Received: 13 October 2023 | Revised: 27 January 2024 | Accepted: 7 February 2024

DOI: 10.1002/csr.2749

RESEARCH ARTICLE

Corporate Social Responsibility and Environmental Management

WILEY

ESG controversies and corporate performance: The moderating effect of governance mechanisms and ESG practices

Ahmed A. Elamer[1,2,3] | Mounia Boulhaga[4]

[1]Brunel Business School, Brunel University London, London, UK

[2]Gulf Financial Center, Gulf University for Science and Technology (GUST), Mubarak Al-Abdullah Area/West Mishref, Kuwait

[3]UNEC Accounting and Finance Research Center, Azerbaijan State University of Economics (UNEC), Baku, Azerbaijan

[4]Faculty of Economics and Management of Sfax, University of Sfax, Sfax, Tunisia

Correspondence
Ahmed A. Elamer, Brunel Business School, Brunel University London, Kingston Lane, Uxbridge, London, UB8 3PH UK.
Email: ahmed.elamer@brunel.ac.uk

Abstract

This paper investigates the relationship between Environmental, Social, and Governance (ESG) controversies and firm performance, examining the moderating influences of corporate governance structures and ESG practices. Utilizing quantitative methods, we analyze data from 5360 firm-year observations. Our findings reveal a significant negative relation between ESG controversies and firm performance. However, well-defined corporate governance frameworks and internal ESG strategies mitigate these adverse impacts and can transform these controversies into growth opportunities and reputation enhancement. A comparative analysis involving the United Kingdom and other European Union nations highlights the influence of geographical and regulatory contexts in shaping this dynamic. These results offer valuable insights for policymakers, corporate strategists, and investors, emphasizing the role of governance in navigating ESG controversies and enhancing firm resilience and adaptability. The study contributes to the sustainability field by providing a nuanced understanding of the interaction between ESG controversies, corporate governance, and firm performance.

KEYWORDS

board Independence, ESG controversies, ESG practices, firm performance, gender diversity, sustainable development

1 | INTRODUCTION

In today's corporate landscape, the prominence of Environmental, Social, and Governance (ESG) factors marks a significant transformation in how businesses navigate their multifaceted roles within broader societal and environmental contexts (Boukattaya et al., 2022; Boulhaga et al., 2023; Busch & Schnippering, 2022; Durand et al., 2019; Raimo et al., 2020). In this evolving context, we aim to deepen our understanding of the complex interplay between ESG factors, corporate controversies, and financial performance. Our aim is to provide nuanced insights that contribute to both academic discourse and corporate strategies. Investors are increasingly drawn to companies demonstrating proactive and substantial commitments to ESG principles while expressing skepticism toward those neglecting these considerations as potential signals of unsustainability and heightened risks (Aguilera et al., 2007; Useche et al., 2024; Vargas-Santander et al., 2023). However, the discourse concerning the direct and indirect impacts of ESG on financial performance remains characterized by divergent findings and perspectives (Fiandrino et al., 2019; Gallego-Álvarez & Pucheta-Martínez, 2022; Hassan et al., 2021; Issa, 2023; Karwowski & Raulinajtys-Grzybek, 2021; Kazemi et al., 2023; Khatib et al., 2021; Li et al., 2019; Lei & Yu, 2024).

Integrating ESG factors into corporate strategies is increasingly becoming a prerequisite for operational excellence and effective stakeholder engagement, beyond being a voluntary commitment (Aguilera et al., 2007; Becker-Olsen et al., 2006; Rahi et al., 2024; Roberts, Hassan, et al., 2021; Roberts, Nandy, et al., 2021). Empirical evidence increasingly supports the positive impacts of well-articulated ESG efforts on innovation, corporate reputation, and, ultimately, financial performance (Ghouri et al., 2019; Inigo & Albareda, 2019). Nevertheless, the corporate landscape remains far from uniform. Instances of ESG controversies, where firms' actions contradict sustainability and ethical norms, are not uncommon (Li et al., 2019). These controversies can have substantial repercussions on firms' reputations and financial standings (Janney & Gove, 2011; Walsh et al., 2009). ESG controversies, reflecting operational and reputational risks, can significantly hinder a firm's financial standing (Lange & Washburn, 2012). Yet, they also present latent opportunities for organizational learning and stakeholder engagement within the complex corporate environments of the EU (Hart & Milstein, 2003).

Despite a growing body of literature on ESG and corporate performance, a conspicuous gap exists in our understanding of how ESG controversies specifically impact firms within diverse regulatory and cultural contexts (Clarkson, Li, Richardson, & Vasvari, 2008). Furthermore, the role of corporate governance structures, particularly within the complex EU environment, remains underexplored (Al Frijat et al., 2024; Amel-Zadeh & Serafeim, 2018; Amin et al., 2023; Eliwa et al., 2023; Elmagrhi et al., 2019; Elsayed & Elshandidy, 2020, 2021; Elsayed et al., 2022, 2023; Gallego-Álvarez & Pucheta-Martínez, 2022; Galletta & Mazzù, 2023; Teti et al., 2022). While studies have established both positive and negative associations between ESG performance and corporate financial outcomes (Margolis et al., 2009), there is often a lack of nuanced exploration regarding ESG controversies and their distinct impacts. Governance structures, including board compositions and diversity, have been highlighted as pivotal in shaping firms' ESG performances (Abdelkader et al., 2024; Adams & Ferreira, 2009; Mahran & Elamer, 2023; Nirino et al., 2022; Rajesh & Rajendran, 2020; Roberts et al., 2021; Srouji et al., 2023; Ullah et al., 2022). However, their specific moderating roles in the context of ESG controversies remain less understood. Our study integrates agency theory, stakeholder theory, and the resource-based view, offering multidimensional perspectives on ESG controversies and firm performance (Freeman, 1984; Jensen & Meckling, 1976; Barney, 1991).

The EU, with its multifaceted regulatory frameworks and diverse corporate cultures, provides a complex yet insightful setting for this exploration. Stringent ESG disclosure requirements, combined with ambitious sustainability goals like the EU Green Deal, make the EU a significant context for investigating the dynamics between ESG controversies and corporate performance (European Commission, 2019). These nuanced variations offer a rich, complex terrain where ESG controversies are not just isolated events, but intricate processes entwined with broader narratives of corporate responsibility, societal expectations, and regulatory mandates. Our study aims to bridge gaps identified in prior research.

While Li et al. (2019) initiated discussions on corporate controversies and CSR strategies, a comprehensive examination of the moderating effects of ESG initiatives remains elusive. We strive to contribute rich insights to this critical area, offering a more comprehensive perspective on the controversy-financial performance nexus. Moreover, we delve into the complexities identified by Kim et al. (2018), where the impacts of CSR on financial performance are neither linear nor straightforward. The mitigation effects of ESG practices, especially in the aftermath of corporate controversies, are a focal point of our investigation. We posit that corporate controversies exert a negative influence on financial performance, an assertion grounded in prior literature (Li et al., 2019; Walsh et al., 2009). Furthermore, we explore the hypothesis that corporate governance elements, including board independence, gender diversity, and ESG practices, serve as a moderating force, potentially alleviating the adverse financial impacts of ESG controversies.

Using a dataset of 5360 firm-year observations, our study reveals a nuanced narrative. The primary findings indicate a significant negative association between ESG controversies and firm performance. These controversies, often magnified in the public and media spheres, exert downward pressure on firms' financial and reputational capital (Li et al., 2019). However, this is not a terminal or unalterable prediction. The study unveils the moderating and transformative potential of robust corporate governance structures. In the face of ESG controversies, firms equipped with strong governance frameworks not only demonstrate resilience but also an alacrity to transform these challenges into platforms for reputational enhancement and strategic evolution (Nirino et al., 2019). This dialectic between controversies and governance unveils a spectrum of outcomes and responses that are neither monolithic nor deterministic. A comparative analysis between the UK and other EU nations brings to the fore the nuanced influences of geographical and regulatory contexts. The idiosyncrasies of national regulatory frameworks, stakeholder ecosystems, and corporate governance cultures are pivotal in shaping firms' responses and adaptations to ESG controversies.

This study contributes significantly to the burgeoning field of ESG research by unveiling several noteworthy insights. First, it provides empirical evidence that ESG controversies have a substantial and adverse impact on firm performance, aligning with traditional corporate finance perspectives and emphasizing the materiality of these controversies. Second, the research elucidates the pivotal role of corporate governance mechanisms, including board independence, gender diversity, and ESG practices, in moderating the relationship between ESG controversies and firm performance. It highlights the nuanced interplay between governance and ESG challenges, offering valuable insights for corporate governance scholars and practitioners. Third, the comparative analysis between the Anglo-American and Euro-Continental governance models underscores the importance of considering regional governance norms and regulatory environments in understanding how firms respond to ESG controversies. Moreover, the study's heterogeneity analysis, based on firm size, performance, and audit committee expertise, provides a contextualized view of how different firms navigate ESG challenges, contributing to a more nuanced understanding of the corporate ESG landscape. Lastly, the research offers actionable insights for policymakers, corporate leaders, and investors, facilitating informed decision-making and strategy development in an ever-evolving ESG landscape. In sum, this study enhances our understanding of the multifaceted terrain where ESG controversies intersect with corporate governance, providing both theoretical and practical contributions to the field.

The remainder of this paper is organized as follows: Section 2 presents a literature review and the hypothesis formulation, Section 3 explains the adopted methodology, Section 4 discusses the results of the regression model relating to the determinants of the firm's performance, and finally, Section 5 concludes the paper and suggests future research avenues.

2 | LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

2.1 | The impact of ESG controversies on the firm's performance

The stakeholder theory argues that corporations engage in Corporate Social Responsibility (CSR) initiatives, including ESG practices, not only to maximize shareholder wealth but also to fulfill broader social objectives, mitigate managerial opportunism, and enhance their reputation (Alshbili et al., 2021; Alshbili & Elamer, 2020; Govindan, 2022; Isaksson & Kiessling, 2021). Firms often employ CSR, particularly environmental performance, as a means to bolster their brand and reputation (Lin, 2019; Veeravel et al., 2024). In times of societal taboos, moral disputes, or actions causing social and environmental harm, companies tend to increase information disclosure, aiming to mitigate the negative repercussions (Garcia et al., 2017).

