Re-examining the Moderating Role of Business Ethics on the Corruption Risk–ESG Nexus: A Global Perspective

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ABSTRACT

Manuscript type: Research paper
Research aims: This study re-examines the corruption-ESG nexus and tests the universality of business ethics as a moderating mechanism globally.
Design/Methodology/Approach: Quantitative analysis employs 7,252 firm-year observations from MSCI across the Americas, Europe, and Asia-Pacific for the period 2021–2023, using fixed-effects panel regression.
Research findings: Corporate corruption risk significantly degrades ESG ratings. However, contrasting prior regional studies, business ethics fails to moderate this relationship globally or within major economic regions.
Theoretical contribution/Originality: The study challenges the universal "shielding" effect of ethics, offering empirical support for policy-practice decoupling in global governance.
Practitioner/Policy implications: Investors are cautioned against relying on ethical scores as insurance against corruption; formal policies do not mitigate reputational damage without substantive implementation.
Research limitation: Reliance on standardised MSCI data may overlook specific cultural nuances.

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1. Introduction

The contemporary global economic paradigm has fundamentally shifted from short-term profit orientation toward the creation of sustainable long-term value (Agwu et al., 2021). The integration of environmental, social, and governance (ESG) aspects has transformed into a vital indicator for institutional investors in assessing investment feasibility and corporate risk profiles (Glova & Panko, 2025; Park & Jang, 2021). A collective demand has been established within the capital market for corporations to not only perform well financially but also to demonstrate moral responsibility toward the ecosystem and society at large (Khan, 2022). Consequently, distinct sectors are driven to compete in enhancing the quality of their ESG disclosures to secure operational legitimacy and access to global capital.

Behind this spirit of sustainability transparency, a persistent structural challenge is encountered in the form of corporate corruption (Strang & Vajjhala, 2024). Fraudulent practices, such as bribery, gratuities, and financial statement manipulation, are regarded as the antithesis of the good governance principles that constitute a primary pillar of ESG assessment (Marzouki et al., 2024). Systemic damage is inflicted by corruption, as the efficiency of resource allocation is distorted, and stakeholder trust in sustainability claims is eroded (Liu et al., 2021). A significant discrepancy is often created between the pristine image projected in sustainability reports and the reality of corrupt business practices, resulting in a massive reputational risk that can instantaneously destroy shareholder value.

The urgency of addressing this issue is clearly reflected in statistical data regarding financial losses due to integrity failures. It is estimated by the Association of Certified Fraud Examiners in the *Report to the Nations 2024* that 5 per cent of annual revenue is lost by organisations worldwide due to fraud and corruption schemes (ACFE, 2024). Trillions of United States dollars are projected to be lost annually, placing a heavy burden on the global economy. These statistics confirm that corruption risk is not merely a compliance issue but a fundamental factor that directly degrades the intrinsic quality of a corporation.

The destructive impact of corruption on ESG ratings has been extensively documented in academic literature and industrial reports

(Strang & Vajjhala, 2024; Wei et al., 2024). It is predicted by legitimacy theory that ESG disclosures are often utilised as impression management tools by companies with high corruption risk exposure to divert public attention from internal issues (De Villiers et al., 2022). However, these image restoration efforts are frequently rendered ineffective when inconsistencies between management claims and actual controversies are detected by independent rating agencies. Consequently, uncontrolled corruption is almost invariably followed by significant downgrades in ESG ratings and an increase in the cost of capital for the involved entities.

The institutionalisation of ethics is proposed within strategic management and business ethics literature as a primary defence mechanism to mitigate such risks. Comprehensive ethical infrastructures, implemented through formal codes of conduct, intensive compliance training, and whistleblowing systems, are expected to function as protective shields (Ferrell et al., 2021). The logic underlying this argument is that higher resistance to corrupt pressures is possessed by firms with strong ethical cultures, allowing the negative impact of integrity violations on ESG performance to be mitigated or minimised compared to firms lacking ethical commitment.

Empirical evidence regarding the effectiveness of this mechanism was demonstrated by the recent study of Marzouki et al. (2024), which focused on firms within the European region. A positive and significant role was found for business ethics in moderating the negative relationship between corruption risk and ESG reporting. It is implied by these findings that, within the mature European market, the adverse effects of corruption on external assessments can be effectively reduced by corporate ethical commitments. The effectiveness of ethical policies as tangible internal control tools is likely reinforced by the strict regulations and consistent law enforcement present on that continent.

However, critical questions regarding validity on a broader global scale are triggered by these specific findings from the European context. Distinct compliance dynamics are created by institutional variations outside Europe, such as in Asia, the Americas, and emerging markets. It is indicated by recent studies that in environments with differing regulatory pressures, the adoption of business ethics policies is often rendered symbolic or merely administrative without substantial implementation (Agyemang et al., 2022). This phenomenon of decoupling the separation between formal policy and actual practice potentially causes the moderating role of

business ethics to be rendered ineffective or statistically insignificant at the global level.

This research addresses this literature gap by re-examining the relationship between corruption risk, business ethics, and ESG ratings through a comprehensive global perspective. A massive database from MSCI is utilised, covering 7,252 cross-continental firm observations including markets in the Americas, Europe, and Asia-Pacific spanning the observation period of 2021 to 2023. The assumption of universality regarding the role of business ethics is challenged through this quantitative approach with extensive geographical coverage, allowing for the detection of whether the moderation mechanism found in Europe can be replicated in other jurisdictions with diverse institutional characteristics.

Empirical facts distinct from the European-centric consensus are revealed by the data analysis. It is shown that while ESG ratings are consistently damaged by corruption risk worldwide, the moderating role of business ethics is proven to be statistically insignificant in the global sample. A similar pattern is also exhibited by further investigation through sub-sample separation based on geographical regions, where the negative impact is not significantly mitigated by the interaction between corruption and ethics in the majority of major regions. This indicates that the destructive impact of high corruption risk in the global market is often not sufficiently countered by the mere existence of formal ethical policies.

Important contributions are provided by these findings for the development of theory and risk management practices. The literature is enriched theoretically by the proof that the effectiveness of business ethics as a governance mechanism is highly *context-dependent* rather than a uniform universal solution. A warning is issued to practitioners and global investors not to overly rely on formal ethical scores as investment security guarantees. It is suggested that deep evaluation of integrity culture and fundamental corruption risks must be prioritised over the mere existence of ethical policy documents on paper.

The remainder of this paper is organised as follows. Section 2 reviews the theoretical framework and develops the research hypotheses. Section 3 details the research methodology, including sample selection, variable measurement, and empirical models. Section 4 presents the main empirical results, robustness tests, and subsample analyses. Section 5 discusses the findings in relation to existing literature. Finally, Section 6 concludes the study, outlining its academic and managerial implications, addressing limitations, and suggesting avenues for future research.

