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**RESEARCH PAPER**

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## **Corporate Governance and Reputation: The Role of ESG Controversies**

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### **ABSTRACT**

This study examines how Environmental, Social, and Governance (ESG) controversies moderate the relationship between corporate governance and corporate reputation. Although strong governance mechanisms enhance reputation, recent corporate crises suggest ESG controversies may pose strong reputational risks to corporations. This study navigates this tension through stakeholder and legitimacy theory. Panel data from 419 S&P 500 non-financial firms (2014–2024) was analyzed using fixed-effect hierarchical regression models. Governance, reputation, and ESG controversies were quantified using Refinitiv and Fortune databases. Findings confirm that corporate governance significantly improves reputation. However, ESG controversies negatively moderate this effect, meaning governance alone cannot protect against reputational damage during ESG crises. The moderating effect, while statistically significant, was modest in size. Firms should integrate ESG risk oversight into governance frameworks. Boards must conduct regular ESG audits, enhance transparency, and link executive compensation to ESG performance. These actions can help mitigate reputation loss and build stakeholder trust in ESG-sensitive environments.

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**KEYWORDS** Corporate Governance, Corporate Reputation, ESG Controversies, Stakeholder Theory and Legitimacy Theory

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### **Introduction**

Reputation is an invaluable asset for corporations today, heavily influenced in its formation by the arms' length business environment. It includes perceptions regarding the legitimacy, acceptability, business reputation, and ethics of firms, which shall affect their market capitalization and transactions, investor confidence, loyalty from clients, and general competitive strength (Fombrun & Shanley, 1990; Walker, 2010; Uzliawati et al., 2023). Reputation is an asset that reflects the cumulative evaluations by stakeholders on the company's past actions, ongoing performance, and expected future conduct, thus profoundly influencing long-term strategic management (Ali, Alamgir, & Hanif, 2024; Ali et al., 2023; Fombrun, 1996). There has been a shift towards the importance of managing and enhancing reputation as a core component for action, demanding constant alertness, proactive engagement, ethical communication, and structured measures to actively manage corporate and stakeholder trust (Suchman, 1995; Donaldson & Preston, 1995).

It has been widely established that a corporate reputation has a tangible economic impact. As an example, positive reputational perceptions enhance a firm's market value as well as lower the firm's cost of capital and debt financing (Anginer et al., 2015; Cao et al., 2015). On the opposite end of the spectrum, deterioration of reputation owing to perceived unethical or thoughtless actions, especially concerning ESG controversies, can have profoundly negative consequences on a firm's financial health, cost of capital, and

market dependability (Luo, 2021; Schiemann & Tietmeyer, 2022). Corporate reputation has the sustainability performance– financial performance relationship as one of the most important mediating elements, showing that reputation is not only a matter of image, but a central pillar that requires active and comprehensive management in order to ensure corporate endurance and sustainable development (Aguilera-Caracuel & Guerrero-Villegas, 2006; Axjonow, Ernstberger, & Pott, 2018).

As explained by Mallin (2013) and Tricker (2015), corporate governance deals with the policies, processes, and structures that manage and control a business, and has a bearing on its reputation. Enhanced governance frameworks associated with greater board independence, transparency, stronger internal controls, as well as active monitoring, promote ethical conduct, contain agency problems, and strengthen corporate social responsibility, which together improve stakeholder confidence and trust (Ali et al., 2024; Chintrakarn et al., 2020; Muzaffar & Choudhary, 2017). Increasing empirical evidence shows that companies with high governance standards tend to enjoy greater reputation, which enhances their relationship with investors, stakeholders, and market confidence (Jiraporn et al., 2014; Jo & Harjoto, 2012; Jain & Jamali, 2016).

Effective governance reinforces alignment between managers and the broader group of shareholders and stakeholders, thereby curbing self-serving behavior, while increasing responsibility (Jensen & Meckling, 1976; Ali, Alamgir, & Hanif, 2024). For example, operational metrics such as an independent board and active audit committees are associated with improved corporate social responsibility (Chintrakarn et al., 2021; Daily & Dalton, 1994; Uzliawati et al., 2023). Nevertheless, the presence of effective governance does not ensure that reputations will be safeguarded, especially when organizations face crises or controversies that leverage weaknesses in ethical and responsible behavior.

Ali et al. (2024) and Luo (2021) have noted that in the past decades ESG controversies, defined as incidents of corporate misconduct regarding the environment, social injustices, and governance failures, have come to be viewed as particularly important damaging factors to a corporation's reputation. Stakeholders paying more attention to business ethics and sustainability heightens the reputation risk posed by ESG scandals, which in turn has dire financial and operational consequences. Major ESG controversies have been documented to cause great financial harm, such as the Bank of America Merrill Lynch's report which stated that ESG controversies valued over USD 534 billion in market capitalization for U.S. corporations during a five-year period (Luo, 2021). These controversies heighten public criticism, decrease stakeholder trust, and increase government regulation, thereby weakening the corporation even further (Klassen & McLaughlin, 1996; Aouadi & Marsat, 2018).

The relevant implications of ESG controversies are clearly articulated in the frameworks of legitimacy theory and stakeholder theory. As posited by legitimacy theory, an organization's survival hinges on the societal perception, as their legitimacy which is greatly undermined by unethical or socially irresponsible actions (Suchman, 1995). Stakeholder theory focuses on the need of fostering reputation with the different stakeholders who can lose a lot of trust because of ESG issues (Donaldson & Preston, 1995; Godfrey et al., 2009).