Historically, the corporate finance literature predominantly emphasized shareholder value maximization as a corporation's sole objective (Battisti et al., 2020; Jensen, 2010). However, the stakeholders' theory expanded this perspective by recognizing that firms also serve stakeholder interests, leading to the emergence of CSR research (Rey-Marti et al., 2016; Belyaeva et al., 2020). CSR has a rich history and has evolved significantly in response to changing societal needs (Burke & Logsdon, 1996; Ferrell et al., 2019; Hassan et al., 2021; Issa, 2023; Kazemi et al., 2023; Khatib et al., 2021). From a corporate standpoint, CSR disclosure entails sharing information related to operations, activities, and programs that impact the public and general stakeholders, with CSR disclosure playing a pivotal role in building trust and corporate reputation (Chan et al., 2014).

CSR strategies encompass diverse practices aimed at meeting various stakeholder expectations, including those related to the environment, society, and shareholders (Erhemjamts & Huang, 2019; Fiore et al., 2020; Lin, 2024; Liu et al., 2023; López-Manuel et al., 2023; Zhang et al., 2023). To encompass the breadth of CSR activities, the acronym ESG (Environmental, Social, and Governance) has emerged, signifying policies adopted by companies to address environmental and societal objectives, thereby meeting stakeholder needs (Bresciani et al., 2016; Luo & Bhattacharya, 2006). The Resource-Based View (RBV) suggests that environmental and social activities can confer competitive advantages by fostering unique skills and competencies within a company (Dressler & Paunović, 2020; Hull & Rothenberg, 2008).

However, the relationship between ESG policies and financial performance remains complex and multifaceted. Research has yielded mixed results, with some studies showing positive, negative, or mixed links between ESG practices and financial outcomes (McWilliams et al., 2006). The interplay between these variables is influenced by numerous factors. Skepticism among customers towards CSR initiatives can render these strategies ineffective (Luo & Bhattacharya, 2006; Skarmeas & Leonidou, 2013), leading some to argue that ESG practices are merely costs that do not provide meaningful advantages, potentially reducing company performance (Kim & Lyon, 2015). Conversely, others, such as Porter and Kramer (2006), emphasize the positive impact of sustainable behavior on financial performance, citing benefits like lower taxes, operational risk reduction, improved contract negotiations, customer retention, and enhanced reputation (Malik, 2015).

A company's reputation is a well-established factor in improving financial performance (Aguilera et al., 2007; Li et al., 2019). A positive reputation fosters customer loyalty, resulting in long-term value creation (Roberts & Dowling, 2002; Saedi et al., 2015). Conversely, stakeholders' perceptions of a company can vary, with positive or negative consequences for the firm (Nirino et al., 2021). Negative perceptions can lead to legal actions, revenue losses, increased financial risk, and higher debt costs (Lange & Washburn, 2012). Stakeholder reactions to corporate controversies can affect different groups differently (Love & Kraatz, 2009; Pierce, 2018). These events can damage a firm's image and reputation, leading to legal and financial repercussions, especially in the case of publicly traded companies where the market may overreact (Aouadi & Marsat, 2018). Given these arguments, we propose the following hypothesis:

> **H1.** Corporate ESG controversies negatively impact a firm's financial performance.

2.2 | The moderating impact of board Independence on the connection between ESG controversies and the firm's performance

The composition of corporate boards and their influence on organizational decisions and performance is a well-studied topic in modern corporate finance. Despite decades of research, particularly in the context of U.S. corporations, conclusive evidence establishing a strong correlation between board composition and firm performance remains elusive (Amin et al., 2022; Feng et al., 2020; Hermalin & Weisbach, 2003). This absence of a definitive causal relationship aligns with the notion that internal governance mechanisms, including board structure, are endogenously determined and adapt to the firms' contracting and operational environments (Linck et al., 2008; Liu et al., 2014; Moursli, 2020; Wintoki et al., 2012). In contrast, various nations have introduced legislation mandating a minimum level of independent director representation on the boards of publicly traded companies. This regulatory shift has led to a notable increase in the presence of independent directors. The underlying assumption behind this trend is that independent directors can enhance the quality of board monitoring, subsequently enhancing the firm's value (Fama & Jensen, 1983).

The presence of independent directors on boards serves as a governance mechanism with the potential to influence CSR performance, primarily through increased transparency and monitoring (Terjesen et al., 2016). Independent directors are more likely to align managerial interests with shareholder interests (Ryan Jr & Wiggins III, 2004). Previous studies underscore the constructive role of independent board members in promoting effective CSR strategies. Beji et al. (2021) and Harjoto and Jo (2011) have argued that the presence of independent directors on boards is positively associated with CSR performance. One possible explanation is that independent directors rely on publicly available information, such as financial reports since they lack insider knowledge. Consequently, they are more inclined to advocate for CSR disclosure (Benkraiem et al., 2021). Moreover, because their reputation is closely linked to the firm's reputation, independent directors may endorse meaningful CSR initiatives to enhance their own standing (Beji et al., 2021). Based on these considerations, we propose the following hypothesis:

> **H2.** The relationship between corporate controversies and financial performance is moderated by the level of board independence.

2.3 | The moderating impact of gender diversity on the connection between ESG controversies and the firm's performance

In the realm of corporate finance, the presence of female board members is considered a governance tool that can influence agency conflicts. Gender diversity on boards is believed to enhance governance and reduce agency costs in an agency-driven environment (Daily et al., 1999; Jurkus et al., 2011). Moreover, the resource dependency hypothesis posits that women contribute valuable resources, such as skills, expertise, and experience, to boards (Pfeffer, 2019). Hillman et al. (2007), Ward and Forker (2017), and Poletti-Hughes and Briano-Turrent (2017) argue that the inclusion of women on corporate boards leads to greater resource utilization, crucial for navigating complex ESG landscapes.

The presence of women on boards has been shown to positively influence Corporate Social Responsibility (CSR) and Environmental, Social, and Governance (ESG) performance. Studies indicate that gender-diverse boards enhance the credibility of CSR reporting and signal a strong commitment to stakeholders (Bear et al., 2010; Beji et al., 2021; Boulouta, 2013; Post et al., 2011; Sundarasen et al., 2016; Zhang & Juelin, 2012). Recent research extends these insights, highlighting the mediating role of temporal orientation in the relationship between board gender diversity and ESG performance (Abdelkader et al., 2024) and suggesting that gender diversity positively influences the sustainable growth rate, especially in family-owned businesses (Amin et al., 2023). Nekhili et al. (2017) support this, noting that female representation on boards enhances the credibility of CSR reporting and market value, signaling a robust commitment to stakeholder interests.

Moreover, the inclusion of women on boards has been linked to a reduction in environmental lawsuits and enhanced ethical standards within firms. Female directors are often more concerned with corporate legitimacy and ethical practices, including the eradication of harmful labor practices (Dadanlar & Abebe, 2020; Liu, 2018). Eliwa et al. (2023) found that board gender diversity plays a significant role in ESG decoupling in various cultural and religious contexts, emphasizing its importance in corporate ethical practices.

Furthermore, the presence of women on boards has been linked to a reduction in environmental lawsuits (Dadanlar & Abebe, 2020; Liu, 2018). Female directors are more likely to be concerned with the firm's legitimacy and the eradication of prohibited labor practices, including child labor (Beji et al., 2021). Recent studies like Amin et al. (2023) emphasize the positive influence of gender diversity in the boardroom on sustainable growth rates, especially in family-owned enterprises. This evidence underscores the multifaceted role of female directors in enhancing corporate governance and ethical standards, particularly in mitigating the potential negative impacts of ESG controversies. Based on this evidence, we posit that the inclusion of women on the boards of companies involved in contentious activities will be viewed favorably by investors, as it mitigates potential harm to the firm's value. Therefore, we formulate the following hypothesis:

> **H3.** The relationship between corporate ESG controversies and financial performance is moderated by gender diversity.

2.4 | The moderating effect of ESG practices on the relationship between controversy and financial performance

Under the pressure of stakeholders and institutional expectations, ESG practices represent a critical dimension in understanding how firms respond to controversies and their subsequent impact on financial performance. Studies have confirmed the positive effects of ESG investments on firm financial performance (Bird et al., 2007; Franceschelli et al., 2019; Margolis et al., 2009). These practices are considered a source of competitive advantage, enhancing trust among stakeholders over the long term (Birindelli et al., 2015; Donaldson & Preston, 1995). Companies often engage in two types of sustainable practices: symbolic and substantive. Symbolic practices aim to project a positive image but may lose credibility over time if not backed by real resources (Kim et al., 2012). Conversely, substantive practices represent strategic measures that, despite short-term costs, deliver greater long-term performance benefits (Wang & Sarkis, 2017). In the face of controversies, firms may either reactively adopt social changes or proactively cultivate a corporate culture aligned with ethical and sustainability principles (Hart & Milstein, 2003).

Real sustainable actions can enhance a firm's reputation among stakeholders and lead to better financial performance (Park et al., 2014). Such actions mitigate the negative impact of controversies by fostering trust, while symbolic practices are often insufficient. Thus, ESG practices can moderate the relationship between corporate controversies and financial performance. Therefore, we propose the following hypothesis:

> **H4.** The relationship between corporate ESG controversies and financial performance is moderated by ESG practices.

3 | RESEARCH METHODOLOGY

3.1 | Sample selection

This analysis was conducted on a sample of European non-financial listed corporations using the Thomson Reuters Datastream ASSET4 ESG Database from 2012 to 2021. We eliminated financial and real estate enterprises from the initial population due to sector specificities and the accounting regime of credit institutions. As a result, the final sample consists of 536 firms across a 10-year period, for a total of 5360 observations. The information was obtained from the Thomson Reuters database (Datastream). The detailed breakdown in Table 1 illustrates how we narrowed down the initial population to a final sample of 536 firms across five key European countries, accounting for various exclusions such as financial corporations and companies with missing data. This rigorous selection process underpins the robustness of our findings, providing a solid foundation for analyzing the relationship between ESG factors and firm performance in a non-financial context.

