Asian Economic and Financial Review
ISSN(e): 2222-6737
ISSN(p): 2305-2147
DOI: 10.55493/5002.v14i12.5232
Vol. 14, No. 12, 895-913.
© 2024 AESS Publications. All Rights Reserved.
URL: www.aessweb.com

ESG controversies and banking performance: The moderating effect of board activity

Mugahed Mahyoub[1+]
Roslan Ja'afar[2]
Nur Laili Ab Ghani[3]

[1,2,3]Graduate School of Business. Universiti Kebangsaan Malaysia, 43600, UKM Bangi, Selangor Darul Ehsan, Malaysia.
[1]Email: mugahed.mahyoub2022@gmail.com
[2]Email: jroslan@ukm.edu.my
[3]Email: nurlaili@ukm.edu.my

(+ Corresponding author)

Article History
Received: 28 June 2024
Revised: 30 September 2024
Accepted: 4 November 2024
Published: 19 November 2024

Keywords
Asia-Pacific region
Banking performance
Board activity
ESG controversies
Panel data
Tobin's Q.

JEL Classification:
G21; G30; Q01.

ABSTRACT

The present study examines the influence of ESG controversies on the financial performance of listed banks in the Asia-Pacific region (APAC). The nexus between environmental, social, and governance (ESG) metrics and financial performance has garnered significant attention from academics, corporations, executives, and regulators in the present era. In addition, this study investigates whether board activity moderates the relationship between ESG controversies and bank performance. This study adopts a quantitative approach and employs a cross-country sample of 54 banks with 540 bank-year observations from 2013 to 2022. The data were compiled from the London Stock Exchange Group (LSEG) database and examined using panel data regression techniques. The findings indicate that the ESG controversies have a notable adverse effect on the performance of banks, as measured by Tobin's Q. Interestingly, the study discovered that board activity alleviates the negative influence of ESG controversies on bank performance. These empirical findings aid investors and managers in assessing the impact of ESG controversies and board activity on bank performance. Moreover, the empirical findings can aid bank managers in implementing a proactive governance-oriented approach. Particularly, board activity should be regarded as a method to reduce the negative effects of ESG controversies on performance.

Contribution/ Originality: This research provides a meaningful contribution to the extant literature by investigating the impact of ESG controversies on banking performance and the moderating role of board activity on this relationship, using a sample of the listed banks in the Asia-Pacific region from 2013 to 2022. It is a unique and valuable contribution to the ongoing scholarly debate on ESG controversies in banks in emerging economies.

1. INTRODUCTION

In recent years, the growing attention of scholars, businesses, managers, and policymakers toward the issue of corporate sustainability has led to the evolution of environmental, social, and governance (ESG) metrics. ESG is a comprehensive term for the cumulative impact of environmental, social, and governance performance that is considered when making corporate decisions (Zhao et al., 2018). ESG serves as an effective communication tool with key stakeholders, reduces information asymmetries, and legitimizes the actions of companies (Izcan & Bektas, 2022).

On the other hand, (Aouadi & Marsat, 2018) define ESG controversies as negative media coverage or information about a corporation that pertains to ESG issues, such as a controversial activity or a corporate product scandal. Controversy occurs when a company engages in activities or incidents that negatively affect its stakeholders and the environment (Li, Haider, Jin, & Yuan, 2019). Such companies can lose market share due to negative corporate social

© 2024 AESS Publications. All Rights Reserved.

responsibility (CSR) media reporting (Kang & Kim, 2014). Their illicit and irresponsible behaviour can further harm financial performance and negatively influence stakeholders' perceptions (Johnson, 2003). This negative perception, in turn, can lead to consequences such as lawsuits, lower sales, greater financial risk and cost of debt, and decreased market share (Lange & Washburn, 2012). To recover their reputation, companies associated with harmful or damage-causing industries may disclose more data in their sustainability reports to engender higher ESG performance than other sectors (Garcia, Mendes-Da-Silva, & Orsato, 2017).

Several examples show how controversies can jeopardise a corporation's performance by damaging its reputation. Bank Rakyat Indonesia (BRI) faced privacy and environmental controversies in 2019, with the former involving the leakage of over two million customers' data by unknown hackers. The same year, BRI's environmental reputation was tarnished for providing loans of USD458 million to high-forest-risk businesses (Globe, 2016; Reuters, 2021). Likewise, environmental controversies impacted Malayan Banking Berhad in 2020 when the bank financed the palm oil sector in Indonesia, which is known to cause deforestation (Gore, 2021). Details on other bank controversies in the Asia Pacific region are summarised in Appendix A.

Banks play a crucial role in the sustainable development of countries, as they have ability to select investment projects, manage risk, allocate capital, and fund specific activities (Miralles-Quirós, Miralles-Quirós, & Redondo Hernández, 2019). Since the Paris Agreement, banks have recognised that their lending and investment operations affect the planet's health and have since taken actions to reduce financing for projects that cause harm to the environment. It is also crucial for banks to develop a sustainable financial system by recognising ESG criteria and integrating them into their strategies. In this respect, the failure to manage and monitor issues pertinent to ESG may result in banks engaging in activities that become the subject of legal and public controversies, which can harm financial performance, risk, and reputation (Galletta & Mazzù, 2023). In other words, firms that engage in environmental controversies can bring financial impairment upon themselves (Aouadi & Marsat, 2018; Shakil, 2021). The banks practicing ESG standards thus need to work towards minimising the controversies reported about them. A scandal could penalize the embroiled bank, thereby affecting its overall ESG score.

According to Morgan Stanley Capital International (MSCI), the emerging Asia-Pacific (APAC) market comprises eight countries: Indonesia, Malaysia, India, China, South Korea, Philippines, Thailand, and Taiwan. Consequently, ESG in APAC plays a crucial role, as the region is highly committed to keeping pace with an increased emphasis on ESG practices. The adoption level in the region is anticipated to grow due to the rising awareness among investors and decision-makers (BNP-PARISBAS, 2023). Furthermore, Southeast Asian nations continue to be very susceptible to the impacts of climate change, including the rise in sea levels, heat, storms, droughts, flooding, loss of biodiversity, and other issues like deforestation and human rights violations. These concerns threaten the region's economic, social, and political stability. In response, policymakers and the private sectors in the region have taken actions to reduce these effects and leverage opportunities (Kate Philp, Naomin, Lee, Lawrence, & Roderica, 2018).

At present, investors are more concerned about a corporation's ESG practices compared to its operational and financial benefits. Corporations that disregard ESG factors in their business operations and fail to incorporate ESG practices face undesirable outcomes from investors; that is, investors may punish those with lower ESG performance and more ESG controversies (Shakil, 2021; Shakil, Tasnia, & Mostafiz, 2021). In other words, corporations that engage in reckless, environmentally and socially controversial activities are penalised by investors (Aouadi & Marsat, 2018). However, investors react less severely to a corporation's ESG controversies when the corporation has a good ESG reputation, low information asymmetry, or a large shareholder base (Hoang, Wee, Yang, & Yu, 2019).

Concurrently, the role of the board of directors is critical in business as it reflects a corporation's ability to gain investors' trust and enhance financial performance. Increasing the frequency of board meetings provides an undeniable advantage to a corporation as it contributes to idea sharing, performance disclosure, and discussions to solve agency problems (Yakob & Abu Hasan, 2021). Additionally, research has shown that increasing the frequency

© 2024 AESS Publications. All Rights Reserved.

of board meetings, which serves as an indicator of board activity, can effectively decrease ESG controversies (Disli, Yilmaz, & Mohamed, 2022).

Most prior studies argued for the effects of ESG on firm value and performance in various regions and industries (Bahadori, Kaymak, & Seraj, 2021; Buallay, 2019; Chouaibi, Chouaibi, & Rossi, 2022; Firmansyah, Umar, & Jibril, 2023; Li, Gong, Zhang, & Koh, 2018; Ting, Azizan, Bhaskaran, & Sukumaran, 2019; Yilmaz, 2021; Yoon, Lee, & Byun, 2018; Zhao et al., 2018). However, despite the increasing importance attributed to ESG controversies, research on the influence of corporations' ESG controversies on financial performance is limited (Nirino, Santoro, Miglietta, & Quaglia, 2021). Some scholars have found that ESG controversies negatively impact the financial performance of corporations, which diminishes a corporation's value as they affect the goodwill and the activities of the corporation (Aouadi & Marsat, 2018; Elamer & Boulhaga, 2024; Nirino et al., 2021; Shakil et al., 2021; Wu, Lin, Chen, Luo, & Xu, 2023). Conversely, others have found that ESG controversies promote better market performance in corporations that are transparent and accountable for their actions (Melinda & Wardhani, 2020). Hence, there appears to be no consensus on this relationship in the literature.

