A Quadrant-Based Framework for Mapping the Interplay Between ESG Performance and ESG Controversies

Alice Alosi[*], *Emilia Filippi*[**]

Abstract

This study illustrates the complex interplay between ESG performance and ESG controversies integrating both dimensions into a quadrant-based framework of corporate ESG positioning. Within this framework, we identify four distinct ESG profiles: Crystal clear (high ESG performance and few ESG controversies), Rough diamond (high ESG performance and many ESG controversies), Sleeping guardian (low ESG performance and few ESG controversies), and Sinking ship (low ESG performance and many ESG controversies). We applied this framework using data from LSEG Data & Analytics for the years 2018, 2019, and 2022, covering companies operating across 20 countries. Our findings reveal that companies are predominantly concentrated in the Sleeping guardian and Crystal clear profiles. When examining how ESG performance influences ESG controversies, the expected shift (i.e., a decline in Rough Diamond companies and a rise in Crystal Clear companies) does not consistently occur over time across the sample countries. Differently, when considering how ESG controversies affect ESG performance, the expected shift (i.e., a decline in Sinking ship companies and a rise in Rough diamond companies) occurs in most, though not all, countries. The study contributes to both managerial and theoretical discourse on corporate sustainability by offering a comprehensive overview on the dynamic interplay between ESG performance and controversies. It also lays the groundwork for future research into how companies navigate this interplay.

Keywords: ESG Performance, ESG Controversies, Interplay, Quadrant-Based Framework.

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Edited by: *Niccolò Cusano University* ISSN: 1593-0319

Alosi, A., & Filippi, E. (2026). A Quadrant-Based Framework for Mapping the Interplay Between ESG Performance and ESG Controversies. *Symphonya. Emerging Issues in Management (symphonya.unicusano.it)*, (1), 39-56.
https://dx.doi.org/10.4468/2026.1.03alosi.filippi

1. Introduction

ESG factors – encompassing a wide range of environmental, social, and governance issues – have reshaped the role of companies within society and the environment (Parra et al., 2017; Elamer & Boulhaga, 2024). The ESG concept includes both ESG performance (i.e., ESG practical initiatives/strategies) and ESG disclosure (i.e., public rhetoric) (Elamer & Boulhaga, 2024; Wang et al., 2024). More in detail, ESG performance reflects a company's ability to address ESG risks and opportunities while aligning with environmental and social expectations (e.g., Nirino et al., 2021; Shakil et al., 2021). From the company's perspective, a strong commitment to ESG performance is crucial for building a resilient corporate strategy (Broadstock et al., 2021; García-Amate et al., 2023). It also serves as a source of sustainable competitive advantage, enhancing the company's reputation among stakeholders, strengthening both financial and non-financial performance, increasing long-term value, and contributing to broader societal well-being (e.g., Salvioni & Gennari, 2019; Bruna et al., 2022; DasGupta, 2022; Wang et al., 2024). ESG performance has also become a central focus for investors, regulators, and stakeholders seeking to evaluate a company's long-term sustainability and ethical practices (Negri, 2018; Weston & Nnadi, 2023). Investors are increasingly drawn to companies that show a clear commitment to ESG issues, while expressing scepticism toward those that neglect them (Elamer & Boulhaga, 2024). As a result, companies face mounting pressure to exceed the minimum ESG compliance and improve their conduct toward both society and the environment (Parra et al., 2017; Al-Hiyari, 2024).

However, companies do not always operate consistently with sustainability principles, societal expectations, or ethical standards, often attracting media scrutiny and stakeholder criticism (Elamer & Boulhaga, 2024). This has intensified attention on ESG controversies (e.g., Nirino et al., 2021; Wu et al., 2023), which cover a broad range of unethical practices and incidents, including environmental damages, social misconduct, and governance failures (e.g., Al-Hiyari, 2024; García-Amate et al., 2023). Such controversies provide stakeholders with critical information into how well a company's operations align with ESG principles, drawing attention to harmful behaviours (Hampl & Vágnerová Linnertová, 2024). ESG controversies can significantly undermine a company's financial and non-financial performance, exposing it to reputational damage and eroding stakeholder trust (Aouadi & Marsat, 2018). Avoiding or effectively addressing ESG controversies has thus become a priority for companies seeking to improve ESG performance and safeguard their financial outcomes and long-term strategic success (Al-Hiyari, 2024).

The relationship between ESG performance and ESG controversies is complex. A higher ESG performance protects companies from ESG controversies (Wang & Sarkis, 2017; Nirino et al. 2021), despite ESG controversies being increasingly unpredictable over time (Kotzian, 2024). At the same time, ESG controversies could prompt companies to improve ESG performance (e.g., Wu et al., 2023), although such improvements typically develop over time rather than occurring immediately (Tamayo-Torres et al., 2018). Despite numerous studies attempting to identify and analyse various aspects of this complexity, an overview that systematically integrates both aspects remains underdeveloped, with only limited contributions in this direction (Alosi & Filippi, 2026). Specifically, such an overview is needed to move beyond prior research that has examined either ESG performance or ESG controversies in isolation, or merely their simultaneous occurrence, without investigating how their interaction jointly shapes corporate outcomes. To fill this gap, we aim to answer the following research question: *How do companies differ in their ESG positioning based on both ESG performance and ESG controversies? How does current ESG performance relate to future ESG controversies, and vice versa?*

This study therefore proposes a quadrant-based framework that maps the interplay between ESG performance and ESG controversies, integrating the two aspects into a unified model of corporate ESG positioning. The framework offers an intuitive and visually accessible tool, not only as a clear snapshot of a company's current ESG standing, but also as a guide to envision more desirable future ESG positions (i.e., high ESG performance and few ESG controversies).