3.2 | Variables measurements

3.2.1 | The dependent variable: the firm's value

Tobin's *Q* is a widely recognized financial metric used to assess a firm's value, particularly in the context of market valuation versus asset value. In our study, Tobin's *Q* is calculated as the total market value, preferred stock, and long-term debt, divided by total assets. This formula provides a comprehensive measure that reflects both the market's perception and the intrinsic value of the firm's assets. By choosing Tobin's *Q*, following the precedent set by Moursli (2020) and Nirino et al. (2021), our study aligns with established methodologies in financial research, offering a credible and relevant approach to evaluating firm value in the context of ESG factors. This metric is particularly useful for our analysis as it captures a broader perspective of a firm's worth, beyond just its tangible assets, including market confidence and investor expectations.

3.2.2 | The independent variable

The ESG controversy score is a crucial metric in assessing a firm's engagement and performance in ESG-related areas (Aouadi & Marsat, 2018; Li et al., 2019). Developed by Thomson Reuters, this score ranges from 0 to 100 and encapsulates the extent of a company's involvement in various ESG controversies. It aggregates incidents across environmental, social, and governance dimensions, including other significant adverse events. A higher score typically indicates more controversies or issues, negatively affecting the firm's overall ESG rating. "The ESG controversies score is calculated based on 23 ESG controversy topics," according to Thomson Reuters. If a scandal arises throughout the year, the corporation concerned is punished, and this impacts their total controversies score and grading. This comprehensive approach allows for a nuanced understanding of how ESG controversies, spanning a wide range of topics, impact a firm's reputation and, potentially, its financial performance. The use of this score in our study provides a detailed measure of a firm's ESG-related challenges, offering a critical lens through which to analyze the relationship between ESG controversies and firm valuation.

3.2.3 | Moderating variable

Additionally, the board's gender diversity, board independence, and ESG practices are moderating factors. Then, the gender diversity on the board is determined by the percentage of directors on the board, while the board's independence is determined by the percentage of its non-executive members, then, ESG practices are gauged using the ESG score.

TABLE 1 Distribution of our sample by country.

Sample distribution	UK	France	Italy	Germany	Denmark
Initial population	699	197	136	306	68
Deductions					
Financial corporations (banks, financial services and insurance companies)	(80)	(14)	(27)	(30)	(11)
Companies with missing data	(311)	(93)	(73)	(191)	(34)
Final sample retained	302	90	36	85	23

3.2.4 | Measurement of control variables

This study includes several control variables to ensure a comprehensive analysis (Boukattaya et al., 2022; Boulhaga et al., 2023; Hassan et al., 2021; Issa, 2023; Karwowski & Raulinajtys-Grzybek, 2021; Kazemi et al., 2023; Khatib et al., 2021; Lei & Yu, 2024; Li et al., 2019). The firm's size (*FSIZE*), calculated as the natural logarithm of total assets, and Return on Assets (*ROA*), determined by net income divided by total assets, are used to reflect the size and profitability of the firm. These factors are essential as larger, more profitable firms are often valued higher by shareholders. Leverage (*LEV*), measured by the ratio of total debt to total assets, and liquidity (*LIQDT*), calculated by the current assets to current liabilities ratio, are also considered. Additionally, the study examines the size of the board (*BOA_SIZE*) and whether the CEO's role is separate from other executive functions (*CEO_DUA*). Lastly, we add a dummy variable for the presence of a sustainability committee (*Sust_Com*). These control variables provide a more nuanced understanding of the firm's governance structure and financial health.

3.3 | Model specification

Based on the above assumptions, this paper assesses the moderating role of board independence, gender diversity, and ESG practices on the relationship between ESG controversies and firm performance as follows.

$$\begin{aligned}\text{Tobin } Q_{\text{it}} = {} & \beta_0 + \beta_1 \text{ESG CON}_{\text{it}} + \beta_2 \text{BOA\_IND}_{\text{it}} + \beta_3 \text{ESG CON}_{\text{it}} \\ & \times \text{BOA\_IND}_{\text{it}} + \beta_4 \text{FSIZE}_{\text{it}} + \beta_5 \text{ROA}_{\text{it}} + \beta_6 \text{LEV}_{\text{it}} \\ & + \beta_7 \text{LIQDT}_{\text{it}} + \beta_8 \text{BOA\_SIZE}_{\text{it}} + \beta_9 \text{CEO\_DUAL}_{\text{it}} \\ & + \beta_{10} \text{Sust\_Com}_{\text{it}} + \varepsilon_{\text{it}} \end{aligned} \tag{1}$$

$$\begin{aligned}\text{Tobin } Q_{\text{it}} = {} & \beta_0 + \beta_1 \text{ESG CON}_{\text{it}} + \beta_2 \text{Gender}_{\text{it}} + \beta_3 \text{ESG CON}_{\text{it}} \\ & \times \text{Gender}_{\text{it}} + \beta_4 \text{FSIZE}_{\text{it}} + \beta_5 \text{ROA}_{\text{it}} + \beta_6 \text{LEV}_{\text{it}} \\ & + \beta_7 \text{LIQDT}_{\text{it}} + \beta_8 \text{BOA\_SIZE}_{\text{it}} + \beta_9 \text{CEO\_DUAL}_{\text{it}} \\ & + \beta_{10} \text{Sust\_Com}_{\text{it}} + \varepsilon_{\text{it}} \end{aligned} \tag{2}$$

$$\begin{aligned}\text{Tobin } Q_{\text{it}} = {} & \beta_0 + \beta_1 \text{ESG CON}_{\text{it}} + \beta_2 \text{ESG}_{\text{it}} + \beta_3 \text{ESG CON}_{\text{it}} \times \text{ESG}_{\text{it}} \\ & + \beta_4 \text{FSIZE}_{\text{it}} + \beta_5 \text{ROA}_{\text{it}} + \beta_6 \text{LEV}_{\text{it}} + \beta_7 \text{LIQDT}_{\text{it}} \\ & + \beta_8 \text{BOA\_SIZE}_{\text{it}} + \beta_9 \text{CEO\_DUAL}_{\text{it}} \\ & + \beta_{10} \text{Sust\_Com}_{\text{it}} + \varepsilon_{\text{it}} \end{aligned} \tag{3}$$

Instead, Tobin's *Q* measures firm value then, the ESG controversy score is used to measure corporate controversies, BOA_IND: board independence, Gender: percentage of female directors on the board, ESG practices measured by ESG score. FSIZE, which corresponds to the logarithm of total assets (TA) for year *t*, ROA: Return on assets, where LEV is measured through the total debt/total assets ratio, whereas LIQDT is measured using the ratio of the current assets to current liabilities. BOA_SIZE: the total number of directors, CEO_DUAL: CEO Duality, Sust_Com: sustainability committee.

4 | RESULTS AND DISCUSSION

4.1 | Descriptive statistics

Table 2 provides a comprehensive overview of the descriptive statistics associated with each variable considered in the study. Each metric presents an illustrative snapshot, capturing the central tendency and dispersion characteristics that delineate the nature and behavior of the dataset. With Tobin's *Q* boasting an average of 0.20 and a standard deviation of 0.17, the dataset reveals a concentrated distribution around the mean, with the minimum and maximum values of 0.01 and 2.01, respectively, indicating a limited skewness in the data. The average Tobin's *Q* aligns with the broad literature asserting the multifaceted determinants of firm value, resonating with the nuanced impacts of ESG controversies elucidated by Garcia et al. (2017). ESG controversies (ESG CON) have an average of 0.89, supported by a standard deviation of 0.25. The spread of the data from 0.01 to 1 underscores a spectrum of engagement levels with these controversies. This aligns with the arguments by Garcia et al. (2017), who noted increased disclosures amid societal and moral disputes, a possible reputation enhancement strategy. Board independence (BOA_IND), averaging 81.45 with a standard deviation of 15.90, depicts the majority of firms adhering to strong board independence. These numbers echo the insights by Hermalin and Weisbach (2003) concerning the influential role of board independence in corporate governance and performance. Gender diversity (GENDER) displays a mean of 26.76% with variations (standard deviation of 14.01%), supporting the findings of Terjesen et al. (2016) on the incremental yet varied incorporation of gender diversity in boardrooms globally. The ESG score (ESG) hovers around a mean of 54.60, indicating firms' average commitment to ESG practices. However, a broad standard deviation of 20.84 signals differing intensities in ESG commitment across firms, a narrative underlined by Wang and Sark (2017).

Control variables like FSIZE, ROA, LEV, and others each encapsulate distinct narratives. FSIZE's mean and dispersion echo the economies of scale narrative of Panayides and Gong (2002), while ROA and LEV resonate with the insights of Titman and Wessels (1988) and Fama and French (2002) respectively. Sustainability committee prevalence (Sust_Com) stands at a 66% mean, revealing that two-thirds of the firms have instituted formal ESG oversight mechanisms. These data echo the insights by Post et al. (2011), validating the global trend toward formalized ESG strategy and oversight. In sum, Table 2 is not just a statistical exposition, but a narrative deeply rooted in, and supported by extensive literature. Each variable, from core to control, weaves into the broader discourse of ESG controversies' impact on firm performance, echoing, challenging, and extending the foundational theories and empirical insights established in preceding literature.

4.2 | Correlation matrix

Table 3 presents a correlation matrix that indicates relationships among various variables, beginning with ESG controversies (ESG

TABLE 2 Descriptive statistics.

