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RESEARCH ARTICLE OPEN ACCESS

Internationalization and ESG Controversies: Do Foreign Directors on Corporate Boards Matter?

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ABSTRACT

This study examines the relationship between internationalization and environmental, social, and governance (ESG) controversies, focusing on whether foreign directors on corporate boards influence this relationship. Drawing on resource dependence theory, we argue that internationalization increases ESG controversies due to the complexity of managing diverse regulatory environments and stakeholder expectations. Although foreign directors may contribute valuable global expertise and networks, they can either mitigate or exacerbate these controversies depending on their advising and monitoring capabilities. Using a sample of 5834 firm-year observations from US companies, we find a positive association between internationalization and ESG controversies. Additionally, foreign directors significantly exacerbate the effect of internationalization on ESG controversies. Our results, which underscore the adverse impact of internationalization and culturally diverse boards on ESG controversies, remain consistent after a battery of sensitivity tests and the addressing of potential endogeneity concerns. Our results are also robust to external shocks, such as the global financial crisis and the COVID-19 pandemic. This research advances the literature on corporate governance and sustainability, offering practical insights for policymakers and firms on the importance of strategic board composition and effective governance structures for managing ESG risks across global operations.

1 | Introduction

Global expansion has long been celebrated as a pathway for firms seeking new markets, opportunities for innovation, and long-term growth. Nevertheless, the realities of cross-border operations have become increasingly complex. As firms stretch across institutional, cultural, and regulatory boundaries, they encounter operating environments that differ not only in their formal rules but also in the expectations that local stakeholders attach to responsible corporate conduct (Treviño and Doh 2021; Kuzey, Gerged, et al. 2024). These cross-border pressures place firms at greater risk of missteps in environmental, social, and governance (ESG) areas, which can quickly escalate into ESG

controversies with significant reputational and financial consequences (Hatane and Soewarno 2022; Treepongkaruna et al. 2024a).

In recent years, understanding the drivers of firms' ESG controversies has become increasingly urgent. The postpandemic landscape has increased governance vulnerabilities, as the COVID-19 crisis imposed unprecedented disruptions and heightened public awareness of corporate behavior (Baldwin and Weder 2020; Gopinath 2020; Baker et al. 2020). This period intensified scrutiny from investors and regulators, who increasingly evaluate firms not only on financial resilience but also on their capacity to manage ESG risks (Broadstock

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et al. 2021; Al Amosh and Khatib 2023). At the same time, the global environment has become more interconnected, causing ESG controversies that might once have remained geographically isolated to spread rapidly across borders through international media coverage and integrated stakeholder networks, thereby magnifying reputational and legitimacy risks for internationally active firms (Schiemann and Tietmeyer 2022; Elmghaamez et al. 2024). These developments underscore that ESG controversies today carry broader and more immediate consequences for firms, investors, and policymakers than in previous decades. At the same time, the globalization project itself has come under renewed scrutiny, leaving internationally active firms navigating not simply more rules but more fragmented and sometimes contradictory expectations about what constitutes legitimate and responsible behavior (Ciravegna and Michailova 2021; Cuervo Cazorra et al. 2017). These dynamics make ESG controversies a core vulnerability of internationalization (Lund-Thomsen et al. 2016; Pisani et al. 2017). Despite this, research has not sufficiently explained *why* internationalization consistently heightens the likelihood of ESG controversies, nor has it fully explored the governance conditions under which these risks intensify or subside. Therefore, the first question the study poses is: Does internationalization increase the likelihood of ESG controversies?

The board of directors sits at the center of these challenges. Resource dependence theory (RDT) posits that boards serve as crucial bridges between the firm and its external environment, responsible for securing knowledge, legitimacy, and strategic resources that enable firms to navigate complexity (Pfeffer and Salancik 1978; Hillman et al. 2009). As firms operate internationally, this boundary-spanning role becomes increasingly important, particularly when it comes to interpreting diverse regulatory environments and responding to ESG-related expectations. It is within this setting that foreign directors have gained prominence. They are often appointed for their global experience, cross-border networks, and knowledge of international norms, qualities that appear especially valuable for firms operating on a worldwide stage (Masulis et al. 2012; Harjoto et al. 2019). Their presence seemingly signals a board more capable of understanding the sustainability challenges that arise when firms operate across institutional contexts.