This study makes several valuable contributions to the existing literature. To the best of our knowledge, this research is the first to investigate the relationship between ESG controversies and bank performance in emerging market economies. Previous studies have investigated the impact of ESG controversies on capital market outcomes, specifically on firm value (Aouadi & Marsat, 2018; Elamer & Boulhaga, 2024; Wu et al., 2023) and firm performance (Jucá, Muren, Valentinčič, & Ichev, 2024; Nirino et al., 2021) and bank risk and insolvency risk (Galletta & Mazzù, 2023; Giráldez-Puig, Moreno, Perez-Calero, & Guerrero Villegas, 2024). Therefore, this research shifts the lens towards studying ESG controversies in emerging economies to provide more insights into the association. Second, there is a dearth of literature on ESG controversies in the banking industry, particularly their impact on bank performance in emerging market economies (Treepongkaruna, Kyaw, & Jiraporn, 2024). Agnese, Cerciello, Oriani, and Taddeo (2024). Hence, this research contributes to the existing literature by examining the role of board activity as a corporate governance mechanism in mitigating the negative impact of ESG controversies on bank performance. The findings indicate a significant negative relationship between ESG controversies and bank performance, as measured by Tobin's Q. Additionally, the frequency of board meetings is found to alleviate the influence of ESG controversies on bank performance.

The remaining sections of this study are structured as outlined below: Section 2 presents the literature review and the development of hypotheses, while Section 3 elucidates the methodology. Section 4 presents the results and discussion. Section 5 encompasses the conclusion, policy implications, limitations, and avenues for future research.

2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

2.1. Theoretical Background

This study employed legitimacy theory to elucidate the correlation between ESG controversies and bank performance. Legitimacy theory posits that a company's actions should be in line with the ideas, norms, values, and expectations of society (Suchman, 1995). The legitimacy gap between a firm and society can be bridged if the firm is rewarded for being more socially responsible than other firms (Bamahros et al., 2022). Socially responsible behaviour confirms that a firm's activities align with society's expectations (Izcan & Bektas, 2022). Ergo, increased ESG activities can maximise shareholders' value and benefit bondholders, depositors, and taxpayers (Azmi, Hassan, Houston, & Karim, 2021). Similarly, more extensive ESG activities can enhance financial performance, benefiting investors, firm management, decision-makers, and industry regulators (Zhao et al., 2018).

On the other hand, ESG controversies question the legitimacy of the activities of the banks and their board members (Shakil et al., 2021). Previous studies argued that ESG controversies normally occur because of the firm's questionable social conduct and product scandals, in which the respective firm is penalised and faces threatened legitimacy (Aouadi & Marsat, 2018; Cai, Jo, & Pan, 2012; Galletta & Mazzù, 2023). Firms, in response to such

© 2024 AESS Publications. All Rights Reserved.

controversies or incidents over business ethics issues, firms establish ESG strategies to repair their relationship with stakeholders (Li et al., 2019). The management may implement corrective action to legitimise its conduct, particularly when the firm is perceived to operate contrary to societal standards (Dowling & Pfeffer, 1975). The theory also posits that a firm voluntarily discloses its activities if management perceives societal expectations for such disclosure. This disclosure is crucial as it allows the firms to positively impact public perception. Scholars argued that firms related to sensitive industries reveal more information in their sustainability reports, thus recording a higher ESG performance than other sectors (Garcia et al., 2017).

Furthermore, this study delves into how board activity can moderate the relationship between ESG controversies and bank performance. The board structure of banking institutions differs from non-banking institutions due to the fiduciary and equivocal nature of the banking institutions (Gafoor, Mariappan, & Thiyagarajan, 2018; Jensen & Meckling, 1976). In line with the agency theory by Jensen and Meckling (1976) the board of directors serves as the agents to manage the business on behalf of the shareholders as the principal. Hence, board meetings are one of the significant components of effective corporate governance, which can impact a corporation's financial performance. Frequent board meetings can enhance the oversight of management activities, accountability, transparency, strategic planning, and efficient allocation of resources, as directors are more likely to discuss ESG-related issues in most board meetings (Ricart, Rodríguez, & Sanchez, 2005). Consequently, the board's monitoring mechanism is focal in corporate governance for banking institutions. It is argued that effective corporate governance oversight lessens agency conflicts, escalates corporate transparency, and enhances performance (Hussain, Rigoni, & Orij, 2018).

2.2. ESG Controversies and Bank Performance

There have been minimal prior studies on ESG controversies, yielding mixed feelings regarding their impact on firm performance. One of the recent studies on ESG controversies and bank performance was carried out by Agnese et al. (2024) which evidenced a statistically significant negative association between ESG controversies and European bank performance. Other scholars have explored the relationship between ESG controversies and firm performance and risk-taking. For instance, Brinette, Sonmez, and Tournus (2023) revealed a statistically significant adverse relationship between ESG controversies and firm value. Additionally, it is found that board independence and gender diversity can alleviate the adverse impact of ESG controversies on firm value (Brinette et al., 2023). Elamer and Boulhaga (2024) conducted a study on European non-financial listed firms from 2012 to 2021 demonstrating that ESG controversies have a detrimental influence on firms. However, the study also found that the interaction of board independence, gender diversity, and ESG practices can effectively alleviate the negative impact of ESG controversies (Elamer & Boulhaga, 2024). Similarly, Nirino et al. (2021) evidenced the significant and negative association between ESG controversies and firm performance, as proxied by Tobin's Q. The findings are attributable to the reputation loss and effects on the corporation's actions (Nirino et al., 2021). Furthermore, ESG controversies have varying impacts on firms in emerging and developed countries. ESG disputes have a detrimental effect on the financial performance of industries that are sensitive to environmental concerns (Jucá et al., 2024).

Kang and Kim (2014) revealed that corporations lose market share if they receive negative CSR news coverage. Similarly, Shakil et al. (2021) argued that banks' ESG controversies are unwanted because they negatively affect the reputation and profitability of banks, which also worsens the banks' performance. Similarly, Capelle-Blancard and Petit (2019) further pointed out that corporations that encounter negative news perceive a fall in market value by 0.1%, while they gain nothing from positive ESG news releases. Ultimately, controversies yield a higher reaction from market participants than positive ESG news. Furthermore, scholars argued that ESG controversies have impaired a firm's resource efficiency, thus deteriorating its performance (Mendiratta, Singh, Yadav, & Mahajan, 2023a; Wu et al., 2023).

According to Krüger (2015) investors show strong negative reactions towards corporations with negative ESG news. Indeed, the investors clearly respond negatively to information about society and the information. A

© 2024 AESS Publications. All Rights Reserved.

corporation with many ongoing controversies can thus predict a decline in its profitability in response to the behavior of its stakeholders. As a result, these controversies led to a decrease in reputation, which ultimately weakened trust. Additionally, stakeholders may take action against the corporation. For instance, customers will not purchase its products, suppliers will not supply the materials, governments may penalise the corporation, and shareholders may sell their shares because of the lost trust (Nirino et al., 2021).

Additionally, DasGupta (2022) affirmed that higher ESG controversies might impair financial performance, corporate legitimacy, and sustainability. Further argument suggest that ESG controversies amplify the negative impact of financial performance shortfalls on ESG success. Marsat, Pijourlet, and Ullah (2022) concluded that firms with better environmental performance are more resilient and able to bounce back faster after an environmental controversy. Likewise, Gangi, Meles, D'Angelo, and Daniele (2019) found that environmentally-friendly banks indicate less risk. Schiemann and Tietmeyer (2022) also found that firms with higher ESG controversies face obstacles in predicting their future financial performance. Schiemann and Tietmeyer (2022) added that ESG disclosure moderates the nexus between ESG controversies and analyst forecast accuracy. Moreover, La Rosa and Bernini (2022) found that environmental controversies cause an increase in the cost of equity capital.