The framework is then applied using cross-country data to evaluate whether corporate behaviours align with the proposed framework, to better visualise the distribution of companies within it, and to show the interaction dynamics between ESG performance and ESG controversies highlighted in previous literature.

2. Literature Review

Companies should improve ESG performance while actively managing ESG controversies, as suggested by stakeholder and legitimacy theories (Civera & Freeman, 2019). According to stakeholder theory, companies should move beyond profit maximisation to account for stakeholders' interests and respond to their needs and expectations (Freeman, 1984; Mitchell et al., 1997). Accordingly, engaging in ESG initiatives/strategies allows companies to create shareholder value while contributing to broader societal goals (Elamer & Boulhaga, 2024; Nirino et al., 2021). At the same time, companies must minimise ESG controversies, as these erode trust: stakeholders may fear reputational harm or legal consequences, question corporate long-term viability, and ultimately reduce or withdraw their support (Hampl & Vágnerová Linnertová, 2024). Instead, legitimacy theory argues that companies are granted the right to operate only when their principles align with societal values and beliefs (Dowling & Pfeffer, 1975). From this perspective, engaging in ESG enables companies to signal social responsibility, gain legitimacy, and secure access to social resources crucial for long-term survival (Brammer & Pavelin, 2006; García-Meca et al., 2024). Conversely, failure to align with societal expectations exposes companies to ESG controversies, jeopardising their legitimacy and threatening their continued existence (García-Meca et al., 2024).

However, existing literature shows that a complex relationship between ESG performance and ESG controversies exists. ESG performance reduce the likelihood of ESG controversies (e.g., Wang & Sarkis, 2017; Nirino et al. 2021). Specifically, implementing strong ESG practical initiatives/strategies helps companies to enhance their reputation and preserve legitimacy by shielding them from negative news, potential scandals, and legal risks (Kim et al., 2018; Minor & Morgan, 2011). Importantly, proactive ESG engagement can play a preventive role: companies that invest in ESG practical initiatives/strategies before ESG controversies arise are more likely to retain stakeholder trust and protect their reputation (Klein & Dawar, 2004). Increased commitment to ESG performance is thus linked to a reduced likelihood of ESG controversies (Kotzian, 2024), though the impact varies across ESG dimensions: strong performance in the environmental and governance dimensions lowers the risk of controversies, whereas surprisingly higher performance in the social dimension may increase that risk (Kotzian, 2024). In line with this perspective, Marsat et al. (2022) find that high prior environmental performance strengthens a company's resilience to environmental controversies and enables faster recovery. Instead, reactive ESG practical initiatives/strategies, undertaken only after an ESG controversy has emerged, are often perceived by stakeholders as symbolic or superficial, rather than as genuine efforts to address root causes (Klein & Dawar, 2004). While proactive ESG practical initiatives/strategies can help prevent ESG controversies, they are generally less effective in mitigating the negative consequences once ESG controversies have already occurred (Nirino et al., 2021). Nonetheless, ESG controversies are often random events beyond a company's direct control, and their unpredictability tends to grow over time (Kotzian, 2024). This randomness suggests that companies may focus their ESG practical initiatives/strategies on the most urgent or visible issues at a given time (Kotzian, 2024). However, the evolving nature of ESG controversies (i.e., stemming from isolated events, the business model, or higher societal awareness) can undermine the long-term effectiveness of previously implemented ESG efforts (Kotzian, 2024). As a result, a company's capacity to prevent future ESG controversies can vary significantly over time (Kotzian, 2024).

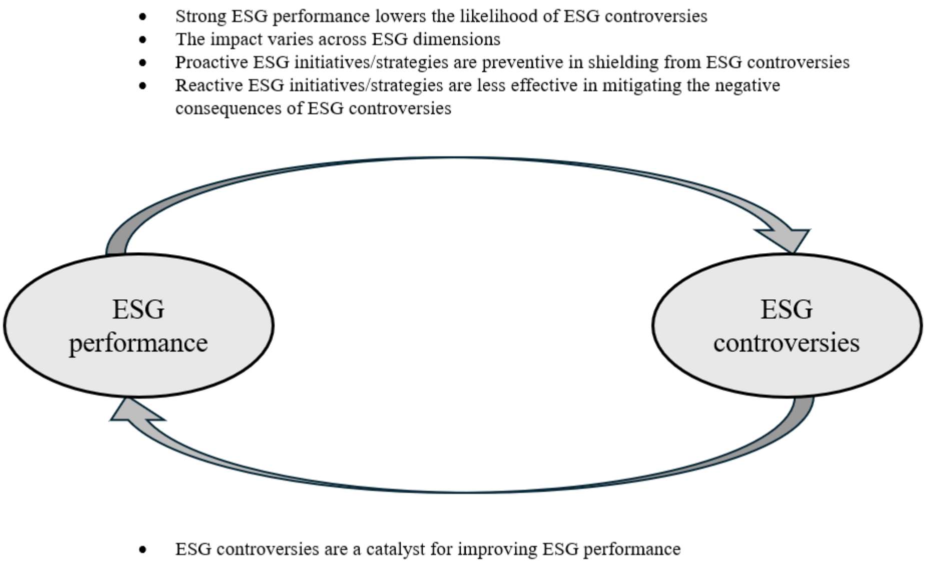
While strong ESG performance can help reduce the likelihood of ESG controversies, ESG controversies themselves can also act as a catalyst for improving ESG performance. When ESG controversies arise, companies must respond to realign with social norms and restore their legitimacy (García-Meca et al., 2024). These events frequently push companies to strengthen their ESG performance (Wu et al., 2023), although such improvements typically develop over time rather than occurring immediately (Tamayo-Torres et al., 2018). Therefore, when addressed effectively, ESG controversies can become drivers of positive change in overall ESG performance (Tamayo-Torres et al., 2018; Wu et al., 2023).

