefore the EU taxonomy becomes a widely debated topic and its implementation is especially difficult for financial institutions that interact in more than one country.

For example, I may see a company sustainable, you may not, and then they're going to have different opinions even in ESG boards for what's sustainable. And one of those, for example, is nuclear. Some people see that, as you know, it's the next big thing for net zero emissions energy and others think it has too many other environmental concerns. (Consultant 4)

However, respondents seem to clearly distinguish between the different regulations, especially between EU taxonomy and CSRD. The EU taxonomy is viewed much more critically, while the CSRD is welcomed mainly because of clear guidelines and a forecast of better data access. Therefore, even though being directly impacted by the new EU regulations, financial institutions perceive the new regulations (primarily the CSRD) as an opportunity. Asset managers are highly reliant on (quantitative) data for their assessment of other companies, however, there is a lot of uncertainty about the published sustainability data right now and a lot of factors need to be estimated.

Further on, there is a general lack of historical data concerning sustainability. Therefore, especially on the asset manager side, regulations are seen as a positive thing, as with the CSRD coming into effect in the upcoming year, data availability will increase dramatically. The regulation is expected to increase the quality of the published data and most importantly, forces companies to actually publish data concerning their sustainability impact. Right now, sustainability disclosure is still voluntary. Sustainability reporting becomes standardized and over all harmonized, which ultimately leads to increased transparency. Right now financial institutions rely on data providers, whose methods are not always transparent, which is problematic, especially for asset managers. This is also related to the problem of data discrepancies in the disclosure of investee industries since the data reported may not be consistent with one another or sometimes non-existent, thus forcing both rating agencies and financial institutions to rely on estimates.

I feel that there are so many regulations and expectations for the financial sector. And we have a lot of regulations for them, but the corporate sector is not yet ready but first we need to get the data available and then we can expect this from the financial system. (Sustainable Finance Analyst)

However, with the mandatory reporting, transparency will increase and not only asset managers, but also clients and overall society are perceived to be profiting from it as it additionally makes companies easier to compare and the pressure to reduce greenhouse gasses, among others, increases. Therefore, experts hope that the regulations will actually have an impact in fighting climate change in the near future.

But, for example, after a few years, the quality of the data will improve and this regulation can finally have an impact to fight against this climate change, environment degradation and social problems. (Sustainable Finance Analyst)

European regulations and giving this uniform framework makes things comparable and also more sustainable. So I do not appreciate the single regulation, but a clear guidance by the regulators. (Real Estate 2)

Especially members of ESG departments are thankful for the new regulations as they represent a rationale for their projects internally, in order to convince other departments to come on board or to release resistances and therefore lead to better internal processes.

But now, that the regulation forces us to do so, that's easier for us because now we have to, we don't have to explain why we do that because we have to do it. (ESG client solutions)

Those commitments are good for internal communication because, of course, if I go to business units and we have to reduce emissions, they will ask why. And then I said, well, the scientists' commitment decided so [...] for me it's more a tool of internal communication to get things started. (ESG expert 4)

## Navigating Ambiguities and Risks

The integration of sustainability into the core operations of financial institutions has been widely described as an ongoing and unfinished process by respondents. In particular, the following expressions have been used: “It’s not only a one-time event”, “It’s more about reviewing and adjusting”, “It’s a whole life process”. Thus indicating a constant process of adjusting and improving.

So basically, it's all about developing and adapting our strategy and identifying new fields and new engagement areas that we include into the strategy. (ESG Expert 5)

In this respect, the importance of constant self-checking in order to identify areas of improvement has been highlighted. According to respondents this is done by employing a scientific approach by setting KPIs which are measurable and trackable. Accordingly, the major focus is placed on quantitative measures. As a result, there is a strong effort to set quantitative goals in order to provide a more defined framework for their sustainability strategy. However, this has been described as a difficult task because some aspects of ESG cannot be measured numerically, both due to the nature of those factors *per se* and due to lack of historical data. In particular, precise and quantifiable KPIs are becoming increasingly demanded by regulators and other stakeholders, consequently having a precise structure according to which goals and KPIs can be concretely measured and disclosed, externally validates the sustainable commitment of financial companies. Setting a clear framework and targets allow for constant monitoring of measures in order to adjust the focus and initiatives related to the sustainability commitment. This is done also through constant internal communication with employees in order to learn about possible areas for improvements.

In relation to identifying new areas of improvement, collaboration with external entities is described as crucial in order to acquire knowledge and skills specifically related to sustainability issues and to be able to focus their initiatives and their projects which contribute to financial institutions sustainability objectives. In this regard, some interviewees emphasized the external collaboration of their own company with non-profit organizations, such as NGOs, as well as their external collaboration with prestigious universities and business schools, both partners in financial institutions’ initiatives to increase overall society awareness and as external help to design internal training programs.

