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Financial Ethics and Social Innovation: Contemporary Reconfigurations of Value Creation in Organizations

Financial Ethics and Social Innovation: Contemporary Reconfigurations of Value Creation in Organizations

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Summary

The interaction between financial ethics, corporate governance, and social innovation has ceased to be a marginal topic in business discussions and has become central to the strategic formulation of companies, investors, and regulators. Instead of being seen as a moral complement to economic analysis, ethics is being recognized as an essential part of investment decisions, especially in contexts that present climate risks, social tensions, and increased public scrutiny. This article explores how ethical principles, materiality criteria, and results-oriented social innovation initiatives can be integrated into a cohesive value creation model that encompasses economic, social, environmental, and reputational dimensions. The argument develops through dialogue with stakeholder theory, the *triple bottom line*, the evolution of international reporting standards (GRI, SASB, ISSB), and the literature on institutional trust and behavioral finance. From this basis, an analytical framework is suggested that structures the discussion around four interrelated axes: integrity and institutional structure of financial decision-making; identification of material issues and risk management; social innovation aligned with strategy; and enhanced *accountability* in relations with investors and society. The text blends conceptual analysis with practical reflection on frequent dilemmas—such as the tension between return and impact, disputes between short- and long-term horizons, and the challenges of credibility in contexts of high information asymmetry—and argues that, when adopted consistently, financial ethics and social innovation act as tools for risk reduction, strengthening trust, and establishing sustainable competitive advantages.

Keywords: financial ethics; social innovation; corporate governance; materiality; disclosure; sustainable value; institutional trust.

Abstract

The interaction between financial ethics, corporate governance, and social innovation has ceased to be a marginal topic in business discussions and has become central to the strategic formulation of companies, investors, and regulators. Rather than being viewed as a moral complement to economic analysis, ethics is increasingly recognized as an essential component of investment decisions, especially in contexts marked by climate risks, social tensions, and heightened public scrutiny. This article explores how ethical principles, materiality criteria, and outcome-oriented social innovation initiatives can be integrated into a cohesive value-creation model that encompasses economic, social, environmental, and reputational dimensions. The argument unfolds through dialogue with stakeholder theory, the triple bottom line, the evolution of international reporting standards (GRI, SASB, ISSB), and the literature on institutional trust and behavioral finance. Based on this foundation, an analytical framework is proposed that structures the discussion around four interrelated pillars: integrity and institutional structure of financial decision-making; identification of material topics and risk management; social innovation aligned with strategy; and expanded accountability in relationships with investors and society. The text combines conceptual analysis with practical reflection on frequent dilemmas — such as the tension between return and impact, disputes between short- and long-term horizons, and credibility challenges in contexts of high information asymmetry — and argues that, when adopted consistently, financial ethics and social innovation function as tools for risk reduction, trust building, and the establishment of sustainable competitive advantages.

Keywords: financial ethics; social innovation; corporate governance; materiality; disclosure; sustainable value; institutional trust.



1. Introduction

The notion of corporate "value" has undergone a process of...

A shift that can hardly be ignored by anyone who closely observes the interaction between Markets, institutions, and society. For a long time, the idea that economic performance could to be evaluated almost exclusively based on indicators of profitability, return to shareholders and Revenue growth has shaped both the theory and practice of financial management.

The framework hasn't disappeared, but it has been confronted by successive crises: scandals, accounting problems, large-scale environmental collapses, corruption scandals involving conglomerates transnational corporations, social protests, and, persistently, the advance of climate change and... inequalities.

The combination of physical risks, regulatory transition risks, and social pressures has led to... Institutional investors, regulators, and international organizations are questioning business models. which, although profitable in the short term, prove fragile in the face of environmental shocks, litigation, sanctions or boycotts. Organizations that ignore significant socio-environmental impacts take advantage power imbalances in the production chain or they operate with opaque governance structures. They may, for a period of time, demonstrate solid financial performance. However, experience Recent research indicates that these approaches often generate hidden liabilities that manifest themselves in the form damage to reputation, increased cost of capital, limited access to markets and, in some cases situations, crises of continuity.