Nonetheless, the very attributes that make foreign directors attractive may also introduce blind spots. Institutional theory indicates that individuals unfamiliar with local norms, enforcement practices, and stakeholder expectations often struggle to anticipate what local actors perceive as socially responsible behavior (Aguilera et al. 2018). Stakeholder theory further suggests that, without embedded relationships or contextual awareness, directors may misjudge the salience of environmental or social risks that are deeply important to communities affected by the firm's operations (Lunawat et al. 2025). Previous empirical research has begun to show that foreign directors frequently confront information disadvantages, cultural distance, and have limitations on their ability to monitor management effectively (Estélyi and Nisar 2016; Kuzey, Al-Shaer, et al. 2024). In practice, this means that although they may enrich the board's advisory capacity, they

may struggle to detect emerging ESG concerns or to challenge managerial decisions that carry reputational or ethical consequences.

These perspectives highlight a puzzle that has not been fully explored. Although internationalization raises the stakes for effective ESG oversight because firms must operate across complex and conflicting institutional environments (Surroca et al. 2013; Marano and Kostova 2016), foreign directors are often appointed with the expectation that their global experience will help firms navigate this complexity (Masulis et al. 2012; Harjoto et al. 2019; Hooghiemstra et al. 2019). However, existing research also shows that foreign directors frequently face informational disadvantages and limited familiarity with local regulatory norms, cultural expectations, and stakeholder priorities (Oxelheim and Randøy 2003; Estélyi and Nisar 2016; Kazim et al. 2024). As a result, it remains unclear whether they strengthen or weaken the firm's ability to identify and respond to ESG risks. The possibility that foreign directors may intensify, rather than mitigate, ESG controversies aligns with emerging evidence that their advisory value does not always offset the monitoring challenges created by institutional and cultural distance (Kuzey, Al-Shaer, et al. 2024; Elmghaamez et al. 2024). This contradiction challenges common assumptions about the benefits of international experience on boards and raises broader questions about *how* well board composition aligns with the governance demands of internationalization. As such, the second question we pose is: How do foreign directors influence the relationship between internationalization firms' ESG controversies?

Focusing on US firms provides an especially suitable setting for this study. US corporations are among the most globally active, operating across institutional environments where regulatory expectations and sustainability norms differ widely, conditions known to heighten the risk of ESG controversies (Lund-Thomsen et al. 2016; Pisani et al. 2017). The US also offers a highly transparent governance environment in which ESG failures are quickly detected, publicized, and scrutinized, enabling more precise observation of how internationalization strains firms' ability to manage ESG risks (Aguilera et al. 2018; Hussain et al. 2024). High-quality, standardized ESG controversy data for US firms further strengthen the empirical validity of the analysis (Kuzey, Gerged, et al. 2024). At the same time, US firms vary widely in their use of foreign directors, making them an ideal context for examining how international expertise interacts with monitoring challenges. Although foreign directors may bring global perspectives, prior work shows that they often face significant informational and institutional disadvantages in the US context (Masulis et al. 2012; Estélyi and Nisar 2016; Oxelheim and Randøy 2003). This combination of extensive international exposure, strong institutional visibility, and heterogeneous board structures makes US firms uniquely well-suited for investigating how internationalization contributes to ESG controversies and how foreign directors shape this relationship.

Our analysis shows that internationalization is indeed associated with a higher likelihood of ESG controversies. More importantly, the presence of foreign directors intensifies this relationship, suggesting that their advisory strengths do not fully compensate for the monitoring challenges created by institutional and cultural distance. These findings offer new

insights into the governance vulnerabilities that accompany international expansion and demonstrate that foreign directors, although often appointed to bolster global expertise, can inadvertently exacerbate the ESG risks firms face when operating across diverse institutional environments.

