

## ESG Controversies Score and Financial Performance: The Moderating Role of the CSR Committee

Aladdin Dwekat<sup>1,2</sup> & Raed Abdelhaq<sup>1,\*</sup>

Type: Full Article. Received: 16<sup>th</sup> May. 2025, Accepted: 29<sup>th</sup> Jun. 2025, Published: xxxx DOI: xxxx

Accepted Manuscript, In Press

**Abstract: Purpose:** This study investigates the impact of Environmental, Social, and Governance (ESG) controversies on financial performance and the moderating role of corporate social responsibility (CSR) committees in this relationship. **Methodology:** To achieve the research objective, panel data from non-financial firms listed in the STOXX Europe 600 index for 2018-2023 were used. The fixed effect regression was used to test the research hypotheses. **Finding:** The finding reveals that ESG controversies score is positively associated with ROA, indicating that firms with less controversy are better off financially. In addition, we find that the presence of CSR committee on the board positively moderates this association, enhancing the financial gain of good controversy management. To make the results robust and to deal with the possible endogeneity issues, we have also performed additional analysis with the Generalized Method of Moments (GMM) estimator. This confirmed that the main findings are valid. **Recommendations:** The findings add to the existing literature by highlighting the importance of some sustainability governance mechanisms in translating ESG practices into financial performance. The study offers real-world implications to policymakers, corporate boards, and investors who can utilize CSR committees to deliver better sustainability and financial performance.

**Keywords:** ESG controversies, financial performance, CSR committee, corporate governance, sustainability

### درجة الجدل المرتبط بممارسات البيئة والمجتمع والحوكمة والأداء المالي: الدور المعدل للجنة المسؤولية الاجتماعية

علاء الدين دويكات<sup>1,2</sup>، ورائد عبد الحق<sup>1,\*</sup>

تاريخ التسليم: (2025/5/16)، تاريخ القبول: (2025/6/29)، تاريخ النشر: xxxx

**الملخص: الهدف:** تهدف هذه الدراسة إلى فحص تأثير الجدل المرتبط بممارسات البيئة والمجتمع والحوكمة على الأداء المالي، ودور لجان المسؤولية الاجتماعية للشركات كمتغير معدل في هذه العلاقة. **المنهجية:** لتحقيق أهداف البحث، تم استخدام بيانات المقطعية الزمنية مستخلصة من الشركات غير المالية المدرجة في مؤشر STOXX Europe 600 خلال الفترة 2018-2023. وتم اختبار فرضيات الدراسة باستخدام نموذج الانحدار ذو التأثيرات الثابتة. **النتائج:** أظهرت النتائج وجود علاقة موجبة بين درجة الجدل المرتبط بممارسات البيئة والمجتمع والحوكمة وعائد الأصول، مما يشير إلى أن الشركات التي تتعرض لجدل أقل تحقق أداءً ماليًا أفضل. كما تبين أن وجود لجنة للمسؤولية الاجتماعية في مجلس الإدارة يُعدّل هذه العلاقة إيجابيًا، ويعزز من المكاسب المالية الناتجة عن الإدارة الجيدة للجدل المتعلق بالاستدامة. وللتأكد من متانة النتائج والتعامل مع احتمالية وجود مشكلات في التباطؤ الذاتي أو التغيرات الداخلية، تم إجراء تحليل إضافي باستخدام طريقة المربعات الصغرى المعممة، وقد أكدت النتائج صحة الاستنتاجات الأساسية. **التوصيات:** تساهم هذه النتائج في إثراء الأدبيات الحالية من خلال تسليط الضوء على أهمية بعض آليات الحوكمة المستدامة في تحويل ممارسات البيئة والمجتمع والحوكمة إلى أداء مالي فعال. كما تقدم الدراسة توصيات عملية لصناع القرار ومجالس الإدارة والمستثمرين بشأن أهمية الاستفادة من لجان المسؤولية الاجتماعية لتحقيق أقصى استدامة وأداء مالي أفضل.

**الكلمات المفتاحية:** الجدل المرتبط بممارسات البيئة والمجتمع والحوكمة، الأداء المالي، لجنة المسؤولية الاجتماعية، الحوكمة المؤسسية، الاستدامة.

1 Department of Accounting, Faculty of Business and Communication, An-Najah National University, Nablus, Palestine.

2 E-mail: aladdin.dwekat@najah.edu. ORCID: [0000-0003-1282-5141]

\* Corresponding author email: raed.abdelhaq@najah.edu.

ORCID: [0009-0008-5175-8213]

1 قسم المحاسبة، كلية الأعمال والاتصال، جامعة النجاح الوطنية، نابلس، فلسطين.

aladdin.dwekat@najah.edu 2

[0000-0003-1282-5141] :ORCID

\* الباحث المراسل: raed.abdelhaq@najah.edu.

[0009-0008-5175-8213] :ORCID

## INTRODUCTION

Integrating environmental, social, and governance factors (ESG) into financial decision-making and corporate planning practices has accelerated impressively over the past few years (Al Natour et al., 2022). The increasing confirmation of sustainable business practices achieving double benefits to societal welfare and longer-term financial market value drives this strategy realignment. Both shareholders and stakeholders pressure businesses to exhibit responsible ESG practices since they require greater company accountability beyond economic metrics. Organizations encounter many challenges in their path towards sustainability because they must navigate complex trade-offs and risk controversies about their business operations, supply chain, and governance practices (Meqbel et al., 2025).

ESG controversies currently call forth the risk management strength of firms. They are either actual or perceived inadequacies by firms in meeting the expectations of their stakeholders in several areas, including environmental stewardship, social obligations, and governance practices (Eccles et al, 2019). In situations where problems emanate regarding environmental degradation, abuse of human rights, fraudulent activities by the senior management in organizations, or corruption cases involving organizations, such organizations usually suffer severe sanctions, including tarnished reputations and loss of trust among stakeholders. Such issues frequently lead to poor financial performance (García-Amáte et al., 2023). With increasing significance placed on the ESG controversies, specific metrics have been developed to measure such incidents. One would be the ESG Controversies Score by Refinitiv Eikon, which measures a firm's exposure to such controversial situations.