Though corporate governance as well as ESG performance have been covered in scholarly literature, Treepongkaruna et al., 2022 and Schiemann & Tietmeyer, 2022 highlight a gap in research on ESG controversies and their impact on corporate

reputation. Prior work has been directed at constructive ESG efforts, leaving the impact of negative ESG occurrences on reputation generally unattended. This oversight is especially salient considering the immense strategic and financial repercussions that are likely to arise due to damaging reputational ESG controversies (Ali et al., 2024; DasGupta, 2022; Luo, 2021). Also, very few studies examine the relationship between reputation and governance of a firm together with controversies surrounding ESG issues. This gap needs to be filled to provide insight into the dynamics of reputation management in the context of elevated ESG threats.

### **Literature Review and Theoretical Framework**

According to Tricker (2015) and Mallin (2013), corporate governance covers the systems and practices in place to direct, control, manage and be accountable to different stakeholders for a company. Mechanisms of effective corporate governance are developed to achieve alignment of interests of the managers with the interests of shareholders and stakeholders, agency conflicts, enhance corporate accountability, transparency, and ethical decision making (Jensen & Meckling, 1976; Daily & Dalton, 1994; Uzliawati et al., 2023; Batool, et. al., 2023).). Important governance mechanisms include the composition of the board (e.g. independence and diversity of the board), effectiveness of the audit committee, executive compensation practices, protection of the rights of shareholders, and strict standards of financial disclosure (Mallin, 2013; Jo & Harjoto, 2012). The literature often separately analyzes governance structures in terms of internal and external mechanisms. Internal mechanisms are: board structure, remuneration of executive (non) directors, and internal audit; external mechanisms include market based ones, such as the market for corporate control (hostile takeovers), regulation, and rhetoric action by stakeholders (Lel & Miller, 2015; Malik, et. al., 2023).). Effective governance ensures that there is accountability on the part of managers, reduces opportunities for self-serving behavior, increases organizational productivity, and enhances ethical business practices, corporate reputation (Chintrakarn et al., 2016; Jo & Harjoto, 2012; Ali, Alamgir, & Hanif, 2024).

Numerous empirical studies have demonstrated a robust association between the strength of corporate governance frameworks in place relative to the reputation of a corporation. Stakeholders experience reputation as a value added attribute based on organizational experience and expect governance practices to serve as reasonably reliable indicators of the organizational fact and character (Fombrun and Shanley, 1990). Further studies corroborate that firms with stronger reputation capitals are those with superior governance systems, commanding greater investor confidence and attracting lower capital costs (Jo & Harjoto, 2012; Jiraporn et al., 2014; Chintrakarn et al., 2021; Ali et al., 2024). Strengthening the reputation capital of firms is made possible with features of governance like independent boards and effective audit committees as shown in the study of Uzliawati et al. in 2023, which strengthens the understanding of governance as a stakeholder trust enabler. Governance features, primarily the board, are critical to the risk management and the reputational improvement strategies of firms.

As an instance, independent directors as a group provide impartial supervision and oversight that decreases the transparency conflicts of interest. This enhances the corporation's reputation and stakeholder's confidence on the firm (Daily & Dalton, 1994; Jiraporn & Chintrakarn, 2021). Empirical evidence provided by Ali, Alamgir, and Hanif (2024) also highlights the fact that strong governance frameworks such as independent boards and openly disclosed ESG information fundamentally reduce the damage to reputation caused by negative ESG events, thus reinforcing the highlighted importance

of the organization's governance as a means to protect corporate reputation. Corporate governance features, such as independent boards, disclosure policies, and audit scrutiny, are trustworthy signals that improve perceptions of stakeholders' trust and reputation, particularly under uncertainty and information asymmetry (Ali et al., 2024; Ali, Alamgir, & Hanif, 2024; Muzaffar, et. al., 2024). Governance quality serves a dual function as a control mechanism (agency theory) and definition of information clues signaling (signaling theory) to manage corporate reputation shifts.

In the context of corporate breaches or negligence of environmental stewardship and social responsibility, ESG controversies cover a wide range of issues such as the offenses committed by corporates in issuing an environmental catastrophe, violating workers' rights, and other governance failures (Ali, Alamgir, & Hanif, 2024, Luo, 2021). These controversies often pertain to unethical behaviors which breach societal, stakeholder, or at times, even international expectations, attracting public ire, media attention, legal actions, and damages worth billions to the company's credibility (Klassen & McLaughlin, 1996; Aouadi & Marsat, 2018; DasGupta, 2022). Under Suchman's (1995) definition, these ESG issues are incredibly damaging to corporate legitimacy: the accepted social perception of organizational behavior is aligned with socially defined standards, values, and expectations. Such controversies erode trust amongst stakeholders who will, in turn, the media, ESG and other stakeholders, utilizing heightened engagement exponentially shredding the corporate's reputation (Suchman, 1995; Donaldson & Preston, 1995; Luo, 2021). ESG controversies are especially emphasized by the media which leads the public into view the stated corporate's reputation in the opposite light and thus redefining the narration of reputation about the corporate (Schiemann & Tietmeyer, 2022; Zyglidopoulos et al., 2012).

Research shows that ESG controversies retracts a corporation's valuation, stakeholder perception, and overall financial health (Klassen & McLaughlin, 1996; Aouadi & Marsat, 2018). Luo (2021) showed that a corporation's market value is likely to decline following ESG controversies, which illustrates the enormous reputational and financial implications that corporate ESG controversies pose. ESG controversies serve as external shocks to narratives companies seek to construct in relation to ethical conduct, socially responsible citizenship, and sustainable governance (Ali et al., 2024; DasGupta, 2022). Even the best governed corporations suffer significant reputational damages when embroiled in ESG controversies, which signifies that the presence of governance does not completely protect firms from widespread criticism and reputational backlash (Aouadi & Marsat, 2018; Luo, 2021).