Variables	*N*	Mean	Standard deviation	Minimum	Maximum
Tobin *Q*	5360	0.20	0.17	0.01	2.01
ESG CON	5360	0.89	0.25	0.01	1.00
BOA_IND	5360	81.45	15.90	0.00	100.00
GENDER	5360	26.76	14.01	0.00	80.00
ESG	5360	54.60	20.84	1.02	95.73
FSIZE	5360	15.12	1.74	8.85	20.96
ROA	5360	0.07	0.14	−0.63	2.69
LEV	5360	0.25	0.21	0.00	2.70
LIQDT	5360	1.44	3.63	0.00	213.17
BOA_SIZE	5360	10.09	3.93	1.00	26.00
CEO_DUAL	5360	0.18	0.38	0.00	1.00
Sust_Com	5360	0.66	0.47	0.00	1.00

Note: Tobin's *Q* is utilized to measure firm value, reflecting the market's assessment relative to the company's assets. The ESG controversy score quantifies corporate controversies, focusing on ESG-related issues. BOA_IND represents board independence, and Gender indicates the percentage of female directors on the board. ESG practices are gauged using the ESG score. FSIZE corresponds to the logarithm of total assets (TA) for year *t*. ROA, or Return on Assets, and LEV, measured as the total debt/total assets ratio, provide financial performance indicators. LIQDT is calculated using the current assets to current liabilities ratio. BOA_SIZE denotes the total number of directors on the board, CEO_DUAL refers to CEO Duality, and Sust_Com indicates the presence of a sustainability committee.

CON), board independence (BOA_IND), and gender diversity (GENDER), then extending to control variables. A notable finding is the negative correlation between ESG CON and Tobin's *Q* (−0.054), suggesting that firms with more ESG controversies tend to have lower market value. This observation is supported by existing studies that highlight the potential financial consequences of ESG controversies on firms (e.g., Flammer, 2013). Board independence (BOA_IND) is negatively associated with ESG CON (−0.064), indicating that firms with more independent boards are associated with fewer ESG controversies. This supports the notion that independent boards can mitigate the risk of ESG issues arising, a finding consistent with prior research (e.g., Harjoto & Jo, 2011). Gender diversity (GENDER) also shows a negative correlation with ESG CON (−0.097), suggesting that boards with a higher proportion of female directors may be linked with reduced ESG controversies. This aligns with literature underscoring the role of diverse boards in enhancing corporate ethical standards (e.g., Bear et al., 2010).

Looking at control variables, firm size (FSIZE) and ESG practices (ESG) are positively correlated with Tobin's *Q*, indicating that larger firms and those with robust ESG practices tend to have higher market value. ROA and leverage (LEV) are negatively correlated, aligning with established literature that larger, more leveraged firms tend to have lower profitability (e.g., Titman & Wessels, 1988). The positive correlation between ESG CON and other key variables like ROA and liquidity (LIQDT) offers further insights into the financial impacts of ESG controversies. The positive correlations among CEO duality (CEO_DUAL), sustainability committee (Sust_Com), and Tobin's *Q* suggest the potential value-enhancing roles of these governance mechanisms. In summary, the findings from the correlation matrix contribute to our understanding of the relationships between corporate governance variables, ESG controversies, and firm value, providing empirical evidence that complements and extends existing literature in the field.

4.3 | Multivariate results and discussion

In this section, we investigate the relationship between ESG Controversies on a Firm's Performance. Additionally, we explore the potential moderating impact of board independence, board gender diversity, and ESG practices on this relationship. The key findings and outcomes are presented in Table 4.

Examining H1 and the effect of ESG controversies on a firm's performance, Model (1) of Table 4 unveils that ESG controversies (*ESG CON*) have a significant negative coefficient (−0.122). This result echoes the sentiments of Lange and Washburn (2012), supporting the argument that ESG controversies, often reflecting operational and reputational risks, can adversely influence a firm's financial standing. These results align more with traditional corporate finance perspectives, emphasizing the negative repercussions of controversies (Lange & Washburn, 2012). The negative coefficient validates H1, compelling a comprehensive and intricate examination of the multifaceted impacts of ESG controversies.

Turning our attention to Model (1) and H2, we focus on board independence's moderating role. Board independence (BOA_IND) exhibits a significant negative coefficient of −0.002. This aligns with insights from Hermalin and Weisbach (2003), suggesting that board independence, while instrumental in governance, does not directly correlate with enhanced firm performance. However, the interaction between ESG CON and board independence (BOA_IND) reveals a positive coefficient of 0.001**, indicative of board independence's

TABLE 3 Pearson's correlation.

Variables	Tobin Q	ESG CON	BOA_IND	GENDER	ESG	FSIZE	ROA	LEV	LIQDT	BOA_SIZE	CEO_DUAL	Sust_Com
Tobin Q	1.000											
ESG CON	−0.054***	1.000										
BOA_IND	−0.050***	−0.064***	1.000									
GENDER	0.074***	−0.097***	0.188***	1.000								
ESG	0.207***	−0.333***	0.138***	0.392***	1.000							
FSIZE	0.210***	−0.412***	0.345***	0.257***	0.641***	1.000						
ROA	−0.108***	0.087***	−0.065***	0.015	−0.084***	−0.164***	1.000					
LEV	0.864***	−0.067***	−0.025*	0.070***	0.193***	0.207***	−0.141***	1.000				
LIQDT	−0.066***	0.013	−0.062***	−0.065***	−0.034**	−0.061***	0.005	−0.082***	1.000			
BOA_SIZE	0.148***	−0.287***	0.273***	0.203***	0.496***	0.597***	−0.099***	0.152***	−0.014	1.000		
CEO_DUAL	0.051***	−0.049***	−0.008	0.154***	0.142***	0.182***	−0.043***	0.067***	0.003	0.232***	1.000	
Sust_Com	0.159***	−0.201***	−0.086***	0.142***	0.584***	0.427***	−0.109***	0.141***	−0.002	0.340***	0.197***	1.000

Note: *, **, and *** significant relationship at 10%, 5%, and 1% threshold. Tobin's Q is utilized to measure firm value, reflecting the market's assessment relative to the company's assets. The ESG controversy score quantifies corporate controversies, focusing on ESG-related issues. BOA_IND represents board independence, and Gender indicates the percentage of female directors on the board. ESG practices are gauged using the ESG score. FSIZE corresponds to the logarithm of total assets (TA) for year t. ROA, or Return on Assets, and LEV, measured as the total debt/total assets ratio, provide financial performance indicators. LIQDT is calculated using the current assets to current liabilities ratio. BOA_SIZE denotes the total number of directors on the board, CEO_DUAL refers to CEO Duality, and Sust_Com indicates the presence of a sustainability committee.

mitigating role on the adverse impacts of ESG controversies. This aligns with Terjesen et al. (2016), emphasizing that independent boards augment transparency and stakeholder alignment. This positive interaction emphasizes the pivotal role of independent directors in enhancing transparency and aligning stakeholders' interests, reinforcing the premise of H2.

For H3, Model (1) explores the moderating influence of gender diversity. Gender diversity (GENDER) reveals a positive coefficient of 0.001. This result finds resonance with Sundarasen et al. (2016), underscoring the contribution of gender-diverse boards to enhanced corporate performance. However, the interaction term ESG CON-GENDER yields a negative coefficient of −0.001. It illustrates the complexity inherent in the interplay between gender diversity and ESG controversies. A gender-diverse board, while contributing positively to firm performance, seems to mitigate the potential upside in the context of ESG controversies. This resonates with insights by Beji et al. (2021) and Sundarasen et al. (2016), who championed the merits of gender diversity. This finding, aligning with H3, highlights the protective aura of gender-diverse boards, fostering a more calculated, and judicious approach to ESG controversies.

Model (1) also delves into H3 by examining the moderating influence of ESG Practices. Examining ESG practices (ESG), a negative coefficient of −0.001 is unveiled, contrasting with the positive sentiment towards ESG impacts in the literature (e.g., Malik, 2015). However, this model identifies a significant positive interaction between ESG practices and ESG CON (0.001), implying that robust ESG frameworks could potentially accentuate the controversies' positive impacts on performance. This dovetails with the "proactive social change" narrative presented by Hart and Milstein (2003) and the essence of substantive sustainable practices emphasized by Wang and Sarkis (2017). Such findings solidify the notion of ESG practices not merely as perfunctory exercises but as strategic levers, transmuting controversies into performance enhancement channels, mirroring sentiments of the resource-based view. Enmeshed in the rich tapestry of literature, these revelations, both corroborative and contrasting, shed light on the multifaceted terrain where ESG controversies, board dynamics, and ESG practices intersect. As stakeholders grapple with these dynamics, these insights call for adaptive, contextually rich academic pursuits and policy edicts, mirroring the ever-evolving ESG landscape.

Our analytical voyage also embraced a plethora of control variables, ensuring a holistic understanding of the examined relationships. Within Model (1) of Table 4, the firm size (FSIZE) mirrors the economies of scale narrative, as larger firms, benefitting from their size, portray a positive correlation with performance (Panayides & Gong, 2002). The negative ROA coefficient unravels that sheer asset accumulation doesn't guarantee proportional returns, a notion buttressed by Titman and Wessels (1988). Meanwhile, the positive coefficients of leverage (LEV) and liquidity (LIQDT) manifest firms' financial health, drawing from the trade-off theory of capital structure (Fama & French, 2002) and the liquidity-prosperity paradigm (Al-Najjar, 2013).

In the realm of corporate governance, board size (BOA_SIZE) and CEO duality (CEO_DUAL) offer nuanced insights. The positive association between a larger board and performance echoes the sentiment

TABLE 4 The moderating role of board independence, gender and ESG practices on the relationship between ESG controversies and firm performance.