There is not the “saint grail” ESG so everyone knows everyone, so we really need to learn from each other and bring all together the different perspectives and this is also something where we as a society all need to become better because it's a completely new topic and on a new topic it's the best to collect as much as knowledge which you have, which you can get two to bring together. (Risk Manager 1)

Furthermore, the process of adjusting their risk management structure has been presented as a continuous activity. Sustainable risk factors, like exposure to climate change, need to be integrated in the overall risk management framework and further on, sustainability objectives need to be integrated into the core business. Therefore, financial institutions need to adapt their risk assessment from a single materiality approach to a double materiality approach, thus having

a stronger focus on social and environmental factors besides just financial factors. At present, however, it seems that there is still a strong focus on short-term profits. Throughout the interviews it emerged the tendency of actors in the financial industry to prioritize short-term performance and benefits at the detriment of the long-term perspective, thus indicating a widespread short-termism and still a prevalence of single over double materiality. However, by adopting a double material perspective, the respondents realize that the focus needs to switch to long term objectives, as sustainable business models cannot be achieved in the short-term.

Sustainability is long term and this is sometimes a bit hard because we're all short term oriented, but at the end we need to come in much more long-term oriented. (Risk Manager 1)

This short-term thinking leads to the outweigh of short-term cost of resources necessary for the commitment to sustainability strategies, thus disregarding the potential long-term benefits. As a result, it seems that financial institutions do not prioritize sustainability objectives because the results are only visible in the long run.

I think, for banks, right now due to their short term financial motivation, they can still invest in fossil fuels in the short term, they are earning heavy money, especially right now during the war against Ukraine. But in the long term, the sustainability impact will emerge, but due to their short-term motivation, the sustainability is not at the core I think. (ESG Expert 1)

In order to move forward from short-term to long-term thinking respondents have emphasized the importance of employee training within that transition. Employee training has been described as a tool for increasing employee awareness and instilling the change of mindset needed to integrate sustainability in the business as usual. Furthermore, internal communication and traineeships were described as essential for the development of effective external communication especially to clients, but also to other stakeholders. Accordingly, this training is intended for the broad range of employees, with a particular emphasis on relationship managers entrusted with the responsibility of communicating to outsiders the significance and the extent of the sustainability commitment of the company.

Training our people to become social, sustainable, finance experts, in particular relationship managers, both on the corporate banking side, but also the ones that are covering affluent clients and private banking and wealth management clients in order to be well skilled advisors to them, and for all the questions that they have with regard to sustainability, the products financing needs and how this is relating to this sustainability topics. (Human Resources 1)

Indeed, communication with clients is paramount given that both organizational members in the financial industry and external members, such as consultants, emphasize how financial institutions' long-term commitment is heavily dependent on how this is externalized to customers and business partners. Therefore, this mindset transition between short-term orientation and long-term orientation also needs to be reflected on clients and partners. Such external dependency might represent an issue given that various respondents, including

consultants, highlighted how customers' ambitions regarding sustainability might not be in line with those of the financial institutions. As stated by one of the portfolio managers interviewed: "I would say that for 90% [of the clients] sustainability is not important" (Portfolio Manager 2) and it has been also highlighted how client's interest towards sustainability might change according to external conditions: "in the course of time, the social view on some topics changes" (Portfolio Manager 2). This results to be particularly true in an uncertain geopolitical context such as the one deriving from the current war in Ukraine which seems to incentivize short-termism in investors thus lowering interest in sustainability long-term issues. Additionally, both consultants and financial institutions' managers underlined the difficulties for small and medium-sized enterprises (SMEs) in gathering all of the data required for creating the sustainability report and displaying their sustainability commitment. In relation to this, the Head of ESG interviewed highlighted how this client dependency issues might exacerbate in markets, such as the Italian one, which are primarily composed of SMEs. In order to mitigate possible obstacles derived by this external dependency which might hinder financial institutions' long-term objectives, focus has also been placed on client education initiatives and client engagement especially for emission intensive industries. In particular, some financial institutions act as advisors for their clients by advising them about how to improve their sustainability commitment, for instance by suggesting them more ambitious goals related to their sustainability effort.

Customers are scared to not do the right thing in the right way, so they are requiring assistance so they want to know which are the right KPIs, which are the right standards, which are the most material factors in their industry. (Head of ESG)

Moreover, some respondents highlighted how their company is attempting to increase the overall societal awareness by, for example, prompting green investment through the creation of customer interfaces specifically focused on green financial products as well as lowering the cost of borrowing for the financing of sustainable investments. An additional way in which financial institutions use their financial power to steer client's sustainability transition is through constant communication in order to understand how financial institutions' sustainability standards can meet client's needs, thus maintaining their clients' relationships.

Banks don't want to lose their clients. They want to accompany them. So, the last sort of thing is normally to kick out the clients. This is the last room because normally they don't want to destroy their relationships. (Portfolio Manager 1)

However, there is ambiguity between the different banks on how to exercise this central role. Some see themselves as having a low level of responsibility and justify this with the general competitive pressure and the self-responsibility of their clients. Others admit to being able to do more therefore advise and regulate clients more on sustainability. Thus, some banks seem to want to implement the minimum of regulations and do not use their full influence for more sustainability and are, instead, more interested in short-term profits.