2. Literature Review and Hypotheses Development

2.1 Legitimacy Theory

Legitimacy Theory serves as the dominant framework in sustainability literature for explaining the motivations behind corporate environmental, social, and governance (ESG) disclosures. According to the seminal definition by Suchman (1995), legitimacy is a generalised perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions. This perspective posits that a corporation operates under an implied social contract with the community, requiring the entity to demonstrate congruency between its organisational goals and societal expectations (Deegan, 2002). To ensure survival and continuous access to resources, firms must maintain this legitimacy by actively disclosing information that validates their adherence to these communal norms. When a disparity arises between corporate actions and societal expectations, known as a legitimacy gap, the firm faces severe threats to its operational continuity and reputation.

In the specific context of this research, Legitimacy Theory is utilised to explain the direct negative impact of corporate corruption risk on ESG ratings. Corruption is not merely a legal infraction but a fundamental breach of the social contract that destroys trust capital. When a firm is implicated in corrupt practices such as bribery or fraud, it signals a gross violation of the governance norms expected by global stakeholders. De Villiers et al. (2022) argue that while firms may attempt to use disclosures to repair damaged legitimacy, severe integrity failures often render these efforts futile. Consequently, the theory predicts that the market and rating agencies will penalise this breach by revoking the firm's license to operate, which is quantitatively reflected in a significant downgrade of its ESG ratings as a penalty for the loss of legitimacy.

2.2 Stakeholder Theory

While Legitimacy Theory focuses on societal acceptance, Stakeholder Theory provides a normative framework emphasising that organisations have moral obligations to a broad spectrum of constituents beyond shareholders. Originating from Freeman (1984), this theory argues that the long-term survival of a firm depends on its ability to manage relationships with employees, customers, suppliers, and local communities effectively. Donaldson and Preston (1995) further expanded this by distinguishing the instrumental aspect of

the theory, suggesting that ethical behaviour toward stakeholders is not just a moral duty but a strategic means to improve financial performance. Recent scholarship by Freeman et al. (2021) reaffirms that firms possessing a strong ethical orientation are intrinsically motivated to satisfy these diverse needs rather than acting solely on regulatory compulsion, viewing stakeholders as partners in value creation rather than constraints.

This theoretical framework provides the logical foundation for anticipating a positive relationship between business ethics and ESG performance. Within this lens, the implementation of a robust business ethics infrastructure, such as comprehensive codes of conduct and whistleblower protections, is viewed as a tangible manifestation of the firm's commitment to its stakeholders. Ferrell et al. (2021) suggest that institutionalised ethics reduce information asymmetry and foster a culture of transparency, which directly addresses the demands of modern investors and regulators. Therefore, firms that prioritise ethical governance are better positioned to manage non-financial risks and capitalise on sustainability opportunities, leading to superior assessments by ESG ratings agencies which use these ethical indicators as proxies for management quality.

2.3 Resource-Based View (RBV)

The Resource-Based View (RBV) complements the aforementioned theories by focusing on the internal capabilities that drive organisational resilience and competitive advantage. As conceptualised by Barney (1991), a firm is a unique bundle of resources where those that are valuable, rare, inimitable, and non-substitutable (VRIN) contribute most significantly to sustained performance. In corporate culture, specifically, a deeply embedded ethical climate is widely recognised in the literature as a strategic intangible asset because it is socially complex and historically determined, making it difficult for competitors to replicate (Barney et al., 2021). Unlike physical assets that can be easily acquired, an ethical culture is developed over time through consistent leadership and reinforcement, creating a unique organisational capability.

In applying RBV to this study, business ethics is conceptualised as a shielding resource that moderates the impact of external shocks such as corruption controversies (Barney et al., 2011). The theory suggests that when a firm encounters corruption risks, the possession of a strong ethical infrastructure serves as a superior immunological response mechanism. A firm with this valuable resource is

theoretically better equipped to detect malfeasance early, enforce internal sanctions, and communicate effectively with stakeholders to isolate the incident from the firm's broader identity (Freeman et al., 2021). Thus, RBV supports the logical expectation that high business ethics should buffer the reputational damage caused by corruption, positing that ethical firms will suffer a smaller decline in ESG ratings compared to their less ethical peers when facing similar corruption risks (Marzouki et al., 2024).

2.4 Hypothesis Development

2.4.1 Corporate Corruption Risk and ESG Ratings

The nexus between corporate corruption and sustainability performance has become a focal point in contemporary governance literature. Corporate corruption risk generally refers to the probability of a firm engaging in unethical practices such as bribery, fraud, or embezzlement, which fundamentally violates the principles of good governance. From the perspective of legitimacy theory, corruption represents a breach of the social contract between the corporation and society, threatening the firm's operational license (De Villiers et al., 2022). While prior studies (Strang & Vajjhala, 2024; Wei et al., 2024) suggested that corrupt firms might use ESG disclosures as a "greenwashing" strategy to distract stakeholders from their internal misconduct, recent empirical evidence (Saha et al., 2023; Marzouki et al., 2024) points to a more destructive reality where corruption fundamentally erodes the capacity for genuine sustainability performance.

A synthesis of recent scholarship indicates a prevailing negative association between corruption risk and ESG ratings. High levels of corruption risk are often indicative of deep-seated agency problems where managers prioritise personal gain over long-term stakeholder value. Research by Baharaeen et al. (2022) argues that corruption creates an opaque information environment that makes it difficult to implement and monitor effective environmental and social policies. Consequently, firms with high corruption exposure tend to exhibit weaker internal controls, leading to lower scores in the Governance (G) pillar, which subsequently systematically diminishes the overall ESG ratings. Furthermore, rating agencies such as MSCI and Sustainalytics have refined their methodologies to penalise controversies more severely, ensuring that corruption incidents directly translate into rating downgrades (Eccles et al., 2023; Serafeim & Yoon, 2023).

However, the relationship is not entirely linear in all contexts. Some studies in emerging markets suggest that in environments with weak institutional voids, corruption might paradoxically facilitate business operations in the short term, potentially shielding firms from immediate scrutiny (Agyemang et al., 2022). Nevertheless, the consensus in global longitudinal studies (Amiraslani et al., 2023; Zhou et al., 2023) remains that the reputational and financial costs of corruption eventually outweigh any short-term gains, resulting in a deterioration of the firm's sustainability profile. Based on the dominance of the agency and legitimacy perspectives, corruption significantly undermines and degrades sustainable value creation, we propose the following hypothesis:

H1: Corporate corruption risk is negatively associated with ESG ratings.