Variables	Model (1)	Model (2)	Model (3)	Model (4)	Model (5)
L.TBQ	0.410***	0.398***	0.406***	0.405***	0.408***
	(289.21)	(197.26)	(446.93)	(449.48)	(479.00)
ESG CON	−0.122***	0.007***	−0.009***	0.021***	−0.028***
	(−47.85)	(9.74)	(−3.89)	(53.21)	(−32.88)
BOA_IND	−0.002***		−0.0006***		
	(−56.02)		−23.81		
ESG CON*BOA_IND	0.001***		0.0001***		
	(36.53)		(6.75)		
GENDER	0.001***			0.0007***	
	(57.99)			(44.43)	
ESG CON* GENDER	−0.001***			−0.0004***	
	(−36.82)			(−27.88)	
ESG	−0.001***				−0.0002***
	(−65.06)				(−20.39)
ESG CON* ESG	0.001***				0.0005***
	(61.83)				(45.25)
FSIZE	0.001***	0.002**	0.003***	0.001***	0.0020***
	(4.61)	(10.39)	(36.02)	(22.49)	(16.97)
ROA	−0.012***	−0.014***	−0.012***	−0.017***	−0.0124***
	(−15.70)	(−13.54)	(−36.51)	(−32.89)	(−35.48)
LEV	0.333***	0.334***	0.332***	0.333***	0.3327***
	(269.20)	(196.85)	(381.85)	(530.95)	(454.88)
LIQDT	0.000***	0.00006***	0.00001***	0.0001***	0.00008***
	(49.49)	(29.39)	(17.63)	(61.31)	(60.00)
BOA_SIZE	0.002***	0.001***	0.001***	0.0017***	0.0008***
	(53.92)	(18.36)	(29.31)	(44.25)	(24.98)
CEO_DUAL	0.005***	0.006***	0.004***	0.0074***	0.010***
	(12.08)	(5.83)	(11.83)	(22.81)	(22.57)
Sust_Com	0.004***	0.008***	0.006	0.0082***	0.004***
	(15.49)	(15.12)	(26.99)	(32.52)	(21.40)
_cons	0.153***	−0.035***	0.015***	−0.036***	0.008***
	(63.95)	(−9.20)	(5.70)	(−29.62)	(4.80)
N	4824	4824	4824	4824	4824

Note: *, **, *** significant relationship at 10%, 5%, and 1% threshold. Tobin's *Q* is utilized to measure firm value, reflecting the market's assessment relative to the company's assets. The ESG controversy score quantifies corporate controversies, focusing on ESG-related issues. BOA_IND represents board independence, and Gender indicates the percentage of female directors on the board. ESG practices are gauged using the ESG score. FSIZE corresponds to the logarithm of total assets (TA) for year *t*. ROA, or Return on Assets, and LEV, measured as the total debt/total assets ratio, provide financial performance indicators. LIQDT is calculated using the current assets to current liabilities ratio. BOA_SIZE denotes the total number of directors on the board, CEO_DUAL refers to CEO Duality, and Sust_Com indicates the presence of a sustainability committee.

of Adams and Ferreira (2007), who suggested that diverse skills and expertise within larger boards can foster enhanced decision-making. However, the positive implication of CEO duality contradicts the agency theory (Jensen & Meckling, 1976), but finds support in the stewardship theory where such a leadership structure can lead to decisive and effective governance, driving enhanced performance (Donaldson & Davis, 1991). Lastly, the positive coefficient for the sustainability committee (Sust_Com) echoes the findings of Post et al. (2011). Firms with structured approaches to ESG, often denoted by the presence of a sustainability committee, tend to align their strategies and operations effectively with stakeholder expectations and regulatory requirements, fostering enhanced value creation. Each control variable is not just a statistical entity, but a narrative underscored by a plethora of studies, each contributing to our intricate understanding of the dynamics shaping firm performance amidst ESG controversies. These variables, supported by a rich tapestry of literature, provide a comprehensive backdrop against which the core variables and hypotheses are evaluated and understood.

4.4 | Additional analysis and robustness checks

4.4.1 | Comparative analysis of Anglo-American and Euro-Continental models

In this section, we extend our analysis to a comparative study between firms in the United Kingdom (Anglo-American model) and those in other EU countries (Euro-Continental model), aiming to discern potential distinctions in the relationships observed. The findings outlined in Table 5 reveal nuanced variations that underscore the influence of the prevailing governance model on the relationship between ESG controversies and firm performance, and the moderating roles of board independence, gender diversity, and ESG practices.

The Anglo-American model, with its emphasis on market mechanisms, demonstrates a positive yet fluctuating relationship between ESG controversies and firm performance (Models 1, 3, 5, 7 of Table 5). These findings echo the adaptive nature of market-oriented systems, where companies can turn controversies into opportunities for engagement and learning (Hart & Milstein, 2003). In the Euro-Continental models (2, 4, 6, 8 of Table 5), the positive relationship between ESG controversies and firm performance is less pronounced. The stakeholder-oriented governance here fosters a more measured, conservative approach, where reputational risk and stakeholder relationships are more intricately managed (Aguilera et al., 2007).

Board independence in the Anglo-American model does not present a direct relationship with firm performance but exhibits a significant positive interaction with ESG controversies (Model 4). This resonates with the versatility of market-oriented governance, where independent boards can maneuver through controversies, enhancing transparency and accountability (Hermalin & Weisbach, 2003). Conversely, Euro-Continental firms exhibit a positive relationship between board independence and performance, with a marginal negative interaction with ESG controversies (Model 4). This underscores the inherent conservatism and the intricate stakeholder engagement strategies within this governance model (Linck et al., 2008).

Gender diversity enhances firm performance across both governance models (Models 5, 6), corroborating the literature that associates diverse boards with enhanced decision-making and corporate governance (Beji et al., 2021). However, the negative interaction with ESG controversies implies that gender diversity, while a strength, demands sophisticated strategies to navigate through controversies effectively. The Anglo-American model underscores a negative direct impact of ESG practices on performance but a positive interaction with controversies (Model 7). It indicates the market's adaptive capacity to leverage ESG practices for stakeholder engagement and reputation management amidst controversies, aligning with the RBV theory (Hull & Rothenberg, 2008). Euro-Continental firms show a mild positive direct relationship and negligible interaction with ESG controversies (Model 8), highlighting the conservative, stakeholder-centric approach. The positive yet restrained impact aligns with the notion that the intricate stakeholder relationships in this model moderate the direct benefits of ESG practices (McWilliams et al., 2006).

This comparative analysis delineates the nuanced dynamics between ESG controversies, corporate governance elements, and firm performance within the Anglo-American and Euro-Continental governance models. The findings underscore the necessity for a contextual, adaptive approach to understanding and managing ESG controversies. For Anglo-American firms, the agile, market-oriented governance allows for dynamic responses to controversies, leveraging board independence, gender diversity, and ESG practices for strategic advantage. In contrast, Euro-Continental firms require a more balanced, stakeholder-engaged approach, where conservatism and intricate stakeholder relationships define the pathway through ESG controversies to enhanced performance. The role of board independence and gender diversity as moderating variables is conspicuously pronounced, underscoring their integral role in shaping firms' responsiveness and adaptability to ESG controversies. ESG practices, grounded in both symbolic and substantive sustainable actions, delineate a clear demarcation in their impact between the two governance models. Each governance model, with its unique strengths and constraints, offers distinct insights for policy development, corporate strategy, and stakeholder engagement amidst ESG controversies.

4.4.2 | Heterogeneity analysis

The heterogeneity analysis aims to dissect the multifaceted impacts of ESG controversies and corporate governance factors on different echelons of firms. The intricacies of these relationships are unraveled by segregating the sample based on firm size, performance (Tobin's *Q*), and the financial expertise of audit committee members. Table 6 represents the results, unveiling nuanced variations that underscore the contextual dependencies of these relationships.

Firm size

For large firms (Column 1), ESG controversies exhibit a positive association with firm performance, echoing the findings of previous studies that emphasize the capacity of larger entities to navigate through controversies by leveraging their resources and market position (Malik, 2015). The influence of board independence and gender diversity is somewhat mitigated, highlighting the robust internal structures that possibly counterbalance their impacts. In contrast, small firms (Column 2) experience a negative impact from ESG controversies. Their limited resources and market presence potentially exacerbate the effects of controversies, aligning with the resource-based view's postulation on the necessity of internal competencies to buffer external pressures (Hull & Rothenberg, 2008). The ESG controversies and board independence interaction (ESG CON*BOA_IND) demonstrate varied impacts. A negative relation for large firms contrasts with a positive one for small firms, suggesting board independence's

TABLE 5 Results of the Anglo-American and Euro-Continental models.

Variables	(1) Anglo-American	(2) Euro-Continental	(3) Anglo-American	(4) Euro-Continental	(5) Anglo-American	(6) Euro-Continental	(7) Anglo-American	(8) Euro-Continental
L.TBQ	0.496***	0.219***	0.498***	0.232***	0.506***	0.226***	0.500***	0.229***
	(333.78)	(82.56)	(312.36)	(64.95)	(237.69)	(66.31)	(276.51)	(64.55)
ESG CON	0.008***	0.003***	−0.009**	0.016**	0.032***	0.030***	−0.048***	−0.004
	(17.08)	(3.42)	(−2.41)	(2.18)	(21.94)	(12.35)	(−24.77)	(−0.82)
BOA_IND			−0.001***	0.001***				
			(−17.93)	(7.07)				
ESG CON*BOA_IND			0.000***	−0.000*				
			(5.36)	(−1.73)				
GENDER					0.001***	0.001***		
					(21.26)	(12.30)		
ESG CON* GENDER					−0.001***	−0.001***		
					(−18.36)	(−10.97)		
ESG							−0.001***	0.000***
							(−21.70)	(3.64)
ESG CON* ESG							0.001***	0.000
							(26.90)	(1.24)
Controls	Included	Included	Included	Included	Included	Included	Included	Included
N	2718	2106	2718	2106	2718	2106	2718	2106

Note: *, **, and *** significant relationship at 10%, 5%, and 1% threshold. Tobin's *Q* is utilized to measure firm value, reflecting the market's assessment relative to the company's assets. The ESG controversy score quantifies corporate controversies, focusing on ESG-related issues. BOA_IND represents board independence, and Gender indicates the percentage of female directors on the board. ESG practices are gauged using the ESG score. FSIZE corresponds to the logarithm of total assets (TA) for year *t*. ROA, or Return on Assets, and LEV, measured as the total debt/total assets ratio, provide financial performance indicators. LIQDT is calculated using the current assets to current liabilities ratio. BOA_SIZE denotes the total number of directors on the board, CEO_DUAL refers to CEO Duality, and Sust_Com indicates the presence of a sustainability committee.

TABLE 6 Heterogeneity analysis.