Freeman (1984) and Donaldson and Preston (1995) argue within stakeholder theory that perceptions, expectations, and evaluations from investors, employees, customers, communities, and even regulators shape reputation. Godfrey et al. (2009) and Ali et al. (2024) contend that businesses need to manage stakeholder relationships to protect reputational capital, address concerns, and strategically mitigate risks for organizational success. In Suchman's (1995) and Deegan's (2019) Legitimacy Theory, survival of any corporation relies heavily on sustaining legitimacy, which is operating within norms, expectations, and ethical parameters society has set. Firms achieve legitimacy through responsible governance practices and ESG performance; however, Suchman (1995) and Palazzo and Scherer (2006) along with Ali et al. (2024) assert that ESG controversies violate societal expectations and trigger reputational damage.

## Hypotheses Development

As a paradigm, corporate governance (CG) is associated with procedures, structures and processes through which an organization is governed and controlled. Ensuring good governance practices cultivates transparency, responsibility and ethical practices which are central in achieving purposeful organizational trust by their stakeholders. Based on agency theory (Jensen & Meckling, 1976; Shleifer & Vishny, 1997; Muzaffar, et. al., 2023), well-defined governance frameworks increase operational efficiency and strengthen a company's perception in the business environment by mitigating agency conflicts among managers and shareholders with differing interests. Companies of a higher governance standing are regarded with higher credibility, trust, and as ethical which are all important elements of reputation (Fombrun, 1996; Roberts & Dowling, 2002). Effective governance reduces information asymmetry while providing positive signals to investors, consumers and regulators thereby increasing stakeholder trust. This is a signaling theory notion (Spence, 1973). For instance, La Porta et al. (2000) empirically proved that the existence of strong protection mechanisms for investors (a dimension of CG) greatly impacts how investors evaluate corporate trust. There is supporting evidence for this positive relationship. Using Indonesian firms listed on the Jakarta Islamic Index, Uzliawati et al. (2023) found that reputation and firm value were positively influenced by board size, independent commissioners, and the strength of the audit committee—fundamental CG features. Likewise, Siddiqui et al. (2023) confirmed that governance mechanisms such as board independence and ownership structure improve reputation by increasing CSR disclosures and responsiveness to stakeholders. Also, Veh et al. (2018) recognized reputation as a complex construct shaped by firm-level governance practices, CSR activities, and transparency. Their research confirmed that stakeholders use governance-related signals to assess companies with long-term sustainable and ethical compliance frameworks. Consequently, robust CG systems become a reputational advantage by mitigating uncertainty, promoting ethical conduct, enhancing stakeholder loyalty, and strengthening the brand. Thus, leveraging stakeholder and signaling theory, and reinforced by empirical research, the study claims the following:

H1: Corporate governance positively affects corporate reputation.

Good governance usually uplifts a firm's reputation, but its positive impact can be offset when a firm gets embroiled in Environmental, Social and Governance (ESG) issues. ESG controversies depict major, negative incidents in a firm's ethical and legal practices concerning the environment, society, or governance as a whole (Refinitiv, 2023). These controversies challenge the legitimacy and authenticity of governance practices and erode trust among stakeholders. Legitimacy theory asserts that organizations strive to maintain their operating license by conforming to societal standards and expectations (Suchman, 1995). Issues of ESG such as labor abuse, environmental abuse, or governance abuse raise negative legitimacy perception regardless of the presence of strong governance. Controversies become "negative signals" undermining the positive signals of governance. The moderating effect of ESG controversies has been empirically validated recently. Treepongkaruna et al. (2022), argued that ESG-related controversies have a disproportionate negative reputational impact on firms because stakeholders tend to view governance systems as complicit or ineffective, thus exacerbating the reputation penalty. Additionally, Bigus et al. (2024) observed that firms having ESG-related risks to reputation suffer external scrutiny disproportionate to the value of governance, which damages reputation as well. The perception of hypocrisy, where firms claim to have strong governance systems while engaging in wrongdoing, leads to disenchantment

among stakeholders (Fombrun & Shanley, 1990; Barnett et al., 2006). These results are consistent with reputation theory which claims that reputational capital is created with stakeholders and depends on their trust, transparency, and core values, important for these ESG controversies. Violating such expectations undermines the public relations dividends of sound corporate governance:

H2: ESG controversies moderate the relationship between corporate governance and corporate reputation.

## Material and Methods

The study uses a panel data approach under a quantitative explanatory design to investigate the moderating role of Environmental, Social, and Governance (ESG) controversies on the relation between corporate governance and corporate reputation. Relationships that can be quantified, as in quantitative research, offer a way to test theories concerning the relationship between variables in a structured, logical, and empirical manner. This rational approach allows for statistical inference, generalization of findings, and rigorous hypothesis testing (Bryman, 2016; Creswell, 2014). As noted in this literature, panel data approaches are particularly advantageous for their inclusion of cross-sectional and longitudinal variations, controlling for individual heterogeneity as well as enabling richer analysis in comparison to purely cross-sectional or time-series data (Wooldridge, 2010; Baltagi, 2013). To align with recent empirical research that interrogates ESG concerns vis-a-vis corporate governance (Ali, Alamgir, & Hanif, 2024; Uzliawati et al., 2023; Luo, 2021), a hierarchical regression model applied. This model allows for the testing of interaction and moderation hypotheses (Hayes, 2018; Baltagi, 2013).

The analysis is based on a representative sample of publicly listed non-financial companies within the S&P 500 between 2014 and 2024. This sample selection is grounded on the publicly listed non-financial companies and their impact on the economy, policy-making, as well as the societal perception and attitude about business firm's social responsibility (Galletta & Mazzu, 2023 & Ali, Alamgir & Hanif, 2024). A decade-long period enables capturing longitudinal patterns while minimizing the impact of short-term changes and outlier phenomena (Feldkircher, 2014). The sample does not include financial firms because their unique governance systems and regulatory regimes are non-aligned with those of non-financial firms. Such financial institutions operate under different rules and their regulatory, policy, and compliance frameworks as well as capital structure render meaningless attempts at comparability (Erkens, Hung & Matos, 2012 & Ali et al., 2024).