With respect to banking sectors, Galletta and Mazzù (2023) examined the impact of ESG controversies on bank risk, considering the Z-score and risk-weighted assets. The study revealed that banks with fewer ESG controversies are risk-averse. Agnese, Battaglia, Busato, and Taddeo (2023) focused on ESG governance and revealed that robust ESG governance impacts ESG controversies positively, suggesting that ESG governance can enhance the management of bank controversies. By using a sample of European-listed banks, Cicchiello, Cotugno, and Foroni (2023) found a positive association between bank competition and banks' ESG controversies. This suggests that a high level of market competition can serve as an effective punitive measures to reduce banks' involvement in offensive practices that lead to ESG conflicts. Komath, Doğan, and Sayılır (2023) discovered a substantial relationship between corporate governance disputes and the market value of banks by using an international sample of banks. This finding indicates that banks' market performance increases when there is media coverage relating to the bank due to corporate governance controversies, possibly due to increased transparency and accountability.

Banks should be cautious when investing in projects that harm the environment and society. Refusing to prioritize ESG practices can get banks involved in ESG controversies, which may impede their achievement of ESG commitments (Shakil et al., 2021). However, Melinda and Wardhani (2020) found that ESG controversy scores have a significant positive relationship with company value. It suggests that controversies signal investors and the public about the companies' willingness to be transparent and accountable for their actions. Galletta and Mazzù (2023) also reported that banks with higher ESG controversy scores experience better profitability and are better capitalized, apart from being less risky and more compliant with ESG initiatives to minimize risk.

Overall, the influence of ESG controversies on financial performance has been a subject of increasing interest in academic research, as it appears to reach inconsistent findings and does not cover the banking industry, particularly in emerging markets. Thus, the literature on ESG controversies in the banking industry still needs to be investigated (Agnese et al., 2024). Generally, the existing studies disclose adverse associations between ESG controversies and corporation performance. Consequently, corporations undergo financial losses because of scandals or crises resulting from unsustainable activities broadly revealed in the media. Based on the above discussion, this study proposes the following hypothesis:

H_1: ESG controversies negatively impact bank performance.

2.3. Board Activity, ESG Controversies, and Bank Performance

Effective governance of banking institutions is vital for the stability of the financial system and the prevention of crises. Corporate governance demonstrates the set of relationships between the bank's management, board of directors, shareholders, and other stakeholders (Komath et al., 2023). One of the mechanisms to achieve the

© 2024 AESS Publications. All Rights Reserved.

effectiveness of governance in banking institutions is through the board meeting frequency (Yakob & Abu Hasan, 2021). The board meetings' frequency refers to the number of times the board of directors meets annually and is usually used to measure board activity and diligence (Laksmana, 2008).

Extant literature presents two opposing views on board meetings' frequency and its impact on non-financial information. In line with the agency theory, some researchers argue that regular meetings indicate the board's efficacy, which enables greater supervision of a firm's activities and, in turn, motivates the business to improve transparency (Kent & Stewart, 2008; Lipton & Lorsch, 1992). On the contrary, a higher number of board meetings may signal the ineffectiveness of the board of directors, leading to a decline in performance (Frias-Aceituno, Rodriguez-Ariza, & Garcia-Sanchez, 2013; Prado-Lorenzo & Garcia-Sanchez, 2010; Vafeas, 1999). Furthermore, Almaqtari, Elsheikh, Al-Hattami, and Mishra (2023) revealed that board meetings have a negative and substantial correlation with the level of environmentally friendly production.

On the other hand, García Martín and Herrero (2020) found that board meeting frequency is positively linked to the environmental performance of 644 non-financial European Union firms. Similarly, Hussain et al. (2018) revealed that board meeting frequency is positively linked to environmental and social performance. The study proposed that conducting more frequent board meetings could enable the board to prioritize the requests of other stakeholders (Hussain et al., 2018). This aligns with Kumari, Makhija, Sharma, and Behl (2022) who argued on environmentally sensitive and non-sensitive industries in India from 2015 to 2020. The study found that regular board meetings positively affect environmental performance. Additionally, Dube and Jaiswal (2015) revealed the positive impact of board meetings on corporate policies related to society development and ESG initiatives among Indian firms in the energy sector.

Other empirical studies also argued that frequent board meetings decrease ESG controversies (Disli et al., 2022; Kanagaretnam, Lobo, & Whalen, 2007; Xie, Davidson III, & DaDalt, 2003). Notably, Disli et al. (2022) evidenced that frequent board meetings reduce ESG controversies, whereby an increase in board activity by 0.514 results in an increase in ESG controversy score by 3.19%, indicating fewer ESG controversies. This methodology is relevant for the data obtained from the London Stock Exchange Group (LSEG). It is indicated that the higher the score of ESG controversy, the fewer ESG controversies, and vice versa (LSEG Data and Analytics, 2023). The study was conducted on 439 non-financial firms in 20 emerging markets from 2010 to 2019. Based on the evidence discussed above, this research hypothesize the following:

H_2: Board activity moderates the relationship between ESG controversy and bank performance.

3. METHODOLOGY

3.1. Sample and Data Collection

This study involved banks in eight (8) emerging markets in the APAC region. The primary data sources were collected from the LSEG Workspace (formerly known as Refinitiv Eikon Database hosted by Thomson Reuters), banks' annual reports, and the World Bank database. Past studies in management and finance (Agnese et al., 2024; Bătae, Dragomir, & Feleagă, 2021; Disli et al., 2022; Li et al., 2019; Nirino, Miglietta, & Salvi, 2020; Nirino et al., 2021; Shakil, 2021) have employed these databases due to their complete, transparent, and high-quality data. Due to the unavailability of data from board meetings for some sample banks in LSEG workspace, this study data was also derived from the banks' annual reports.

Initially, this study included all banks in the APAC region listed in the LSEG workspace from 2013 to 2022. However, only 54 banks provided complete data regarding the variables under investigation. Due to missing data, this study adopts a final sample size comprising of 54 banks from 2013 to 2022, totaling 540 bank-year observations. Table 1 lists the number of banks in the APAC region included in this study. The lack of data on ESG controversies in APAC's emerging markets demonstrates the limited availability of such data. For example, Indonesia, China, and India have many banks listed in the LSEG workspace database; however, many do not provide complete data

© 2024 AESS Publications. All Rights Reserved.

regarding ESG. For instance, Indonesia has 48 listed banks on the LSEG workspace, but 31 banks have no data on ESG controversies, and 12 have no completed data (LSEG, 2024) as of 3 April 2024.

Table 1. Elaboration of sample.

No.	Country	Number of banks included	Number of observations	Percentage
1	Indonesia	5	50	9.26
2	Malaysia	8	80	14.81
3	Philippines	4	40	7.40
4	Thailand	6	60	11.11
5	Taiwan	7	70	13
6	South Korea	4	40	7.40
7	China	10	100	18.51
8	India	10	100	18.51
Total	8	54	540	100

3.2. Measurements of Variables

3.2.1. Dependent Variable

This research employs bank performance as the dependent variable. Tobin's Q, a market-based performance metric, was quantified as the ratio of the total market value of equity plus the total book value of liabilities to the total book value of assets. The total market value of equity is computed by multiplying the total number of outstanding common shares by the closing price at the year's end (Bătae et al., 2021; El Khoury, Nasrallah, & Alareeni, 2023). Moreover, Tobin's Q is a widely acknowledged measure that is highly beneficial in analysis as it reflects market confidence and investor expectations (Elamer & Boulhaga, 2024).

3.2.2. Independent Variable

The ESG controversies score is adopted as the measurement to indicate banks' exposure to ESG controversies and negative events reflected in global media throughout the financial year (Shakil, 2021). LSEG Data and Analytics (2023) computes and represents the ESG controversies score based on 23 issues, using percentiles and letter grades ranging from '0' to '100' and from D- to A+, respectively. According to Galletta and Mazzù (2023) an increase in the ESG controversy score signifies a decrease in controversies. Likewise, LSEG Data and Analytics (2023) stated that the higher the score, the fewer the ESG controversies, and vice versa. Throughout the year, if a scandal occurs, the bank involved in the scandal would be punished, negatively impacting its ESG controversy score.

3.2.3. Moderating Variable

Banks measure board activity by counting the total number of board meetings they hold in a year (LSEG, 2024). Past studies have employed the same measure to evaluate board activity (Birindelli, Dell'Atti, Iannuzzi, & Savioli, 2018; Khan, Nosheen, & ul Haq, 2020; Laksmana, 2008).

3.2.4. Control Variables

This study adopts a set of control variables, namely bank size, leverage, liquidity, loans to deposits, board independence, board size, and gross domestic product (GDP) growth rate, that could impact the relationship between ESG controversies and bank performance (Azmi et al., 2021; Bătae et al., 2021; Birindelli et al., 2018; Galletta & Mazzù, 2023; Nguyen, Elmagrhi, Ntim, & Wu, 2021). The description of all variables that are taken into consideration is summarised in Table 2:

© 2024 AESS Publications. All Rights Reserved.