Figure 1 illustrates the complex relationship between ESG performance and ESG controversies, summarising the main findings from previous literature.

3. Methodology

To map the interplay between ESG performance and ESG controversies, we first combined low/high ESG performance with few/many ESG controversies into a quadrant-based framework of corporate ESG positioning. The four corporate profiles we identified and labelled – *Crystal clear* (high ESG performance and few ESG controversies), *Rough diamond* (high ESG performance and many ESG controversies), *Sleeping guardian* (low ESG performance and few ESG controversies), and *Sinking ship* (low ESG performance and many ESG controversies) – are described in section 4.1, emphasising their distinctive characteristics in terms of ESG performance and ESG controversies, and positioning them through comparative analysis with the other profiles.

Figure 1: *Relation Between ESG Performance and ESG Controversies.*



Subsequently, we used cross-country data to verify the alignment between observed corporate behaviours and the proposed framework. For this purpose, we relied on data from LSEG Data & Analytics (formerly known as Refinitiv Eikon Datastream), a leading global database on environmental, social, and corporate governance issues. LSEG Data & Analytics is widely recognised as the largest and most comparable resource for CSR-related data (Uyar et al., 2020). Its data is sourced from publicly available materials, including CSR reports, annual reports, company websites, stock exchange filings, and media outlets (LSEG Data & Analytics, 2023), and are widely regarded as transparent, accurate, and comparable (e.g., Giannarakis et al., 2023).

The key variables in this study are ESG performance and ESG controversies. ESG performance is measured using the ESG Score provided by LSEG Data & Analytics (DasGupta, 2022; Keidann Soschinski et al., 2024). This score captures a company's ESG performance achieved across three pillars: environmental (i.e., resource use, emissions, and environmental innovation), social (i.e., workforce, human rights, community, and product responsibility) and corporate governance (i.e., CSR strategy, management, shareholders). The score ranges from 0 to 100; in our study, values higher than 50 indicate stronger ESG performance. Instead, ESG controversies is measured with the ESG Controversies Score provided by LSEG Data & Analytics (Al-Hiyari, 2024; Elamer & Boulhaga, 2024; Nirino et al., 2021). This score reflects a company's exposure to ESG controversies and negative events reported in global media, covering 23 topics and accounting for market capitalisation bias (i.e., the tendency for larger companies to attract more media attention than smaller-capitalised companies). The score ranges from 0 to 100; in our study, values higher than 50 reflect fewer ESG controversies.

Consistent with previous literature (e.g., García-Amate et al., 2023; Marsat et al., 2022; Nirino et al., 2021), we graphically illustrated the relation between ESG performance at time *t* and ESG controversies at time *t+1*, based on the rationale that a higher ESG performance may protect companies from future ESG controversies (Analysis A). Similarly, we graphically illustrated the relation between ESG controversies at time *t* and ESG performance at time *t+1*, based on the rationale that exposure to ESG controversies may prompt companies to enhance their ESG performance over time (e.g., Wu et al., 2023) (Analysis C). Moreover, we explored whether the relation between ESG performance and ESG controversies, and vice versa, takes more time to materialise (Tamayo-Torres et al., 2018), considering a longer time lag. Specifically, we considered ESG performance at time *t* on ESG controversies at time *t+4* (Analysis B) as well as ESG controversies at time *t* on ESG performance at time *t+4* (Analysis D). In our analysis, year t corresponds to 2018; consequently, year *t+1* refers to 2019, and year *t+4* to 2022.

To ensure the generalisability of our framework while also capturing potential cross-country differences, the analysis adopted a multi-country design and encompassed all countries worldwide with at least 55 companies for which ESG data are available in LSEG Data & Analytics for 2022. Specifically, the 20 countries included in the analysis are Australia, Canada, China, Denmark, Finland, France, Germany, Italy, Japan, South Korea, Mexico, Netherlands, New Zealand, Norway, Spain, Sweden, Switzerland, Turkey, United Kingdom, and United States of America (Table 1).