We carefully collected data for the corporate reputation, corporate governance, ESG controversies, and firm level financial control variables from a variety of reputable data sources, each selected for their coverage and quality. First, Refinitiv Eikon is used for ESG controversies and governance pillars score data, as well as for reputation measurement for firms that have faced specific controversies. While the corporate reputation of US non-financial S&P 500 listed firms data were obtained from the Fortune "World's Most Admired Companies list". This database is useful for capturing certain ESG controversies which can greatly influence a corporation's standing and the trust of the stakeholders. Financial variables for control are extracted like Return on Assets (ROA), firm size which is usually total assets, and leverage which is the total debt over total assets are taken from Refinitiv Eikon data base earlier known as Asset4.

The research rests on a well-defined set of variables in an effort to assess the relationship between corporate governance, controversies regarding ESG, and reputation within a firm. The dependent variable is the Corporate Reputation Score which is reported through ranking declared by the Fortune. These ratings are based on stakeholders' assessments and perceptions of the firm's reputation; credibility, and their absolute claim concerning the firm's sustainability and ESG track-record (Ali, Alamgir, & Hanif, 2024; Schiemann & Tietmeyer, 2022). As the independent variable, the Corporate Governance Score is taken from composite indicators based on Refinitiv ESG governance ratings. This score encapsulates a wide array of governance including the quality of the board and its independence, the degree of ownership concentration, and the level of transparency in executive compensation and corporate disclosures (Ali et al., 2024; Uzliawati et al., 2023). The ESG Controversy Score, also derived from Refinitiv, serves as the moderator variable. This score measures incidents of environmental violations and social irresponsibility and governance malpractice. Less of the score means higher more frequently or more severely ESG controversies headline and indicates declining trust and legitimacy from the stakeholders (Ali et al., 2024; Luo, 2021). A number of control variables are added to the analysis to address possible omitted-variable bias and confounding effects. The term 'Board Size' denotes the headcount of directors on a board and considers the structural oversight capacity of the organization (Coles, Daniel, Naveen 2008; Yermack 1996). Audit Committee Independence is evaluated with regard to the percentage of independent directors within the audit committee and reflects the financial oversight. Kalbuana et al. (2022) & Ali et al. (2024). Return on Assets (ROA), which is Profit before Interest and Taxes (EBIT) over total assets, is used as a measure for operating performance (Ali et al., 2024; Chintrakarn et al., 2021). Firm Size is represented by the natural logarithm of total assets to capture scale effects and to the extent resources are available (Galletta & Mazzu, 2023). Leverage, which is the ratio of total debt to total assets, defines the financial risk profile of the firm (Ali et al., 2024; Maaloul, 2018). Lastly, Board Meetings is an indicator of governance intensity and oversight effective which tracks the number of formal board meetings held each year (Kalbuana et al., 2022).

The study utilizes hierarchical moderated regression analysis with a panel data specification to test the hypothesized relationships (Hayes, 2018; Baltagi, 2013). The choice between fixed and random effects models is determined by employing the Hausman specification test (Baltagi, 2013). The test assesses the consistency of fixed effects estimators against random effects, guiding the model selection based on statistical validity. The following regression equation summarizes the empirical model:

$$\text{Reputation}_{it} = \alpha + \beta_1(\text{Governance}_{it}) + \beta_2(\text{ESGControversies}_{it}) + \beta_3(\text{Governance}_{it} \times \text{ESGControversies}_{it}) + \gamma(\text{X}_{it}) + \epsilon_{it}$$

Where:

Reputation: Corporate reputation score of firm *iii* in year *t*.

Governance: Corporate governance score.

ESG Controversies: ESG controversy score.

Governance × ESG Controversies: Interaction term to assess moderation.

X: Vector of control variables (Board Size, Audit Committee Independence, ROA, Firm Size, Leverage, Board Meetings).

$\alpha$ : Intercept.

$\beta, \gamma$ : Coefficients to be estimated.

$\varepsilon$ : Error term.

In order to corroborate the robustness and dependability of the regression outcomes, this investigation performs diagnostic checks balancing econometric concerns with constructs relevant superiority to scaling theories. To start, the Breusch-Pagan/Cook-Weisberg test for Linear Heteroskedasticity is performed focusing on the absence of variable volatility of the error terms. Addressing heteroskedasticity is crucial for estimator efficiency, and unbiasedness, and as a result, validity of any statistical inference made (Baltagi, 2013). Multicollinearity of the explanatory variables is checked with the Variance inflation Factor (VIF). Multicollinearity can lead to overestimating the variance of regression coefficients causing fictitious or hard to interpret results. A VIF less than 10 is generally regarded as acceptable (Wooldridge, 2010). Also, the Wooldridge test for autocorrelation detects serial correlation within the residuals of the standard panel data which may distort standard errors, producing biased and inefficient estimates. Ensuring absence of serial correlation permits more accurate estimations from panel data computations (Baltagi, 2013). Finally, comprehensive measures are taken to tackle concerns regarding endogenous factors with impact on bias estimates while distorting unambiguous causal relationships. The study utilizes firm fixed effects to isolate the unobservable that do not change over time. Simultaneous (IV) strategies are utilized on the other hand by adopting controls for post-structuralist assumptions to deal with possible simultaneity distortions. Taken together, these diagnostic steps add, in a considerable way, the methodological rigor and trustworthiness of the study pertaining to the interplay between corporate governance, ESG controversies, and corporate reputation. In order to strengthen the reliability and confidence in the findings, multiple procedures focusing on methodology along with several robustness checks were carefully executed. First, to guarantee accurate inference under possible econometric concerns such as heteroskedasticity, autocorrelation, and cross-sectional dependence, the study employs robust standard errors and Driscoll-Kraay standard errors. The use of Driscoll-Kraay adjustments is particularly advantageous in that they correct standard errors for cross-sectional dependence and temporal correlation, thus providing a higher level of reliability and precision for statistical inference (Driscoll & Kraay, 1998; Baltagi, 2013). In addition, the study implements winsorization and normalization in order to reduce the effect of very high or low values, which can skew the results and interpretations of the findings disproportionately. In this case, continuous variables are winsorized at the first and the ninety ninth percentile to restrict the influence of outliers while preserving the integrity of the data. Table 1 presents the regression Assumption of the study model. To some extent, these additional normalization processes guarantee that the examined variables are presented on uniform scales which enhances the interpretability and insightfulness of regression analyses (Baltagi, 2013; Wooldridge, 2010). By conducting these specific robustness checks, the analysis increases the statistical precision of the findings such that the understanding offered about the intricate relationship among corporate governance, ESG controversies, and corporate reputation is balanced in methodology and depth of theory.