2.4.2 Business Ethics and ESG Ratings

Business ethics serves as the moral compass and structural infrastructure of an organisation, encompassing codes of conduct, compliance training, and the ethical tone set by leadership. Grounded in Stakeholder Theory, ethical firms are intrinsically motivated to satisfy the needs of a broad range of stakeholders, not merely shareholders (Freeman et al., 2021). From this theoretical perspective, ESG performance is not just a compliance exercise but a natural manifestation of a firm's ethical culture. A robust ethical framework aligns the interests of management with broader social and environmental goals, fostering a culture of integrity that permeates all operational levels.

Recent empirical studies corroborate the view that business ethics is a primary driver of superior ESG performance. Firms with institutionalised ethics programs exhibit higher levels of corporate social responsibility because formalised ethical guidelines reduce ambiguity in decision-making regarding sustainability issues (Ferrell et al., 2021). Furthermore, strong internal ethical controls enhance the reliability of non-financial reporting, thereby improving overall ESG ratings (Mio et al., 2022). The mechanism is straightforward: firms that prioritise ethics are less likely to engage in misconduct and more likely to invest proactively in sustainable practices. Consequently, investors view strong ethical scores as a proxy for lower tail risk and better management quality (Saha et al., 2023). Based on the stakeholder perspective and these empirical consistencies, we posit:

H2: Business Ethics is positively associated with ESG ratings.

2.5 *The Moderating Role of Business Ethics*

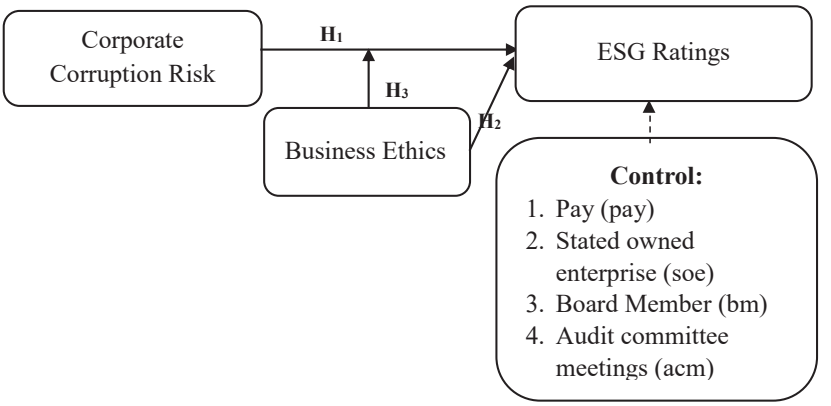
While the direct effects of corruption risk and business ethics on ESG are established, the interaction between these two forces represents a critical governance mechanism. This relationship is best understood through the lens of the Resource-Based View (RBV). According to RBV, a strong, institutionalised ethical culture acts as a valuable, rare, and inimitable intangible asset that significantly enhances organisational resilience (Barney et al., 2021). Based on this theory, we posit that business ethics functions as a buffering mechanism or a governance shield that mitigates the detrimental impact of corporate corruption risk on a firm's sustainability reputation.

In the context of high corruption risk, whether stemming from external institutional pressures or isolated internal incidents, a firm equipped with a robust ethical infrastructure possesses superior "immunological" responses (Ferrell et al., 2021). Comprehensive ethical codes and whistleblowing systems facilitate early detection and swift corrective action, preventing localised integrity failures from escalating into systemic ESG crises (Mio et al., 2022). Consequently, stakeholders are likely to perceive corruption controversies in highly ethical firms as isolated aberrations rather than symptoms of a fundamentally rotten culture, thereby reducing the severity of the penalty inflicted on the firm's ESG ratings by rating agencies (Marzouki et al., 2024). Empirical evidence supports this buffering hypothesis, demonstrating that business ethics significantly flattens the negative slope between corruption risk and sustainability reporting by reducing information asymmetry and signalling a commitment to remediation (Marzouki et al., 2024). Therefore, grounded in RBV's perspective of ethics as a protective capability, we propose:

H3: Business Ethics positively moderates the negative relationship between corporate corruption risk and ESG rating.

Based on the theoretical discussion and hypotheses developed above, Figure 1 illustrates the conceptual framework of this study.

Figure 1. Conceptual Framework



Sources: Research Data, 2025

3. Methodology

3.1 Sample and Data Source

This study employs a quantitative explanatory research design to investigate the causal relationships between corporate corruption risk, business ethics, and ESG ratings, as well as the moderating effect of ethical frameworks. The primary data source for this analysis is the MSCI ESG Research database, which is widely recognised in academic and professional circles for its comprehensive coverage of global corporate sustainability performance. The population encompasses publicly listed companies included in the MSCI All Country World Index (ACWI), ensuring a representative global sample that spans developed and emerging markets. To construct the final dataset, a purposive sampling technique was applied. The selection criteria required firms to have complete data for all variables of interest specifically the ESG Industry Adjusted Score, Business Ethics and Fraud Score, and Corporate Behavior Ethics Score as well as necessary financial control variables for the observation period. Firms with missing data points or discontinuous reporting were excluded to maintain the integrity of the panel data. The final sample consists of 7,252 firm-year observations, providing a robust dataset for cross-national analysis. Table 1 depicts the sample firms' distribution by activity sector along with the observations' percentage and distribution.

Table 1: Sample Selection and Breakdown of Companies by Country and Industry

Sample	Firms		Observations
Panel A: Sample selection			
Initial sample	18,313	Observations	46,160
Minus firms with missing data	(16,182)	Observations	(38,908)
Final sample	**2,399**	**Observations**	**7,252**
Panel B: Sample distribution by country			
Americas (44.22 per cent)			
United States	799	Chile	11
Canada	96	Peru	1
Brazil	35	Argentina	1
South Korea	85	Uruguay	1
Mexico	24	Panama	1
Colombia	7		
Europe (22.05 per cent)			
Belgium	17	Poland	14
France	81	Spain	23
Switzerland	38	Portugal	3
United Kingdom	108	Ireland	23
Italy	13	Norway	11
Germany	57	Austria	8
Finland	9	Denmark	18
Sweden	35	Luxembourg	13
Czech Republic	2	Croatia	1
Netherlands	45	Hungary	2
Greece	8		
Asia-Pacific (29.01 per cent)			
Hong Kong	78	Malaysia	33
Australia	68	New Zealand	9
Taiwan	81	Indonesia	23
China	127	Philippines	18
India	77	Singapore	22
Thailand	34	Kazakhstan	1
Japan	123	Macau	2