4. Results

4.1 Quadrant-Based Framework

The proposed quadrant-based framework (Figure 2) enables the identification of company's ESG positioning based on two key aspects: the achieved ESG performance (i.e., low/high) and the presence of ESG controversies (i.e., few/many). Each quadrant represents a distinct ESG profile, which we labelled as *Crystal clear*, *Rough diamond*, *Sleeping guardian*, and *Sinking ship* and described based on previous literature. Specifically:

– *Crystal clear* (high ESG performance and few ESG controversies) represents the ideal ESG profile, combining strong ESG performance across environmental, social, and governance dimensions with few or absent ESG controversies. Their operations demonstrate a commitment to environmentally sustainable practices, socially responsible initiatives, and transparent governance (e.g., Elamer & Boulhaga, 2024). Their effective management of reputational risks reduces exposition to ESG controversies, further strengthening stakeholder trust (e.g., Freeman, 1984; Weston & Nnadi, 2023) and positioning them as benchmarks of ESG excellence;

- *Rough diamond* (high ESG performance and many ESG controversies) exhibits strong ESG performance while simultaneously facing many ESG controversies. This apparent contradiction may stem from their involvement in controversial industries, the adoption of bold or unconventional ESG strategies, or the complexity of balancing diverse stakeholder expectations. Although their innovative approaches position them as potential frontrunners in the ESG transition, persistent reputational challenges may pose significant risks (e.g., Aouadi & Marsat, 2018);
- *Sleeping guardian* (low ESG performance and few ESG controversies) presents low ESG performance while avoiding significant ESG controversies. Their ESG risk-averse approach helps them stay clear of public scrutiny, but their limited commitment to or proactive ESG initiatives results in a modest overall performance. While these companies are often seen as reputationally stable and low risk in the short term (e.g., García-Amate et al., 2023), they may struggle to contribute to or benefit from the broader ESG transformation;
- *Sinking ship* (low ESG performance and many ESG controversies) faces compounded ESG challenges, marked by both poor ESG performance and frequent exposure to ESG controversies. This combination points to deficiencies in environmental practices, social initiatives, and governance. As a result, these companies often experience declining public perception and reduced stakeholder trust that give rise to ESG controversies (e.g., Elamer & Boulhaga, 2024). Their profile indicates substantial ESG and reputational risks that could jeopardise long-term viability (e.g., Aouadi & Marsat, 2018).

4.2 Empirical Analysis

Table 2 provides summary statistics on the distribution of companies across ESG profiles for the four analyses conducted (Analyses A, B, C, and D), as well as across the countries examined. Figure 3a and b visually depicts the distribution of companies among ESG profiles within each country examined.

Overall, the distribution of companies within the quadrant-based framework reveals a clear concentration in the *Sleeping guardian* and *Crystal clear* profiles, both marked by few ESG controversies (mostly no controversies) and either low or high ESG performance, respectively (Table 1). This finding confirms the increasing importance for companies to strengthen ESG performance while avoiding or effectively addressing ESG controversies (e.g., Al-Hiyari, 2024). The *Sinking ship* profile is the least represented, confirming that neglecting ESG issues is detrimental for companies as it increases media scrutiny and stakeholder criticism (Elamer and Boulhaga, 2024).

Table 1: *Distribution of Companies Across Countries*

Country	Number of companies
Australia	301
Canada	249
China	417
Denmark	41
Finland	32
France	117
Germany	139
Italy	72
Japan	414
Mexico	44
Netherlands	52
New Zealand	52
Norway	43
South Korea	128
Spain	54
Sweden	113
Switzerland	108
Turkey	34
United Kingdom	339
United States of America	2,369

In line with the existing literature arguing that strong ESG performance can both mitigate (Kim et al., 2018; Minor & Morgan, 2011) and prevent (Klein & Dawar, 2004; Marsat et al., 2022; Nirino et al., 2021) ESG controversies, one would expect a decline in the number of *Rough diamond* companies and an increase in *Crystal clear* companies over time, specifically when comparing the results of Analyses A and B in Figure 2. However, this shift emerges across only three countries (i.e., Italy, Japan, the Netherlands) (Table 2), prompting our results to confirm the findings of Kotzian (2024), who suggests that ESG controversies are often unpredictable events outside a company's direct control. As such, the evolving nature of these controversies can undermine the long-term impact of previously implemented ESG efforts (Kotzian, 2024).

Moreover, one would expect a decline in the number of *Sinking ship* companies and an increase in *Rough diamond* companies over time, specifically when comparing Analyses C and D in Figure 2. Indeed, prior research suggests that ESG controversies often act as drivers for companies to improve their ESG performance (Wu et al., 2023; García-Meca et al., 2024), although such improvements tend to materialise gradually rather than immediately (Tamayo-Torres et al., 2018). When managed effectively, ESG controversies can thus serve as catalysts for long-term positive change in ESG performance (Tamayo-Torres et al., 2018; Wu et al., 2023). This pattern is observed in many countries (i.e., Canada, China, Germany, Japan, South Korea, Turkey, United Kingdom, United States of America), although no changes in the distribution percentages in the *Sinking ship* and *Rough diamond* profiles are observed in the other countries (Table 2).

Figure 4 provides a graphical representation of main results, highlighting when the expected increase or decrease of ESG profiles is confirmed or not.