Table 2. Description of all study variables.

Variables	Measurements	Sources	References
Dependent variable			
Tobin's Q	The total market value of equity + total book value of liabilities divided by the total book value of assets	LSEG workspace	(Bătae et al., 2021; El Khoury et al., 2023).
Independent variable			
ESG controversies	ESG controversies score of LSEG data and analytics	LSEG workspace	(Galletta & Mazzù, 2023; Shakil, 2021).
Moderating variable			
Board activity	Number of board meetings in the year	LSEG workspace /Annual reports	(Birindelli et al., 2018; Khan et al., 2020; Laksmana, 2008).
Control variables			
Bank size	Natural logarithm of bank total assets	LSEG workspace	(Bătae et al., 2021; Galletta & Mazzù, 2023).
Leverage	Total liabilities/Total equity	LSEG workspace	(Bătae et al., 2021; Esteban-Sanchez, de la Cuesta-Gonzalez, & Paredes-Gazquez, 2017).
Liquidity	Total deposits/Total assets	LSEG workspace	(Azmi et al., 2021; Nizam, Ng, Dewandaru, Nagayev, & Nkoba, 2019).
Loans to deposits	Total loans/Total deposits		(Agnese et al., 2024).
Board independence	The independent board members percentage/the total number of board members	LSEG workspace	(Birindelli et al., 2018; Chau & Gray, 2010).
Board size	Total number of directors on the bank's board		(Birindelli et al., 2018; Galletta & Mazzù, 2023).
GDP growth	Annual growth rate of gross domestic product	World bank	(Buallay, 2019; Buallay, Fadel, Al-Ajmi, & Saudagaran, 2020).

3.3. Empirical Models

This study employs two models that are based on Tobin's Q measure. This measure is market-based and a widely recognized financial metric in the literature to assess bank value and signal future profitability (Surroca, Tribó, & Waddock, 2010). Model 1 evaluates the impact of ESG controversy on bank performance. In contrast, Model 2 investigates the moderating role of board activity (measured by the number of board meetings per year) concerning the relationship between ESG controversies and bank market performance. Based on the proposed hypotheses, the two models are presented as follows:

$$TQ_{it} = \beta_0 + \beta_1\, ESGCON_{it} + \beta_2\, BSIZE_{it} + \beta_3\, LEV_{it} + \beta_4\, LIQ_{it} + \beta_5\, LTD_{it} + \beta_6\, BOARDS_{it} + \beta_7\, BINDEP_{it} + \beta_8\, GDPG_{it} + \varepsilon_{it} \qquad \text{(Model 1)}$$

$$TQ_{it} = \beta_0 + \beta_1\, ESGCON_{it} + \beta_2\, BMTNG_{it} + \beta_3\, ESGCON * BMTNG_{it} + \beta_4\, BSIZE_{it} + \beta_5\, LEV_{it} + \beta_6\, LIQ_{it} + \beta_7\, LTD_{it} + \beta_8\, BOARDS_{it} + \beta_9\, BINDEP_{it} + \beta_{10}\, GDPG_{it} + \varepsilon_{it} \qquad \text{(Model 2)}$$

$\beta 0$ represents the constant term, whereas $\beta 1$ to $\beta 10$ denote the parameters for the independent, moderating, and control variables. TQ denotes bank performance, ESGCON signifies the ESG controversy score, BSIZE is the logarithm of total assets, LEV represents the leverage ratio, LIQ indicates liquidity, LTD refers to loans to deposits, BOARDS is the bank board size, BINDEP is the board independence, GDPG is the annual percentage growth rate of gross domestic product, BMTNG indicates the number of board meetings per year, and ESGCON*BMTNG is the interaction term between board activity (quantified by the annual number of board meetings) and ESG controversies in influencing bank performance. Ultimately, ε is the disturbance term of the model, *i* signifies an individual bank,

© 2024 AESS Publications. All Rights Reserved.

and t indicates the year. The two models underwent a panel data regression analysis due to the data structure. The Hausman test was employed to ascertain the optimal analytical procedure for both models, and the results indicated that the random effects model is the most suitable.

4. RESULTS AND DISCUSSION

4.1. Descriptive Statistics

Table 3 provides the descriptive statistics for each variable considered in this study. It shows that Tobin's Q (TQ) recorded an average value of 1.058. This positive value indicates that the selected banks in the APAC region did not experience losses during the study period. Additionally, it shows that capital valuation is reasonable in the market. The independent variable, ESG controversies, displays an average value of 90.26 accompanied by a high standard deviation of 21.03, which oscillates between 7.39 and 100. This variation indicates the level of involvement in these disputes. The average value of board meetings was 14.45, indicating that board activity was relatively low within the selected banks in the APAC emerging markets, as the average frequency of board meetings is around 14 times per annum. The banks' minimum and maximum number of board meetings were 2 and 62, respectively. It indicates that the number of board meetings held in each selected bank differs from one bank to another, as some banks meet every six months, while others meet weekly.

In respect to board size, the mean value stands at 12.039, with a minimum of 4 members and a maximum of 22 members serving on the board. The sample banks demonstrate a low level of board independence, with a mean of (4.4%) with a maximum value of (17%). Furthermore, ESG controversies and board meetings exhibit relatively high standard deviations due to the substantive variation in controversies and board meeting frequencies among the selected APAC banks.

Table 3 also indicates the variables' variance inflation factors (VIF) values. This study found that board independence has the highest VIF value of 3.07, while ESG controversies portrayed the lowest VIF value of 1.12. All VIF values are less than the threshold value of 5, confirming no multicollinearity issue among the study variables (Hair Jr, Black, & Babin, 2006).

Table 3. Descriptive statistics.

Variables	Observations	Mean	Std. deviation	Minimum	Maximum	VIF
TQ	540	1.058	0.168	0.887	1.964	-
SGCON	540	90.261	21.03	7.39	100	1.12
BMTNG	540	14.446	8.766	2	62	1.14
BSIZE	540	11.732	1.463	8.9	15.563	1.76
LEV	540	9.667	4.257	0.047	24.834	2.14
LIQ	540	0.705	0.197	0.047	0.95	1.73
LTD	540	0.733	0.238	0	1.627	1.51
OARDS	540	12.039	3.663	4	22	2.71
BINDEP	540	0.044	0.026	0	0.17	3.07
GDPG	540	0.083	0.046	0.002	0.176	1.26

Note: This table displays the descriptive statistics for all variables in the model and the variance inflation factor. It shows the means of individual variables, followed by standard deviation, minimum, and maximum values. The definition of variables is provided in Table 2.

© 2024 AESS Publications. All Rights Reserved.

Table 4. Pairwise correlations.

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
(1) TQ	1.000									
(2) ESGCON	0.010	1.000								
(3) BMTNG	0.104**	0.064	1.000							
(4) BSIZE	-0.040	-0.127***	-0.097**	1.000						
(5) LEV	-0.034	-0.173***	-0.188***	0.240***	1.000					
(6) LIQ	0.145***	-0.003	0.089**	-0.009	0.691***	1.000				
(7) LTD	0.243***	-0.020	0.012	-0.405***	0.212***	0.550***	1.000			
(8) BOARDS	-0.060	-0.093**	-0.255***	0.358***	0.159***	0.078*	-0.112***	1.000		
(9) BINDEP	0.157***	0.163***	0.261***	-0.238***	-0.485***	-0.380***	-0.080*	-0.712***	1.000	
(10) GDPG	0.143***	-0.160***	-0.054	-0.315***	0.047	0.204***	0.327***	-0.011	-0.041	1.000

Note: The symbol denotes significance at the *** $p<0.01$, ** $p<0.05$, * $p<0.1$ level.

© 2024 AESS Publications. All Rights Reserved.

4.2. Pairwise Correlations

Table 4 shows the pairwise correlation analysis result, displaying no high correlation among the study variables. In addition, the correlation coefficients of all the variables were lower than 0.80, meaning that the variables were free of multicollinearity (Hair Jr et al., 2006). ESG controversies indicate positive but insignificant correlation with Tobin's Q. Similarly, board meetings indicate a positive and significant correlation with Tobin's Q. Tobin's Q exhibits a negative correlation with a Bank size, leverage, and board size. However, liquidity, loans to deposits, board independence, and GDP growth are positively and significantly correlated with Tobin's Q. Among all the study variables, the loans to deposits demonstrated the highest positive correlation with Tobin's Q.