Research on the financial impact of ESG controversies amongst firms has resulted in diverse empirical results that continue to leave professionals uncertain about the relationship. Studies confirm that companies with minimal controversies achieve better financial results (Brighi et al., 2023; Jucá et al., 2024), yet investigations demonstrate that this linkage proves complex due to varying industry, geographic, and time-based circumstances (Agnese et al., 2024; García-Amáte et al., 2023). The diverse research findings about ESG controversy effects on financial outcomes prove the necessity to develop deeper insights into how these controversies affect financial outcomes and which influencing variables exist in the relationship.

The presence of CSR committee within board structures represents a moderating variable that research has not yet examined. Specific CSR committees introduced for sustainability oversight have an important role in projecting ESG controversies and prevention and management based on the responsiveness (Abdelhaq & Dwekat, 2024). Utilizing dedicated experts and resources and overseeing ESG navigation challenges a firm's CSR committee may still have an opportunity to facilitate smooth ESG challenge navigation, which leads to reduced financial controversy impacts or creation of beneficial improvement potentials (Mardawi et al., 2024).

Existing empirical research about CSR committee performance in the ESG controversies-financial performance relationship shows limited investigation of their moderating impact. Research by Baraibar-Diez and Odriozola (2019) and Minutolo et al. (2019) analyzed CSR committee effects on ESG disclosure and overall ESG outcomes yet excluded the assessment of their moderating abilities on financial performance links with ESG controversies. The European region shows an acute shortage of research on this

topic because sustainability governance frameworks and stakeholder sustainability expectations are changing quickly.

This research has several valuable contributions to the literature. First, it expands our horizon on the ESG controversy-financial performance nexus by incorporating CSR committees as a key moderating factor, contributing to theoretical knowledge on governance mechanisms that affect sustainability results. Second, it provides empirical evidence on the European setting, which supplements current research, which has been predominantly US company-centered, and develops an understanding of sustainability governance's efficiency in a locale with diverse regulatory frameworks. Third, it holds implications for company boards, investors, and policymakers regarding the strategic usefulness of CSR committees in promoting sustainability and financial returns.

## LITERATURE REVIEW

### *Esg Controversies and Financial Performance*

The sustainability discipline of research has focused on the impact of the financial performance of the ESG controversy because it affects organizational strategy and financial market decisions. The bottom line of a company, as well as its reputation and stakeholder relationships, are affected significantly when a company is faced with ESG challenges related to natural disasters, abuses of human rights, corruption incidents, and executive misconduct (Brighi et al., 2023; Eccles et al., 2019; Minutolo et al., 2019). Any firm that fails to meet stakeholder expectations of environmental concern, social responsibility, and government obligations will experience direct market penalties and create long-term monetary impacts. Several monetary impacts follow scandals, such as compromised brand value, customer absence, staff recruitment

difficulties, administrative penalties, administrative expense, and funding cost escalation. The chain of negative consequences in firms ultimately erodes market value and gain; consequently, ESG controversy management is integral to firm risk management and business planning (Agnese et al., 2024; Brighi et al., 2023).

Academic theories explain how ESG controversies influence financial performance by delivering specialized frameworks of this intricate connection. The stakeholder theory that Freeman (1984) established shows that a firm attains lasting success by harmonizing all stakeholder interests. The fundamental connections between a firm and its customers, employees, regulators, and communities become damaged by ESG controversies, impairing its ability to achieve sustainable future value creation (García-Amáte et al., 2023). The approach of legitimacy theory supports stakeholder theory because it demonstrates that corporate operations exist within a social contract framework, which breaches during ESG controversies can lead to legitimacy losses, creating financial challenges from stakeholder withdrawal (Suchman 1995; Jucá et al. 2024). Risk management analyses enhance our knowledge by demonstrating how ESG controversies cause organizations to face multiple kinds of risks that lead to measurable financial costs through elevated insurance premiums, higher borrowing expenses, and operational disturbances affecting profitability (Agnese et al., 2024; Brighi et al., 2023).

Several empirical research studies have shown that good controversy management leads to positive correlations among financial performance results. Research shows that financial performance is excellent in companies with fewer ESG controversy issues. The research by Jucá et al. (2024) and Eccles et al. (2019) shows that lower controversy exposure among firms results in better

profitability alongside higher market valuation, primarily in environmentally sensitive sectors. Brighi et al. (2023) indicate that well-performing ESG controversy scores among firms directly resulted in better financial stability and market resilience across declining economic conditions. The research has established that this positive trend exists uniformly between various geographic locations. European banking institutions that effectively managed controversies obtained superior profitability ratios while reducing risk exposure (Agnese et al., 2024). Capelle-Blancard and Petit (2019) discovered that stock markets experience negative market value drops of 0.1% each time ESG incidents are announced. In addition, the research of Minor and Morgan (2011) confirmed that high-quality ESG controversy management works as a "reputation insurance," safeguarding firm value during times of crisis. ESG controversies scores measuring low controversies positively predict stronger financial performance because companies with strong management of risks and stakeholder relations obtain better sustainable financial success (Saltık, 2024). So, the first Hypothesis:

*H1: ESG controversies score is positively associated with financial performance (ROA).*

### ***Moderating Role of CSR Committee***

The CSR committees within corporate governance boards carry out two functions for businesses by evaluating environmental sustainability efforts and integrating ESG strategic elements into company decisions (Baraibar-Diez & Odriozola, 2019). Use of sustainability-specific expertise is among the essential duties of committees, while they also guide ESG risk assessments during strategic planning and ensure sustainability performance remains accountable (Pathan & Mohanty, 2024; Minutolo et al., 2019). According to recent research, such committees are getting

increasingly popular, as they have become widespread in over 90 percent of large European market companies by 2014 (Baraibar-Diez & Odriozola, 2019). Companies with CSR committees record higher ESG scores across the board (Abdeljawad et al. 2025; Abdelhaq & Dwekat, 2024) and enable the execution of a strategy that results in definite sustainability improvements (Minutolo et al. 2019). Besides this, CSR committees can also be used as early warning mechanisms through proactive screening of controversial subjects like environmental regulation, human rights, and governance abuse (Abu Alia et al., 2024b). Indicatively, CSR committees in some European companies operating in energy and manufacturing have been tasked with managing supplier audits and grievance channels, and, as such, ESG incidents have shown a downward trend over the years (Brinette et al., 2024; Minutolo et al., 2019).