**Table 1**



Regression assumption of study model			
Assumptions	Test	Results	Comments
Fixed vs. random effect	Hausman test	chi2(8)= 102.84 Prob > chi2 = 0.0000	The fixed effect is suitable for this model
Heteroskedasticity Test	Breusch-Pagan/ Cook-Weisberg test	chi2 (367) = 93000 Prob>chi2 = 0.0000	Presence of heteroskedasticity
Cross-sectional dependency Test	Breusch and Pagan Lagrangian multiplier test for random	chibar2(01) = 4526.36 Prob > chibar2 = 0.0000	A random effect is more suitable than a cross-sectional analysis
Autocorrelation/Serial Correlation Test	Wooldridge test	F( 1, 333) = 392.311 Prob > F = 0.0000	Presence of autocorrelation
Endogeneity Test	Durbin (score) Wu-Hausman	chi2(1) = 1.46416 (p =0.2263) F(1,1955) = 1.45705 (p =0.2275)	No endogeneity problem exists

Table 2 presents the distribution of observations across industry sectors. Industrials represent the largest segment (20.84%), followed by Consumer Discretionary (16.99%), and Health care (13.36%). This distribution is consistent with the composition of S&P 500 firms, providing representativeness across industries. The majority of the study sample belongs to the manufacturing sectors.

**Table 2**  
**Sample detail of the model**

Industry Name	Freq.	Percent	Cum.
Basic Materials	169	4.58	4.58
Consumer Discretionary	627	16.99	21.57
Consumer Staples	332	9	30.57
Energy	208	5.64	36.21
Health Care	493	13.36	49.57
Industrials	769	20.84	70.41
Real Estate	181	4.91	75.31
Technology	513	13.9	89.21
Telecommunications	94	2.55	91.76
Utilities	304	8.24	100
Total	3,690	100	

**Note:** This study primarily used the S&P 500 listed firms for the study sample, as for the concern about the model of the study, where corporate reputation is the dependent variable. First, this study removed all financial sector firms from the target sample. This study also removed all those firms whose corporate reputation score was missing during the study period (2014 to 2024). Finally, this study's model contained 3,690 firm-year observations of unbalanced panel data.

## Results and Discussion

Descriptive statistics offer initial insights into the characteristics and distributions of variables included in this study. Table 3, the values of the primary and control variables are summarized in terms of the mean, standard deviation, minimum, and maximum. The dependent variable Corporate Reputation has a mean score of 342.32 with a standard deviation of 263.39, which shows moderate variation across the sample firms. From minimum to maximum scores, 1 to 1000, heterogeneity in perceived

reputational quality among S&P 500 firms is significant (Ali, Alamgir, & Hanif, 2024; Uzliawati et al., 2023). Corporate Governance reports a mean of 65.40 with a standard deviation of 17.59 and extreme values of 5.10 to 99.41 which reveals substantial variability in governance practices. ESG Controversies has a mean score of 76.73 and has scores from 0.29 to 100.00 reflecting varying exposures to ESG-related incidents among firms. The correlation matrix in Table 4 shows pairwise correlations between variables. The correlation between corporate governance and corporate Reputation is positive (0.124) and statistically significant ( $p < 0.05$ ), indicating initial support for Hypothesis 1. ESG controversies negatively correlate with corporate reputation ( $-0.398$ ,  $p < 0.05$ ), consistent with the theoretical expectation that ESG controversies erode stakeholder perceptions (Luo, 2021; Ali et al., 2024). Importantly, no correlation exceeds 0.70, suggesting that multicollinearity is not a serious concern in this dataset (Wooldridge, 2010).

**Table 3**  
**Descriptive statistic of the study model**

Variable	Obs.	Mean	SD	Min	Max
Corporate Reputation	3,690	342.32	263.39	1.00	1000.00
Governance	2,408	65.40	17.59	5.10	99.41
ESG Controversies	2,409	76.73	33.88	0.29	100.00
Board Size	2,405	11.08	1.70	8.00	15.00
Audit Committee Independence	2,404	98.66	4.98	50.00	100.00
Firm Size	2,671	17.00	1.13	13.71	20.13
Leverage	2,671	0.32	0.16	0.00	0.64
Return on Assets	2,668	9.06	7.52	-15.66	37.97
Board Meetings	2,373	7.95	3.28	4.00	21.00

**Note:** The minimum corporate reputation score means the highest rank of the firm. ESG controversies' maximum score of 100 means less ESG risk, whereas ESG controversies score closer to zero means more frequent ESG issues. Winsorize all continuous study variables at the level of 1 and 99 percent.