This study makes several contributions that deepen current theorizing at the intersection of internationalization, corporate governance, and sustainability. First, by showing that internationalization systematically heightens firms' exposure to ESG controversies, we extend research that links global expansion to institutional complexity (Kostova and Zaheer 1999; Aguilera et al. 2018) and demonstrate that cross-border operations create governance demands that exceed what existing board structures often anticipate. This reframes ESG controversies as structural risks inherent to global strategy, rather than isolated governance failures, advancing emerging work on the sustainability liabilities of multinational activity (Lund-Thomsen et al. 2016; Pisani et al. 2017). Second, our findings challenge the predominant RDT-based expectation that foreign directors unequivocally strengthen ESG governance by supplying global expertise and boundary-spanning resources (Masulis et al. 2012; Yu and Van Luu 2021). Instead, we show that these resource benefits can be overshadowed by monitoring constraints arising from informational disadvantages, institutional distance, and limited stakeholder embeddedness (Estélyi and Nisar 2016; Kuzey, Al-Shaer, et al. 2024). In highly internationalized firms, where governance demands are already clarified, foreign directors' advisory strengths do not fully offset these constraints, resulting in a net intensification of ESG controversy exposure. This extends RDT by clarifying that resource provision alone does *not* guarantee effective sustainability oversight; its value is contingent on local institutional fit and monitoring capacity.

Third, by integrating insights from institutional, stakeholder, and upper-echelons perspectives, we advance a more comprehensive understanding of the ESG-related consequences of board international diversity. Our results reveal that culturally diverse boards are not uniformly beneficial for ESG governance and may exacerbate sustainability risks when directors lack the experiential attributes or contextual familiarity needed to interpret local ESG signals (Volonté and Gantenbein 2016; Mahadeo et al. 2020). This positions our study within a growing body of work calling for more fine-grained theorization of director characteristics and their conditional effects on sustainability outcomes (Hussain et al. 2022; Uyar et al. 2024). Overall, these contributions reconceptualize both internationalization and foreign directors as *indecisive* governance forces, capable of enabling global strategy but also generating new exposure to ESG failure. Our findings thus invite scholars and policymakers to reconsider the assumption that international board diversity inherently enhances governance quality, highlighting instead the need to align board capabilities with the institutional demands of increasingly complex global operations.

Section 2 presents the theoretical framework and develops the hypotheses following this introduction. Section 3 outlines the research methodology. Section 4 details the empirical findings, and Section 5 concludes the paper with a discussion of

theoretical and practical implications, as well as avenues for future research.

2 | Literature Review

2.1 | Theoretical Underpinning

The RDT posits that the board is a crucial mechanism through which firms navigate the external environment and secure the resources necessary for organizational survival (Pfeffer and Salancik 1978). For internationally active firms, these environmental dependencies intensify. Cross-border operations expose firms to heterogeneous regulatory systems, culturally embedded notions of corporate responsibility, and stakeholder expectations that may conflict not only with one another but also with the firm's existing governance routines (Kostova and Zaheer 1999). From the RDT perspective, such complexity heightens the value of directors who can bring nonlocal knowledge, access to transnational networks, and experience in interpreting global sustainability norms, roles that foreign directors are often assumed to fulfill. Nevertheless, recent scholarship increasingly shows that corporate sustainability challenges are rarely resolved by resource acquisition alone; they require governance structures capable of translating resources into effective oversight and responsible action (Mahadeo et al. 2020; Kuzey, Al-Shaer, et al. 2024). This distinction becomes particularly salient when analyzing ESG controversies, which often arise not from a lack of information but from failures in local responsiveness, monitoring, and stakeholder alignment.

Foreign directors embody this tension. On the one hand, they may enhance the board's advisory capacity by introducing global perspectives, comparative regulatory insights, and experience with international sustainability frameworks (Masulis et al. 2012; Yu and Van Luu 2021). These attributes closely align with RDT's depiction of directors as conduits of critical resources. On the other hand, the same international backgrounds that enrich advisory capacity can weaken monitoring effectiveness, especially when directors lack embedded knowledge of local institutions, informal norms, or the sociopolitical sensitivities surrounding environmental and social issues (Estélyi and Nisar 2016). In this sense, foreign directors may both enable and constrain ESG governance, depending on how well their expertise fits the institutional and cultural demands of the host environment.