Several theoretical models confirm how CSR committees can effectively alleviate the negative impact on financial outcomes. Based on a resource-based perspective, companies can proactively eliminate ESG controversies via effective prevention and control through specialized expertise and control roles of the CSR committees, which reduces such events and their negative impacts (Barney 1991). According to agency theory, these committee bodies minimize information gaps by connecting executive management actions to stakeholder priorities about ESG matters, lowering the chances of controversial incidents (Jensen & Meckling, 1976). Different institutions show that sustainability-focused committees assist organizations in understanding and maintaining their positions within the intricate sustainability-focused institutional structures (DiMaggio & Powell, 1983) while demonstrating their commitment to address stakeholder issues. Studies about this



moderating function are scant, yet evidence from related research supports these findings indirectly. Board members who demonstrate independence and gender diversity create positive outcomes for firm value when monitoring ESG controversies, according to research from Brinette et al. (2024) and García-Amáte et al. (2023). Based on these theoretical arguments and empirical indications, our second Hypothesis:

**H2:** *The presence of a CSR committee positively moderates the relationship between ESG controversies score and financial performance.*

## **METHODOLOGY**

### **Sample and Data Collection**

#### ***Population and Sample Selection***

The STOXX Europe 600 index serves as the basis for this study, where the researchers explore how the ESG controversies score affects financial outcomes while CSR committees play a moderator role. The STOXX Europe 600 consists of large, mid, and small-sized companies from 17 European countries, thereby providing total coverage for the European market sector. The research design of the study dictated that we exclude financial institutions from the analysis, since their unique regulatory and financial reporting discrepancies might have the potential to distort the findings (Jucá et al. 2024; Agnese et al., 2024).

The research data comprises 480 STOXX Europe 600 index non-financial firms from 2018 to 2023, yielding 2,880 observations according to the regression results. The research sample aligns with previous European research focusing on ESG considerations alongside financial performance (Baraibar-Diez & Odriozola, 2019; Brinette et al., 2024).

## **Variable Measurement**

### ***Dependent Variable: Return on Assets (ROA)***

This research employs Return on Assets (ROA) as the leading financial performance indicator, a process adopted from previous research into the financial performance and ESG standard (Al-Koni et al., 2025; Jucá et al., 2024; Narula et al., 2023; Asa'd et al., 2023; Sharabati et al., 2016). In calculating ROA, net income is divided by total assets, and the resulting value is expressed as a percentage. ROA reveals a firm's capacity to convert assets into profit, which is one of the fundamental performance measures employed in ESG factor analysis (García-Amáte et al., 2023; Liu et al., 2022).

ROA offers several advantages as a performance measure. Because ROA focuses on operational efficiency, it remains less influenced by market perceptions, short-term market variations, and investor feelings (Minutolo et al., 2019). The measure permits valid assessment of operational performance between organizations with diverse scales and financial compositions (Narula et al., 2023). Thirdly, the method illustrates the long-term effects of all organizational choices made by management while considering ESG practices and controversy control (Brighi et al., 2023).

### ***Independent Variable: ESG Controversies Score***

The main independent factor is ESG Controversies Score, which Refinitiv Eikon provides. Companies receive a score to assess their ESG controversy exposure and handling capability, and higher scores indicate better performance by reducing controversies. This score spans from 0 to 100, indicating performance level through its values, where higher numbers show lower controversy rates.

This ESG Controversies Score analyzes 23 specific ESG conflict-related subjects involving business ethics violations, human rights violations, environmental incidents, and product-related disputes. The score considers how many controversies affect each company, together with their seriousness and when they occurred, to provide a full evaluation of their controversy history (Brighi et al., 2023). The ESG Controversies Score is the primary measurement tool in multiple financial outcome research studies about ESG controversies (Jucá et al., 2024; García-Amáte et al., 2023).

#### **Moderator Variable: CSR Committee**

The CSR committee was chosen as a moderation factor. The binary variable indicates the presence of a board-level CSR committee. According to Baraibar-Diez and Odriozola (2019), It shows a value of 1 when firms have dedicated committees and 0 for their absence. The data about CSR committees was obtained through Refinitiv Eikon and companies' annual reports and corporate governance statements, when necessary.

Creating an interaction term between ESG controversies score and the CSR committee indicator evaluates how CSR committees moderate the financial performance relationship with ESG controversies. The CSRC\*ESGCS variable represents our interaction term, which helps evaluate how ESG Controversies affect ROA for institutions with and without CSR committees.

#### **Control Variables**

The research employs several control variables that are in accordance with previous research on the interlinks between ESG practices and financial performance (Narula et al., 2023; Jucá et al., 2024; Jucá et al., 2024; Brinette et al., 2024; Eccles et al., 2019), which offer general guidelines for the control variables. The present research considers ESG

initiatives using two primary variables. The study starts with a binary variable stating the presence or absence of CSR Committees (CSRC). In addition to that, it evaluates the ESG score (ESGS) by Refinitiv Eikon that quantifies corporate environmental sustainability, social policies, and governance practices (Jucá et al., 2024; Narula et al., 2023). Furthermore, the study includes two significant variables relating to governance quality for analysis. The first, Board Independence (BINDP), is calculated based on the proportion of independent directors (Dwekat et al., 2025a; Abdelhaq et al., 2025; Abu Alia et al., 2024a; Nour & Momani, 2021). The second, CEO Duality (CEOD), is a secondary indicator of governance quality, taking the value of one for those instances in which the CEO is also the Chair of the Board of Directors (Brinette et al., 2024; Abdelhaq et al., 2024). Besides, the research incorporates two firm attribute variables to assess their influence on performance: Firm Size (FSIZE), proxied by the natural logarithm of total assets (Abu Alia et al., 2025; Alqaraleh et al., 2025; Nour et al., 2022; Dwekat et al., 2020; Narula et al., 2023), and Financial Leverage (FLEV), proxied by the ratio of total debt to total assets (Meqbel et al., 2025; Abdelhaq & Dwekat, 2024; Nour et al., 2024; Dwekat et al., 2022). The study measures Capital Expenditure (CAPEX) intensity by analyzing logarithmic investment spending values because this element affects current profitability and future organizational expansion (García-Amáte et al., 2023). Finally, the analysis includes fixed effects by year, country, and industry to capture variations across different temporal, spatial, and sectoral contexts.