We can support you with a little bit of education, but we are not consultants because I don't earn money for this. I only earn money with the implementation when they implement that kind of what they want to and go to the investment stage. So, this is where we are mostly

focused now, because we did once, this helping stages as well. But in the end, it's not really our job and who in the end would guarantee that they will really invest for us. (Sustainable Investments)

Therefore, there appears to be a big difference in how financial institutions perceive and decide to act in relation to their role in the overall economic transition. Consequently, the overall efforts to maintain good client relationships and to work in close collaboration with clients to improve their sustainability initiatives demonstrates how financial institutions rely on clients' sustainability outcomes in order to declare themselves as sustainable.

In an attempt to guide this mind-set transition towards a long-term orientation, managerial discourses seem to focus on the benefits in terms of business opportunities brought by the consideration of sustainability issues in everyday processes. Particularly, financial institutions start to realize that sustainability does not only lead to a reputational advantage, but also to economic benefits. Firstly, from a macroeconomic perspective, financial institutions become more resilient and capable of better handling economic uncertainty and crises.

So if you're going to finance a sustainable real asset, it's much more resilient than a not sustainable one. So when it comes to market downturn, what investors do not want to have in their assets portfolio is a building which is not sustainable, which is not fulfilling ESG criteria. (Real Estate 2)

Therefore, the advantages outweigh the disadvantages for banks that have a stronger sustainable orientation. Also in this scenario, sustainability is seen as an uncertainty decrease and as leading to more resilience towards crises as sustainable engagement brings more diversified portfolios and therefore balances lower short-term financial performances that may result from sustainable investments. Consequently, portfolio diversification results to be a particularly advantageous risk buffer during times of economic turmoil.

They can learn that being sustainable is not equal to being economically unsuccessful. That is, I think the biggest learning that they can see during the last three years was economically sometimes difficult during the COVID pandemic and now the war against Ukraine. You can see that being sustainable is like a buffer to such a crisis, because being sustainable in our perspective, we are only financing the basic needs of humans and not luxury goods and not unnecessary things, I would say. And we see that we are very resilient against crises. (ESG Expert 1)

Moreover, a positive side effect which has been mentioned is the attraction of new target customers, particularly those from younger generations as well as new talents who already have a long-term oriented sustainability mindset.

And we get new clients [...]. So if we look at our peace request for proposals, no investor, no new investor would choose an asset manager who isn't able to fulfill sustainability in a proper way or in a credible way. So it gives us a broader client base. (ESG client solution)

Another useful tool for external communication is provided through regulations. Regulations are used to convince clients of sustainable business objectives and educate them about sustainability as an opportunity and by doing so, spreading sustainable business activities.

And also it will help to make it easier to convince clients and also for us to achieve and follow our own sustainability targets because if our clients are more sustainable, it makes this easier for our credit portfolio to decarbonize and so on. (Sustainable Finance 1)

## Signaling

Another driver for ESG disclosure is reputational concerns. In fact, it emerged that the financial institutions interviewed aim at being perceived as a good corporate citizen and also as a good employer, therefore, financial institutions acknowledge their role as the main driver for a green transition of the overall economy. The banks interviewed recognize themselves as having a lot of power and influence in the transformation to a green economy, since they can decide on the granting of loans, among others, and can set interest rates or even reject loan requests depending on the fulfillment of clients' sustainability standards.

It is obvious that banks and the financial industry as a whole do have a lot of influence and can help. We can help and can support the execution of political and regulatory goals and decarbonization by incentivizing certain forms of loans by reallocating capital. (Sustainable Finance 2)

I would say this is a point where we realize that we, as a financial provider, can have a huge impact in the way we finance projects. So we can fund projects, but also we can have a huge impact in educating and also aligning and contributing ourselves to the world's problems. (Sustainable Investments)

Consistently with the acknowledgement of their crucial role in relation to an overall green transition, the respondents tend to positively describe their position in relation to their sustainability commitment and represent themselves as being at the forefront in the field of ESG. More precisely, a recurrent theme which emerged both from reports and interviews is the association with a leadership role. Frequent phrases in this regard include “extending leadership role in sustainability”, “being the industry leader” and “leading by example”. This communicative practice has been incorporated also by managers for internal communication.

The first step in order to change processes is to “lead by example” and if we want to onboard colleagues from other departments and real estate, we as real estate have to take the lead. (Real Estate 2)

In order to reinforce this narrative, respondents engage in extensive descriptions of their projects regarding their sustainability commitment. Examples of these projects include encouraging employees to take part in volunteering activities and shifting towards electric mobility. In addition, projects concerning diversity issues such as support programs for career advancement of the workforce have also been highlighted. In this regard, it appears that the various projects refer to different target groups. The environment projects particularly target stakeholders, investors or the public with the aim of being considered a good corporate citizen.

The social dimension is primarily aimed internally at employees and has the goal of being perceived as a good employer and thus also winning the war for talent. Because of this orientation, respondents involved in implementing social sustainability also did not perceive any trade-offs between traditional (financial) and sustainability-related goals. Social efforts, however, are primarily concerned with combating unconscious biases in areas such as gender equality and diversity. Implementation here takes much longer, as a change in mindset is required. In addition, social endeavors are seen as more difficult to implement because they are seen as subjective and emotional, which in the eyes of the interviewees has rarely been present in the financial industry before. Nevertheless, the implementation of these projects has often been described as a bonding experience and employees described them as leading to a new sense of purpose and stronger identification with their respective financial institution, especially if they have been given the option to actively engage in these transformations. However, the problem of measurability also arises within these topics.