Empirical research that establishes a connection between ESG (environmental, social and environmental) factors. (governance) and long-term performance indicate that companies with more Strong integrity, risk management, and stakeholder engagement practices tend to face challenges. better weather crises and maintain the confidence of long-term investors (Eccles; Edmans, 2020). Thus, the debate ceases to be merely normative and begins to include a clearly practical aspect: disregarding Socio-environmental, regulatory, and reputational variables have become a source in various industries. significant economic inefficiency.

Given this context, financial ethics is no longer simply about adhering to rules. legal or accounting matters. It involves how the organization structures its decisions regarding Investment, distributes risks among different groups, establishes priorities for resource allocation. and meets constantly changing social expectations. Similarly, social innovation: initiatives previously viewed as secondary philanthropic activities, often Disconnected from the main strategy, they begin to be reconsidered based on their potential to generate measurable impact, reduce conflict, develop local capacities and, at the same time, to preserve or increase economic value.



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This article aims to analyze these reconfigurations through three movements.

analytical. The first revisits the theoretical foundation that links stakeholder theory, the triple bottom line. bottom line, the evolution of the definitions of governance and materiality, in addition to the contributions of Behavioral finance for understanding institutional trust. The second organizes these contributions within a framework that connects integrity, selection of material issues, and social innovation. with a focus on results and enhanced accountability mechanisms. The third addresses the implications for different organizational arrangements — companies, hybrid organizations, and entities non-profit — and highlights some challenges that still need to be addressed.

The underlying hypothesis is that financial decisions that consider ethical criteria and a Rigorous analysis of social and environmental impacts does not replace the discipline of capital, but rather... They resize. Instead of restricting economic rationality, they broaden the spectrum of risks and Opportunities to be evaluated, which leads to direct implications for maintenance capacity. of value in contexts characterized by interdependence and uncertainty.

2. Theoretical Framework: From Stakeholders to Extended Materiality

Research on financial ethics and social innovation is based on a set of debates that, although lacking uniformity, converge on certain points. Among these Discussions clearly highlight stakeholder theory , the *triple bottom line*, and the evolution of governance. Corporate governance and the development of the materiality agenda, in addition to reflections on trust. institutional factors that emerge from behavioral finance.

The stakeholder theory , proposed by Freeman (1984), challenges the prevailing view in some segments of financial theory, which views the company as having as its main objective the Maximizing shareholder value. By emphasizing that organizations relate to a variety of groups — employees, suppliers, customers, local communities, governments, investors and civil society — the author argues that strategic and financial decisions result in distributive effects among these parties. Therefore, it is fundamental to recognize that the choices related to investments, credit policies, indebtedness and dividend distribution not They are neutral: they determine who assumes the risks, who obtains the benefits, and how the costs are distributed. Possible failures are divided.

This view is aligned with the *triple bottom line* presented by Elkington (1997), which It organizes the idea that organizations should be accountable in three dimensions of their performance: economic, social, and environmental. In many cases, the implementation of the *triple bottom line* occurred through A purely bureaucratic approach, with lengthy and unanalytical reports. Elkington himself He revisited his proposal years later, warning about the risk of the metaphor being used for to cover up practices that do not result in significant transformation. However, the idea that the



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Economic performance, by itself, is not sufficient to measure an organization's contribution if...

established and began interacting with a growing variety of tools for measurement and disclosure.

Corporate governance, in turn, has expanded beyond concerns about conflicts.

The agency relationship between shareholders and managers has gained relevance in the wake of crises and scandals.

Regarding transparency, the composition and functioning of boards, the independence of audit committees, risk management, and internal control mechanisms. As they became more visible

The impacts of financial decisions on natural environments, labor rights, and global supply chains.

In addition to its value, governance has come to incorporate socio-environmental dimensions, albeit unevenly and reputational.

In this scenario, the notion of materiality becomes fundamental. Initially linked to the area accounting — as a criterion for defining what information is relevant to users of

Financial statements — the concept of materiality has been reinterpreted over time.

based on literature and international sustainability reporting standards. Organizations such as

GRI, SASB, and more recently, ISSB, have helped to clarify that environmental, social, and...

Governance issues can be materially significant when they affect cash flows, cost of capital,

Access to markets, regulatory stability, or even the survival of the business. The concept of

dual materiality, which considers both the organization's impact on the environment and the

The impact of the environment on the organization reinforces this expansion.