Some of the study variables, except for board size, leverage, board independence, and GDP growth, are winsorised at the 0.1 percentile level to mitigate the potential effect of outliers.

4.3. Empirical Results

Firstly, this study performs the pooled ordinary least squares (POLS), as it is the most basic panel data regression. However, the POLS model assumes that the intercept and the slope remain constant across units and time (Law, 2019). Panel data provides many data points, reducing the collinearity among the independent variables and increasing the degrees of freedom. So, controlling for unobserved heterogeneity is helpful for both RE and FE specifications, even if the source of the heterogeneity can't be precisely found (Esteban-Sanchez et al., 2017). RE models examine two sources of variance: the variation between banks for a given year and the variation within each bank over time (Weber, 2017). Besides, FE models analyse the within-unit variation and assume that the intercept is not a random value so that each bank differs significantly from another in terms of their base levels for the dependent variable (Bătae et al., 2021; El Khoury et al., 2023).

Table 5 presents the panel data estimation results of Model 1 and Model 2. As stated above, Model 1 examines the impact of ESG controversies on bank performance (TQ), while Model 2 examines the moderating effect of board activity on the relationship between ESG controversies and bank performance. The Breusch-Pagan test for RE is performed on the data and the findings prove the need for panel regression. The Hausman specification test is then employed to decide whether the RE or FE estimation is suitable for the subsequent analysis of the two models. Based on the test, it is found that the RE model results are the most appropriate.

The results in Table 5 reveal a negative and significant relationship between ESG controversies and bank performance, expressed in terms of TQ. Therefore, Hypothesis 1 (H1) is accepted. The negative and significant impact indicates that banks' value decreases as the ESG controversies increase. In other words, fewer ESG-related scandals happen. The findings imply that the market concerns banks' ESG controversies published by the media and expressed in the LSEG database. Moreover, this negative impact of ESG controversies on bank value can erode banks' tangible and intangible resources. For instance, goodwill and social capital negatively impact asset effectiveness (Surroca et al., 2010). In this regard, the majority of the previous studies have evidenced similar results that ESG controversies have adversely influenced performance (Agnese et al., 2024; Elamer & Boulhaga, 2024; Mendiratta, Singh, Yadav, & Mahajan, 2023b; Nirino et al., 2021; Wu et al., 2023). Moreover, Krüger (2015) evinced that investors react strongly and negatively towards corporations with negative ESG news. The findings are consistent with the legitimacy theory, which posits that ESG controversies undermine the legitimacy of corporations.

In respect to Model 2, this study investigates the moderating impact of board activity on the ESG controversies and bank performance nexus, as proposed in Hypothesis 2 (H2). The number of board meetings (BMTNG), which measures board activity, demonstrates a significant negative coefficient of -0.187**. It aligns with insights from (Yakob & Abu Hasan, 2021). However, the interaction between ESGCON and BMTNG reveals a positive coefficient of 0.075**, accepting H2. Therefore, this study concludes that board activity reduces the negative effect of ESG controversies on bank performance. The positive interaction emphasises the crucial role of board activity in alleviating the negative impact of ESG controversies. In other words, higher frequency of board meetings of listed banks in the

© 2024 AESS Publications. All Rights Reserved.

APAC mitigates the adverse influence of ESG controversies on bank market performance. Furthermore, this study argued that a board that holds frequent meetings encourages the management to focus on shareholders' value creation and performance improvement (Yakob & Abu Hasan, 2021). In line with agency theory, this implies that effective governance is an effective shield to preserve the bank value even when banks encounter ESG-related disputes (Freeman, Harrison, & Zyglidopoulos, 2018).

As presented in Model 1 and Model 2 of Table 5, the control variables, such as bank size, indicate a negative but insignificant influence on bank performance (TQ), which is in line with prior studies. The negative association occurs because of diseconomies of scale (Yu, Guo, & Luu, 2018). In practice, larger banks should experience cost savings due to economies of scale (García-Herrero, Gavilá, & Santabárbara, 2009). However, Buallay (2019) found a positive association between banks' size and financial performance.

The study focused a positive but insignificant effect of leverage on bank performance, which aligns with previous literature. Insignificantly, liquidity, board size, and board independence impact bank performance. These findings are compatible with Habtoor (2022) who found that board size has no significant impact on bank performance, proxied by Tobin's Q. The loans to deposits negatively impacted bank performance. This finding aligns with El Khoury et al. (2023) prior work. GDP growth rate records a significant positive effect on bank market performance, echoing earlier research findings (Dietrich & Wanzenried, 2011; Trujillo-Ponce, 2013).

Table 5. The regression results of the relationship between ESCGCON and bank performance (TQ) of model 1 and the interaction of model 2.

Variable	**(1)** **TQ**	**(2)** **TQ**
Independent variable		
ESGCON	-0.049*** (0.017)	-0.048*** (0.015)
Control variables		
BSIZE	-0.059 (0.085)	-0.046 (0.08)
LEV	0.014 (0.014)	0.013 (0.013)
LIQ	-0.583 (0.668)	-0.557 (0.666)
LTD	-0.362 (0.333)	-0.285 (0.341)
BOARDS	-0.002 (0.010)	-0.003 (0.009)
BINDEP	-0.520 (1.854)	-1.021 (1.775)
GDPG	2.071*** (0.307)	2.042*** (0.328)
Moderating variable		
BMTNG	-	-0.187** (0.087)
ESGCON*BMTNG	-	0.075** (0.037)
Constant	1.136 (1.004)	1.424 (0.982)
Observations	540	540
Number of banks	54	54
R-square	0.123	0.143
Prob > *F*	0.0000	0.0000
Hausman test (*p*-value)	0.107	0.341
Estimator	Random effect	Random effect

Note: The robust standard errors are in parentheses, and the symbol denotes significance at the *** p<0.01, ** p<0.05, * p<0.1 level.

© 2024 AESS Publications. All Rights Reserved.

5. CONCLUSION

In recent years, ESG controversies have emerged as a prominent trend in financial markets. This study contributes to the existing body of knowledge on environmental, social, and governance (ESG) issues by empirically investigating the impact of ESG controversies on the performance of banks. Additionally, this study examines how the level of board activity moderates this relationship. The panel estimates model based on a sample of 54 listed banks in the emerging markets of the Asia-Pacific region. The findings reveal a noteworthy and statistically significant adverse effect of ESG controversies on the market performance (TQ) of the banks in the sample. This outcome indicates the detrimental impact of such disputes on the performance of the banking market. This result might indicate that bank market performance declines as the score of ESG controversy increases. Furthermore, board activity emerged as a significant moderator between ESG controversies and bank market performance. In other words, the frequency of banks' board meetings is crucially important to moderate the impacts of ESG controversies on bank performance, as it significantly alleviates the previously mentioned relationship.

This study contributes new knowledge to the literature in the field of sustainability research by offering empirical data confirming and extending the understanding of the relationship between ESG controversies and board activity, particularly in the banking sector. The findings also highlight the crucial attention for the policymakers to pursue reforms in cultivating board activity among banks, thus increasing the frequency of board meetings. This is essential for mitigating the detrimental effects of ESG controversies. In addition to this, the findings provide valuable insights for bank managers to monitor their own ESG practices. The findings emphasise that bank managers must adopt a proactive governance-focused approach, particularly board activity, which must be considered to alleviate the adverse impact of ESG controversies on performance. In that respect, banks are encouraged to increase the frequency of bank board meetings. This study also contributes to the important needs for the regulators and nations to standardise metrics and publicise sustainable practices at the universal level. Significantly, ESG data should not be neglected and must be incorporated into information datasets and decision-making processes (De Vincentiis, 2023). To this end, the findings contribute significant information to help investors make investment decisions based on ESG controversy data. Despite crucial contributions, this research bears some limitations. This study adopts only banks in the APAC region, limited explicitly to registered banks with information on LSEG. Consequently, the study results cannot be generalised to other regions. Hence, future research can validate these findings by gathering and analysing the data with a larger sample size as the data becomes available on LSEG and other databases. This provides more understanding of the association between ESG controversies and bank performance. The focus of this study is solely on the ESG controversy scores of banks. Future studies may account for the impact of the ESG controversy and its components on environmentally and non-environmentally sensitive industries using international evidence. Additionally, future scholars could introduce other interaction terms to enhance the relationship between ESG controversies and bank performance association.