We want to make sure that we eradicate the unconscious biases that we have in the organization, which is the cultural topic, a very tangible topic. Then of course we do a training, we do another training, we'll do a campaign. But is it then gone and can we measure whether it's done? [...] And given it's related to culture and to behaviors, it takes much longer time. (Human Resource 1)

Moreover, banks that are further along the process of implementation also describe the shift to sustainability as something that comes naturally. They further proclaim in their sustainability reports, that their commitment is naturally driven by their intrinsic motivation to do the right thing. However, even these banks have not started to further invest time and resources into sustainability until recently. This leads to questions concerning how naturally it actually comes. Banks that invested in and rethought this topic long before the general trend toward sustainability describe their implementation process in contrast to the “coming naturally” narrative.

When we started, the people laughed a little bit about us. They said: Those are the people hugging trees and not knowing how or what is really important for business. But even our clients, which we thought would be burning for the idea of investing sustainable like churches or foundations - They didn't follow us in that way. So, it was really hard and we did not have many assets at the start. So, I'd say some things like regulation like Fridays for future, so within society really helped to get credibility for sustainable investing. (ESG client solutions)

Consultants highlight how reports in particular are an effective tool for conveying and stressing beneficial information in terms of reputation. One of the consultants describes sustainability reports as “self-referential” (Consultant 2), given that they are perceived as being used to present themselves and their position in the industry in terms of sustainability commitment.

What I've noticed is that a lot of companies look at other competitor reports to see what they're reporting on. [...] I perceive it very much as a bit of a competition more among themselves to who does more. Who reports better to who has the coolest and most attractive report rather than real awareness, or really believing in these things. (Consultant 2)

Along these lines, consultants stress that sustainability reports should be viewed critically, since, according to their experience, it seems to be a common practice to inflate a company's sustainability concerns in reports.

Many times, they take what they are already doing, they make us write it in a cooler, prettier way, however essentially, it's not that they do much, [...] so you simply go and put them in a report you embellish them a little bit at the wording level and there you have your sustainability report. (Consultant 2)

In particular, sustainability reports are used for external communication to accentuate a strong commitment to sustainability. This is achieved through discourses such as: “sustainability is at the base of everything we do” or “sustainability is at the core of our business”. The emphasis on a strong sustainability commitment has been reinforced by showcasing a consistent corporate culture in terms of sustainability commitment. This approach emerged in both sustainability reports and interviews by emphasizing how “sustainability is a common mindset” or stressing that “within our bank, everybody has a very strong sustainability mindset” (ESG Expert 1). In addition, reports also present achievements and awards. A common example of this is disclosing the ESG rating only in case of a high sustainability standard. This positive communication practice results to be beneficial for financial institutions as they are able to acquire new clients, especially in the younger generation. Moreover, the positive discourse, just described, seems to be aimed at being aligned with the overall industry instead of standing out from their competitors. Thus, resulting in similar themes and discourses across different financial institutions.

The whole reason that that exists is to be directly comparable to their peers, and so I think that people are also most worried, like if they're doing poorly, are their peers also or not? And they are at risk of greenwashing if they're overstating what they're doing compared to their peers. (Consultant 4)

Another strategy utilized by financial institutions to be aligned with the sustainable commitment of the rest of the industry is by adhering on a voluntary basis to international agreements that require parallel commitments combined with a parallel reporting procedure. Examples of these international commitments are the NZBA and the NZAM. These alliances have been founded to guide and strengthen financial institutions sustainability commitments and net zero emissions by 2050. The adhering organizations consider these alliances as a way to have a more defined structure and purpose for their sustainability commitment. Furthermore, it has been regarded as a learning opportunity and a source of inspiration from organizations operating in the same industry, thus limiting the ambiguities related to the interpretation of sustainability topics.

We are basically at the beginning of our process and so for us it's just a great opportunity to learn from our - I don't want to say competitors in this case, but, you know, from our befriended banks within the alliance. (ESG Expert 5)

Besides it being a way to have a strong partner by their side which supports them in their journey towards zero emissions, one of the respondents from the ESG department also highlighted the benefits in regards to internal communication concerning the company sustainability

commitment. According to the respondent, adhering to such international agreements results to be a facilitator for internal change within the respective company and provide employees with a rationale about why there is the need to change everyday business processes.

Those commitments are good for internal communication because, of course, if I go to business units and tell them that we have to reduce emissions, they will probably ask why. And then I said, well, the CEO decided about having this commitment this is why we have to do it. [...] And with that document I can say well, because the CEO took the decision that it's strategically important to us that we have to do it. So, within 10 seconds, I can get rid of the WHY and we can focus on the HOW. If I didn't have that, I would talk for one hour about the WHY. (ESG Expert 4)

However, there seems to be ambiguity about the practical advantage of joining the alliances since the benefits derived from these alliances seem not to be grasped by everyone. As a consequence, a disagreement emerged between interviewees: “I'm not sure if the alliance is helping us actually” (Sustainable Finance 1). Consequently, the interviews revealed how the adherence to this alliance is employed as a signaling tool aimed at complying with the sustainability initiatives of the entire financial industry.