Figure 2: *Quadrant-Based Framework of the Interplay Between ESG Performance and ESG Controversies*

Framework for Analyses A and B

Few ESG controversies	*Sleeping guardian*	*Crystal clear* ↑
Many ESG controversies	*Sinking ship*	*Rough diamond* ↓
	Low ESG performance	**High ESG performance**

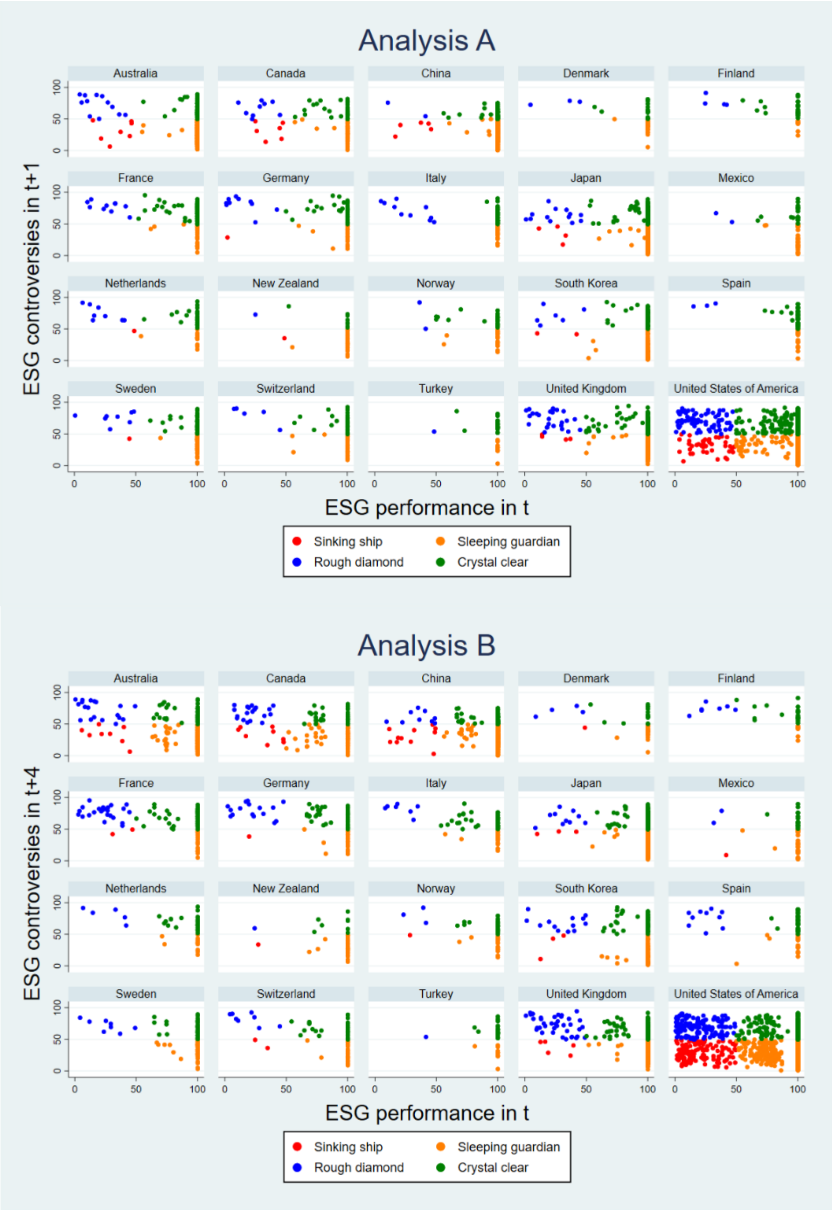
Framework for Analyses C and D

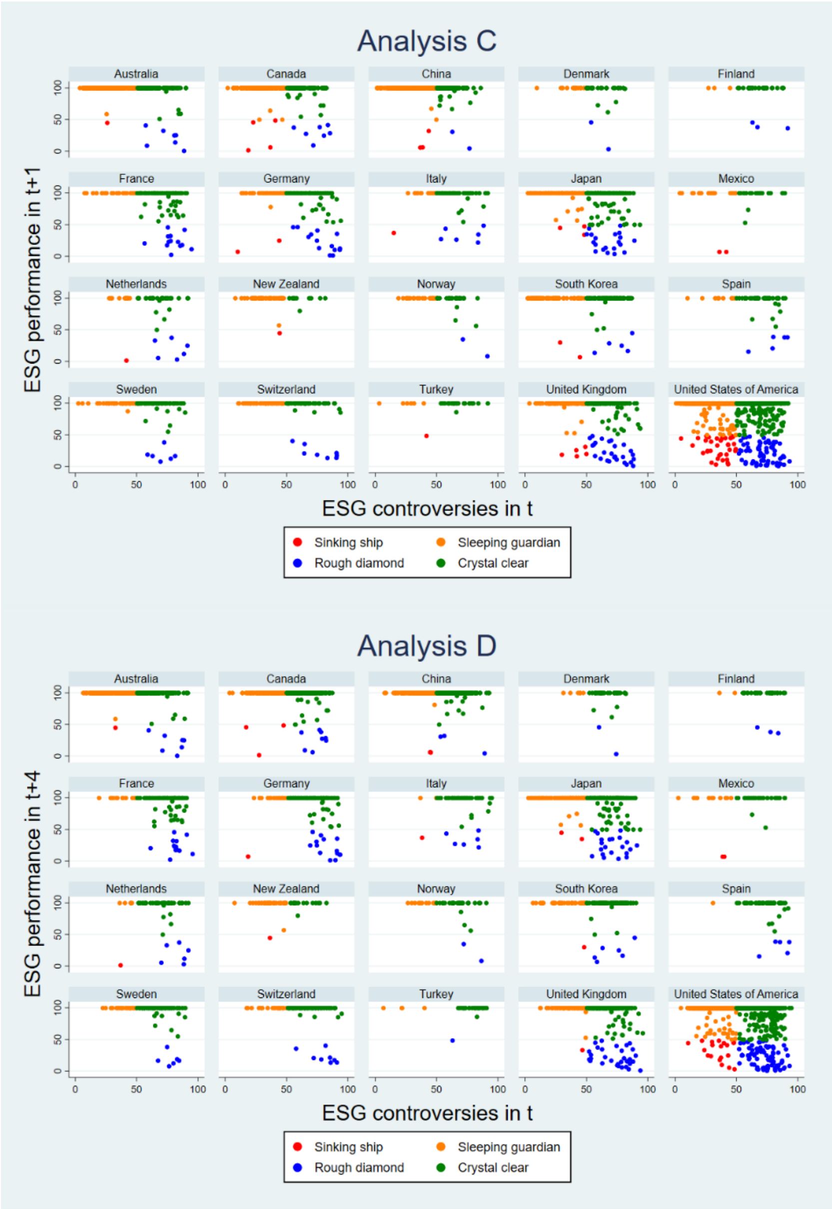
High ESG performance	*Rough diamond* ↑	*Crystal clear*
Low ESG performance	*Sinking ship* ↓	*Sleeping guardian*
	Many ESG controversies	**Few ESG controversies**