**Table 4**  
**Correlation analysis**

Variables	1	2	3	4	5	6	7	8	9	VIF
(1) Corporate Reputation	1									
(2) Governance	0.124*	1								1.06
(3) ESG Controversies	-0.398*	-0.040*	1							1.33
(4) Board Size	-0.330*	-0.083*	-0.189*	1						1.23
(5) Audit Committee Independence	-0.045*	0.170*	0.008	0.077*	1					1.04
(6) Firm Size	-0.615*	0.112*	-0.478*	0.386*	0.090*	1				1.65
(7) Leverage	-0.046*	0.010	0.046*	0.132*	0.015	0.065*	1			1.03
(8) Return on Assets	0.128*	-0.016	0.037	-0.136*	-0.025	-0.285*	-0.093*	1		1.15
(9) Board Meetings	-0.084*	-0.022	-0.099*	0.090*	-0.004	0.167*	0.059*	-0.213*	1	1.07

Note: significance at the level of 0.05\*

The hierarchical regression results of the study model are presented in Table 5. Corporate reputation is not reversed to get better interaction results. The lower corporate reputation and ESG controversies scores mean a better reputation and low ESG risks.

Hence, the negative relationship between corporate reputation and ESG controversies shown the positive result. Table 5, column 1 shows that corporate governance positively and significantly impacts corporate reputation ( $\beta = -0.648$ ,  $p < 0.01$ ). Column 2 in Table 5 shows that ESG controversies reduce corporate reputation ( $\beta = 0.154$ ,  $p < 0.01$ ). Moreover, Table 5 Column 4 results confirm that ESG controversies are negatively moderated between corporate governance and corporate reputation ( $\beta = -0.00207$ ,  $p < 0.10$ ). The results confirmed the study hypothesis, but the effect size of moderation was too small. To confirm the study results, this study also examined fixed effect regression with interaction regression technique and found consistent results in moderation and interaction regression results ( $\beta = -0.00470$ ,  $p < 0.10$ ).

For the robustness of the study results, this study investigated the fixed effect with a robust standard error cluster at the firm level. The hierarchical regression results with robust standard error of study model of the study are presented in Table 6. Corporate reputation is not reversed to get the better interaction results. The lower corporate reputation and ESG controversies scores means the better reputation and low ESG risks. Hence the negative relationship between corporate reputation and ESG controversies shown the positive result. Table 6, column 1 shows that corporate governance positively and significantly impacts corporate reputation ( $\beta = -0.648$ ,  $p < 0.01$ ). Column 2 in Table 6 shows that ESG controversies reduce corporate reputation ( $\beta = 0.154$ ,  $p < 0.01$ ). Moreover, Table 6 Column 4 results confirm that ESG controversies are negatively moderated between corporate governance and corporate reputation ( $\beta = -0.00207$ ,  $p < 0.05$ ). To confirm the study results, this study also examined fixed effect regression with interaction regression technique and found consistent results in moderation and interaction regression results ( $\beta = -0.00470$ ,  $p < 0.10$ ). Furthermore, moderation effect size calculation is not possible here because adjusted R squares are generally not reported in fixed effects regression with robust standard error. Robust standard errors adjusting the heteroskedasticity by clustering at the firm level. Hence, the R square is no longer a meaningful measure for model fit.

For the robustness of the study results, this study investigated the study results by Driscoll-Kraay standard errors. The hierarchical regression results with Driscoll-Kraay standard errors of the study model are presented in Table 7. Corporate reputation is not reversed to get better interaction results. The lower corporate reputation and ESG controversies scores mean a better reputation and low ESG risks. Hence, the negative relationship between corporate reputation and ESG controversies shows a positive result. The results are matched with the Table 5 fixed effect regression and Table 6 regression with robust standard error results.

**Table 5**  
**Regression Results**

Variables	(1) Reputation	(2) Reputation	(3) Reputation	(4) Reputation	(5) Reputation
<b>Independent</b>					
Governance	-0.648*** (0.130)		-0.630*** (0.130)		-0.260 (0.237)
<b>Moderator</b>					
ESG Controversies		0.154*** (0.0514)	0.141*** (0.0512)		0.455*** (0.176)
<b>Interaction</b>					
Governance* Controversies				-0.00207* (0.00107)	-0.00470* (0.00252)
<b>Control variables</b>					
Board Size	-31.28*** (8.783)	-21.85** (8.591)	-31.42*** (8.769)	-21.35** (8.601)	-29.77*** (8.808)

Audit Committee Independence	0.397 (0.357)	0.108 (0.354)	0.399 (0.357)	0.0993 (0.354)	0.362 (0.357)
Firm Size	-0.0197*** (0.00149)	-0.0196*** (0.00151)	-0.0190*** (0.00150)	-0.0204*** (0.00149)	-0.0191*** (0.00150)
Leverage	0.907*** (0.197)	0.896*** (0.198)	0.905*** (0.197)	0.898*** (0.198)	0.898*** (0.197)
Return on Assets	-0.464* (0.259)	-0.452* (0.260)	-0.465* (0.259)	-0.435* (0.261)	-0.457* (0.259)
Board Meetings	-0.0192 (0.491)	0.280 (0.492)	0.0699 (0.491)	0.146 (0.493)	0.0902 (0.491)
Constant	58.34*** (4.476)	52.35*** (4.441)	56.2*** (4.507)	55.14*** (4.455)	54.08*** (4.723)
Observations	2,363	2,363	2,363	2,363	2,363
R-squared	0.126	0.119	0.129	0.116	0.130
F <sup>2</sup>	----	---	---	0.001	---
Effect size	---	---	---	Small	---
Number of ID	367	367	367	367	367

**Note:** Standard errors in parentheses, \*\*\* p<0.01, \*\* p<0.05, \* p<0.1

Dependent variable corporate reputation and ESG controversies are the negative proxies. Hence, the negative beta coefficient means positive relationships and vice versa.