My feeling is that many times they adhere, because otherwise they are the only ones who don't. And so, again for reasons of attractiveness, competition and so on and so forth, so you see that this big bank adhered? I have to adhere too, because there is no way that the big bank adheres and I don't adhere, that's very much the reasoning. (Consultant 2)

The alliance is, of course, a strong signal to the market that this is not the movement or idea of single institutions. (Sustainable Finance 2)

In this vein, despite being a founder member, the cooperative bank interviewed decided to take a strong position on this issue and depart the alliance described. Indeed, they perceive the NZBA as not having a significant enough impact on its members. Therefore, this bank did not want to be a part of this alliance anymore as it does not reflect their perspective and values on sustainability concerns and, thus, it did not want to be paired with the rest of the organizations operating in the industry. This choice has been explained by the fact that the majority of NZBA members seems not to follow clear and defined exclusion criteria for investment and financing decisions which are considered as “minimum standards” by outsiders (Consultant 3).

The members of the NZBA still are financing a lot in climate damaging industries like coal, oil, natural gas industries, and so on. [...] The members are still financing this industry so that we are thinking this is an alliance which has no real impact on these companies. [...] Therefore, we were very sure that we don't want to be part of it because we want to have another approach on financing the climate protection. (ESG Expert 1)

## **DISCUSSION**

The main arguments related to the sustainability commitment in the financial field, which emerged from the data presented above, will be discussed in the following paragraphs through

the lens of legitimacy and impression management theory. The primary purpose is to understand legitimation endeavors with respect to different stakeholders and highlight the various impression management tactics used for this scope.

## **Legitimacy**

Sustainability is fraught with ambiguity. On the one hand, sustainability is still a very new topic and due to a lack of frameworks and guidelines, respondents perceive it as difficult to implement theory into practice. On the other hand, different interest groups have different perceptions of sustainability. Especially in the asset manager business, the vast majority of clients is not interested in sustainable products, however, the financial institutions need to become more sustainable in order to fulfill EU regulation and maintain legitimacy in the eyes of society, who strongly favors sustainability as a whole (Linsley & Kajüter, 2008). Financial institutions need to pursue different legitimacy approaches for their different stakeholder groups to appear overall legitimate. The following relevant stakeholder groups have been identified for financial institutions: employees, shareholders and overall society.

For employees, both a cognitive and a moral legitimacy approach have been found. In order to reach moral legitimacy, organizations are aiming to be in line with the larger belief system and doing the right thing (Suchman, 1995), therefore financial institutions try to increase (gender) diversity and fight unconscious biases, but also install volunteer days and open their employees the possibility to engage in the sustainability transformation of the respective financial institutions. Therefore, financial institutions aim to integrate social sustainability in a way that it becomes taken for granted for their employees, thus advocating for cognitive legitimacy. Further on, many respondents describe a new sense of purpose, stronger identification with their institution and an overall bonding experience because of sustainability strategy implementation. It can therefore be assumed that the financial institutions have successfully reached moral legitimacy within this group of stakeholders. However, achieving cognitive legitimacy seems to be a not yet ended process because employees still perceive high ambiguity concerning the overall understanding of sustainability.

In order to obtain shareholders' mandate to operate, financial institutions pursue a pragmatic legitimacy approach (Suchman, 1995). Shareholders are still critical towards sustainable products, as they favor short-term profits. Therefore financial institutions present the benefits of sustainability products for the individual client. Most dominant ones are better risk management which leads to a better performance and additionally new business opportunities. Financial institutions claim success for both described outcomes, however there is ambiguity within the financial discourse whether sustainability objectives actually lead to legitimacy by their shareholders.

To appear legitimate towards society, financial institutions aim to reach moral legitimacy, which requires them to act towards higher societal values (Suchman, 1995). Proof for that can be found in the fact that sustainability strategies became a trend in recent years. Even though a lot of interviewees claimed that it comes naturally for them to engage in sustainability, and that they are doing it out of their own intrinsic motivation, the reference to the impact of Fridays for

Future demonstration as a starting point for the societal development towards sustainability, is much more likely. Further evidence for that can be found in numerous sustainability reports in which financial institutions claim to pursue sustainability objectives as it is the “right thing to do” for them. As financial institutions describe new customer acquisition (especially young ones) as a positive side effect of their sustainability commitment, it can be assumed that they have successfully reached legitimacy within this group.

## **Impression Management**

Financial institutions seem to recurrently engage in impression management tactics in order to cope with these different interests and reinforce their legitimacy. Managerial accounts reveal the complexity and ambiguity of implementing certain sustainability related topics into core business. This lack of clarity increases the propensity to engage in impression management tactics since it would be easier to elude any negative influence (Bansal & Kistruck, 2006; Talbot & Boiral, 2015). From the empirics we identified three different impression management tactics, some of them seem to be strictly interrelated. The various impression management strategies will be discussed below.