#### **Estimation Strategy**

##### ***Model Specification***

We employ panel fixed-effects regression models with robust standard errors to test our

hypotheses. This approach allows us to control for unobserved time-invariant firm characteristics that might affect financial performance while accounting for potential heteroskedasticity in the error terms (Jucá et al., 2024; Carmona et al., 2022; Baraibar-Diez & Odriozola, 2019).

We estimate two main models:

#### Model 1 (Main Effects)

$$ROA_{it} = \beta_0 + \beta_1 ESGCS_{it} + \beta_2 CSRC_{it} + \beta_3 ESGS_{it} + \beta_4 BINDP_{it} + \beta_5 CEOD_{it} + \beta_6 FSIZE_{it} + \beta_7 FLEV_{it} + \beta_8 CAPEXP_{it} + \beta_9 FLEV_{it} + \varepsilon_{it}$$

#### Model 2 (Interaction Effects):

$$ROA_{it} = \beta_0 + \beta_1 ESGCS_{it} + \beta_2 CSRC_{it} + \beta_3 (ESGCS_{it} \times CSRC_{it}) + \beta_4 ESGS_{it} + \beta_5 BINDP_{it} + \beta_6 CEOD_{it} + \beta_7 FSIZE_{it} + \beta_8 FLEV_{it} + \beta_9 CAPEXP_{it} + \varepsilon_{it}$$

**Table (1):** Descriptive Statistics.

Variable	Obs	Mean	Std. Dev.	Min	Max
ROA	2880	6.724	5.655	-3.63	20.13
ESGCS	2880	86.834	26.292	0.86	100
CSRC	2880	0.636	0.481	0	1
ESGS	2880	58.216	19.199	1.24	95.25
BINDP	2880	56.759	24.492	0	100
CEOD	2880	0.765	0.424	0	1
FSIZE	2880	15.293	1.335	12.893	17.818
FLEV	2880	0.205	0.145	0	0.501
CAPEX	2880	11.771	1.907	0	17.067

Our sample's mean Return on Assets (ROA) is 6.724%, with a standard deviation of 5.655%, indicating substantial variation in financial performance across firms. The ESG Controversies Score has a mean of 86.834 out of 100, suggesting that most firms in our sample have relatively few controversies. However, the standard deviation of 26.292 and the range from 0.86 to 100 indicate considerable variation in controversy exposure and management across firms.

Notably, 63.6% of firm-year observations in our sample have a CSR committee, reflecting the growing adoption of specialized sustainability governance structures among

## Hausman Test

A Hausman test determined the preference for fixed-effects models instead of random-effects models because it assessed regressor correlations with unique error terms ( $\varepsilon_i$ ). A chi-square statistic from the test reached statistical significance at  $p < 0.05$ , which demonstrated that fixed-effects models should be used with our data. Research often uses fixed-effects models to control unobserved heterogeneity (Jucá et al., 2024; Baraibar-Diez & Odriozola, 2019).

## RESULTS

### Descriptive Statistics

Table 1 presents the descriptive statistics of the variables used in our study. The sample includes 2,880 firm-year observations for non-financial companies included in the STOXX Europe 600 index between 2018 and 2023.

European firms during the study period. The mean ESG Score is 58.216 out of 100, with a standard deviation of 19.199, indicating moderate overall ESG performance with substantial cross-firm variation.

Regarding governance characteristics, the average board independence is 56.759%, and 76.5% of firm-year observations have separated CEO and chairman positions, suggesting relatively strong governance structures among our sample firms. The average firm size (natural logarithm of total assets) is 15.293, the mean leverage ratio is 0.205, and the average capital expenditure (natural logarithm) is 11.771.

## Correlation Analysis

Table 2 presents the correlation matrix for the variables in our study, providing

**Table (2):** Correlation Matrix.

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
(1) ROA	1.000								
(2) ESGCS	0.142	1.000							
(3) CSRC	-0.088	-0.149	1.000						
(4) ESGS	-0.110	-0.282	0.419	1.000					
(5) BINDP	0.037	-0.061	0.103	0.226	1.000				
(6) CEOD	0.048	0.017	-0.093	-0.080	0.125	1.000			
(7) FSIZE	-0.295	-0.360	0.332	0.587	0.054	-0.142	1.000		
(8) FLEV	-0.194	-0.005	0.055	0.058	0.038	0.008	0.258	1.000	
(9) CAPEX	-0.208	-0.325	0.298	0.314	0.049	-0.114	0.524	0.278	1.000

The correlation matrix was examined to ensure the absence of multicollinearity among the independent variables in our regression models. As shown in Table 2, none of the correlation coefficients between independent variables exceeds the critical threshold of 0.7, which is commonly used to identify potential multicollinearity issues (Dwekat et al., 2025b). The highest correlation is observed between Firm Size and ESG Score ( $r = 0.587$ ), followed by the correlation between Firm Size and Capital Expenditure ( $r = 0.524$ ), both of which remain below the problematic threshold. This indicates that multicollinearity is not a significant concern in our regression analysis, supporting the reliability of our coefficient estimates and statistical inferences.

## Regression Results

The results of our panel fixed-effects regressions on the association between ESG controversies and financial performance are given in Table 3.

**Table (3):** Regression Results (Dependent Variable: Return on Assets).

VARIABLES	Model 1	Model 2
ESGCS	0.2081*** (0.00501)	0.1892** (0.0144)
CSRC	0.237** (0.272)	0.121** (1.317)
CSRC × ESGCS		0.00123** (0.0137)
ESGS	0.0343*** (0.00760)	0.0343*** (0.00760)
BINDP	0.00481*	0.00480

preliminary insights into the relationships between ESG controversies, CSR committees, and financial performance.