Sample	Firms		Observations
Middle East & Africa (3.25 per cent)			
Israel	10	Saudi Arabia	10
Qatar	9	Turkey	2
South Africa	38	Egypt	2
United Arab Emirates	6	Mauritius	1
Other (1.45 per cent)			
Bermuda	9	British Islands	6
Cayman Islands	11	Barbados	1
Jersey	2	Isle of Man	1
Guernsey	2	Marshall Islands	1
Curaçao	2		
Panel C: Sample distribution by industry			
Financials	495		20.63 per cent
Consumer & Retail	435		18.13 per cent
Industrials & Transport	364		15.17 per cent
Energy & Materials	326		13.59 per cent
Technology & Telecom	289		12.05 per cent
Utilities & Real Estate	287		11.96 per cent
Health Care	203		8.46 per cent
Total Firms	**2,399**	**Total**	**100.00 per cent**
Panel D: Sample distribution by year			
2021	2,432		33.54 per cent
2022	2,421		33.38 per cent
2023	2,399		33,08 per cent
Total Observations	**7,252**	**Total**	**100.00 per cent**

3.2 Definition & Variable Measurement

3.2.1 Dependent Variable (ESG Ratings)

The dependent variable, ESG Ratings, is measured using the MSCI ESG Industry Adjusted Score. This metric represents a normalised evaluation of a company's management of financially relevant ESG risks and opportunities relative to its industry peers. By adjusting for industry-specific risk exposure, this score allows for robust comparisons across heterogeneous sectors (Christensen et al., 2022). The score ranges on a scale from 0 to 10, where higher values indicate superior ESG performance and stronger resilience against long-term sustainability risks.

3.2.2 Independent Variable (Corporate Corruption Risk)

The independent variable, Corporate Corruption Risk, is proxied by the Business Ethics and Fraud Score. This specific indicator captures the extent to which a company is involved in controversies or faces severe allegations related to bribery, fraud, money laundering, and anti-competitive practices. Within the context of this study, this variable serves as a proxy for "materialised" corruption risk. While the original MSCI methodology assigns lower scores to high-risk firms, this study reverse-coded the data by multiplying the raw score by -1 to intuitively align the metric with the concept of "risk." Consequently, in our model, a higher arithmetic score (closer to zero) indicates a higher frequency and severity of corruption-related controversies, whereas a lower score (more negative) signals a robust integrity mechanism (Marzouki et al., 2024).

3.2.3 Moderating Variable (Business Ethics)

The moderating variable, Business Ethics, is assessed using the Corporate Behaviour Ethics Score. Distinct from the corruption risk metric, which captures negative events, this variable evaluates the strength of a firm's proactive governance infrastructure. It measures the comprehensiveness of ethical policies, the existence of effective whistleblowing mechanisms, and the quality of executive oversight regarding business conduct. This score is utilised to test the hypothesis that a strong ethical framework can act as a buffer, mitigating the detrimental impact of corruption risk on the firm's overall sustainability rating.

3.2.4 Control Variables

To isolate the specific effects of the main variables, the regression models incorporate a set of financial and governance control variables identified in prior literature as determinants of ESG performance. Pay measures executive compensation structures to account for agency incentives; SOE is a dummy variable indicating State-Owned Enterprise status to control for political interference; BM (Board Members) proxies for board monitoring capacity; and ACM (Audit Committee Meetings) captures the intensity of financial oversight. Controlling for these factors is essential to reduce omitted variable bias and ensure that the observed relationships are not driven by extraneous corporate governance characteristics (Dang et al., 2021).

3.3 Regression Model

The data analysis strategy employs Pooled Ordinary Least Squares (OLS) regression with Year and Country Fixed Effects to test the proposed hypotheses. This approach is designed to control for unobserved heterogeneity by including dummy variables that absorb the impact of global macroeconomic cycles (Year Fixed Effects) and time-invariant institutional differences between nations (Country Fixed Effects), such as legal origins and cultural norms. The analysis proceeds in three stages: the first model tests the direct impact of corruption risk on ESG ratings (H1); the second model introduces business ethics as an independent predictor (H2); and the third model incorporates the interaction term between corruption risk and business ethics to test the moderating hypothesis (H3). Furthermore, to ensure the reliability of the findings and address potential endogeneity or reverse causality concerns, robustness tests were conducted using one-year lagged independent variables (t-1), ensuring that the predictors precede the ESG ratings in time. A dynamic panel estimator such as System GMM was considered but deemed inappropriate for this study, as our model is static in nature, and it does not include a lagged dependent variable as a regressor, which is the primary condition for GMM's applicability (Blundell & Bond, 1998). The consistency of results between the main model and the lagged specification further confirms that reverse causality does not drive the primary findings.

To test the proposed hypotheses and examine the functional relationships between corporate corruption risk, business ethics, and ESG ratings, we construct the following panel data econometric models incrementally.

Model 1 is formulated to test the direct impact of corporate corruption risk on ESG ratings (Hypothesis 1):

$$\text{esgrating}_{it} = \beta_0 + \beta_1 \text{ccr}_{it} + \beta_2 \text{pay}_{it} + \beta_3 \text{soe}_{it} + \beta_4 \text{bm}_{it} + \beta_5 \text{acm}_{it} + \text{year FE} + \text{country FE} + \varepsilon \quad (3.1)$$

Model 2 expands the baseline by introducing the business ethics variable to test its direct association with ESG ratings (Hypothesis 2):

$$\text{esgrating}_{it} = \beta_0 + \beta_1 \text{ccr}_{it} + \beta_2 \text{be}_{it} + \beta_3 \text{pay}_{it} + \beta_4 \text{soe}_{it} + \beta_5 \text{bm}_{it} + \beta_6 \text{acm}_{it} + \text{year FE} + \text{country FE} + \varepsilon \quad (3.2)$$

Model 3 introduces the interaction term to test the moderating effect of business ethics on the relationship between corruption risk and ESG ratings (Hypothesis 3):

$$\text{esgrating}_{it} = \beta_0 + \beta_1 \text{ccr}_{it} + \beta_2 \text{be}_{it} + \beta_3 (\text{ccr} \times \text{be})_{it} + \beta_4 \text{pay}_{it} + \beta_5 \text{soe}_{it} + \beta_6 \text{bm}_{it} + \beta_7 \text{acm}_{it} + \text{year FE} + \text{country FE} + \varepsilon \quad (3.3)$$

3.4 Robustness Tests: Sub-sample Analysis

To deepen the analysis and address the potential lack of significance in the global moderation model, this study conducts a sub-sample analysis based on geographical regions. The global dataset is segmented into four primary clusters: the Americas, Europe, Asia-Pacific, and the Middle East & Africa. This segmentation allows for the examination of whether the moderating role of business ethics is context-dependent, driven by regional institutional frameworks such as the stringent regulatory environment in Europe versus the diverse governance landscapes in Asia and the Americas. In this specific analysis, observations from "Offshore" jurisdictions (such as the Cayman Islands and Bermuda) were excluded to prevent the distortion of regional results by entities subject to unique tax and regulatory regimes that differ significantly from standard continental governance models. This rigorous segmentation strategy ensures that the comparative analysis remains robust and accurately reflects the institutional realities of each major economic bloc.