Table 2: *Summary Statistics - Distribution of Companies Across ESG Profiles and Countries*

Country	Analysis A Effect of ESG performance at time *t* on ESG controversies at time *t+1*				Analysis B Effect of ESG performance at time *t* on ESG controversies at time *t+4*				Analysis C Effect of ESG controversies at time *t* on ESG performance at time *t+1*				Analysis D Effect of ESG controversies at time *t* on ESG performance at time *t+4*			
	Sinking ship	**Sleeping guardian**	**Rough diamond**	**Crystal clear**	**Sinking ship**	**Sleeping guardian**	**Rough diamond**	**Crystal clear**	**Sinking ship**	**Sleeping guardian**	**Rough diamond**	**Crystal clear**	**Sinking ship**	**Sleeping guardian**	**Rough diamond**	**Crystal clear**
All countries	**1.41%**	**65.10%**	**4.16%**	**29.33%**	**3.52%**	**62.99%**	**6.96%**	**26.53%**	**1.23%**	**60.63%**	**3.85%**	**34.29%**	**0.68%**	**42.52%**	**4.40%**	**52.40%**
Australia	2.33%	72.09%	3.99%	21.59%	2.66%	71.76%	6.31%	19.27%	0.33%	69.77%	2.33%	27.57%	0.33%	53.82%	2.33%	43.52%
Canada	2.41%	67.07%	3.61%	26.91%	3.21%	66.27%	7.63%	22.89%	1.61%	61.85%	2.81%	33.73%	1.20%	38.15%	3.21%	57.43%
China	1.20%	77.94%	0.48%	20.38%	2.64%	76.50%	2.16%	18.71%	0.72%	70.98%	0.48%	27.82%	0.48%	44.36%	0.72%	54.44%
Denmark	0.00%	51.22%	7.32%	41.46%	2.44%	48.78%	9.76%	39.02%	0.00%	34.15%	4.88%	60.98%	0.00%	14.63%	4.88%	80.49%
Finland	0.00%	18.75%	12.50%	68.75%	0.00%	18.75%	21.88%	59.38%	0.00%	9.38%	9.38%	81.25%	0.00%	6.25%	9.38%	84.38%
France	0.00%	22.22%	8.55%	69.23%	1.71%	20.51%	20.51%	57.26%	0.00%	17.95%	11.11%	70.94%	0.00%	10.26%	11.11%	78.63%
Germany	0.72%	41.73%	7.19%	50.36%	0.72%	41.73%	11.51%	46.04%	1.44%	38.13%	10.07%	50.36%	0.72%	13.67%	10.79%	74.82%
Italy	0.00%	27.78%	13.89%	58.33%	0.00%	27.78%	9.72%	62.50%	1.39%	19.44%	8.33%	70.83%	1.39%	4.17%	8.33%	86.11%
Japan	0.97%	51.45%	3.14%	44.44%	0.72%	51.69%	2.42%	45.17%	0.72%	46.38%	4.83%	48.07%	0.48%	35.27%	5.07%	59.18%
Mexico	0.00%	56.82%	4.55%	38.64%	2.27%	54.55%	4.55%	38.64%	4.55%	47.73%	0.00%	47.73%	4.55%	27.27%	0.00%	68.18%
Netherlands	1.92%	30.77%	15.38%	51.92%	0.00%	32.69%	9.62%	57.69%	1.92%	26.92%	11.54%	59.62%	1.92%	9.62%	11.54%	76.92%
New Zealand	1.92%	80.77%	1.92%	15.38%	1.92%	80.77%	1.92%	15.38%	1.92%	78.85%	0.00%	19.23%	1.92%	65.38%	0.00%	32.69%
Norway	0.00%	46.51%	4.65%	48.84%	2.33%	44.19%	6.98%	46.51%	0.00%	44.19%	4.65%	51.16%	0.00%	25.58%	4.65%	69.77%
South Korea	1.56%	48.44%	4.69%	45.31%	2.34%	47.66%	10.16%	39.84%	1.56%	44.53%	3.91%	50.00%	0.78%	27.34%	4.69%	67.19%
Spain	0.00%	24.07%	5.56%	70.37%	0.00%	24.07%	18.52%	57.41%	0.00%	16.67%	9.26%	74.07%	0.00%	1.85%	9.26%	88.89%
Sweden	0.88%	50.44%	7.08%	41.59%	0.00%	51.33%	7.08%	41.59%	0.00%	41.59%	5.31%	53.10%	0.00%	26.55%	5.31%	68.14%
Switzerland	0.00%	54.63%	4.63%	40.74%	1.85%	52.78%	7.41%	37.96%	0.00%	46.30%	7.41%	46.30%	0.00%	25.00%	7.41%	67.59%
Turkey	0.00%	29.41%	2.94%	67.65%	0.00%	29.41%	2.94%	67.65%	2.94%	17.65%	0.00%	79.41%	0.00%	11.76%	2.94%	85.29%
United Kingdom	1.18%	46.02%	7.67%	45.13%	1.47%	45.72%	11.50%	41.30%	1.47%	41.00%	7.96%	49.56%	0.29%	23.89%	9.14%	66.67%
United States of America	1.69%	76.78%	3.29%	18.24%	5.61%	72.86%	6.37%	15.15%	1.56%	73.58%	2.70%	22.16%	0.80%	55.13%	3.46%	40.61%