VARIABLES	Model 1	Model 2
	(0.00397)	(0.00396)
CEOD	-0.375* (0.207)	0.375* (0.207)
FSIZE	2.657*** (0.173)	2.656*** (0.173)
FLEV	-3.416*** (0.911)	-3.418*** (0.914)
CAPEX	-0.714*** (0.135)	-0.714*** (0.135)
Constant	34.94*** (1.862)	35.04*** (2.240)
Year Fixed Effects	Yes	Yes
Country Fixed Effects	Yes	Yes
Industry Fixed Effects	Yes	Yes
Observations	2,880	2,880
R-squared	0.398	0.416

Note: Robust standard errors in parentheses. \*\*  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.1$ \*

## Main Effects Model (Model 1)

Model 1 investigates the effects of ESG Controversies Score on ROA. The analysis demonstrates that ESG Controversies Score has a positive and statistically significant effect on ROA, confirming our first Hypothesis. This finding indicates that firms with higher ESG controversy scores (fewer controversies) tend to exhibit better financial performance, consistent with previous research highlighting the financial benefits of effective controversy management (Saltik, 2024; Brighi et al., 2023; Jucá et al., 2024). The coefficient of 0.2081 suggests that a one-point increase in ESG Controversies Score is associated with



approximately a 0.21 percentage point increase in ROA, holding other factors constant.

This research confirms stakeholder theory (Freeman, 1984) by showing that companies that address stakeholder needs and reduce ESG negative impacts generate value through strong essential stakeholder relationships. The findings also validate the perspective of legitimacy theory (Suchman, 1995) because companies maintain social acceptance while receiving access to resources and preventing regulatory penalties by avoiding ESG controversies. Brighi et al. (2023) argue that ESG controversies create substantial financial risks that affect firms' operations. Companies that successfully handle or prevent these controversies diminish their potential legal and reputational risks, improving financial results.

The effects of control variables in our models provide valuable insights into the determinants of financial performance. ESG Score shows a positive and significant effect on ROA, suggesting that better overall ESG performance contributes to financial outcomes beyond the specific impact of controversy management, consistent with findings by Friede et al. (2015) who documented a positive ESG-financial performance relationship in their meta-analysis of over 2000 empirical studies. The CSR Committee also has a positive and significant effect on ROA, indicating that companies with a certain sustainability governance committee perform well in financial performance. This observation is supported by other studies that also find positive relationships between CSR committees and other performance measures (Baraibar-Diez and Odriozola, 2019; Minutolo et al., 2019). The positive impact of Board Independence is statistically significant only to a limited extent, which conforms with Brinette et al. (2024), whose evidence indicated that independent boards contribute towards firm value through better monitoring and

stakeholder concentration. Firm Size has a significantly positive effect on ROA, evidenced by the fact that it implies economies of scale and the advantages of resources enjoyed by large firms (Narula et al., 2023). Leverage and Capital Expenditure, on the other hand, exhibit negative and high impact on ROA, in line with what Juca et al. (2024) indicate concerning the financial cost of debt and short-term cost of investments, which can only grant positive reward in the long term.

The R-squared value of 0.398 indicates that the model explains approximately 40% of the variation in ROA, which is substantial for cross-sectional financial performance models and comparable to similar studies in this field (Jucá et al., 2024; Narula et al., 2023).

#### ***Interaction Effects Model (Model 2)***

Model 2 extends the analysis by including the interaction term between ESG Controversies Score and CSR Committee, allowing us to test Hypothesis 2 regarding the moderating role of CSR committees. The results show that the interaction term has a positive and statistically significant effect on ROA, supporting our second Hypothesis. This finding indicates that the positive relationship between ESG controversies score and financial performance is stronger for firms with CSR committees than those without such committees.

The main effects of ESG Controversies Score and CSR Committee remain positive and significant in Model 2, though the coefficients are smaller than in Model 1. This pattern is typical when introducing interaction terms and suggests that the interaction between these variables explains part of the main effects observed in Model 1.

The results suggest that CSR committees have a positive moderating influence on the association between managing ESG controversy and the financial performance of a

firm. It is a sign that specially focused governance structures for sustainability can increase a firm's ability to manage the effects of such controversies effectively and, hence, somehow transfer improved controversy management into real monetary gains. This outcome adds something new to the current literature since it captures the particular beneficial contribution made by these specialized sustainability governance institutions.

The moderating effect has been elaborated on through various methods by the researchers. CSR committees provide essential information and advice regarding sustainability problems, enabling companies to identify risks early and deal with them adequately (Baraibar-Diez & Odriozola, 2019). The establishment of CSR committees contributes to the increased involvement of ESG aspects in mainstream risk management and strategy planning (Minutolo et al., 2019), thereby assisting organizations in connecting with society's demands and eliminating root cause controversy. An advanced CSR committee also contributes to raising transparency on sustainability performance (Brinette et al., 2024). This assists in building stakeholder confidence and may curtail financial losses that occur after creating controversies. The results of this study support the results of Brinette et al. (2024) about the role of commitment of CSR monitoring boards in making companies resilient in addressing the financial impact of controversies.

Further analysis in Model 2 supports all of the findings related to control variables in Model 1, meaning that they remain robust after accounting for the interaction term. The R-squared rises from 0.398 in Model 1 to 0.416 in Model 2, indicating that the interaction effect of ESG controversies and CSR committees accounts for more variations in financial performance than each does separately.