### ***Self-Praising***

The majority of the organizational members interviewed describe the motivation to commit to and implement sustainability strategies as “the right thing to do” and as a natural inclination of financial institutions’ employees given their shared sustainability mindset. The claim might be further supported by a general positive attitude towards regulation. In fact, when talking about regulation (especially CSRD), respondents have primarily used assertive strategies which reflect the practice of praise, as introduced by Sandberg and Helmlund (2013). In doing that financial institutions lay a focus on better accessibility of data, increased transparency and clearer frameworks, all caused by the new regulations. The positive attitude towards regulations is in contrast with the findings from Talbot and Boiral (2015), who found that relevant actors criticize the effect of governmental regulations to justify their impact on environmental issues. This identified practice of self-praise has also been installed by employees in the ESG department, highlighting the improved internal processes, as regulation drastically decreases the time and effort needed to convince employees to commit to sustainability goals. Moreover, other perspectives advocate that regulations provide a clearer framework and help the relevant actors to deal with the novelty aspects of sustainability which require new processes and mindset.

Other examples of self-praising tactics implemented by the financial industry are given by their promotion of regulation compliance and their most successful internal projects related, for example, to the environment, gender equality or volunteer days. Furthermore, many companies praise their sustainability commitment, by presenting themselves as “ESG leaders” and highlighting their ESG related awards. These instances result to be in line with the self-promotion tactics found by Perks et al. (2013), according to which organizations tend to share information that boost their favorable image. Further on, the interviewed financial institutions identify themselves as a relevant third party by recognizing their role in the overall green

transition, doing so by, for instance, controlling investment flows and deciding about loans. In this respect, the respondents have underlined their ESG commitment by their aim to become a good corporate citizen, which, in line with Sandberg and Holmlund (2015), can be seen as another attempt of installing an assertive impression management tactic by highlighting the will to follow societal moral objectives and values. In particular, with these self-praise tactics, financial institutions are trying to reinforce their legitimacy by delineating how their role actually benefits the whole society (Suchman, 1995).

### *Displaying limitations and promises for future commitment*

The empirical section revealed how the sustainability commitment of financial institutions is highly dependent on the sustainability performance of their clients and on the data they will be able to collect. Thus claiming that they cannot fully ensure to act sustainable since they are highly dependent on clients demands and on the available data concerning the sustainability performance of the companies or projects they choose to invest in. By highlighting this external dependency financial institutions seem to provide an explanation about why they are unable to wholly act sustainable, thus displaying a defensive justification practice (Sandberg & Holmlund, 2015). The same tactic can also be seen in their task of educating clients. Even though the majority fulfills this task, some financial institutions choose not to follow this role, and instead try to use a defensive tactic by explaining their limited influence on client decisions. In fact, even those that try to incentivize their clients to choose sustainable products, by for example promoting green investments or lowering the cost of lending, the majority of financial institutions highlight their reliance on client's choices and the evolution of their consideration on some sustainability issues since they are subject to competitive pressure. This rhetoric is consistent with the neutralization practices identified by Talbot and Boiral (2015) according to which companies call for a consideration of the context in which they operate, particularly in relation to consumer behavior, therefore sharing a part of the responsibility for their limitation in sustainability commitment with their customers. This call for context consideration is further witnessed by how financial institutions and especially asset manager companies, denounced an enlarged short-term orientation in investors' mindset due to the increasing economic uncertainty caused by the war in Ukraine. Therefore, even though financial institutions acknowledge their role in the green transition, they partake their responsibility in actually fulfilling this role by stressing the client dependency and their option to choose another bank in case of a denied loan. Additionally in the financial industry responsibility is shared also by referring to sustainability data disclosure of investees.

The institutions considered for this study also referred to the regulatory context when illustrating restrictions in reaching sustainability objectives. In particular, respondents differentiated between the specific regulations, most importantly between the CSRD and the EU taxonomy. While respondents expressed the fulfillment of the CSRD regulation primarily by using assertive tactics, the EU taxonomy has mostly been described through the use of defensive tactics. Following Sandberg and Holmlund (2015), financial institutions described the compliance to the EU taxonomy critically, mostly by questioning the installed definition of sustainability (e.g. in regard to nuclear power). Accordingly, even though the compliance is

inevitable, financial institutions used a clear explanation, why they think the compliance to it is not useful and not in line with their intention to actually act sustainably.

According to the findings from Talbot and Boiral, (2018), explanations of constraints and limitations are generally linked to promises for future improvements. A recurring example is the commitment of financial institutions to sustainability, frequently described as an ongoing process that must be continuously adjusted based on the progress made and feedback received from external entities such as alliances or customers. This identified discursive practice regarding one's company's commitment to sustainability is consistent with the combination of the two impression management tactics devised by defensive literature. Firstly, these discourses can be intended as an explanation about why the level of sustainability performance may not be in line with stakeholders' expectations, which might be particularly high in comparison to the level of sustainable commitment currently implemented by the company. This is in line with the findings from Sandberg and Holmlund (2015) according to which the depiction of sustainability commitment as an ongoing process can be applied to clarify why the company, despite having the best intentions, is unable to fully commit to sustainability issues. Secondly, portraying one's commitment to sustainability as a continuous and unfinished process might be in line with an attempt to promise future improvements to the existing commitment towards sustainability. Thereby conforming to the impression management tactics exemplified by Talbot and Boiral (2018). The defensive impression management tactics of displaying excuses and claiming future commitment (Talbot & Boiral 2018) is not only used by privately owned banks, but also by the interviewed central bank describing the challenges of implementing regulations (primarily the CSRD) but also highlighting future success of the financial industry as a result of this regulation.