Figure 3: *Interplay Between ESG Performance and ESG Controversies*




Analysis C
Australia
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United Kingdom
United States of America
ESG performance in t+1
ESG controversies in t
Sinking ship
Sleeping guardian
Rough diamond
Crystal clear
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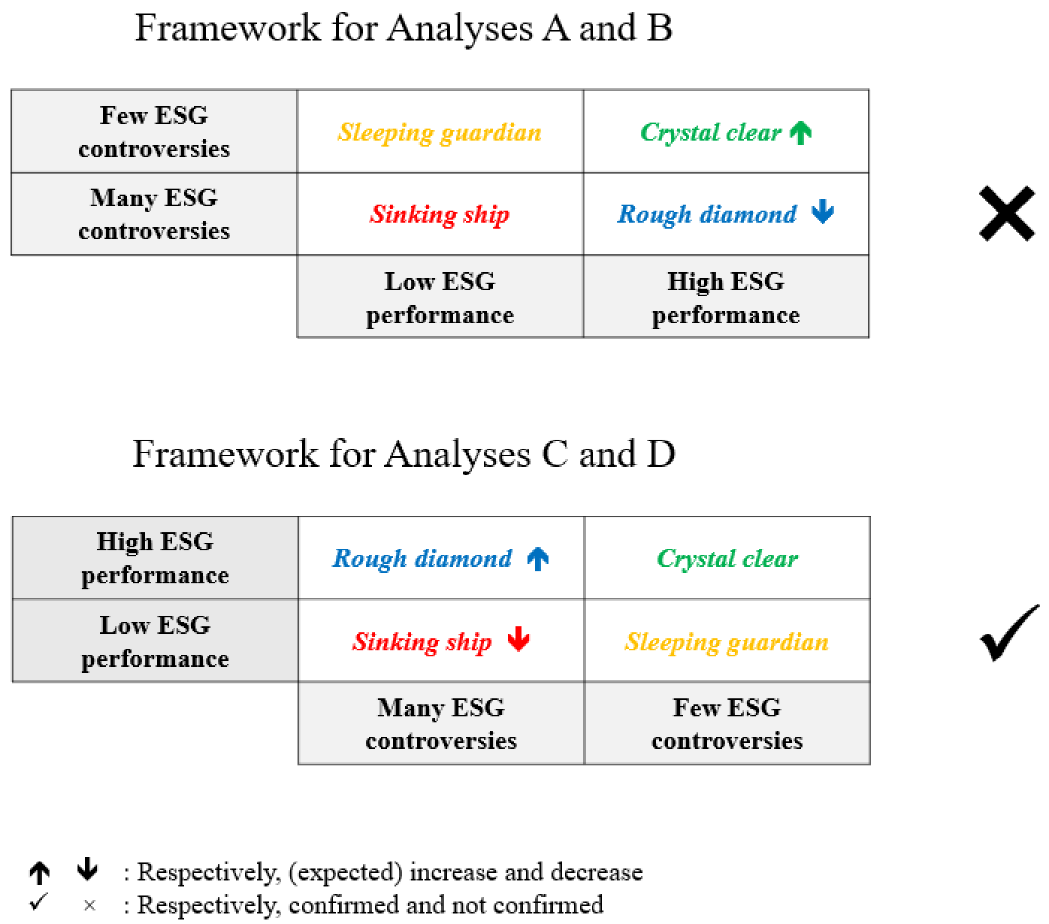
Switzerland
Turkey
United Kingdom
United States of America
ESG performance in t+4
ESG controversies in t
Sinking ship
Sleeping guardian
Rough diamond
Crystal clear

Figure 4: *Graphical Representation of Main Results*



5. Implications for Different Audiences

This study has important implications for scholar and managers (Table3).