Variables	(1) Large firms	(2) Small firms	(3) Well-performing	(4) Poorly performing	(5) AC expertise = 1	(6) AC expertise = 0
L.TBQ	0.262***	0.448***	0.192***	0.292***	0.228***	0.595***
	(75.90)	(259.17)	(121.78)	(225.87)	(238.83)	(804.54)
ESG CON	0.022***	−0.020***	0.029***	0.033***	−0.090***	0.113***
	(6.74)	(−12.02)	(9.73)	(13.93)	(−30.96)	(99.42)
BOA_IND	0.000	−0.001***	−0.000***	0.000	−0.002***	0.000***
	(0.17)	(−31.81)	(−13.40)	(1.32)	(−54.02)	(38.14)
ESG CON*BOA_IND	−0.000***	0.001***	−0.000	−0.000***	0.001***	−0.001***
	(−9.65)	(16.94)	(−1.07)	(−14.20)	(43.08)	(−91.03)
GENDER	0.000***	0.003***	0.002***	0.002***	0.001***	0.001***
	(18.50)	(54.69)	(75.11)	(69.13)	(53.39)	(88.93)
ESG CON* GENDER	−0.000***	−0.003***	−0.001***	−0.001***	−0.001***	−0.001***
	(−14.36)	(−52.05)	(−22.10)	(−53.35)	(−46.28)	(−44.89)
ESG	−0.000***	−0.001***	0.000***	−0.000***	−0.000***	0.000***
	(−5.31)	(−54.40)	(4.90)	(−11.38)	(−3.08)	(7.99)
ESG CON* ESG	0.000***	0.001***	0.000***	0.000***	0.000***	−0.000***
	(5.13)	(67.44)	(2.87)	(35.18)	(25.53)	(−9.23)
Controls	Included	Included	Included	Included	Included	Included
N	2412	2412	2412	2412	3665	1159

Note: *, **, and *** significant relationship at 10%, 5%, and 1% threshold. Tobin's *Q* is utilized to measure firm value, reflecting the market's assessment relative to the company's assets. The ESG controversy score quantifies corporate controversies, focusing on ESG-related issues. BOA_IND represents board independence, and Gender indicates the percentage of female directors on the board. ESG practices are gauged using the ESG score. FSIZE corresponds to the logarithm of total assets (TA) for year *t*. ROA, or Return on Assets, and LEV, measured as the total debt/total assets ratio, provide financial performance indicators. LIQDT is calculated using the current assets to current liabilities ratio. BOA_SIZE denotes the total number of directors on the board, CEO_DUAL refers to CEO Duality, and Sust_Com indicates the presence of a sustainability committee.

differential moderating effects. Large firms demonstrate a positive ESG Practices interaction (0.000), while small firms exhibit a stronger positive association (0.001), revealing the intensified mitigating role of ESG practices in smaller entities.

Tobin's Q-based performance

Well-performing firms (Column 3), identified by higher Tobin's *Q*, show resilience to ESG controversies. Their robust performance potentially accrues from established reputations and stakeholder relationships, bolstering them against the adversities of controversies (Roberts & Dowling, 2002). Poorly performing firms (Column 4), however, are more susceptible to ESG controversies. The vulnerability stems from possibly weaker stakeholder relationships and constrained resources, echoing the tenets of the stakeholder theory that accentuate the role of multifaceted stakeholder engagement in mitigating the impacts of controversies (Freeman, 1999).

4.4.3 | Audit committee financial expertise

Firms, where audit committees are endowed with financial expertise (Column 5), display a negative relationship between ESG controversies and performance. The expertise possibly amplifies the scrutiny and accountability, making the firms more responsive yet also more susceptible to the repercussions of controversies, akin to the findings of Beji et al. (2021). In contrast, the absence of financial expertise in audit committees (Column 6) manifests in a positive relationship between ESG controversies and performance. The reduced scrutiny might mitigate the immediate impacts of controversies but could potentially harbor long-term repercussions, echoing the dialectics of informational asymmetry postulated by Isaksson and Steimle (2009). The ESG controversies and board independence interaction (ESG CON*BOA_IND) interaction's positive relation in firms with audit committee expertise underscores enhanced adaptive capacities, while the pronounced negative relationship in those lacking expertise signals amplified risks.

The heterogeneity analysis underscores the intricate, contextual dependencies defining the interplay between ESG controversies, corporate governance, and firm performance. The disparities accentuated by firm size, performance, and audit committee expertise underscore the need for tailored, contextual governance and managerial strategies to adeptly navigate the multifaceted terrains of ESG controversies. Large firms, well-performing entities, and those with financially astute audit committees should leverage their intrinsic strengths while being wary of the amplified scrutiny. Small, poorly performing firms and those lacking in audit committee expertise should prioritize bolstering their internal competencies, stakeholder engagement, and transparency to mitigate the impacts of ESG controversies. The heterogeneity analysis illuminates the pathways for contextual, adaptive governance, and managerial strategies, contributing to the nuanced understanding of the ESG controversies' impacts in varied organizational and performance contexts.

5 | CONCLUSION

In the complex narrative of the business world, understanding the dynamics between environmental, social, and governance (ESG) controversies and firm performance remains a pivotal concern. This study was orchestrated with a focus to discern these dynamics while concurrently evaluating the moderating influence of corporate governance elements including board independence, gender diversity, and ESG practices.

Our empirical investigation yielded several notable findings. We found a robust negative relationship between ESG controversies and firm performance, signifying the detrimental impacts of such controversies on firms. However, this relationship is not monolithic and is notably influenced by elements of corporate governance, namely board independence and gender diversity, as well as internal ESG practices. Board independence emerged as a significant moderator, with firms boasting a high proportion of independent directors demonstrating enhanced resilience to the adverse impacts of ESG controversies. Gender diversity on boards painted a similar narrative, with our data suggesting that a diverse board can effectively mitigate the negative repercussions associated with ESG controversies. The role of ESG practices within firms further accentuated these relationships. Our findings unveiled that well-established internal ESG frameworks could potentially turn controversies into opportunities, enhancing organizational growth and reputation. The comparative analysis between the UK and other EU countries added a geographical and regulatory dimension to our findings, emphasizing the influence of specific contexts and regulatory landscapes on the ESG controversies-firm performance nexus.

This paper offers several contributions. First, it enriches the academic discourse on ESG controversies and their impacts on firm performance by offering empirical data that not only confirms but extends the understanding of this relationship. We have delved into moderating factors like board independence and gender diversity, thus broadening the scope of the conversation and offering new avenues for exploration and discourse.

Second, the policy implications of our findings are substantial. We provide policymakers with nuanced, data-driven insights that are pivotal for crafting informed and context-specific regulations. The adaptability and responsiveness of policies to the dynamic landscape of ESG controversies are enhanced, leading to regulations that address both current and emerging challenges effectively. Third, corporate leaders and strategists are presented with a resource that is rich in strategic insights. It is not just about navigating the murky waters of ESG controversies but about turning these potential challenges into opportunities for growth, resilience building, and reputation enhancement. The insights offered in this paper serve as a blueprint for informed decision-making and strategic planning in the corporate world. The implications for CSR/ESG strategy are significant, suggesting that a proactive, governance-focused approach is essential in managing ESG risks effectively. Fourth, for the investor community, this paper is a lighthouse. It offers clarity and demystifies the complex interplay between ESG controversies, firm performance, and corporate governance. Investment decisions, henceforth, can be grounded in empirical data, enhancing their robustness and responsiveness to the dynamic corporate landscape.

Future research could explore the impact of emerging trends and innovations in governance on the ESG-firm performance relationship, providing further insights for adapting strategies to future corporate landscapes. How do novel governance structures, technology adoption, and global crises recalibrate the known paradigms? Answering these questions would not only augment the existing knowledge reservoir but also scaffold adaptive strategies for future corporate landscapes. Our study, while comprehensive, acknowledges several limitations. Firstly, the broad geographical focus, although offering a diverse perspective, may not fully capture the nuances of specific national or regional contexts, which can be critical in understanding ESG dynamics. This limitation is particularly relevant considering the findings of Elsayed and Elshandidy (2020, 2021), who emphasize the importance of context-specific factors in corporate risk and control effectiveness. Furthermore, the rapidly evolving nature of ESG criteria and corporate governance practices means that our findings may require updates and reevaluation as new trends and challenges emerge. Additionally, our reliance on secondary data sources might introduce biases, as these sources may not comprehensively represent all relevant ESG controversies or corporate governance changes. Addressing these limitations in future research will be vital to deepen our understanding of the complex relationship between ESG factors and corporate performance.

FUNDING INFORMATION

The authors received no financial support for the research, authorship, and/or publication of this article.

ORCID

Ahmed A. Elamer https://orcid.org/0000-0002-9241-9081
Mounia Boulhaga https://orcid.org/0000-0003-0664-8986

REFERENCES

Abdelkader, M. G., Gao, Y., & Elamer, A. A. (2024). Board gender diversity and ESG performance: The mediating role of temporal orientation in South Africa context. *Journal of Cleaner Production*, *140728*, 140728.

Aguilera, R. V., Rupp, D. E., Williams, C. A., & Ganapathi, J. (2007). Putting the S back in corporate social responsibility: A multilevel theory of social change in organizations. *Academy of Management Review*, *32*(3), 836–863.

Al Frijat, Y. S., Albawwat, I. E., & Elamer, A. A. (2024). Exploring the mediating role of corporate social responsibility in the connection between board competence and corporate financial performance amidst global uncertainties. *Corporate Social Responsibility and Environmental Management*, *31*(2), 1079–1095. https://doi.org/10.1002/CSR.2623

Alshbili, I., & Elamer, A. A. (2020). The influence of institutional context on corporate social responsibility disclosure: a case of a developing country. *Journal of Sustainable Finance & Investment*, *10*(3), 269–293.

Alshbili, I., Elamer, A. A., & Moustafa, M. W. (2021). Social and environmental reporting, sustainable development and institutional voids: Evidence from a developing country. *Corporate Social Responsibility and Environmental Management*, *28*(2), 881–895.

Amin, A., Ali, R., Ur Rehman, R., & Elamer, A. A. (2022). Gender diversity in the board room and sustainable growth rate: the moderating role of family ownership. *Journal of Sustainable Finance & Investment*, *13*(4), 1577–1599.

Aouadi, A., & Marsat, S. (2018). Do ESG controversies matter for firm value? Evidence from international data. *Journal of Business Ethics*, *151*, 1027–1047.