In parallel, behavioral finance has introduced a more complex perspective on...

How markets work. Instead of assuming that investors and other agents process

information in a strictly rational way, this literature shows how cognitive biases,

Heuristics, emotions, and perceptions of confidence influence risk attribution and pricing.

assets. Recent history is full of cases where a breach of trust regarding a

The organization — due to scandals, fraud, socio-environmental damage, or ethical conflicts — resulted in

Abrupt drops in market value, rating revisions, and credit downturns. Transparency and

Consistency between discourse and practice thus becomes an important component of risk assessment.

Based on this set of contributions, financial ethics and social innovation cease to be...

These issues are secondary and begin to interact directly with how decisions are made.

Investment, financing, and resource allocation decisions. The challenge is not just "making the..."

"Right" in an abstract way, but understanding that the way capital is allocated has

concrete consequences for the organization's stability and its legitimacy in society.

3. Financial Ethics as a Decision Architecture

Reducing financial ethics solely to fraud prevention and compliance with legislation.



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This results in a limited perspective. These dimensions are fundamental, but they are not sufficient for... dealing with the dilemmas that arise when organizations operate in complex contexts and interconnected. In practice, financial decisions generally involve the allocation of risks over time. time constraints involve defining priorities among competing projects and choosing which will be more... impacted by potential assessment errors.

Incentive design is a clear example. Compensation structures that reward... Short-term results, without considering the quality of the risk involved, can encourage Behaviors that prioritize immediate profits at the expense of future liabilities. Policies of Credit that disproportionately transfers risk to customers or communities. Vulnerable businesses may be profitable initially, but they tend to generate conflict, default, and damages. to reputation. Ethics here manifests itself not as a set of external rules, but as a criteria for reflecting on what is considered acceptable regarding the exposure of third parties to risks. financial, socio-environmental or institutional.

Boards of directors and specialized committees have an important role in this. structure. When ethical issues are addressed only as compliance topics, the response of Organizations tend to be reactive and focused on "putting out fires." On the other hand, advice that The decisions include contributions from experts in socio-environmental risks, human rights, and... Sectoral regulations increase the likelihood that capital decisions will be evaluated in a way that... comprehensive, and not just from the perspective of expected return.

Financial ethics, understood in a broader sense, is related to the quality of decision-making process: the way alternatives are analyzed, the transparency regarding the assumptions, clear identification of conflicts of interest, willingness to review decisions in light of of new evidence and the inclusion of different perspectives. Formal tools — codes of Conduct, anti-corruption policies, whistleblowing mechanisms, contractual clauses—these are crucial, but... They only become effective when they are supported by the organizational culture and the way leadership and The councils really act in critical situations.

4. Materiality, Social Innovation and Value Creation

If ethics guides the quality of decisions and choices, materiality acts as a filter. which organizes priorities. In a scenario where the demand for information grows and the agenda of As sustainability becomes more complex, it's natural that extensive reports emerge, although little is known about it. Selective. However, the danger is that an excess of information can impair focus and make it more difficult. so that investors, regulators, and society can discern what is truly relevant.

The debate about materiality aims precisely to prevent that Sustainability doesn't become a mere list of good intentions. Identify the material issues.



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It requires questioning which factors—environmental, social, and governance—have a real impact on financial results, continuity of operations, and social legitimacy. For a company of In the energy sector, emissions and the transition to renewable sources may be essential; for a financial institution, credit granting practices, data protection and money laundering prevention Money is often a priority; for a technology company, aspects such as Privacy, algorithms, and labor relations in global supply chains can be vital.

This is where social innovation becomes especially attractive. Initiatives aimed at Financial education for indebted populations, productive inclusion in regions impacted by large projects, improvements to basic infrastructure in the areas of influence of a specific project. or the development of technological skills in marginalized communities may Simultaneously meet significant social demands and minimize risks for the organization. The line that separates a socially innovative intervention from a merely promotional action is, in However, it is subtle. This line is defined by clarity of objectives and by its correlation with material problems. of the business, by the ability to measure results and by the willingness to adjust or cancel projects. who fail to keep their promises.