4. Results

4.1 Descriptive Statistics and Correlation

Table 1 summarises the descriptive statistics for the dependent, independent, and control variables used in the empirical analysis, based on the final sample of 7,252 firm-year observations. The dependent variable, ESG Ratings, exhibits a mean value of 6.167 with a standard deviation of 2.176, ranging from a minimum of 0.000 to a maximum of 10.000. This variation indicates a sufficient degree of heterogeneity in the sustainability performance of the sampled firms, which is essential for robust regression analysis. Regarding the independent variable, Corporate Corruption Risk (ccr), the average score is -4.697, suggesting that the average firm in the sample maintains a moderate level of exposure to corruption controversies, although the spread indicated by the standard deviation of 0.615 highlights significant disparities in risk management across different

jurisdictions. Meanwhile, the moderating variable, Business Ethics (be), shows a mean of 5.675, reflecting the general level of ethical infrastructure implementation among global constituents.

Table 2: Statistic Descriptive

	Obs	Mean	STD	Median	Minimum	Maximum
esgratings	7252	6.167	2.176	6.600	0.000	10.000
ccr	7252	-4.697	0.615	-5.000	-5.000	0.000
be	7252	5.675	1.790	5.900	0.000	9.400
pay	7252	62.239	26.366	71.000	0.000	100.000
soe	7252	0.135	0.342	0.000	0.000	1.000
bm	7252	9.961	7.109	9.000	0.000	212.000
acm	7252	7.593	8.074	6.000	0.000	265.000

Table 3 presents the Pearson correlation matrix for the main variables. A preliminary examination of the bivariate relationships reveals a negative correlation between Corporate Corruption Risk (ccr) and ESG Ratings, providing initial support for the first hypothesis. Conversely, Business Ethics (be) demonstrates a significant positive correlation with ESG Ratings, consistent with theoretical expectations that stronger ethical governance aligns with better sustainability performance. Furthermore, to ensure the reliability of the regression estimates, we checked for potential multicollinearity issues among the independent variables. The correlation coefficients between the explanatory variables are generally low, with the highest correlation observed being -0.479 between Business Ethics (be) and Corporate Corruption Risk (ccr), which is well below the critical threshold of 0.70. Additionally, the Variance Inflation Factor (VIF) tests were conducted, and all values were found to be below the standard cut-off of 10, confirming that multicollinearity is not a concern in this model.

Table 3: Pearson Correlation

	esgrating	ccr	be	pay	soe	bm	acm
esgrating	1.000						
ccr	-0.013	1.000					
	(0.251)						
be	0.355***	-0.479***	1.000				
	(0.000)	(0.000)					

	esgrating	ccr	be	pay	soe	bm	acm
pay	0.283***	0.062***	0.092***	1.000			
	(0.000)	(0.000)	(0.000)				
soe	-0.255***	-0.020*	-0.395***	-0.098***	1.000		
	(0.000)	(0.096)	(0.000)	(0.000)			
bm	0.058***	0.145***	-0.103***	0.005	0.103***	1.000	
	(0.000)	(0.000)	(0.000)	(0.651)	(0.000)		
acm	0.067***	0.144***	-0.050***	-0.039***	0.013	0.287***	1.000
	(0.000)	(0.000)	(0.000)	(0.001)	(0.267)	(0.000)	

p-values in parentheses

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

4.2 Main Regression Results

Table 4 presents the empirical results of the fixed-effects panel regression analysis designed to test the three proposed hypotheses. The models were estimated hierarchically to observe the incremental explanatory power of the independent and moderating variables. Model 1 serves as the baseline specification, testing the direct effect of corporate corruption risk on ESG ratings. Model 2 introduces business ethics to examine its direct impact, while Model 3 incorporates the interaction term to test the moderating hypothesis. All models include year and country fixed effects to control for unobserved temporal and institutional heterogeneity, and the R-squared values indicate a substantial goodness of fit, ranging from 0.321 to 0.363.

Table 4: Main Regression Result

	(1) esgratings	(2) esgratings	(3) esgratings
ccr	-0.293***	0.218***	0.224**
	(-7.52)	(4.63)	(2.31)
be		0.352***	0.344***
		(21.44)	(3.56)
ccr_be			0.002
			(0.08)
pay	0.015***	0.014***	0.014***
	(14.77)	(14.15)	(14.11)
soe	-0.954***	-0.391***	-0.391***
	(-11.58)	(-4.80)	(-4.79)
bm	0.016***	0.015***	0.015***
	(5.34)	(5.13)	(5.13)

	(1) esgratings	(2) esgratings	(3) esgratings
acm	0.018***	0.017***	0.017***
	(3.73)	(3.80)	(3.81)
Year FE	YES	YES	YES
Country FE	YES	YES	YES
_cons	3.315***	3.762***	3.792***
	(6.01)	(8.74)	(6.54)
r2	0.321	0.363	0.363
r2_a	0.314	0.356	0.356
N	7252	7252	7252

t statistics in parentheses
* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

The results from Model 1 provide strong empirical support for the first hypothesis (H1). The coefficient for Corporate Corruption Risk (ccr) is negative and statistically significant at the 1 per cent level ($\beta = -0.293$, $t = -7.52$). This finding indicates that firms with higher exposure to corruption risks and controversies exhibit significantly lower ESG ratings. The magnitude of the t-statistic suggests a robust inverse relationship, confirming that integrity failures are heavily penalised in sustainability assessments globally. Regarding the control variables in this model, executive pay (pay), board members (bm), and audit committee meetings (acm) are positively associated with ESG ratings, whereas state-owned enterprise status (soe) shows a significant negative association.

Model 2 introduces Business Ethics (be) as an additional predictor. Consistent with the second hypothesis (H2), the coefficient for Business Ethics is positive and highly significant at the 1 per cent level ($\beta = 0.352$, $t = 21.44$). This result demonstrates that firms with stronger ethical infrastructures and governance policies achieve superior ESG performance. The inclusion of this variable notably improves the explanatory power of the model, with the R-squared increasing from 0.321 to 0.363, suggesting that ethical commitment is a critical determinant of a firm's sustainability profile.