## Robustness Test-Control for endogeneity

**Table (4):** Two-Step System GMM.

VARIABLES	(1) ROA	(2) ROA
L.ROA	0.541*** (0.185)	0.674*** (0.0913)
ESGCS	0.0344** (0.0431)	0.0525* (0.0700)
CSRC	15.96** (17.55)	3.615** (6.191)
CSRS*ESGCS		0.0505* (0.0658)
ESGS	0.189*** (0.195)	0.0224** (0.00838)
FSIZE	0.382** (0.429)	0.429** (0.258)
FLEV	-1.886* (1.697)	-1.807** (0.795)
CAPEX	-0.222** (0.320)	-0.0290* (0.127)
BIND	0.00486* (0.00843)	0.00496* (0.00294)
CEOD	-0.747* (0.908)	-0.129 (0.188)
Year	Yes	Yes
Country	Yes	Yes
Industry	Yes	Yes
Constant	4.799 (9.287)	4.465 (8.593)
Observations	2,880	2,880
AR (2) p-value	0.892	0.123
Sargan-Hansen (p-value)	0.942	0.331

Robust Standard errors in parentheses

\*\*\* p<0.01, \*\* p<0.05, \* p<0.1

Given the potential endogeneity embedded in the relationship between ESG controversies, CSR governance mechanisms, and financial performance, this study applies the two-step system Generalized Method of Moments (GMM) estimator as a robustness check to complement the baseline panel regression results. Endogeneity concerns arise from several sources, including reverse causality—whereby financially strong firms may be more capable of investing in ESG risk mitigation strategies—and omitted variable bias related to unobserved governance quality or stakeholder pressure. Moreover, including lagged Return on Assets (ROA) as a regressor introduces a

dynamic component that static estimators such as fixed effects cannot adequately handle. Using lagged levels and differences of endogenous variables as internal instruments, the two-step system GMM controls for simultaneity, firm-specific effects, and measurement errors, offering more consistent parameter estimates (Blundell & Bond, 1998; Roodman, 2009).

The two-step system GMM results, reported in Table 4, validate the robustness of the initial findings. The ESG Controversies Score (ESGCS) remains positively associated with firm performance (ROA), and the interaction term ( $CSRC \times ESGCS$ ) shows that the presence of a CSR committee enhances the beneficial effects of managing ESG controversies. Notably, the coefficient of lagged ROA is positive and significant, underscoring the persistence of firm performance over time—a key justification for employing a dynamic specification. The diagnostic tests further support the validity of the GMM model: the Arellano-Bond test shows no evidence of second-order serial correlation (AR (2) p-values = 0.892 and 0.123), and the Sargan-Hansen overidentification test yields high p-values (0.942 and 0.331), suggesting that the instruments are valid and not correlated with the error term. These findings reinforce the causal interpretation of the baseline model, highlighting the strategic role of board-level CSR committees in mitigating ESG controversies and enhancing long-term financial outcomes.

## CONCLUSION

This study analyzed how ESG controversies impact financial performance and the moderating role of CSR committees in this association. Using a sample of non-financial firms in the STOXX Europe 600 index, we found that ESG controversies score is positively associated with financial

performance, indicating that firms with fewer controversies achieve superior financial outcomes. Moreover, our results reveal that CSR committees positively moderate this relationship, enhancing the financial benefits of effective controversy management. These findings contribute to the literature by highlighting the importance of specialized sustainability governance structures in translating ESG practices into financial outcomes and provide empirical evidence from a European context that complements existing research predominantly focused on US firms.

The findings develop several important recommendations to companies, policymakers, boards, and management. To begin with, companies should use resources to build elaborate systems to detect, prevent, and deal with ESG controversy. Effective handling of such controversy is correlated to better financial performance. Second, the existence of CSR committees with a particular mandate, adequate resources and appropriate expertise may assist a firm in transforming successful controversy management into economic benefits. Finally, yet significantly, to improve the overall handling of the controversies associated with ESG, companies should employ CSR committees as a routine part of the governance approach. CSR committees may also serve as an early warning system, as they can constantly scan controversial issues such as environmental regulation, human rights, and governance abuse. In addition, CSR committees can encourage the sustainability, legal and risk management functions to work together to ensure that they can respond to emerging challenges promptly and as a team. Therefore, such best practices preclude any possible reputation loss and entrench long-term financial solidity (Baraibar-Diez & Odriozola, 2019).

Although this study provides new evidence regarding the moderating role of CSR

committees in the relationship between ESG controversies and financial performance, it is exposed to several limitations. First, the Refinitiv Eikon-based ESG Controversies Score is liable to measurement bias since it relies on publicly disclosed information and the degree of media coverage. Because of this, the score can fail to effectively represent controversies around companies in countries with low transparency or limited media coverage, potentially introducing a data gap (Brighi et al., 2023; Garcia-Amate et al., 2023). Second, the presence of a CSR committee was specified in the Hypothesis as a binary variable. However, subsequent studies would be enriched by further analysis of the features of the committee, e.g., experience, independence, activity level, which may allow a more precise elaboration of their effectiveness. Third, the geographical focus of the research on non-financial European firms can undermine the external validity of the findings to other institutional contexts. Future research is advised to expand on it by incorporating emerging markets and cross-validating the results using multiple sources of ESG data or using qualitative methods to expand the findings (Jucá et al., 2024).

#### Disclosure Statements:

- **Ethical approval and consent to participate:** Approval was obtained from all authors.
- **Availability of Data and Materials:** The panel dataset used in this study is subject to restrictions and cannot be publicly shared due to data licensing agreements and confidentiality constraints imposed by the commercial data provider (Refinitiv Eikon). Access to the data may be granted upon reasonable request and with permission from the provider.

- **Author Contributions:** The lead author made the primary contribution, with substantial input from the co-authors.
- **Competing Interests:** The authors declare no conflicts of interest.
- **Funding:** This research received no external funding

#### Open Access

This article is licensed under a Creative Commons Attribution 4.0 International License, which permits use, sharing, adaptation, distribution and reproduction in any medium or format, as long as you give appropriate credit to the original author(s) and the source, provide a link to the Creative Commons licence, and indicate if changes were made. The images or other third-party material in this article are included in the article's Creative Commons licence, unless indicated otherwise in a credit line to the material. If material is not included in the article's Creative Commons licence and your intended use is not permitted by statutory regulation or exceeds the permitted use, you will need to obtain permission directly from the copyright holder. To view a copy of this license, visit <https://creativecommons.org/licenses/by-nc/4.0/>

#### References

- Abdelhaq, R., & Dwekat, A. (2024). Board committees and voluntary disclosure: evidence from Palestine. *Artificial Intelligence and Economic Sustainability in the Era of Industrial Revolution*.
- Abdelhaq, R., Dwekat, A., Atout, S., & Nour, A. I. (2024). The impact of board characteristics on the level of voluntary disclosure: Evidence from Palestinian listed companies. In *Artificial Intelligence and Economic Sustainability in the Era of Industrial Revolution 5.0* (pp. 107-122).
- Abdelhaq, R., Salem, A., Rabaia, D., Jardaneh, L., Nour, A. I., & Al-Sartawi, A.