**Table 6**  
**Robust Regression Results**

	(1)	(2)	(3)	(4)	(5)
Variables	Reputation	Reputation	Reputation	Reputation	Reputation
<b>Independent</b>					
Governance	-0.648*** (0.147)		-0.630*** (0.147)		-0.260 (0.256)
<b>Moderator</b>					
ESG Controversies		0.154*** (0.0480)	0.141*** (0.0477)		0.455** (0.200)
<b>Interaction</b>					
Governance* Controversies				-0.00207** (0.000996)	-0.00470* (0.00279)
<b>Control variables</b>					
Board Size	-31.28*** (9.303)	-21.85** (8.647)	-31.42*** (9.309)	-21.35** (8.606)	-29.77*** (9.310)
Audit Committee Independence	0.397 (0.413)	0.108 (0.400)	0.399 (0.410)	0.0993 (0.402)	0.362 (0.403)
Firm Size	-0.0197*** (0.00225)	-0.0196*** (0.00231)	-0.0190*** (0.00226)	-0.0204*** (0.00232)	-0.0191*** (0.00227)
Leverage	0.907*** (0.231)	0.896*** (0.237)	0.905*** (0.230)	0.898*** (0.238)	0.898*** (0.230)
Return on Assets	-0.464 (0.308)	-0.452 (0.310)	-0.465 (0.308)	-0.435 (0.310)	-0.457 (0.309)
Board Meetings	-0.0192 (0.574)	0.280 (0.578)	0.0699 (0.573)	0.146 (0.579)	0.0902 (0.574)
Constant	58.34*** (4.991)	52.35*** (4.855)	56.72*** (4.988)	55.14*** (4.901)	54.08*** (5.165)
Observations	2,363	2,363	2,363	2,363	2,363
Number of ID	367	367	367	367	367

**Note:** Robust Standard errors, cluster at firm level \*\*\* p<0.01, \*\* p<0.05, \* p<0.1,

Dependent variable corporate reputation and ESG controversies are the negative proxies. Hence, the negative beta coefficient means positive relationships and vice versa.

The standardized beta coefficient in Table 6 remains the same as presented in Table 5, but only the standard errors are changed.

**Table 7**  
**Regression Results with Driscoll-Kraay standard errors**

Variables	(1)	(2)	(3)	(4)	(5)
Reputation	Reputation	Reputation	Reputation	Reputation	Reputation
<b>Independent</b>					
Governance	-0.469**		-1.807***		-0.0462
	(0.163)		(0.346)		(0.152)
<b>Moderator</b>					
ESG Controversies		0.154**	0.219**		0.379*
		(0.0565)	(0.0936)		(0.213)
<b>Interaction</b>					
Governance* Controversies				-0.00276**	-0.00538*
				(0.000932)	(0.00295)
<b>Control variables</b>					
Board Size	-32.71**	-21.85**	-28.93***	-25.66**	-30.81**
	(10.26)	(9.227)	(8.496)	(7.960)	(9.269)
Audit Committee Independence	0.566	0.108	0.260	0.378	0.523
	(0.434)	(0.394)	(0.350)	(0.364)	(0.408)
Firm Size	-0.00841***	-0.0196***	-0.00808***	-0.00842***	-0.00846***
	(0.00153)	(0.00165)	(0.00132)	(0.00157)	(0.00158)
Leverage	0.993***	0.896***	0.918***	0.992***	0.983***
	(0.272)	(0.262)	(0.253)	(0.266)	(0.268)
Return on Assets	0.0269	-0.452	0.00368	0.0837	0.0323
	(0.145)	(0.248)	(0.142)	(0.148)	(0.150)
Board Meetings	0.340	0.280	0.465	0.406	0.368
	(0.483)	(0.648)	(0.559)	(0.533)	(0.525)
Constant	50.97***	52.35***	59.14***	48.88***	47.95***
	(1.501)	(2.201)	(1.627)	(2.106)	(2.929)
Observations	2,363	2,363	2,363	2,363	2,363
Year	fixed	fixed	fixed	fixed	fixed
Number of ID	367	367	367	367	367

Note: Driscoll-Kraay standard errors in parentheses \*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.1$

Dependent variable corporate reputation and ESG controversies are the negative proxies.

## Conclusion

The empirical findings provide strong evidence supporting Hypothesis 1, confirming that corporate governance positively impacts corporate reputation. Reputation scores are always higher for firms with robust governance mechanisms. This finding supports previous research that has stressed governance as an important means of enhancing the credibility, transparency, and trust of a corporation in the eyes of its constituents (Fombrun & Shanley, 1990; Jensen & Meckling, 1976; Luo, 2021). Corporations with strong corporate governance demonstrate the responsibility of managers and oversight of the firm's operations, which enhances a corporation's reputation and reduces the perceived risks associated with the firm's operations by stakeholders (Ali, Alamgir & Hanif, 2024; Uzliawati et al., 2023). Furthermore, governance features such as independent boards, audit committees, and boards that meet frequently tend to signal positively to stakeholders. These signals affirm the firm's commitment to uphold ethical, transparent, and responsive standards with regards to stakeholder concerns which elevate corporate reputation (Ali et al., 2024; Treepongkaruna et al., 2022). The second key finding, supporting Hypothesis 2, states that ESG controversies strongly moderate the relationship between corporate governance and reputation the most. The negative moderation suggests that strong

governance alone does not shield companies from reputational damages if they engage in ESG controversies.

These crises, be they environmental, social, or governance related, have an overwhelming impact on trust eroding governance and stakeholder confidence in corporations (Luo, 2021; Ali et al., 2024; DasGupta, 2022). This moderating effect resonates deeply with reputation theory where the corporate image is built not only by actions but also in reflection of the perception created in the image of the firm's actions, especially in times of crisis or when there are controversies (Freeman, 1984; Donaldson & Preston, 1995). ESG controversies act as breakpoints which disrupt firm's identity and legitimacy, compelling stakeholders to reevaluate the trust and support they previously extended. This aligns well with legitimacy theory stating that firms require constant affirmation that their societal positioning is appropriate, something which these ESG controversies put into question (Suchman, 1995; Palazzo & Scherer, 2006). Looking particularly through the stakeholder lens, ESG controversies raise questions regarding the firm's actions and motives, therefore weakening perceptions of governance as authoritative decision making.