An additional way through which financial institutions attempt to demonstrate their intentions for further future commitment towards sustainability, is by referring to their external collaboration projects as well as to alliances of collective sustainability commitment, like the NZBA or the NZAM. These are described as an opportunity to acquire additional knowledge and skills and to learn about best practices in the field of sustainability commitment. Therefore, financial institutions admit limits in their expertise regarding sustainability practices and show willingness to learn from others. This discourse, in particular, results to be in line with the supplication approach according to which companies' limits and the need for external assistance are emphasized in order to elicit feelings of sympathy and support from the public (Lins et al., 2016). In this case, utilizing supplication as an impression management tactic might be a favorable tool to hinder possible criticisms which may arise in regards to the companies' sustainable commitment.

### ***Conformity and Differentiation***

The emphasis given to external institutions and collaborations, such as the NZBA and sustainability focused projects in partnership with well-known universities, suggest that actors are promoting their own company's sustainability commitment through third party association which as discussed by Perks et al. (2013), it has been found that this strategy reinforces stakeholders' positive perceptions in relation to a company's sustainability commitment. More

precisely, the membership in an alliance of collective commitment is an example of ingratiation tactics whereby conformity to the group of social norms is promoted in order to reinforce company's legitimacy and further validate their sustainability commitment by diverting attention from potential controversial practices (Allen & Caillouet, 1994). However, these tactics have also been identified as a justification practice aimed at creating shared responsibility, meaning that certain initiatives or disclosure practices are appropriate because they are performed by every entity in the industry. This might be a relevant approach to mitigate the impact of potential critiques regarding the company's current sustainability commitment on its reputation (Stapleton & Hargie, 2011). However, adhering to association of collective sustainability commitment are not only useful for external legitimacy and society acceptance, but also for cognitive internal legitimacy as they provide a convincing motivation for corporate's new operations and processes (Suchman, 1995).

In the sample considered for this study, only one bank strategically decided to withdraw from a prevalent initiative, such as the NZBA, undertaken by the major financial institution operating in Europe. As a result, this bank in particular chose to strengthen its legitimacy by distinguishing itself from its competitors. This form of communication reflects the one described by Schlegelmilch and Pollach (2005) which explains how by distinguishing from competitors comparatively increases the legitimacy of ethical behavior. On the other hand, the majority of actors interviewed tend to place their company at the same level of their competitors in the industry instead of describing their sustainable commitment as superior to the ones of their competitors. Indeed, while talking about their sustainable commitment managers emphasized themes such as collaboration, learning from competitors and networking. Therefore, it seems that financial companies do not have the aspiration of being perceived as a single institution that is sustainable in a potentially unsustainable industry, but rather as an institution that has an active part in an industry that is coherently trying to do better and becoming green. Hence, impression management strategies appear to be performed not only for the advantage of the individual company's image, but also for the benefit of the entire industry. In this vein, the financial industry tries to differentiate themselves as a whole from other industries and companies, by describing the new regulation as a chance for them, as they have according business models and strategies, which make use of sustainability but acknowledge it as a burden specifically for SMEs. Therefore defensive tactics are employed to differentiate themselves to clearly explain why these SMEs cannot (yet) operate as sustainable as they do (Schlegelmilch & Pollach 2005; Sandberg & Holmlund, 2015).

### **Consultancy perspective**

Outsiders, primarily consultants, but also asset managers, seem to have a more critical perspective on financial institutions sustainability disclosure and the related commitment. Financial institutions themselves try to install assertive impression management tactics, outsiders, however, see a stronger usage of defensive tactics. They see the commitment to sustainability disclosure motivated by regulation compliance and therefore following a defensive tactic by using justification (Sandberg & Holmlund, 2015). They claim that, if everyone would follow the self-proclaimed intrinsic motivation concerning sustainability,

regulation, like the CSRD, would not have been needed or developed thus contrasting the intrinsic motivation claim by industry insiders. This argument is strengthened by the recent movement to sustainability, that started after initiatives by the EU and societal pressure. This also goes in line with legitimacy theory, which sees the compliance to societal norms like, sustainability regulation as needed in order to maintain legitimacy and therefore being able to operate their business (Linsley & Kajüter, 2008). Further on, the stronger focus on the environmental dimension at the expense of the social dimension could indicate that banks are less motivated by intrinsic motivation and more by market demand in order to continue to make good sales and do not aim to have a real impact on their environment, which can be seen as a further indication for a defensive tactic.

Additionally, even those financial institutions, that present themselves as ESG leaders and are able to present ESG related awards, do rarely use any exclusion criteria, which are, following consultants, a minimum criteria nowadays in order to have a legitimate sustainability commitment. Therefore, their self-proclaimed ESG leader position can also be seen as a defensive tactic, if they are not backed by the needed measurements or exclusion criteria (Talbot & Boiral, 2015).