- M. M. (2025). Corporate governance and intellectual capital efficiency: empirical evidence from Palestine. *International Journal of Intellectual Property Management*, 15(2), 180-203.
- Abdeljawad, I., Rabaia, D. J., Abdelhaq, R., & Salem, A. (2025). The association between corporate social responsibility disclosure and dividend policy: Insights from an emerging economy. *International Journal of Disclosure and Governance*, 1-19. <https://doi.org/10.1057/s41310-025-00305-3>
  - Abu Alia, M., Abdeljawad, I., Silwadi, H., Salahat, F.(2025). Effect of IFRS 9 on the Loan Loss Recognition Timeliness in the Banks of Gulf Cooperation Council countries. *Jordan Journal of Business Administration* 21(3).
  - Abu Alia, M., Dwekat, A., Jarrar, A., Makhool, L., Douglass, T., Esteiteh, R. (2024a). Corporate Governance and the Value Relevance of Accounting Information: Evidence from the Palestine Exchange. In: Musleh Al-Sartawi, A.M.A., Nour, A.I. (eds) *Artificial Intelligence and Economic Sustainability in the Era of Industrial Revolution 5.0. Studies in Systems, Decision and Control*, vol 528. Springer, Cham. [https://doi.org/10.1007/978-3-031-56586-1\\_25](https://doi.org/10.1007/978-3-031-56586-1_25)
  - Abu Alia, M., Dwekat, A., Meqbel, R., Hannoun, T., Shakhshir, I., & Naser, A. (2024b). Can effective board drive environmental innovation? The moderating power of CSR committee. *Journal of Financial Reporting and Accounting*.
  - Agnese, P., Cerciello, M., Oriani, R., & Taddeo, S. (2024). ESG controversies and profitability in the European banking sector. *Finance Research Letters*. <https://doi.org/10.1016/j.frl.2024.105042>
  - Al Natour, A. R., Meqbel, R., Kayed, S., & Zaidan, H. (2022). The role of sustainability reporting in reducing information asymmetry: the case of family-and non-family-controlled firms. *Sustainability*, 14(11), 6644.
  - Al-Koni, S., Atout, S., Matar, W. A. R., Nour, A., & Daraghma, Z. (2025). Audit and Risk Committees Effectiveness and its Impact on Financial Performance of the Banks Listed on the Palestinian and Jordanian Bourses. *An-Najah University Journal for Research - B (Humanities)*, 39(8). <https://doi.org/10.35552/0247.39.8.2425>
  - Alqaraleh, M.H., Nour, A.I., Kasasbeh, F.I. and Kielani, J.Z. (2025), "Navigating financial clarity: the impact of internal audit outsourcing and auditor experience, moderated by self-efficacy in understandability of financial reporting", *Journal of Islamic Marketing*, Vol. ahead-of-print No. ahead-of-print. <https://doi.org/10.1108/JIMA-11-2023-0383>
  - Asa'd, I.A.A., Nour, A., Atout, S. (2023). The Impact of Financial Performance on Firm's Value During Covid-19 Pandemic for Companies Listed in the Palestine Exchange (2019–2020). In: Musleh Al-Sartawi, A.M.A., Razzaque, A., Kamal, M.M. (eds) *From the Internet of Things to the Internet of Ideas: The Role of Artificial Intelligence. EAMMIS 2022. Lecture Notes in Networks and Systems*, vol 557, pp529-551, [doi.org/10.1007/978-3-031-17746-0\\_42](https://doi.org/10.1007/978-3-031-17746-0_42)
  - Baraibar-Diez, E., & Odriozola, M. D. (2019). CSR committees and their effect on ESG performance in UK, France, Germany, and Spain. *Sustainability*, 11(18), 5077. <https://doi.org/10.3390/su11185077>

- Barney, J. (1991). Firm resources and sustained competitive advantage. *Journal of Management*, 17(1), 99-120. <https://doi.org/10.1177/014920639101700108>
- Blundell, R., & Bond, S. R. (1998). Initial conditions and moment restrictions in dynamic panel data models. *Journal of Econometrics*, 87(1), 115-143.
- Brighi, P., Bina, A. C. F. D., & Venturelli, V. (2023). The impact of ESG score and controversy on stock performance. In *Sustainable Finance and Banking* (pp. 183-204). Springer. [https://doi.org/10.1007/978-3-031-32931-9\\_9](https://doi.org/10.1007/978-3-031-32931-9_9)
- Brinette, S., Sonmez, F. D., & Tournus, P. S. (2024). ESG controversies and firm value: Moderating role of board gender diversity and board independence. *IEEE Transactions on Engineering Management*, 71, 4298-4307. <https://doi.org/10.1109/tem.2023.3236667>
- Capelle-Blancard, G., & Petit, A. (2019). Every little helps? ESG news and stock market reaction. *Journal of Business Ethics*, 157(2), 543-565. <https://doi.org/10.1007/s10551-017-3667-3>
- Carmona, P., Dwekat, A., & Mardawi, Z. (2022). No more black boxes! Explaining the predictions of a machine learning XGBoost classifier algorithm in business failure. *Research in International Business and Finance*, 61, 101649.
- Cho, S. J. (2022). ESG and corporate financial performance: Evidence from Korea. *Sustainability*, 14(14), 8487. <https://doi.org/10.3390/su14148487>
- DiMaggio, P. J., & Powell, W. W. (1983). The iron cage revisited: Institutional isomorphism and collective rationality in organizational fields. *American Sociological Review*, 48(2), 147-160. <https://doi.org/10.2307/2095101>
- Dwekat, A., Abu Alia, M., Abdeljawad, I., & Meqbel, R. (2025a). Governing for the green: How European board attributes are driving environmental innovation. *Corporate Social Responsibility and Environmental Management*, 32(2), 2128-2146.
- Dwekat, A., Meqbel, R., Seguí-Mas, E., & Tormo-Carbó, G. (2022). The role of the audit committee in enhancing the credibility of CSR disclosure: evidence from STOXX Europe 600 members. *Business Ethics, the Environment & Responsibility*, 31(3), 718-740.
- Dwekat, A., Seguí-Mas, E., Tormo-Carbó, G., & Carmona, P. (2020). Corporate governance configurations and corporate social responsibility disclosure: Qualitative comparative analysis of audit committee and board characteristics. *Corporate Social Responsibility and Environmental Management*, 27(6), 2879-2892.
- Dwekat, A., Taweel, A., & Salameh, A. (2025b). Boardroom diversity and financial performance in Palestinian banks and insurers. *Discover Sustainability*, 6(1), 1-18.
- Eccles, R. G., Lee, L.-E., & Strohle, J. C. (2019). The social origins of ESG: An analysis of Innovest and KLD. *Organization & Environment*, 33(4), 575–596. <https://doi.org/10.1177/1086026619888994>
- Freeman, R. E. (1984). *Strategic management: A stakeholder approach*. Pitman.
- Friede, G., Busch, T., & Bassen, A. (2015). ESG and financial performance: Aggregated evidence from more than 2000 empirical studies. *Journal of Sustainable Finance & Investment*, 5(4), 210-233. <https://doi.org/10.1080/20430795.2015.1118917>