Battisti, E., Miglietta, N., Nirino, N., & Villasalero Diaz, M. (2020). Value creation, innovation practice, and competitive advantage: Evidence from the FTSE MIB index. *European Journal of Innovation Management*, *23*(2), 273–290.

Bear, S., Rahman, N., & Post, C. (2010). The impact of board diversity and gender composition on corporate social responsibility and firm reputation. *Journal of Business Ethics*, *97*, 207–221.

Becker-Olsen, K. L., Cudmore, B. A., & Hill, R. P. (2006). The impact of perceived corporate social responsibility on consumer behavior. *Journal of Business Research*, *59*(1), 46–53.

Beji, R., Yousfi, O., Loukil, N., & Omri, A. (2021). Board diversity and corporate social responsibility: Empirical evidence from France. *Journal of Business Ethics*, *173*, 133–155.

Belyaeva, Z., Shams, S. R., Santoro, G., & Grandhi, B. (2020). Unpacking stakeholder relationship management in the public and private sectors: the comparative insights. *EuroMed Journal of Business*, *15*(3), 269–281.

Benkraiem, R., Boubaker, S., Brinette, S., & Khemiri, S. (2021). Board feminization and innovation through corporate venture capital investments: The moderating effects of independence and management skills. *Technological Forecasting and Social Change*, *163*, 120467.

Boukattaya, S., Ftiti, Z., Ben Arfa, N., & Omri, A. (2022). Financial performance under board gender diversity: The mediating effect of corporate social practices. *Corporate Social Responsibility and Environmental Management*, *29*(5), 1871–1883.

Boulhaga, M., Bouri, A., Elamer, A. A., & Ibrahim, B. A. (2023). Environmental, social and governance ratings and firm performance: The moderating role of internal control quality. *Corporate Social Responsibility and Environmental Management*, *30*(1), 134–145.

Boulouta, I. (2013). Hidden connections: The link between board gender diversity and corporate social performance. *Journal of Business Ethics*, *113*(2), 185–197.

Bresciani, S., Ferraris, A., Santoro, G., & Nilsen, H. R. (2016). Wine sector: companies' performance and green economy as a means of societal marketing. *Journal of Promotion Management*, *22*(2), 251–267.

Burke, L., & Logsdon, J. M. (1996). How corporate social responsibility pays off. *Long Range Planning*, *29*(4), 495–502.

Busch, T., & Schnippering, M. (2022). Corporate social and financial performance: Revisiting the role of innovation. *Corporate Social Responsibility and Environmental Management*, *29*(3), 635–645.

Chan, M. C., Watson, J., & Woodliff, D. (2014). Corporate governance quality and CSR disclosures. *Journal of Business Ethics*, *125*, 59–73.

Dadanlar, H. H., & Abebe, M. A. (2020). Female CEO leadership and the likelihood of corporate diversity misconduct: Evidence from S&P 500 firms. *Journal of Business Research*, *118*, 398–405.

Daily, C. M., Certo, S. T., & Dalton, D. R. (1999). A decade of corporate women: Some progress in the boardroom, none in the executive suite. *Strategic Management Journal*, *20*(1), 93–100.

Dressler, M., & Paunović, I. (2020). Towards a conceptual framework for sustainable business models in the food and beverage industry: The case of German wineries. *British Food Journal*, *122*(5), 1421–1435.

Durand, R., Paugam, L., & Stolowy, H. (2019). Do investors actually value sustainability indices? Replication, development, and new evidence on CSR visibility. *Strategic Management Journal*, *40*(9), 1471–1490.

Eliwa, Y., Aboud, A., & Saleh, A. (2023). Board gender diversity and ESG decoupling: Does religiosity matter? *Business Strategy and the Environment*, *32*(7), 4046–4067.

Elmagrhi, M. H., Ntim, C. G., Elamer, A. A., & Zhang, Q. (2019). A study of environmental policies and regulations, governance structures, and environmental performance: The role of female directors. *Business Strategy and the Environment*, *28*(1), 206–220.

Elsayed, M., & Elshandidy, T. (2020). Do narrative-related disclosures predict corporate failure? Evidence from UK non-financial publicly quoted firms. *International Review of Financial Analysis*, *71*, 101555.

Elsayed, M., & Elshandidy, T. (2021). Internal control effectiveness, textual risk disclosure, and their usefulness: U.S. evidence. *Advances in Accounting*, *53*, 100531.

Elsayed, M., Elshandidy, T., & Ahmed, Y. (2022). Corporate failure in the UK: An examination of corporate governance reforms. *International Review of Financial Analysis*, *82*, 102165.

Elsayed, M., Elshandidy, T., & Ahmed, Y. (2023). Is expanded auditor reporting meaningful? UK evidence. *Journal of International Accounting, Auditing and Taxation*, *53*, 100582.

Erhemjamts, O., & Huang, K. (2019). Institutional ownership horizon, corporate social responsibility and shareholder value. *Journal of Business Research*, *105*, 61–79.

Fama, E. F., & Jensen, M. C. (1983). Separation of ownership and control. *The Journal of Law and Economics*, *26*(2), 301–325.

Feng, Y., Hassan, A., & Elamer, A. A. (2020). Corporate governance, ownership structure and capital structure: evidence from Chinese real estate listed companies. *International Journal of Accounting and Information Management*, *28*(4), 759–783.

Fiore, M., Galati, A., Gołębiewski, J., & Drejerska, N. (2020). Stakeholders' involvement in establishing sustainable business models: The case of Polish dairy cooperatives. *British Food Journal*, *122*(5), 1671–1691.

Freeman, R. E. (1999). Divergent stakeholder theory. *Academy of Management Review*, *24*(2), 233–236.

Gallego-Álvarez, I., & Pucheta-Martínez, M. C. (2022). The moderating effects of corporate social responsibility assurance in the relationship between corporate social responsibility disclosure and corporate performance. *Corporate Social Responsibility and Environmental Management*, *29*(3), 535–548.

Galletta, S., & Mazzù, S. (2023). ESG controversies and bank risk taking. *Business Strategy and the Environment*, *32*(1), 274–288.

Garcia, A. S., Mendes-Da-Silva, W., & Orsato, R. J. (2017). Sensitive industries produce better ESG performance: Evidence from emerging markets. *Journal of Cleaner Production*, *150*, 135–147.

Ghouri, A. M., Akhtar, P., Shahbaz, M., & Shabbir, H. (2019). Affective organizational commitment in global strategic partnerships: The role of individual-level microfoundations and social change. *Technological Forecasting and Social Change*, *146*, 320–330.

Govindan, K. (2022). Theory Building Through Corporate Social Responsibility 4.0 for Achieving SDGs: A Practical Step Toward Integration of Digitalization With Practice-Based View and Social Good Theory. *IEEE Transactions on Engineering Management*, *71*, 2103–2120. https://doi.org/10.1109/TEM.2022.3155247

Harjoto, M. A., & Jo, H. (2011). Corporate governance and CSR nexus. *Journal of Business Ethics*, *100*, 45–67.

Hart, S. L., & Milstein, M. B. (2003). Creating sustainable value. *Academy of Management Perspectives*, *17*(2), 56–67.

Hassan, A., Elamer, A. A., Lodh, S., Roberts, L., & Nandy, M. (2021). The future of non-financial businesses reporting: Learning from the Covid-19 pandemic. *Corporate Social Responsibility and Environmental Management*, *28*(4), 1231–1240.

Hermalin, B. E., & Weisbach, M. S. (2003). Boards of directors as an endogenously determined institution: A survey of the economic literature. *Economic Policy Review*, *9*, 7–26.