When linked to material issues, social innovation ceases to be seen as an expense. It is secondary and is seen as an investment in resilience and legitimacy. The return is not yet apparent. not only in the form of a favorable reputation, but also in reducing the risks of interruptions. operational issues, litigation, organized social opposition, or loss of the social license to operate. On the other hand On the other hand, initiatives that use impactful language lack a database or commitments. Genuine claims tend to increase skepticism, fuel accusations of *greenwashing* or *social washing* , and... to generate distrust among the audiences whose trust one sought to win.

5. Governance, Trust, and Enhanced Accountability

The relationship between financial ethics, materiality, and social innovation is solidifying—or rather, becoming more solid. It weakens — in terms of governance. It is in the effective operation of boards, risk committees, Auditing and sustainability that proves whether these dimensions are linked to the decisions of investment or are they restricted to administrative reports and speeches.

Advice that encompasses a variety of experiences, while maintaining a certain Those who have autonomy in relation to executive management and access to quality information tend to to be in a more favorable position to question strategies that are overly focused on immediate results, to critically analyze risks and to assess the consistency between the The stated purpose and effective practices. This form of governance does not eliminate the possibility of This is not a mistake, but it increases the chance that ethical and socio-environmental dilemmas will be identified in time and treated as part of the strategic agenda, and not as secondary issues.



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Institutional trust, on the other hand, does not result from a single decision. It is the outcome based on a history of conduct, how the organization responds to crises, and how it communicates. In difficult situations, and with the consistency between promises and achievements. In environments of high uncertainty, Investors, regulators, and society tend to seek more intensely signs of integrity and Transparency to help them form their perceptions of risk. Integrated reports, audits independent of non-financial information, the clear disclosure of the assumptions used in Scenarios, and openness to dialogue with stakeholders, help in this process, provided that they do not... They simply follow formal protocols.

Simultaneously, mechanisms for enhanced *accountability* are not without limitations. Overly detailed regulatory requirements can lead organizations to prioritize... Completing checklists, at the expense of reflecting on what is truly fundamental. The challenge is to create governance structures that combine discipline and flexibility: discipline to ensure minimum standards of transparency and accountability; flexibility to enable Innovation, learning, and adaptation to diverse sectoral contexts. Ultimately, what determines... The quality of an *accountability* system lies in its ability to generate useful information for decision-making of decisions, and not just to fill out reports.

6. Dilemmas in Different Organizational Arrangements

When analyzing this strategy across various types of organizations, the variety of challenges becomes apparent. This makes it clear. Companies that operate in sectors that heavily rely on natural resources or that They face strict regulations and deal with risks that can affect both their profits and their Authorization to operate. Mining projects, large hydroelectric plants, oil exploration. Gas, large-scale agriculture, or complex financial sectors cause impacts. significant impacts on the territory, communities, and ecosystems. In these cases, the absence of a Proper interpretation of materiality and financial ethics significantly increases the chances of Disasters, conflicts, and breaches of trust. The discussion about social innovation, in this context, should... to be integrated into effective measures for damage prevention, repair, and relationship building. lasting impacts on the affected populations.

Hybrid organizations, which combine explicit social purpose with business models. Investors focused on revenue generation face another set of tensions. Patient capital investors They may accept more moderate financial returns in exchange for demonstrable social impact. while other funders insist on profitability targets closer to the practices of market. In boards and executive teams, debates arise about the allocation of resources between initiatives with strong social appeal but low revenue predictability, and projects with a return A clearer financial perspective. Financial ethics, in this context, manifests itself in how these decisions are made.



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justified by the transparency with which goals are defined and communicated and by the willingness to recognize that certain commitments made to beneficiaries cannot be dealt with solely as adjustable variables in spreadsheets.

Non-profit organizations, in turn, operate under a different logic, but not They are less susceptible to ethical dilemmas in resource management. The reliance on donations and partnerships... Governmental agreements or collaborations with companies can generate pressure to expand projects that are not are sustainable in relation to organizational capacity, accepting conditions that compromise the institutional autonomy or presenting inflated results. In markets competitive by Given limited resources, the temptation to use impactful narratives without a solid foundation is real. Consistent financial ethics practices — such as transparency in the use of resources, clear criteria for the evaluation and completion of projects, collaborative governance, and external audits — they become- If, in this context, they are fundamental to the very legitimacy of the organization.