Funding: This research is supported by UKM-Graduate School of Business, Universiti Kebangsaan Malaysia (Grant number: GSB-2024- 014).
Institutional Review Board Statement: Not applicable.
Transparency: The authors state that the manuscript is honest, truthful, and transparent, that no key aspects of the investigation have been omitted, and that any differences from the study as planned have been clarified. This study followed all writing ethics.
Data Availability Statement: The corresponding author can provide the supporting data of this study upon a reasonable request.
Competing Interests: The authors declare that they have no competing interests.
Authors' Contributions: All authors contributed equally to the conception and design of the study. All authors have read and agreed to the published version of the manuscript.

REFERENCES

Agnese, P., Battaglia, F., Busato, F., & Taddeo, S. (2023). ESG controversies and governance: Evidence from the banking industry. *Finance Research Letters*, *53*, 103397. https://doi.org/10.1016/j.frl.2022.103397

© 2024 AESS Publications. All Rights Reserved.

Agnese, P., Cerciello, M., Oriani, R., & Taddeo, S. (2024). ESG controversies and profitability in the European banking sector. *Finance Research Letters, 61*, 105042. https://doi.org/10.1016/j.frl.2024.105042

Almaqtari, F. A., Elsheikh, T., Al-Hattami, H. M., & Mishra, N. (2023). The impact of board characteristics on environmentally friendly production: A cross country study in Asia and Europe. *Journal of Cleaner Production, 392*, 136257. https://doi.org/10.1016/j.jclepro.2023.136257

Aouadi, A., & Marsat, S. (2018). Do ESG controversies matter for firm value? Evidence from international data. *Journal of Business Ethics, 151*, 1027-1047. https://doi.org/10.1007/s10551-016-3213-8

Azmi, W., Hassan, M. K., Houston, R., & Karim, M. S. (2021). ESG activities and banking performance: International evidence from emerging economies. *Journal of International Financial Markets, Institutions and Money, 70*, 101277. https://doi.org/10.1016/j.intfin.2020.101277

Bahadori, N., Kaymak, T., & Seraj, M. (2021). Environmental, social, and governance factors in emerging markets: The impact on firm performance. *Business Strategy & Development, 4*(4), 411-422. https://doi.org/10.1002/bsd2.167

Bamahros, H. M., Alquhaif, A., Qasem, A., Wan-Hussin, W. N., Thomran, M., Al-Duais, S. D., . . . Khojally, H. M. (2022). Corporate governance mechanisms and ESG reporting: Evidence from the Saudi Stock market. *Sustainability, 14*(10), 6202. https://doi.org/10.3390/su14106202

Bătae, O. M., Dragomir, V. D., & Feleagă, L. (2021). The relationship between environmental, social, and financial performance in the banking sector: A European study. *Journal of Cleaner Production, 290*, 125791. https://doi.org/10.1016/j.jclepro.2021.125791

Birindelli, G., Dell'Atti, S., Iannuzzi, A. P., & Savioli, M. (2018). Composition and activity of the board of directors: Impact on ESG performance in the banking system. *Sustainability, 10*(12), 4699. https://doi.org/10.3390/su10124699

BNP-PARISBAS. (2023). *Rising importance of ESG in Asia-Pacific*. Retrieved from https://www.asifma.org/wp-content/uploads/2023/02/bnp-parisbas_esg-brochure-2022.pdf

Brinette, S., Sonmez, F. D., & Tournus, P. S. (2023). 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

Buallay, A. (2019). Is sustainability reporting (ESG) associated with performance? Evidence from the European banking sector. *Management of Environmental Quality: An International Journal, 30*(1), 98-115. https://doi.org/10.1108/MEQ-12-2017-0149

Buallay, A., Fadel, S. M., Al-Ajmi, J. Y., & Saudagaran, S. (2020). Sustainability reporting and performance of MENA banks: Is there a trade-off? *Measuring Business Excellence, 24*(2), 197-221. https://doi.org/10.1108/MBE-09-2018-0078

Cai, Y., Jo, H., & Pan, C. (2012). Doing well while doing bad? CSR in controversial industry sectors. *Journal of Business Ethics, 108*, 467-480. https://doi.org/10.1007/s10551-011-1103-7

Capelle-Blancard, G., & Petit, A. (2019). Every little helps? ESG news and stock market reaction. *Journal of Business Ethics, 157*, 543-565. https://doi.org/10.1007/s10551-017-3667-3

Chau, G., & Gray, S. J. (2010). Family ownership, board independence and voluntary disclosure: Evidence from Hong Kong. *Journal of International Accounting, Auditing and Taxation, 19*(2), 93-109. https://doi.org/10.1016/j.intaccaudtax.2010.07.002

Chouaibi, S., Chouaibi, J., & Rossi, M. (2022). ESG and corporate financial performance: The mediating role of green innovation: UK common law versus Germany civil law. *EuroMed Journal of Business, 17*(1), 46-71. https://doi.org/10.1108/EMJB-09-2020-0101

Cicchiello, A. F., Cotugno, M., & Foroni, C. (2023). Does competition affect ESG controversies? Evidence from the banking industry. *Finance Research Letters, 55*, 103972. https://doi.org/10.1016/j.frl.2023.103972

DasGupta, R. (2022). Financial performance shortfall, ESG controversies, and ESG performance: Evidence from firms around the world. *Finance Research Letters, 46*, 102487. https://doi.org/10.1016/j.frl.2021.102487

De Vincentiis, P. (2023). Do international investors care about ESG news? *Qualitative Research in Financial Markets, 15*(4), 572-588. https://doi.org/10.1108/QRFM-11-2021-0184

© 2024 AESS Publications. All Rights Reserved.

Dietrich, A., & Wanzenried, G. (2011). Determinants of bank profitability before and during the crisis: Evidence from Switzerland. *Journal of International Financial Markets, Institutions and Money, 21*(3), 307-327. https://doi.org/10.1016/j.intfin.2010.11.002

Disli, M., Yilmaz, M. K., & Mohamed, F. F. M. (2022). Board characteristics and sustainability performance: Empirical evidence from emerging markets. *Sustainability Accounting, Management and Policy Journal, 13*(4), 929-952. https://doi.org/10.1108/SAMPJ-09-2020-0313

Dowling, J., & Pfeffer, J. (1975). Organizational legitimacy: Social values and organizational behavior. *Pacific Sociological Review, 18*(1), 122-136. https://doi.org/10.2307/1388226

Dube, I., & Jaiswal, N. (2015). Corporate governance in the energy sector. *Jindal Global Law Review, 6*, 143-178. https://doi.org/10.1007/s41020-015-0018-z

El Khoury, R., Nasrallah, N., & Alareeni, B. (2023). ESG and financial performance of banks in the MENAT region: Concavity–convexity patterns. *Journal of Sustainable Finance & Investment, 13*(1), 406-430. https://doi.org/10.1080/20430795.2021.1929807

Elamer, A. A., & Boulhaga, M. (2024). ESG controversies and corporate performance: The moderating effect of governance mechanisms and ESG practices. *Corporate Social Responsibility and Environmental Management.* https://doi.org/https://doi.org/10.1002/csr.2749

Esteban-Sanchez, P., de la Cuesta-Gonzalez, M., & Paredes-Gazquez, J. D. (2017). Corporate social performance and its relation with corporate financial performance: International evidence in the banking industry. *Journal of Cleaner Production, 162*, 1102-1110. https://doi.org/10.1016/j.jclepro.2017.06.127

Firmansyah, E. A., Umar, U. H., & Jibril, R. S. (2023). Investigating the effect of ESG disclosure on firm performance: The case of Saudi Arabian listed firms. *Cogent Economics & Finance, 11*(2), 2287923.

Freeman, R. E., Harrison, J. S., & Zyglidopoulos, S. (2018). *Stakeholder theory: Concepts and strategies.* Cambridge, UK: Cambridge University Press.