The third hypothesis (H3), which posits that business ethics moderates the negative relationship between corruption risk and ESG ratings, is tested in Model 3. The interaction term (ccr_be) captures this moderating effect. Contrary to theoretical expectations and findings from prior European-centric studies, the coefficient for the interaction term is statistically insignificant ($\beta = 0.002$, $t = 0.08$). This lack of significance implies that, in the global sample, the presence of

a strong ethical framework does not significantly alter or buffer the negative impact of corruption risk on ESG ratings. Consequently, H3 is not supported by the empirical data in the full sample analysis, suggesting that the relationship between corruption and ESG performance remains stable regardless of the reported level of ethical policy implementation.

4.3 Robustness and Heterogeneity Analysis

To investigate whether the global non-significance of the moderating effect masks underlying regional heterogeneity, the sample was stratified into five distinct geographical clusters: the Americas, Europe, Asia-Pacific, the Middle East & Africa, and Offshore jurisdictions. Table 4 presents the regression results for Model 3 across these sub-samples. The analysis reveals a remarkably consistent pattern across the major economic blocs that comprise the vast majority of the global dataset. In the Americas sub-sample, which constitutes the largest portion of the data (N=3,191), the interaction term (ccr_be) remains positive but statistically insignificant (β = 0.018, t = 0.63). Similarly, within the Asia-Pacific region (N=2,077), although the interaction coefficient is higher, it fails to reach the conventional threshold for statistical significance (β = 0.060, t = 1.59).

Table 5: Robustness and Heterogeneity Analysis

	ESG Ratings				
	(America)	**(Asia-Pacific)**	**(Europe)**	**(Middle East)**	**(Offshore)**
ccr	0.174	0.619***	-0.256	-0.797*	0.019
	(1.28)	(3.40)	(-1.35)	(-1.70)	(0.03)
be	0.173	0.252	0.474**	2.308***	1.812***
	(1.25)	(1.36)	(2.54)	(4.43)	(2.74)
ccr_be	0.018	0.060	-0.050	-0.405***	-0.351**
	(0.63)	(1.59)	(-1.27)	(-3.83)	(-2.45)
pay	0.015***	0.011***	0.016***	0.016**	0.004
	(10.31)	(5.97)	(7.93)	(2.27)	(0.48)
soe	-0.858***	-0.073	-0.556***	0.113	-0.021
	(-3.46)	(-0.60)	(-3.95)	(0.35)	(-0.03)
bm	0.025***	0.014	-0.014**	0.022	0.014***
	(3.86)	(1.52)	(-2.03)	(1.32)	(3.13)

	ESG Ratings				
	(America)	**(Asia-Pacific)**	**(Europe)**	**(Middle East)**	**(Offshore)**
acm	0.015**	0.030***	0.073***	0.024	0.002
	(2.36)	(2.89)	(6.65)	(1.14)	(0.73)
Year FE	YES	YES	YES	YES	YES
Country FE	YES	YES	YES	YES	YES
cons	2.808***	5.528***	4.408***	-1.691	1.577
	(2.76)	(6.24)	(4.98)	(-0.77)	(0.53)
r2	0.173	0.403	0.323	0.548	0.609
r2_a	0.168	0.397	0.310	0.512	0.533
N	3191	2077	1642	230	112

t statistics in parentheses
* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Of particular interest is the European sub-sample (N=1,642), given that prior literature has documented strong moderating effects of business ethics within this specific context (Marzouki et al., 2024). However, contrary to expectations derived from previous regional studies, the interaction term in our European analysis is negative and statistically insignificant (β = -0.050, t = -1.27). This finding is crucial as it indicates that the buffering role of business ethics is not robust even in markets characterised by stringent regulatory environments when analysed over a broader timeframe. The consistency of these non-significant results across the Americas, Asia-Pacific, and Europe confirms that the rejection of the third hypothesis in the main global model is driven by a widespread structural pattern rather than being skewed by underperformance in a single region.

In contrast to the major economic blocs, the smaller sub-samples exhibited a divergent trend. The Middle East & Africa cluster (N=230) and the Offshore jurisdictions (N=112) both displayed a statistically significant negative coefficient for the interaction term. Specifically, the interaction in the Middle East & Africa was negative and significant at the 1 per cent level (β = -0.405, t = -3.83), while the Offshore group also showed a significant negative interaction (β = -0.351, t = -2.45). While these results suggest that high ethical scores might paradoxically interact negatively with corruption risk in these specific contexts, these findings should be interpreted with caution due to the significantly smaller sample sizes compared to the primary regions. Ultimately, the sub-sample analysis reinforces the primary

conclusion that business ethics does not function as a universal positive moderator in the corruption-ESG nexus. Furthermore, due to the highly unbalanced nature of the regional sub-samples (e.g., thousands of observations in the Americas versus a few hundred in the Middle East & Africa), standard coefficient difference tests such as the Chow or Wald test were not performed to prevent statistically biased estimations. Instead, this sub-sample split aims to observe the directional consistency and significance of the moderation effect within each distinct institutional context.

Table 6: Endogeneity and Reverse Causality

	(1)	(2)	(3)
	esgrating	esgrating	esgrating
ccr (*t*-1)	-0.289***	0.209***	0.134
	(-5.80)	(3.54)	(1.13)
be (*t*-1)		0.353***	0.443***
		(17.49)	(3.66)
ccr_be (*t*-1)			0.019
			(0.76)
pay (*t*-1)	0.015***	0.014***	0.014***
	(11.99)	(11.51)	(11.44)
soe (*t*-1)	-1.047***	-0.507***	-0.507***
	(-10.16)	(-5.02)	(-5.03)
bm (*t*-1)	0.018***	0.016***	0.016***
	(4.87)	(4.57)	(4.55)
acm (*t*-1)	0.021**	0.019**	0.019**
	(2.49)	(2.46)	(2.45)
Year FE	YES	YES	YES
Country FE	YES	YES	YES
_cons	3.850***	4.318***	3.981***
	(6.29)	(10.11)	(6.19)
r2	0.331	0.374	0.374
r2_a	0.321	0.364	0.364
N	4595	4595	4595

t statistics in parentheses
* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

To address potential endogeneity concerns, specifically reverse causality where ESG ratings might influence future corruption controversies or the adoption of ethical policies, we re-estimated the baseline models using one-year lagged independent and control variables (t-1). The lagged model results are highly consistent with our main findings. The lagged corporate corruption risk ($ccr_{-t\text{-}1}$) remains negatively and significantly associated with ESG ratings. Lagged business ethics ($be_{-t\text{-}1}$) maintains a positive and significant direct impact. Most importantly, the interaction term between lagged corruption risk and lagged business ethics ($ccr\_be_{-t\text{-}1}$) remains statistically insignificant. These lagged results confirm that our primary conclusion that business ethics fails to moderate the negative impact of corruption risk on ESG ratings globally is robust and not driven by reverse causality or temporal alignment issues.