Consultants see sustainability reports as a reputational tool for self-praising. This is in accordance with Linsley and Kajüter (2008), who have found that reports are attractive for the usage of impression management tactics as they provide a high level of legitimacy. In this line, consultants criticize the paramount usage of only nice words and pictures. This goes in line with Dvorski Lacković et al. (2017) who state that narratives, as well as pictures and graphs are a common impression management tool within reporting. Evidence of this tactic can be found in, among others, the discrepancy between phrases used such as "common sustainability mindset" or "ESG is at the base of everything we do" and the still prevailing short-term respectively single materiality orientation which solely focuses on profitability instead of including social and environmental factors respectively a double materiality approach to actually act sustainable. These sentences also showcase further impression management tactics in form of the usage of an optimistic language in the information disclosed (García-Sánchez et al., 2019), by describing their sustainability commitment, for example. as everything they do, however, without offering a clearer definition of what these actions actually are.

## **CONCLUSION**

This study shed further light on the usage of sustainability disclosure in the financial industry. Previous research on impression management practices in the financial industry primarily focused on financial disclosures or communication in general (Albuquerque et al., 2022; Axelsson & Leufstedt, 2014; Dvorski Lacković et al., 2017) and has neglected sustainability disclosure (Mohamed Buallay et al., 2023). In addition, sustainability disclosure studies have mostly focused on pollution intensive industries (Zimmermann, 2019) and were based on official disclosure channels as the primary data sources. To fill these gaps, we studied

managerial accounts concerning their companies' sustainability efforts guided by the following research question: *How do financial institutions use sustainability disclosure?*

We showed how financial institutions use impression management tactics for the scope of appearing legitimate in the eyes of different stakeholder groups. Financial institutions engage in impression management tactics given the underlying ambiguities related to the sustainability commitment of financial companies because of different stakeholders interests which are hardly combinable. In relation to this, by analyzing the main discursive practices employed by actors operating in the financial industry, we further identified the primary usage of three impression management tactics, namely: *self-praising*, *displaying limitations and promises for future commitment* and *conformity and differentiation*. Through *self-praising*, a positive image of the company is constructed by emphasizing the natural inclination of the overall company to engage sustainability related matters and widely describe company initiatives in that area. Moreover, financial institutions *display limitations and promises for future commitment* by advocating for data and client dependency in relation to their sustainability endeavor. At the same time, showing intention for future commitment by describing their sustainability commitment as an ongoing process and emphasizing collaboration and learning opportunities. Lastly, by engaging in *conformity and differentiation* financial institutions attempt to construct a favorable image for the whole financial industry, by differentiating themselves from other less sustainability committed industries. Individuals seem to highlight how their own institution tends to conform to a set of whole industry initiatives in order to be perceived as an active entity in a sustainable industry. By supplementing our study with an outsider perspective in the form of consultants we conclude that there seems to be a dominant use of defensive impression management tactics within sustainability disclosure in the financial field. This might be explained by the already existing legitimacy problem which affects the financial industry (Kemetter, 2023; Rahi et al. 2021), thus leading to more practices aimed at image restoration (Talbot & Boiral, 2018).

These findings contribute to legitimacy theory and impression management theory by exploring an industry which received little considerations in previous studies, thus providing further cases for impression management theory building (Perkiss et al., 2021). Moreover, the present research contributes to the generation of further knowledge in the field of sustainability disclosure research by implementing a unique study design which focuses on arguments resulting from organizational members' conversation with outsiders.

Our study presents three main relevant implications for practitioners. Firstly, learning about managerial discourses can have practical implications for public relations as well as for human resource practitioners in charge of the integration of sustainability concerns into corporate culture. To avoid reputational issues or greenwashing allegations, human resource practitioners should constantly check the overall integration of sustainability into corporate culture. Furthermore, we found that impression management tactics are a result of an underlying ambiguity concerning the management of sustainability matters. This could also have implications for governors regarding the design of applicable regulations aimed at developing sustainability commitment as the ambiguity encountered might indicate the need for more clear

guidelines. Lastly, organizations should exert their power and create shared industry standards themselves. For now, missing standards and indicators lead to problems and ambiguities in the implementation of sustainability initiatives. Regulations take a long time to be adapted and therefore, creating shared industry standards themselves, could resolve this gap and have the same power as regulations and consequently decrease uncertainty.

Given the new regulations arising in regards to sustainability matters (e.g., CSRD and EU taxonomy), it might be worthwhile for future research to see how these new reporting regulations will impact the usage of impression management tactics within sustainability reporting in the long-term. Further on, our collected data is limited to European banks, however, the understanding of sustainability might differ greatly across regions. Therefore, it would be interesting for future research to examine the usage of impression management and the overall attempts to become legitimate in other regions outside of Europe. To generate a holistic perspective of sustainability disclosure, we used a broad sampling strategy consisting of managers from seven different European countries. However, we did not take into account possible regional European or organizational role differences. Therefore, future research might examine country differences concerning the usage of impression management tactics in sustainability disclosure as well as include the accounts of organizational members at different levels, thus going beyond managerial roles.

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