Cschiemann & Tietmeyer (2022) and Ali et al. (2024) suggest that governance mechanisms are not effective in managing the ESG controversies alone, indicating a disconnect between corporate speeches and practices. Still, Schiemann and Tietmeyer as well as Ali suggest that governance structures without ESG management serve no purpose. Deegan (2019) and Suchman (1995) explain with legitimacy theory that crises surrounding ESG controversies reflect more significant identity crises for corporations resulting in a lack of society's acceptance and their long-term existence. Despite defending strong governance, reputational damages become impossible to avert after failing to satisfy ESG-oriented stakeholder expectations. This study bridges gaps in literature by enhancing the discourse on corporate governance and reputation by focusing on ESG risk. Fombrun (1996) and Jensen (1993) claim that the bond between governance and reputation has been widely accepted, while reconnaissance of ESG-related reputational risks remains scarce. It is evident from the findings that ESG controversies undermine the non-permeable nature of reputational detriment hypothesis, chiefly explaining governance reputation gaps. Ali (2024) and DasGupta (2022) aimed to underline the knowledge void concerning governance, ESG performance, and the absence of integrated structures. By addressing these gaps, our arguments merge for governance effectiveness discussions under elevated ESG cues.

Another theoretical contribution lies in ascribing controversies surrounding ESG issue an effectiveness boundary for the corporate governance system. This boundary condition highlights the putative governance gaps within the structure facing extreme external shocks such as ESG scandals (Schiemann & Tietmeyer, 2022). Strong governance's inability to provide reputational immunity enhances nuance and realism in governance theory which prompts further exploration into the effectiveness of the conditions under which governance structures operate optimally. These results indicate that the board's overriding governance paradigm based on mere compliance structure needs to change to one that more strategically accounts for ESG risk integration. Compliance with regulations or governance codes is one thing; strategically board-level governance presupposes ESG risk identification, management, and mitigation at proactive levels (Uzliawati et al., 2023; Ali et al., 2024). This requires integration of ESG issues into board level deliberations, oversight, and strategy formulation. Due to the importance of trust placed by stakeholders in our findings, relationship management and disclosure needs to become a priority for these firms. Firms ought to be proactive in their

ESG communication and manage controversy response in an expedient and effective manner when called upon.

This proactive stakeholder relationship strategy may help further reputational harm and trust damage recovery (Ali et al., 2024; Luo, 2021). A useful action of corporate boards is, therefore, the operational inclusion of ESG breaches as negative issues into governance structures. Establish mechanisms of oversight, including specialized ESG committee structures or specialized roles in ESG risk management, so that these managers can proactively identify, evaluate, and manage ESG-related risks and controversies. Such measures could assist firms in managing reputational risks associated with ESG issues and defend, if not improve, corporate reputation.

### **Recommendations**

This study has shown that corporate governance affects corporate reputation positively; however, this effect is considerably weaker due to ESG controversies. Even strong governance is not enough to protect a firm's reputation from significant ESG failures, which highlights the need for active ESG risk management. Boards of directors should strengthen their oversight by adding direct responsibility for monitoring ESG issues. Routine ESG audits, scenario analysis, and risk evaluation should be regular board activities as a means of enhancing defenses against reputational harm. Companies need to have detailed plans for managing controversies focused on ESG issues. Del faster than recovery post-crisis by disclosing ESG information enhancing their reputation claim trustworthiness- subjects them to scrutiny and strengthens stakeholder trust. Further, incorporating ESG-related metrics into the remuneration of executives aligns interests emphasizing long-term goals and strategically deepens decoupled governance through planning il ESG. Despite strong evidence supporting the relationships analyzed, this research is limited in scope. First, the study focuses on publicly traded companies in the United States which may limit the applicability of the findings. The differing legal, regulatory, and governance framework may result in different interactions between the governance of ESG controversies and reputation. Therefore, great care must be taken when extending these results beyond the borders of the United States.

To begin, the corporate reputation measurement used in this particular research is based on some secondary ESG-derived scores, which might not embrace the intricate understanding of different stakeholder groups. Reputation, which is by nature multifaceted and subjective, is arguably too holistic to be represented solely by quantitative ESG metrics as some fundamental qualitative aspects of stakeholder evaluation may be accentuated. Third, the variability of ESG data represents an additional constraint. There is often a wide divergence in the ESG ratings and scores assigned by different providers as a result of differing assessment criteria, data inclusions, and evaluation methods employed. This variation raises questions regarding the consistency, trustworthiness, and comparability of the ESG dataset results, rendering some interpretations vulnerable to the specific ESG dataset underpinning the analysis. Other than filling in the gaps of our study, the particular cross-country approach could focus on the governance and reputation dynamics and how these relate to common and civil law systems. These analyses would advance understanding of the extent to which different legal and institutional contexts shape corporate behavior in response to ESG controversies, stakeholder perceptions, and reputation management strategies. This would help determine if the moderation effects of ESG controversies are context bound. Moreover, scope for deeper understanding of how firms manage, recover from, and communicate strategically with their stakeholders post massive reputational damage,

identify and manage transparent communication, and implement recovery strategies is possible with qualitative methods like interviews and case studies. Such studies would go beyond quantitative measures of reputation such as ESG scores and capture the intricacies and subtleties of reputation management, uncover effective techniques for crisis management, and illuminate proactive stakeholder engagement. Finally, research could be done on the temporal dimensions of ESG issues and their impact over time on the reputation of companies. Examining these time-lag effects would answer questions such as how quickly or efficiently firms recover from controversies, what contributes to accelerated recovery, and whether repeated controversies leave enduring reputational damage. There is a need for these longitudinal studies to inform practitioners on developing proactive measures for managing ESG reputational risks and defending corporate reputation for the long term.



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