5. Discussion

5.1 The Negative Impact of Corruption Risk on ESG (H1)

The empirical evidence derived from the global dataset provides unequivocal support for the first hypothesis, confirming that corporate corruption risk acts as a substantial detriment to ESG ratings. The robust negative coefficient observed in the primary model ($\beta = -0.293$, $p < 0.01$) indicates that integrity failures such as bribery, fraud, and anti-competitive behaviour are penalised heavily by the market and rating agencies. This finding aligns with the fundamental tenets of Legitimacy Theory, which suggests that corruption represents a severe breach of the social contract between the corporation and its stakeholders. When a firm is implicated in corrupt practices, its "license to operate" is threatened, leading to a rapid erosion of trust that is captured by a downgraded ESG score (De Villiers et al., 2022). The statistical significance of this variable across the diverse global sample underscores that corruption is not merely an idiosyncratic legal issue but a systematic governance failure that overshadows other sustainability initiatives. It implies that rating agencies view corruption risk as a proxy for a deeper lack of internal control, which fundamentally compromises the validity of a firm's broader environmental and social claims.

This result corroborates a growing body of international literature, including the recent work of Marzouki et al. (2024) in Europe and Liu et al. (2021) in emerging markets, which consistently demonstrate that corruption significantly undermines and degrades sustainable value creation. The negative association can be explained

by the "risk premium" assigned by stakeholders to corrupt firms. Investors and analysts likely perceive high corruption risk as an indicator of opaque management and potential future liabilities, prompting a discount in the Governance (G) pillar of the ESG score. Furthermore, resources that could have been allocated to genuine CSR activities are often diverted to cover up malfeasance or pay legal fines in corrupt firms, creating a resource-crowding-out effect (Baharaeen et al., 2022). Consequently, the data confirms that regardless of the jurisdiction, high exposure to corruption risk acts as a fundamental barrier to achieving superior ESG performance, rendering any attempt to improve sustainability ratings ineffective unless the core integrity issues are addressed.

5.2 The Direct Positive Impact of Business Ethics (H2)

Regarding the second hypothesis, the analysis provides compelling evidence that business ethics functions as a primary driver of superior ESG performance. The highly significant positive relationship ($\beta = 0.352$, $p < 0.01$) demonstrates that firms with robust ethical infrastructures characterised by comprehensive codes of conduct, effective whistleblowing mechanisms, and strong executive oversight are structurally better positioned to manage non-financial risks. This result resonates strongly with the Resource-Based View (RBV), where a strong ethical culture is considered a rare, valuable, and non-substitutable intangible asset that enhances organisational resilience (Barney et al., 2021). Unlike the reactive nature of corruption risk management, the implementation of business ethics is proactive. It serves as an internal governance mechanism that reduces decision-making ambiguity regarding social and environmental responsibilities, ensuring that sustainability strategies are embedded within the corporate DNA rather than treated as peripheral compliance exercises.

This finding is consistent with prior studies by Ferrell et al. (2021) and Mio et al. (2022), who argue that institutionalised ethics foster a culture of transparency and accountability. Firms with high ethical scores are effectively signalling their quality to the market, reducing information asymmetry between management and stakeholders (Saha et al., 2023). This signalling effect translates directly into higher ESG ratings because rating agencies interpret strong ethical policies as evidence of lower tail risk and better long-term strategic vision. Moreover, a strong ethical framework facilitates better stakeholder engagement, allowing firms to anticipate and address social and environmental concerns before they escalate into controversies.

Therefore, independent of corruption incidents, the mere presence of a comprehensive ethical framework is rewarded by the market as a critical component of sustainable value creation.

5.3 The Myth of the Ethical Shield: Decoupling Policy from Practice (H3)

The rejection of the third hypothesis (H3), regarding the moderating role of business ethics, presents a critical paradox in global governance studies that challenges conventional wisdom. While existing literature largely posits that strong ethical infrastructures should act as a buffer against the detrimental effects of corruption (Ferrell et al., 2021), our global empirical evidence reveals that the interaction between corruption risk and business ethics is statistically insignificant. This finding suggests that the "shielding effect" of ethics is largely mythical when tested against a comprehensive global dataset, forcing a theoretical re-evaluation through the lens of Institutional Theory, specifically the concept of "decoupling."

The primary explanation for this ineffective moderation lies in the phenomenon of policy-practice decoupling, where organisations separate their normative structures from actual operational activities. Institutional theory suggests that organisations often adopt formal structures such as codes of conduct and anti-corruption policies symbolically to satisfy external legitimacy requirements, without substantively implementing them in daily operations (Agyemang et al., 2022). In the context of this study, the *Business Ethics Score* largely captures the *existence* of these governance artefacts (policies, whistleblowing systems, and oversight committees) rather than their *effectiveness* in crises. Our results indicate that when a firm faces materialised corruption risks, the market perceives these formal ethical scores as merely ceremonial, causing the expected buffering capacity to collapse because investors view them as "paper shields" offering no tangible protection.

Furthermore, the divergence of our findings from prior studies Marzouki et al. (2024) can also be attributed to the specific methodology of the data provider, a phenomenon described by Berg et al. (2022) as aggregate confusion. While previous research often relies on data providers that may prioritise stakeholder perception, this study employs MSCI data, which heavily emphasises financial materiality and the presence of formal policy frameworks. Consequently, the Business Ethics score in this dataset likely captures the *existence* of governance artefacts such as anti-corruption clauses and compliance handbooks rather than their substantive

implementation or effectiveness in mitigating real-time controversies. This methodological nuance reinforces our *policy-practice decoupling* argument, while MSCI's metric accurately records that these firms possess ethical policies on paper, our results prove that these paper shields offer no statistical buffering effect against the reputational damage caused by materialised corruption risks.

Furthermore, the insignificance of the interaction term challenges the direct applicability of the RBV in the context of severe integrity crises. RBV argues that an ethical culture is a valuable, rare, and non-substitutable intangible asset that should enhance organisational resilience (Barney et al., 2021). However, our findings imply that materialised corruption controversies are so destructive that they effectively negate the value of this intangible asset, rendering the ethical infrastructure irrelevant in the eyes of stakeholders. When corruption is revealed, it signals to investors that the firm's ethical infrastructure was either complicit or incompetent, creating a "credibility gap" where stakeholders heavily discount the value of the firm's prior ethical claims.