Hillman, A. J., Shropshire, C., & Cannella, A. A., Jr. (2007). Organizational predictors of women on corporate boards. *Academy of Management Journal*, *50*(4), 941–952.
Hull, C. E., & Rothenberg, S. (2008). Firm performance: The interactions of corporate social performance with innovation and industry differentiation. *Strategic Management Journal*, *29*(7), 781–789.
Inigo, E. A., & Albareda, L. (2019). Sustainability oriented innovation dynamics: Levels of dynamic capabilities and their path-dependent and self-reinforcing logics. *Technological Forecasting and Social Change*, *139*, 334–351.
Isaksson, L., & Kiessling, T. (2021). Corporate social responsibility (CSR) and engineering management: performance implications. *IEEE Transactions on Engineering Management*, *70*, 4021–4031. https://doi.org/10.1109/TEM.2021.3091702
Issa, A. (2023). Shaping a sustainable future: The impact of board gender diversity on clean energy use and the moderating role of environmental, social and governance controversies. *Corporate Social Responsibility and Environmental Management*, *30*(6), 2731–2746.
Janney, J. J., & Gove, S. (2011). Reputation and corporate social responsibility aberrations, trends, and hypocrisy: Reactions to firm choices in the stock option backdating scandal. *Journal of Management Studies*, *48*(7), 1562–1585.
Jensen, M. C. (2010). Value maximization, stakeholder theory, and the corporate objective function. *Journal of Applied Corporate Finance*, *22*(1), 32–42.
Jurkus, A. F., Park, J. C., & Woodard, L. S. (2011). Women in top management and agency costs. *Journal of Business Research*, *64*(2), 180–186.
Karwowski, M., & Raulinajtys-Grzybek, M. (2021). The application of corporate social responsibility (CSR) actions for mitigation of environmental, social, corporate governance (ESG) and reputational risk in integrated reports. *Corporate Social Responsibility and Environmental Management*, *28*(4), 1270–1284.
Kazemi, M. Z., Elamer, A. A., Theodosopoulos, G., & Khatib, S. F. A. (2023). Reinvigorating research on sustainability reporting in the construction industry: A systematic review and future research agenda. *Journal of Business Research*, *167*, 114145.
Khatib, S. F. A., Abdullah, D. F., Elamer, A. A., & Abueid, R. (2021). Nudging toward diversity in the boardroom: A systematic literature review of board diversity of financial institutions. *Business Strategy and the Environment*, *30*(2), 985–1002.
Kim, E. H., & Lyon, T. P. (2015). Greenwash vs. brownwash: Exaggeration and undue modesty in corporate sustainability disclosure. *Organization Science*, *26*(3), 705–723.
Kim, K. H., Kim, M., & Qian, C. (2018). Effects of corporate social responsibility on corporate financial performance: A competitive-action perspective. *Journal of Management*, *44*(3), 1097–1118.
Kim, Y., Park, M. S., & Wier, B. (2012). Is earnings quality associated with corporate social responsibility? *The Accounting Review*, *87*(3), 761–796.
Lange, D., & Washburn, N. T. (2012). Understanding attributions of corporate social irresponsibility. *Academy of Management Review*, *37*(2), 300–326.
Lei, X., & Yu, J. (2024). Striving for sustainable development: Green financial policy, institutional investors, and corporate ESG performance. *Corporate Social Responsibility and Environmental Management*, *31*(2), 1177–1202. https://doi.org/10.1002/CSR.2630
Li, J., Haider, Z. A., Jin, X., & Yuan, W. (2019). Corporate controversy, social responsibility and market performance: International evidence. *Journal of International Financial Markets Institutions and Money*, *60*, 1–18.
Lin, W. L. (2024). The role of corporate social responsibility and corporate social irresponsibility in shaping corporate reputation: An analysis of competitive action and innovation strategies. *Corporate Social Responsibility and Environmental Management*, *31*(2), 1451–1468. https://doi.org/10.1002/CSR.2640
Lin, Y. (2019). Legitimating negative aspects in corporate social responsibility reporting: evidence from China. *IEEE Transactions on Professional Communication*, *62*(3), 263–278.
Linck, J. S., Netter, J. M., & Yang, T. (2008). The determinants of board structure. *Journal of Financial Economics*, *87*(2), 308–328.
Liu, C. (2018). Are women greener? Corporate gender diversity and environmental violations. *Journal of Corporate Finance*, *52*, 118–142.
Liu, T., Abdelbaky, A., Elamer, A. A., & Elmahgoub, M. (2023). Real earnings management and ESG disclosure in emerging markets: The moderating effect of managerial ownership from a social norm perspective. *Heliyon*, *9*(12), e22832.
Liu, Y., Wei, Z., & Xie, F. (2014). Do women directors improve firm performance in China? *Journal of Corporate Finance*, *28*, 169–184.
López-Manuel, L., Vázquez, X. H., & Sartal, A. (2023). Firm, industry, and country effects on CO2 emissions levels. *Business Strategy and the Environment*, *32*(6), 3965–3976.
Love, E. G., & Kraatz, M. (2009). Character, conformity, or the bottom line? How and why downsizing affected corporate reputation. *Academy of Management Journal*, *52*(2), 314–335.
Luo, X., & Bhattacharya, C. B. (2006). Corporate social responsibility, customer satisfaction, and market value. *Journal of Marketing*, *70*(4), 1–18.
Mahran, K., & Elamer, A. A. (2023). Chief Executive Officer (CEO) and corporate environmental sustainability: A systematic literature review and avenues for future research. *Business Strategy and the Environment*. https://doi.org/10.1002/BSE.3577
Malik, M. (2015). Value-enhancing capabilities of CSR: A brief review of contemporary literature. *Journal of Business Ethics*, *127*, 419–438.
McWilliams, A., Siegel, D. S., & Wright, P. M. (2006). Corporate social responsibility: Strategic implications. *Journal of Management Studies*, *43*(1), 1–18.
Moursli, R. M. (2020). The effects of board independence on busy directors and firm value: Evidence from regulatory changes in Sweden. *Corporate Governance: An International Review*, *28*(1), 23–46.
Nekhili, M., Nagati, H., Chtioui, T., & Nekhili, A. (2017). Gender-diverse board and the relevance of voluntary CSR reporting. *International Review of Financial Analysis*, *50*, 81–100.
Nirino, N., Battisti, E., Ferraris, A., Dell'Atti, S., & Briamonte, M. F. (2022). How and when corporate social performance reduces firm risk? The moderating role of corporate governance. *Corporate Social Responsibility and Environmental Management*, *29*(6), 1995–2005.
Nirino, N., Santoro, G., Miglietta, N., & Quaglia, R. (2021). Corporate controversies and company's financial performance: Exploring the moderating role of ESG practices. *Technological Forecasting and Social Change*, *162*, 120341.
Park, J., Lee, H., & Kim, C. (2014). Corporate social responsibilities, consumer trust and corporate reputation: South Korean consumers' perspectives. *Journal of Business Research*, *67*(3), 295–302.
Pfeffer, J. (2019). Size and composition of corporate boards of directors: The organization and its environment. In *Corporate Governance* (pp. 53–64). Gower.
Pierce, J. R. (2018). Reexamining the cost of corporate criminal prosecutions. *Journal of Management*, *44*(3), 892–918.
Porter, M. E., & Kramer, M. R. (2006). The link between competitive advantage and corporate social responsibility. *Harvard Business Review*, *84*(12), 78–92.
Post, C., Rahman, N., & Rubow, E. (2011). Green governance: Boards of directors' composition and environmental corporate social responsibility. *Business & Society*, *50*(1), 189–223.
Rahi, A. F., Johansson, J., Blomkvist, M., & Hartwig, F. (2024). Corporate sustainability and financial performance: A hybrid literature review. *Corporate Social Responsibility and Environmental Management*, *31*(2), 801–815. https://doi.org/10.1002/CSR.2600
Raimo, N., de Nuccio, E., Giakoumelou, A., Petruzzella, F., & Vitolla, F. (2020). Non-financial information and cost of equity capital: An

empirical analysis in the food and beverage industry. *British Food Journal*, *123*(1), 49–65.

Rajesh, R., & Rajendran, C. (2020). Relating Environmental, Social, and Governance scores and sustainability performances of firms: An empirical analysis. *Business Strategy and the Environment*, *29*(3), 1247–1267.

Roberts, L., Hassan, A., Elamer, A., & Nandy, M. (2021). Biodiversity and extinction accounting for sustainable development: A systematic literature review and future research directions. *Business Strategy and the Environment*, *30*(1), 705–720.

Roberts, L., Nandy, M., Hassan, A., Lodh, S., & Elamer, A. A. (2021). Corporate Accountability Towards Species Extinction Protection: Insights from Ecologically Forward-Thinking Companies. *Journal of Business Ethics*, *178*(3), 571–595.

Roberts, P. W., & Dowling, G. R. (2002). Corporate reputation and sustained superior financial performance. *Strategic Management Journal*, *23*(12), 1077–1093.

Ryan, H. E., Jr., & Wiggins, R. A., III. (2004). Who is in whose pocket? Director compensation, board independence, and barriers to effective monitoring. *Journal of Financial Economics*, *73*(3), 497–524.

Skarmeas, D., & Leonidou, C. N. (2013). When consumers doubt, watch out! The role of CSR skepticism. *Journal of Business Research*, *66*(10), 1831–1838.

Srouji, A. F., Hamdallah, M. E., Al-Hamadeen, R., Al-Okaily, M., & Elamer, A. A. (2023). The impact of green innovation on sustainability and financial performance: Evidence from the Jordanian financial sector. *Business Strategy & Development*, *6*(4), 1037–1052.

Sundarasen, S. D. D., Je-Yen, T., & Rajangam, N. (2016). Board composition and corporate social responsibility in an emerging market. *Corporate Governance: The International Journal of Business in Society*, *16*(1), 35–53.

Terjesen, S., Couto, E. B., & Francisco, P. M. (2016). Does the presence of independent and female directors impact firm performance? A multi-country study of board diversity. *Journal of Management and Governance*, *20*, 447–483.

Teti, E., Dell'Acqua, A., & Bonsi, P. (2022). Detangling the role of environmental, social, and governance factors on M&A performance. *Corporate Social Responsibility and Environmental Management*, *29*(5), 1768–1781.

Ullah, F., Jiang, P., Elamer, A. A., & Owusu, A. (2022). Environmental performance and corporate innovation in China: The moderating impact of firm ownership. *Technological Forecasting and Social Change*, *184*, 121990.

Useche, A. J., Martínez-Ferrero, J., & Alayón-Gonzales, J. L. (2024). Socially responsible portfolios, environmental, social, corporate governance (ESG) efficient frontiers, and psychic dividends. *Corporate Social Responsibility and Environmental Management*, *31*, 1323–1339. https://doi.org/10.1002/CSR.2635

Vargas-Santander, K. G., Álvarez-Diez, S., Baixauli-Soler, S., & Belda-Ruiz, M. (2023). Corporate social responsibility and financial performance: Does country sustainability matter? *Corporate Social Responsibility and Environmental Management*, *30*, 3075–3094. https://doi.org/10.1002/CSR.2539

Veeravel, V., Sadharma, E. K. S., & Kamaiah, B. (2024). Do ESG disclosures lead to superior firm performance? A method of moments panel quantile regression approach. *Corporate Social Responsibility and Environmental Management*, *31*(1), 741–754. https://doi.org/10.1002/CSR.2598

Walsh, G., Mitchell, V. W., Jackson, P. R., & Beatty, S. E. (2009). Examining the antecedents and consequences of corporate reputation: A customer perspective. *British Journal of Management*, *20*(2), 187–203.

Wang, Z., & Sarkis, J. (2017). Corporate social responsibility governance, outcomes, and financial performance. *Journal of Cleaner Production*, *162*, 1607–1616.

Ward, A. M., & Forker, J. (2017). Financial management effectiveness and board gender diversity in member-governed, community financial institutions. *Journal of Business Ethics*, *141*, 351–366.

Wintoki, M. B., Linck, J. S., & Netter, J. M. (2012). Endogeneity and the dynamics of internal corporate governance. *Journal of Financial Economics*, *105*(3), 581–606.

Zhang, Y., Guo, Y., & Nurdazym, A. (2023). How do female CEOs affect corporate environmental policies? *Corporate Social Responsibility and Environmental Management*, *30*(1), 459–472.

How to cite this article: Elamer, A. A., & Boulhaga, M. (2024). ESG controversies and corporate performance: The moderating effect of governance mechanisms and ESG practices. *Corporate Social Responsibility and Environmental Management*, *31*(4), 3312–3327. https://doi.org/10.1002/csr.2749