In all these circumstances, the combination of a rigorous materiality analysis and innovation Social policies guided by effectiveness criteria and governance attentive to ethical risks appear to increase the The chances of organizations facing periods of instability with less damage. The absence These components, on the other hand, compromise business models and slowly erode the Stakeholder trust , a phenomenon that rarely manifests itself suddenly, but It tends to accumulate until it results in an open crisis.

7. Implications for Managers and Boards

The assessments carried out so far point to several repercussions for the daily routine of managers. Financial professionals, consultants, and other professionals responsible for making financial decisions. The first repercussion concerns the planning process itself. Forecasts that disregard socio-environmental risks, regulatory dynamics and possible changes in consumer preferences Consumers' views are based on a limited perception of reality. Including these aspects Planning doesn't mean adopting a constantly pessimistic stance, but rather recognizing that... The future of cash flows depends on factors that cannot be fully understood through... of historical data.

A second repercussion relates to the way projects are evaluated. The criteria Traditional investment analysis methods remain valid, but can be enriched with... Additional questions: What kind of reputational risks could this project cause? What is the impact? Regarding relationships with communities, workers, local authorities, or regulators? Is there a risk? open conflicts or legal proceedings? How does this initiative align with these themes? Considered relevant to the organization? By aggregating these issues, managers and consultants They recognize that financial decisions also reflect the type of relationship the organization...



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It establishes itself within its context.

A third repercussion is related to the internal culture. It's no use producing reports. sophisticated and impactful terminology are used when everyday decisions are made solely with... based on short-term goals. The consolidation of financial ethics and social innovation requires investments in training, creation of environments for critical discussion and frequent reviews of Incentive mechanisms. In organizations where professionals perceive that behaviors Questionable measures are accepted when they generate immediate results; codes and policies tend to be... considered mere formalities without effect.

Finally, there are significant consequences for how the councils operate. its functions. By integrating financial ethics and social innovation as central components of Strategy, and not as additional items related to reputation, makes advisors capable of to question decisions that appear to disregard relevant risks, to promote the development of internal capacities to address socio-environmental issues and to support, when necessary, choices. Less popular in the short term, but consistent with preserving long-term value. Many Sometimes, the true test for governance guided by ethical principles occurs not in situations obvious illegalities, but in ambiguous decisions where formally accepted paths can resulting in effects that, upon closer analysis, prove to be problematic.

8. Final Considerations

The convergence of financial ethics, social innovation, and governance does not offer a one-size-fits-all solution. Ready for management in complex environments, and perhaps it shouldn't even be doing so. The reality Organizational dynamics are characterized by divergent interests, uncertainties, information constraints, and conflicts. of values that cannot be resolved through conceptual arrangements. Still, certain Analytical frameworks help to qualify how these conflicts are perceived and addressed.

The trajectory presented in this article demonstrates that, when analyzed from the perspective of stakeholder theory , the *triple bottom line*, the materiality agenda, and related discussions Given institutional trust, financial decisions become an arena where ethical and... Strategies intertwine. The way an organization structures its decision-making processes, chooses relevant themes, designs social innovation initiatives, and establishes mechanisms for *Accountability* directly affects your ability to generate lasting value over time and face crises.

In light of the accumulated evidence, it is difficult to argue that these dimensions can be considered mere accessories. In an environment of increasing interdependence, with chains of globalized supply chains, interconnected financial systems, and interconnected public opinions In real time, the allocation of capital takes on more evident political and social dimensions. Ignoring this



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In reality, in practice, it means accepting risks that can hardly be described as neutral from that point of view. economic view.

There is a vast field to be explored, notwithstanding the research we reviewed, studies Comparisons between sectors, case studies that connect specific governance configurations. with tangible results in terms of resilience and legitimacy, in addition to empirical research that evaluate the impact of different social innovation approaches on financial performance and Reputational damage is just one of the possibilities being investigated in academia. Despite the various open questions, one aspect seems relatively clear: organizations Those who take financial ethics, the interpretation of materiality, and social innovation seriously tend to be in a more favorable position to establish lasting, trusting relationships with investors, regulators and society — and, consequently, to maintain trajectories of generating Value over longer time horizons.

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