- García-Amáte, A., Ramírez-Orellana, A., Rojo-Ramírez, A. A., & Casado-Belmonte, M. P. (2023). Do ESG controversies moderate the relationship between CSR and corporate financial performance in oil and gas firms? *Humanities & Social Sciences Communications*, 10(1), 1-13. <https://doi.org/10.1057/s41599-023-02256-y>
- Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics*, 3(4), 305-360. [https://doi.org/10.1016/0304-405X\(76\)90026-X](https://doi.org/10.1016/0304-405X(76)90026-X)
- Jucá, M. N., Domadenik, P., Valentinčič, A., & Ichev, R. (2024). The impact of ESG controversies on the financial performance of firms: An analysis of industry and country clusters. *Borsa Istanbul Review*. <https://doi.org/10.1016/j.bir.2024.08.001>
- Kim, S., & Li, Z. F. (2021). Understanding the impact of ESG practices in corporate finance. *Sustainability*, 13(7), 3746. <https://doi.org/10.3390/su13073746>
- Liu, P., Zhu, B., Yang, M., & Chu, X. (2022). ESG and financial performance: A qualitative comparative analysis in China's new energy companies. *Journal of Cleaner Production*, 379, 134721. <https://doi.org/10.1016/j.jclepro.2022.134721>
- Mardawi, Z., Dwekat, A., Meqbel, R., & Carmona Ibáñez, P. (2024). Configurational analysis of corporate governance and corporate social responsibility reporting assurance: understanding the role of board and CSR committee. *Meditari Accountancy Research*, 32(2), 512-542.
- Meqbel, R., Dwekat, A., Zaid, M. A. A., Alta'any, M., & Abukhaled, A. M. (2025). Governance for a greener Europe: Audit committee and carbon emission. *Journal of Financial Reporting and Accounting*.
- Minor, D., & Morgan, J. (2011). CSR as reputation insurance: Primum non nocere. *California Management Review*, 53(3), 40-59. <https://doi.org/10.1525/cmr.2011.53.3.40>
- Minutolo, M. C., Kristjanpoller, W. D., & Stakeley, J. (2019). Exploring environmental, social, and governance disclosure effects on the S&P 500 financial performance. *Business Strategy and the Environment*, 28(6), 1083-1095.
- Minutolo, M. C., Kristjanpoller, W., & Stakeley, J. (2019). Exploring environmental, social, and governance disclosure effects on the S&P 500 financial performance. *Business Strategy and the Environment*, 28(6), 1083-1095. <https://doi.org/10.1002/bse.2303>
- Narula, R., Rao, P., Kumar, S., & Matta, R. (2023). ESG scores and firm performance: Evidence from emerging market. *International Review of Economics and Finance*, 89, 1170-1184. <https://doi.org/10.1016/j.iref.2023.08.041>
- Nour, A. I., Ghassan Qarmash, S., AlKoni, S., & Jamal Rabaia, D. (2024). The Mediating Role of Sustainable Growth Rate on the Association Between CEO Characteristics and Share Prices: Proof from Palestine. *Journal of the Knowledge Economy*, 1-24.
- Nour, A., Bouqalieh, B., & Okour, S. (2022). The impact of institutional governance mechanisms on the dimensions of the efficiency of intellectual capital and the role of the size of the company in the Jordanian Shareholding industrial companies. *An-Najah University Journal for Research - B (Humanities)*, 36(10), 2181–2212. <https://doi.org/10.35552/0247-036-010-006>.

- Nour, A., Momani, K. A.L (2021). The influence of human capital on return of equity among banks listed in the Amman stock exchange. *An-Najah University Journal for Research - B (Humanities)*, 35(9), 1499–1530. <https://doi.org/10.35552/0247-035-009-005>.
- Pathan, K., & Mohanty, M. (2024). Bibliometric analysis on ESG (environmental, social, and governance) practices and firm's financial performance. *International Journal of Management Science and Engineering Management*, 20(2), 197-214. <https://doi.org/10.1080/17509653.2024.2426504>
- Saltık, Ö. (2024). Algorithmic Approaches to Unraveling ESGC Impact on Financial Performance Based on the Ethical Investing in the Energy Sector. *International Journal of Pure and Applied Sciences*, 10(2), 459-517.
- Sharabati, A.-A., Shamari, N.S., Ibrahim Nour, A.-N., Ibrahim Durra, And, A.-B., Moghrabi, K.M. (2016). The Impact of Intellectual Capital on Business Performance in Kuwaiti Telecommunication Industry. *International Journal of Business Performance Management*, 2016, 17 (4), pp. 428-446. <https://doi.org/10.1504/IJBPM.2016.079278>
- Suchman, M. C. (1995). Managing legitimacy: Strategic and institutional approaches. *Academy of Management Review*, 20(3), 571-610. <https://doi.org/10.5465/amr.1995.9508080331>