When Do Governance Tools Become Transformative? A Conditional Leverage-Point Model of Sustainability Instruments

Whether mandatory climate disclosure and planning instruments — including scenario analysis, materiality assessments, and transition plans — actually redirect capital allocation, or whether they primarily generate compliance outputs without altering investment decisions, remains an open empirical question with direct implications for regulatory design (Gillan et al., 2021; O'Dwyer & Unerman, 2020). Addressing this question requires examining how sustainability governance has become increasingly instrument-driven (Lascoumes & Le Galès, 2007; Abson et al., 2017). Governance tools such as corporate double materiality assessments, climate scenario analysis, and climate transition planning are now institutionalised through regulatory architectures such as the International Sustainability Standards Board (ISSB) framework and the IFRS Sustainability Disclosure Standards (European Commission, 2022; EFRAG, 2023; ISSB, 2025). Policy frameworks position these instruments as mechanisms to enhance transparency and inform capital allocation (European Commission, 2022; IFRS Foundation, 2023). In sustainability governance scholarship, they are increasingly interpreted as potential levers for systemic change (O'Dwyer & Unerman, 2020; Bebbington, 2023). Yet empirical and conceptual work in sustainability transitions research suggests that many governance interventions concentrate on relatively shallow leverage points—such as metrics, targets, and disclosure parameters—while deeper institutional redesign and shifts in system intent remain comparatively rare (Meadows, 1999; Abson et al., 2017; Dorninger et al., 2020). As a result, instruments may generate managerial outputs—disclosures, scenarios, transition plans—without necessarily triggering the reconfiguration dynamics associated with systemic transformation (Pel et al., 2020; Hebinck et al., 2022). This pattern is reinforced by evidence from practice: net-zero targets, transition plans, and portfolio alignment metrics have proliferated without creating the coordinated investable markets needed to finance decarbonisation at scale (Sachs et al., 2023; Sachs, 2025).This paper therefore addresses a central puzzle: under what conditions do governance instruments operate as transition devices rather than as compliance-oriented routines embedded within existing governance structures (Lascoumes & Le Galès, 2007; Dorninger et al., 2020)?

The paper develops a conditional explanatory framework that integrates leverage-point theory with transformative capacity theory. Leverage-point scholarship distinguishes between parameter and feedback adjustments versus deeper shifts in system design and intent associated with transformative change (Dorninger et al., 2020). However, leverage depth alone does not account for why similar instruments produce divergent outcomes across organisational contexts, nor how instruments remain embedded within dominant political–economic structures (Feola, 2020). A related structural constraint is that finance follows markets rather than creating them: where investable markets exist, capital flows, but where transitions remain unstructured or perceived as risky, finance stays sidelined (Sachs, 2025).

To address this limitation, we draw on transformative capacity theory, which conceptualises capacity as a systemic property enabling collective actors to translate change strategies into institutional reconfiguration (Orr & Burch, 2025). Transformations are understood as multi-level and normatively contested processes shaped by governance and power dynamics, underscoring that institutional embedding is inherently political (Kalt, 2024). Building on this insight, the paper

aims to specify, through critical analysis and an integration of leverage-point theory and transformative capacity theory, the conditions under which governance instruments translate into consequential decision-making and institutional redesign.

The study draws on purposive interviews with scholars whose published work engages directly with the governance implications of double materiality assessments, climate scenario analysis, and climate transition planning, and/or with the theoretical frameworks — leverage-point theory, transformative capacity theory, and sustainability transitions — that underpin the conditional model developed here. Interview data are analysed using a structured coding approach that applies the theoretical framework deductively while remaining open to emergent mechanisms — producing a systematic mapping of the conditions under which mandatory disclosure instruments redirect capital allocation versus becoming absorbed into reporting routines that leave investment decisions unchanged. Findings are synthesised into a single causal-loop diagram capturing reinforcing and balancing dynamics that explain how governance instruments may either deepen leverage activation or become absorbed into compliance loops.

Preliminary analysis indicates that governance tools frequently operate at parameter and feedback levels, improving transparency and risk visibility without altering decision architectures or organisational purpose. Transformative effects emerge only when outputs penetrate governance design—for example through changes in investment criteria, remuneration systems, or accountability structures—and when enabling capacities support their institutional embedding. In the absence of such capacities, instruments are more likely to reinforce existing governance patterns, illustrating how processes of stability and change can co-exist and even reproduce dominant interests within transition trajectories. These dynamics have direct implications for how investors and regulators should interpret the signal value of corporate climate disclosures and transition plans as indicators of genuine capital reallocation.

The framework offers a mechanism-based explanation for the uneven effects of widely diffused sustainability instruments on capital allocation and corporate governance, with implications for the design of climate finance regulation: mandates alone are insufficient to redirect investment unless accompanied by the governance conditions that allow instruments to become embedded in financial decision architectures.

Acknowledgements and Disclosures
This research was conducted as part of the author's academic work at Nyenrode Business University. The author reports no external funding for this research and no financial relationships or conflicts of interest that could have influenced the findings.

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