This global non-significance also points to a shift in investor sophistication regarding "Greenwashing" and "Ethics-washing" (Lyon & Maxwell, 2011). Modern investors, armed with granular data from rating agencies, increasingly distinguish between "governance on paper" and "governance in action," refusing to accept formal policies as a proxy for safety (Berg et al., 2022). The failure of business ethics to moderate the corruption-ESG relationship suggests that global capital markets have moved beyond accepting formal policies as insurance. Instead, when corruption risk is high, the market imposes a direct penalty on the ESG ratings that cannot be offset by the mere presence of an ethics handbook, confirming that tangible malpractice outweighs symbolic compliance.

5.4 Context Matters: Regional Heterogeneity and Institutional Voids

To provide a more granular understanding of the global null result, this study deconstructs the analysis across geographical regions. This sub-sample analysis reveals that the failure of business ethics to moderate corruption risk is not uniform in its underlying causes but is driven by distinct institutional dynamics and enforcement environments across economic blocs.

5.4.1 The Failure of Formal Ethics in Mature Markets (Americas & Europe)

In the mature markets of the Americas and Europe, the interaction between corruption risk and business ethics remains insignificant,

contradicting the expectation that strong institutions reinforce ethical behaviour. This finding diverges from prior European-centric studies, such as Marzouki et al. (2024), which found a positive buffering effect in a more limited timeframe. The divergence in our findings can be attributed to the "saturation effect" of regulatory compliance, where ethical infrastructures have become standardised commodities rather than strategic assets.

In the United States and Western Europe, the legal environment is characterised by stringent enforcement and high litigation risks, compelling nearly all listed firms to maintain high formal ethical scores (Aguilera et al., 2021). Consequently, having a code of ethics and compliance program is often viewed by the market as a regulatory baseline or a "hygiene factor" rather than a differentiator. When corruption scandals occur in these regions, they are interpreted as systemic failures that bypassed these standard controls, leading the market to punish the hypocrisy of the failure regardless of the firm's high ethical score. Therefore, for firms in developed markets, a high ethics score does not provide "insurance" against the reputational damage of corruption; rather, the market reacts to the failure of the culture that formal rules could not prevent.

5.4.2 Institutional Voids in Emerging Markets (Asia-Pacific)

The Asia-Pacific region presents a unique institutional landscape defined by what Agyemang et al. (2022) describe as "institutional voids," where formal market institutions are often substituted by informal networks. Our results show that the interaction term in this region is positive but statistically insignificant, indicating that formal ethical mechanisms struggle to translate into effective risk shields in this specific context. This ineffectiveness can be explained by the dominance of relation-based governance, such as *Guanxi* in China, over rule-based governance.

In many Asian markets, business transactions are often embedded in social networks where "greasing the wheels" or reciprocal favours are culturally entrenched, creating a disconnect between Western-style ESG metrics and local business realities (Liu et al., 2021). Liu et al. (2021) explicitly found that in environments with a strong "corruption culture," corporate social responsibility (CSR) mechanisms fail to mitigate risks because they are often used merely for impression management. Our study corroborates this by showing that formal ethical policies (measured by MSCI) are likely "decoupled" from the actual decision-making processes in Asian firms. Saha et al. (2023) support this view, noting that in developing

countries, governance mechanisms often lack the enforcement power to curb deep-seated corruption, rendering the statistical interaction insignificant as investors place little weight on formal disclosures.

5.4.3 The "Hypocrisy Penalty" in High-Risk Jurisdictions (MEA & Offshore)

A striking and novel finding emerges from the Middle East & Africa (MEA) and Offshore sub-samples, where the interaction term is negative and statistically significant. This result implies that in these regions, firms with high ethical scores that also engage in corruption suffer a *more severe* degradation in ESG ratings than their peers with lower ethical scores. We term this phenomenon the "Hypocrisy Penalty," which occurs when the alignment between high claims and low practice triggers a backlash.

According to Expectation Violation Theory, stakeholders react more negatively when a trusted entity violates its own proclaimed standards compared to an entity with no such standards. Firms in high-risk jurisdictions that tout superior ethical frameworks raise stakeholder expectations regarding their integrity, creating a high standard of accountability. When these firms are subsequently implicated in corruption, the market views the high ethical score not as a shield, but as evidence of duplicity or deliberate "ethics-washing" (Baharaeen et al., 2022). This "backfire effect" suggests that in environments with weak external governance, projecting a false image of ethical superiority is a high-risk strategy that accelerates reputational destruction when the veil is lifted.

6. Conclusion

6.1 Summary of Findings

This global study confirms that corporate corruption risk significantly degrades ESG ratings across all major economic jurisdictions. Furthermore, while business ethics positively drives general ESG ratings, it fundamentally fails to moderate the corruption-ESG nexus globally (including in the Americas, Asia-Pacific, and Europe). This widespread statistical insignificance indicates that the mere presence of formal ethical policies cannot shield firms from the reputational damage of materialised corruption risks, highlighting a prevalent policy-practice decoupling.

6.2 Theoretical and Practical Implications

Theoretically, this study introduces a boundary condition to legitimacy theory, stakeholder theory, and RBV. It demonstrates that

the presumed "shielding" effect of business ethics is not absolute. Formalised ethical frameworks are often deployed symbolically to manage stakeholder perceptions, evidencing severe policy-practice decoupling. Thus, symbolic compliance fails to generate the substantive intangible assets required to mitigate governance failures. Practically, the findings caution global investors against over-relying on static "Business Ethics" scores as a risk mitigation mechanism. Due diligence must prioritise materialised risks over mere policy existence. For corporate leaders, investing in ethical infrastructure cannot substitute for active anti-corruption enforcement; management must pivot from symbolic adoption to the substantive implementation of internal controls to protect operational legitimacy.

6.3 Limitations and Future Research

Despite its robustness, this study has limitations. First, reliance on MSCI data may restrict the capture of deep-seated cultural nuances; future research should employ alternative ESG indices. Second, data unavailability constrained the inclusion of specific board-level and macro-institutional controls, although fixed-effects modelling mitigated omitted variable bias. Future studies with granular data should explicitly incorporate these mechanisms. Third, to unpack the internal processes of policy-practice decoupling, future research would benefit from qualitative or mixed-method approaches. Finally, divergent outcomes observed in the Middle East and Africa sub-sample warrant dedicated regional studies to explore ethical frameworks within unique institutional voids.

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