Frias-Aceituno, J. V., Rodriguez-Ariza, L., & Garcia-Sanchez, I. M. (2013). The role of the board in the dissemination of integrated corporate social reporting. *Corporate Social Responsibility and Environmental Management, 20*(4), 219-233. https://doi.org/10.1002/csr.1294

Gafoor, C. A., Mariappan, V., & Thiyagarajan, S. (2018). Board characteristics and bank performance in India. *IIMB Management Review, 30*(2), 160-167. https://doi.org/10.1016/j.iimb.2018.01.007

Galletta, S., & Mazzù, S. (2023). ESG controversies and bank risk taking. *Business Strategy and the Environment, 32*(1), 274-288. https://doi.org/10.1002/bse.3129

Gangi, F., Meles, A., D'Angelo, E., & Daniele, L. M. (2019). Sustainable development and corporate governance in the financial system: Are environmentally friendly banks less risky? *Corporate Social Responsibility and Environmental Management, 26*(3), 529-547. https://doi.org/10.1002/csr.1699

García-Herrero, A., Gavilá, S., & Santabárbara, D. (2009). What explains the low profitability of Chinese banks? *Journal of Banking & Finance, 33*(11), 2080-2092. https://doi.org/10.1016/j.jbankfin.2009.05.005

Garcia, A. S., Mendes-Da-Silva, W., & Orsato, R. J. (2017). Sensitive industries produce better ESG performance: Evidence from emerging markets. *Journal of Cleaner Production, 150*, 135-147. https://doi.org/10.1016/j.jclepro.2017.02.180

García Martín, C. J., & Herrero, B. (2020). Do board characteristics affect environmental performance? A study of EU firms. *Corporate Social Responsibility and Environmental Management, 27*(1), 74-94. https://doi.org/10.1002/csr.1775

Giráldez-Puig, P., Moreno, I., Perez-Calero, L., & Guerrero Villegas, J. (2024). ESG controversies and insolvency risk: Evidence from the insurance industry. *Management Decision.* https://doi.org/10.1108/MD-10-2023-2002

Globe, J. (2016). *Malaysian, Indonesian banks finance most forest destruction in SE Asia.* Retrieved from https://jakartaglobe.id/news/malaysian-indonesian-banks-finance-forest-destruction-se-asia/

© 2024 AESS Publications. All Rights Reserved.

Gore, G. (2021). *Big banks fund rainforest destruction. International Financing Review.* Retrieved from https://www.ifre.com/story/2859861/big-banks-fund-rainforest-deforestation-npslw0mr83?enowparentmodules=opsconsole-csm,usage-tracking-csm%2Cdata-api-proxy-csm

Habtoor, O. S. (2022). Board attributes and bank performance in light of Saudi corporate governance regulations. *Journal of Risk and Financial Management, 15*(10), 441. https://doi.org/10.3390/jrfm15100441

Hair Jr, J., Black, W. C., & Babin, B. J. (2006). *BJ, RE Anderson, and RL Tatham. Multivariate data analysis.* Uppersaddle River, New Jersey 07458: Pearson Education International, Inc.

Hoang, L. T., Wee, M., Yang, J. W., & Yu, J. (2019). *Institutional trading around firms' negative ESG incidents.* Jing, Institutional Trading around Firms' Negative ESG Incidents. Working Paper.

Hussain, N., Rigoni, U., & Orij, R. P. (2018). Corporate governance and sustainability performance: Analysis of triple bottom line performance. *Journal of Business Ethics, 149*, 411-432. https://doi.org/10.1007/s10551-016-3099-5

Izcan, D., & Bektas, E. (2022). The relationship between ESG scores and firm-specific risk of Eurozone banks. *Sustainability, 14*(14), 8619. https://doi.org/10.3390/su14148619

Jensen, M., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics, 3*(4), 305-306. https://doi.org/10.1016/0304-405X(76)90026-X

Johnson, H. H. (2003). Does it pay to be good? Social responsibility and financial performance. *Business Horizons, 46*(6), 34-34. https://doi.org/10.1016/S0007-6813(03)00086-7

Jucá, M. N., Muren, P. D., 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

Kanagaretnam, K., Lobo, G. J., & Whalen, D. J. (2007). Does good corporate governance reduce information asymmetry around quarterly earnings announcements? *Journal of Accounting and Public Policy, 26*(4), 497-522. https://doi.org/10.1016/j.jaccpubpol.2007.05.003

Kang, J., & Kim, Y. H. (2014). The impact of media on corporate social responsibility. *Available at SSRN 2287002.* http://dx.doi.org/10.2139/ssrn.2287002

Kate Philp, J. S., Naomin, T., Lee, S. P., Lawrence, L., & Roderica, W. (2018). *Sustainable banking in ASEAN. W. W. Wide & G. Fund for Nature, Switzerland.* Retrieved from http://awsassets.panda.org/downloads/wwf_sustainable_banking_in_asean_2018.pdf

Kent, P., & Stewart, J. (2008). Corporate governance and disclosures on the transition to international financial reporting standards. *Accounting & Finance, 48*(4), 649-671. https://doi.org/10.1111/j.1467-629X.2007.00257.x

Khan, T. M., Nosheen, S., & ul Haq, N. (2020). Corporate governance mechanism and comparative analysis of one-tier and two-tier board structures: Evidence from ASEAN countries. *International Journal of Disclosure and Governance, 17*(2), 61-72. https://doi.org/10.1057/s41310-020-00075-0

Komath, M. A. C., Doğan, M., & Sayılır, Ö. (2023). Impact of corporate governance and related controversies on the market value of banks. *Research in International Business and Finance, 65*, 101985. https://doi.org/10.1016/j.ribaf.2023.101985

Krüger, P. (2015). Corporate goodness and shareholder wealth. *Journal of Financial Economics, 115*(2), 304-329. https://doi.org/10.1016/j.jfineco.2014.09.008

Kumari, P. R., Makhija, H., Sharma, D., & Behl, A. (2022). Board characteristics and environmental disclosures: Evidence from sensitive and non-sensitive industries of India. *International Journal of Managerial Finance, 18*(4), 677-700. https://doi.org/10.1108/IJMF-10-2021-0547

La Rosa, F., & Bernini, F. (2022). ESG controversies and the cost of equity capital of European listed companies: The moderating effects of ESG performance and market securities regulation. *International Journal of Accounting & Information Management, 30*(5), 641-663. https://doi.org/10.1108/IJAIM-03-2022-0047

Laksmana, I. (2008). Corporate board governance and voluntary disclosure of executive compensation practices. *Contemporary Accounting Research, 25*(4), 1147-1182. https://doi.org/10.1506/car.25.4.8

© 2024 AESS Publications. All Rights Reserved.

Lange, D., & Washburn, N. T. (2012). Understanding attributions of corporate social irresponsibility. *Academy of Management Review, 37*(2), 300-326. https://doi.org/10.5465/amr.2010.0522

Law, S. H. (2019). *Applied panel data analysis: Short panel.* Kuala Lumpur: Universiti Putra Malaysia Press.

Li, J., Haider, Z. A., Jin, X., & Yuan, W. (2019). Corporate controversy, social responsibility and market performance: International evidence. *Journal of International Financial Markets, Institutions and Money, 60*, 1-18. https://doi.org/https://doi.org/10.1016/j.intfin.2018.11.013

Li, Y., Gong, M., Zhang, X., & Koh, L. (2018). The impact of environmental, social, and governance disclosure on firm value: The role of CEO power. *The British Accounting Review, 50*(1), 60-75. https://doi.org/https://doi.org/10.1016/j.bar.2017.09.007

Lipton, M., & Lorsch, J. W. (1992). A modest proposal for improved corporate governance. *The Business Lawyer, 48*(1), 59-77. http://www.jstor.org/stable/40687360

LSEG. (2024). *LSEG data & analytics.* Retrieved from https://www.lseg.com/en/data-analytics/products/datastream-macroeconomic-analysis

LSEG Data and Analytics. (2023). *Environmental, social and governance scores from LSEG.* Retrieved from https://www.lseg.com/content/dam/data-analytics/en_us/documents/methodology/lseg-esg-scores-methodology.pdf

Marsat, S., Pijourlet, G., & Ullah, M. (2022). Does environmental performance help firms to be more resilient against environmental controversies? International evidence. *Finance Research Letters, 44*, 102028. https://doi.org/https://doi.org/10.1016/j.frl.2021.102028

Melinda, A., & Wardhani, R. (2020). *The effect of environmental, social, governance, and controversies on firms' value: Evidence from Asia in advanced issues in the economics of emerging markets*: Emerald Publishing Limited. https://doi.org/https://doi.org/10.1108/S1571-038620200000027011.