5.1 Implications for scholars

While prior studies typically suggest that companies should enhance ESG performance while minimising ESG controversies (Al-Hiyari, 2024), they often analyse these aspects in isolation, i.e., either exploring how ESG performance affects ESG controversies and vice versa (e.g., Nirino et al. 2021; Kotzian, 2024), or assessing the impact of one aspect (or both) on a third outcome (e.g., firm financial performance). Our research advances this stream of literature by focusing on the interplay between ESG performance and ESG controversies, meaning not just their simultaneous presence, but how they interact and jointly shape corporate outcomes. Specifically, we offer an intuitive and visually accessible framework that illustrates the relation between ESG performance and ESG controversies.

Therefore, rather than evaluating companies as “good” or “bad” based on either ESG performance or ESG controversies (Al-Hiyari, 2024), we consider their positioning based on both aspects jointly. This perspective allows us to move beyond examining whether one aspect drives the other, and to investigate their combined influence, potentially in relation to a third outcome. This confirms what stated by the stakeholder (Freeman, 1984; Mitchell et al., 1997) and legitimacy theories (Dowling & Pfeffer, 1975), further suggesting that these two theories should be considered together when assessing the effects of ESG performance and ESG controversies.

Table 3: *Implications for Scholar and Managers*

Findings	Implications for scholars	Implications for managers
• We offer a quadrant-based framework on company’s ESG positioning based on two key aspects: the achieved ESG performance (i.e., low/high) and the presence of ESG controversies (i.e., few/many). Each quadrant represents a distinct ESG profile: *Crystal clear*, *Rough diamond*, *Sleeping guardian*, and *Sinking ship* • A concentration emerges in the *Sleeping guardian* and *Crystal clear* profiles • Examining how ESG performance affects ESG controversies, the expected decline in *Rough Diamond* companies combined with a rise in *Crystal Clear* companies occurs in only three countries • Examining how ESG controversies affect ESG performance, the expected decline in *Sinking ship* companies combined with a rise in *Rough diamond* companies occurs in most countries	• We focus on the interplay between ESG performance and ESG controversies, meaning not just their simultaneous presence, but how they interact and jointly shape corporate outcomes • Our framework allows to investigate the combined influence of ESG performance and ESG controversies, potentially in relation to a third outcome • We confirm what stated by the stakeholder and legitimacy theories • We analyse companies’ ESG positioning over time, considering both short- and medium-term effects and confirming the existence of a dynamic interplay between ESG performance and ESG controversies	• Our quadrant-based framework provides an intuitive and visually accessible tool to assess corporate ESG positioning, offering a clear snapshot of a company’s current ESG positioning and a guide to envision more desirable future positioning • By mapping companies within the framework, managers can identify whether action is needed primarily on ESG performance, on ESG controversies, or on both aspects simultaneously • The framework helps managers to better visualise the evolving relationship between ESG performance and ESG controversies over time to define a strategic pathway to reach a better ESG positioning • The framework can support decision-making both for companies at the early stages of their sustainability journey and for more mature companies

Moreover, we illustrate how current ESG performance relates to future ESG controversies, and vice versa, considering both short- and medium-term effects. This approach builds on the rationale that the impact of ESG performance on ESG controversies, and vice versa, often requires time to materialise (Tamayo-Torres et al., 2018). For instance, exposure to ESG controversies may induce companies to strengthen their ESG performance in the longer term (Wu et al., 2023). Our findings confirm the existence of a dynamic interplay between ESG performance and ESG controversies.

5.2 Implications for Managers

Our quadrant-based framework provides an intuitive and visually accessible tool to assess corporate ESG positioning. It offers managers not only a clear snapshot of a company’s current ESG positioning, but also a guide to envision both how current ESG performance relates to future ESG controversies, and vice versa, and the resulting future positioning.

By mapping companies within the framework, managers can identify whether action is needed primarily on ESG performance (i.e., when ESG controversies are few, but ESG performance remains low), on ESG controversies (i.e., when ESG performance is high, but ESG controversies are many), or on both aspects simultaneously (i.e., when ESG performance is low and ESG controversies are many). Importantly, however, managers should understand that ESG controversies are often random and unpredictable events beyond a company’s direct control, and their unpredictability tends to increase over time (Kotzian, 2024). This underlines the need to treat ESG performance not only as a goal but also as a preventive mechanism that may mitigate future ESG controversies (Kotzian, 2024).

The framework helps managers to better visualise the relation between ESG performance and ESG controversies over time to define a strategic pathway to reach a better ESG positioning, i.e., high ESG performance combined with few ESG controversies.

Finally, the framework can support decision-making both for companies at the early stages of their sustainability journey helping them prioritise where to act first and for more mature companies seeking to refine and continuously improve their ESG positioning.

6. Conclusion

While this study offers a framework to understand ESG positioning, several open questions remain. At the company level, the role of internal drivers (e.g., governance composition and practices, industry characteristics, and stakeholder engagement strategies) in influencing a company’s positioning within the framework remains a relevant open question. These internal factors may play a key role in determining a company's ability to achieve strong ESG performance while avoiding involvement in ESG controversies. Similarly, at the country level, exploring how institutional, regulatory, or cultural factors shape the distribution of companies across the quadrants would offer deeper comparative insights, revealing how national contexts influence companies' attention to ESG issues. Another potential advancement is to examine whether a company's ESG positioning within a specific quadrant correlates with, for instance, superior financial performance, improved market perception, or reduced reputational risk. This would help assess the potential benefits of improving ESG performance while effectively managing ESG controversies. Finally, considering earlier periods (e.g., 2010-2015) would help to uncover long-term relations in ESG performance and ESG controversies.

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