Mendiratta, A., Singh, S., Yadav, S. S., & Mahajan, A. (2023a). ESG controversies and firm performance in India: The moderating impact of government effectiveness. *Global Business Review*, 09721509231151490. https://doi.org/https://doi.org/10.1177/09721509231151490

Mendiratta, A., Singh, S., Yadav, S. S., & Mahajan, A. (2023b). When do ESG controversies reduce firm value in India? *Global Finance Journal, 55*, 100809. https://doi.org/https://doi.org/10.1016/j.gfj.2023.100809

Miralles-Quirós, M. M., Miralles-Quirós, J. L., & Redondo Hernández, J. (2019). ESG performance and shareholder value creation in the banking industry: International differences. *Sustainability, 11*(5), 1404. https://doi.org/https://doi.org/10.3390/su11051404

Nguyen, T. H., Elmagrhi, M. H., Ntim, C. G., & Wu, Y. (2021). Environmental performance, sustainability, governance and financial performance: Evidence from heavily polluting industries in China. *Business Strategy and the Environment, 30*(5), 2313-2331. https://doi.org/https://doi.org/10.1002/bse.2748

Nirino, N., Miglietta, N., & Salvi, A. (2020). The impact of corporate social responsibility on firms' financial performance, evidence from the food and beverage industry. *British Food Journal, 122*(1), 1-13. https://doi.org/https://doi.org/10.1108/BFJ-07-2019-0503

Nirino, N., Santoro, G., Miglietta, N., & Quaglia, R. (2021). Corporate controversies and company's financial performance: Exploring the moderating role of ESG practices. *Technological Forecasting and Social Change, 162*, 120341. https://doi.org/https://doi.org/10.1016/j.techfore.2020.120341

Nizam, E., Ng, A., Dewandaru, G., Nagayev, R., & Nkoba, M. A. (2019). The impact of social and environmental sustainability on financial performance: A global analysis of the banking sector. *Journal of Multinational Financial Management, 49*, 35-53. https://doi.org/https://doi.org/10.1016/j.mulfin.2019.01.002

Prado-Lorenzo, J.-M., & Garcia-Sanchez, I.-M. (2010). The role of the board of directors in disseminating relevant information on greenhouse gases. *Journal of Business Ethics, 97*, 391-424. https://doi.org/https://doi.org/10.1007/s10551-010-0515-0

© 2024 AESS Publications. All Rights Reserved.

Reuters. (2021). *Indonesia's BRI Life probes reported data leak of two mln users.* Retrieved from https://www.reuters.com/business/finance/indonesias-bri-life-probes-reported-data-leak-2-million-users-2021-07-27/?enowparentmodules=opsconsole-csm,usage-tracking-csm

Ricart, J. E., Rodríguez, M. A., & Sanchez, P. (2005). Sustainability in the boardroom: An empirical examination of dow jones sustainability world index leaders. *Corporate Governance: The International Journal of Business in Society, 5*(3), 24-41. https://doi.org/https://doi.org/10.1108/14720700510604670

Schiemann, F., & Tietmeyer, R. (2022). ESG controversies, ESG disclosure and analyst forecast accuracy. *International Review of Financial Analysis, 84*, 102373. https://doi.org/https://doi.org/10.1016/j.irfa.2022.102373

Shakil, M. H. (2021). Environmental, social and governance performance and financial risk: Moderating role of ESG controversies and board gender diversity. *Resources Policy, 72*, 102144. https://doi.org/10.1016/j.resourpol.2021.102144

Shakil, M. H., Tasnia, M., & Mostafiz, M. I. (2021). Board gender diversity and environmental, social and governance performance of US banks: Moderating role of environmental, social and corporate governance controversies. *International Journal of Bank Marketing, 39*(4), 661-677. https://doi.org/https://doi.org/10.1108/IJBM-04-2020-0210

Suchman, M. C. (1995). Managing legitimacy: Strategic and institutional approaches. *Academy of Management Review, 20*(3), 571-610. https://doi.org/https://doi.org/10.5465/amr.1995.9508080331

Surroca, J., Tribó, J. A., & Waddock, S. (2010). Corporate responsibility and financial performance: The role of intangible resources. *Strategic Management Journal, 31*(5), 463-490. https://doi.org/https://doi.org/10.1002/smj.820

Ting, I. W. K., Azizan, N. A., Bhaskaran, R. K., & Sukumaran, S. K. (2019). Corporate social performance and firm performance: Comparative study among developed and emerging market firms. *Sustainability, 12*(1), 26. https://doi.org/10.3390/su120100267

Treepongkaruna, S., Kyaw, K., & Jiraporn, P. (2024). ESG controversies, corporate governance, and the market for corporate control. *Journal of Sustainable Finance & Investment*, 1-28. https://doi.org/10.1080/20430795.2024.2334253

Trujillo-Ponce, A. (2013). What determines the profitability of banks? Evidence from Spain. *Accounting & Finance, 53*(2), 561-586. https://doi.org/https://doi.org/10.1111/j.1467-629X.2011.00466.x

Vafeas, N. (1999). Board meeting frequency and firm performance. *Journal of Financial Economics, 53*(1), 113-142. https://doi.org/https://doi.org/10.1016/S0304-405X(99)00018-5

Weber, O. (2017). Corporate sustainability and financial performance of Chinese banks. *Sustainability Accounting, Management and Policy Journal, 8*(3), 358-385. https://doi.org/https://doi.org/10.1108/SAMPJ-09-2016-0066

Wu, Z., Lin, S., Chen, T., Luo, C., & Xu, H. (2023). Does effective corporate governance mitigate the negative effect of ESG controversies on firm value? *Economic Analysis and Policy, 80*, 1772-1793. https://doi.org/10.1016/j.eap.2023.11.018

Xie, B., Davidson III, W. N., & DaDalt, P. J. (2003). Earnings management and corporate governance: The role of the board and the audit committee. *Journal of Corporate Finance, 9*(3), 295-316. https://doi.org/https://doi.org/10.1016/S0929-1199(02)00006-8

Yakob, N. A., & Abu Hasan, N. (2021). Exploring the interaction effects of board meetings on information disclosure and financial performance in public listed companies. *Economies, 9*(4), 139. https://doi.org/https://doi.org/10.3390/economies9040139

Yilmaz, I. (2021). Sustainability and financial performance relationship: International evidence. *World Journal of Entrepreneurship, Management and Sustainable Development, 17*(3), 537-549. https://doi.org/https://doi.org/10.1108/WJEMSD-10-2020-0133

Yoon, B., Lee, J. H., & Byun, R. (2018). Does ESG performance enhance firm value? Evidence from Korea. *Sustainability, 10*(10), 3635. https://doi.org/https://doi.org/10.3390/su10103635

Yu, E. P. Y., Guo, C. Q., & Luu, B. V. (2018). Environmental, social and governance transparency and firm value. *Business Strategy and the Environment, 27*(7), 987-1004. https://doi.org/https://doi.org/10.1002/bse.2047

© 2024 AESS Publications. All Rights Reserved.

Zhao, C., Guo, Y., Yuan, J., Wu, M., Li, D., Zhou, Y., & Kang, J. (2018). ESG and corporate financial performance: Empirical evidence from China's listed power generation companies. *Sustainability, 10*(8), 2607. https://doi.org/https://doi.org/10.3390/su10082607

APPENDICES

Appendix A. List of some banks controversies.

Bank	Country	Year	Descriptions
Bank Rakyat Indonesia	Indonesia	2016	Falsification of documents
Bank Rakyat Indonesia	Indonesia	2019	Funding rainforest deforestation & data privacy breach
Bank Rakyat Indonesia	Indonesia	2021	Funding rainforest deforestation & data privacy breach
Malayan banking BHD	Malaysia	2020	Funding rainforest deforestation & customers' complaints on disruption to selected banking services
Malayan banking BHD	Malaysia	2021	Funding rainforest deforestation
CIMB group holding Bhd	Malaysia	2016	Corruption scandal
AmBank holdings Sdn Bhd	Malaysia	2020	Corruption scandal
AmBank holdings Sdn Bhd	Malaysia	2021	Corruption scandal
Metropolitan bank and trust co	Philippines	2017	Siphon off customer's fund.
Krung Thai bank	Thailand	2018	The chairman of the bank resigned & connected to money laundering charges
State bank of India	India	2021	Employees go on two days strike disrupting banking and ATM services.
China merchants bank Co Ltd	China	2019/ 2021	Bribery, illegal trading activities, and money laundering.
Mega financial holding Co Ltd	Taiwan	2017	laxity in applying anti-money-laundering procedures
Industrial bank of Korea	Korea	2020	Illegal money transfer to Iran that violated US sanctions.

Views and opinions expressed in this article are the views and opinions of the author(s), Asian Economic and Financial Review shall not be responsible or answerable for any loss, damage or liability etc. caused in relation to/arising out of the use of the content.

© 2024 AESS Publications. All Rights Reserved.