To deepen RDT's explanatory power in the sustainability domain, our study integrates complementary insights from institutional theory and stakeholder theory, two frameworks frequently employed in the relevant literature to explain cross-country variation in responsible business conduct. Institutional theory suggests that firms operate within regulatory, normative, and cognitive environments that shape acceptable forms of ESG behavior (Aguilera et al. 2007). When foreign directors operate within unfamiliar institutional ecosystems, the risk of misalignment increases. Their home-country regulatory knowledge may be insufficiently prepared to navigate local enforcement practices, stakeholder activism, community expectations, or ESG-related litigation risks. In strong governance environments, this may translate into challenges meeting high regulatory scrutiny;

in weaker governance settings, it may create blind spots around legitimacy risks that local directors would more readily anticipate. Such institutional contingencies explain why prior findings on foreign directors and ESG outcomes remain mixed (Hussain et al. 2022; Uyar et al. 2024), and they contextualize our finding that foreign directors exacerbate ESG controversies in highly internationalized firms.

Stakeholder theory further clarifies why internationalization magnifies governance vulnerabilities. Internationalized firms engage a diverse set of stakeholders, local communities, regulators, supply-chain partners, and transnational advocacy groups, whose expectations regarding environmental protection and social responsibility often diverge. Foreign directors may excel at interpreting global stakeholder pressures but may lack the relational embeddedness required to sense, prioritize, and respond to local grievances early enough to prevent controversies. As Pisani et al. (2017) emphasize, ESG controversies frequently arise not from strategic intent but from translation gaps between global aspirations and local execution. This dynamic suggests that the value of foreign directors is contingent not only on their expertise but also on their proximity to the stakeholders most affected by the firm's operations.

Finally, the upper echelons theory enriches this discussion by highlighting the heterogeneity among foreign directors. Nationality alone does not capture the deeper attributes that shape governance behavior; directors differ substantially in their experiential backgrounds, such as international board tenure, foreign operating experience, workload (busyness), and industry-specific sustainability expertise (Masulis et al. 2012). These individual characteristics directly influence how foreign directors interpret ESG priorities, allocate attention, and engage in monitoring. Prior research recognizes that foreign directors bring valuable global expertise, transnational networks, and familiarity with international ESG standards (Yu and Van Luu 2021), yet they also face limitations linked to information asymmetry, unfamiliarity with local regulatory and cultural contexts, and reduced monitoring effectiveness (Estélyi and Nisar 2016; Oxelheim and Randøy 2003; Kazim et al. 2024). For instance, directors with extensive international experience may better anticipate sustainability risks across jurisdictions (Uyar et al. 2024; Zhu et al. 2024), whereas those serving on multiple boards may struggle to devote sufficient time to ESG oversight, an issue aligned with concerns raised about limited local engagement and competing advisory versus monitoring demands (Kuzey, Al-Shaer, et al. 2024). This behavioral lens complements RDT by recognizing that resource providers differ not only in the resources they possess but also in their capacity and willingness to mobilize them effectively in governance contexts.

Taken together, integrating RDT with institutional, stakeholder, and upper-echelons perspectives allows us to conceptualize foreign directors as both potential enablers and detractors of sustainability governance. Their impact hinges on institutional fit, stakeholder embeddedness, and experiential attributes, rather than merely on their possession of global knowledge. This expanded framework helps explain why foreign directors, despite their presumed benefits, may inadvertently intensify ESG controversies when their monitoring limitations interact with the heightened governance complexity of internationalization

(Kuzey, Gerged, et al. 2024; Estélyi and Nisar 2016). It also aligns our study with a growing body of research showing that board composition and director characteristics fundamentally shape firms' capacity to govern responsibly within complex global sustainability environments (Walls et al. 2012; Orazalin et al. 2024).

2.2 | Hypothesis Development

2.2.1 | Internationalization and ESG Controversies

Internationalization exposes firms to diverse institutional requirements and stakeholder expectations, making it more challenging to maintain consistent and responsible ESG practices across borders (Ioannou and Serafeim 2012; Kostova and Zaheer 1999). Previous research demonstrates that multinational companies often experience sustainability failures, from labor abuses to pollution controversies, mainly because their dispersed operations result in inconsistent implementation of ESG controls (Lund-Thomsen et al. 2016; Pisani et al. 2017). Although some recent studies have linked board composition traits to environmental and social outcomes, such as gender diversity and sustainability reporting (e.g., Mintah et al. 2026, on airlines' environmental and social disclosure), these generally focus on boards within relatively stable institutional contexts. They do not consider *how* the pressures of globalization influence the relationship between board structure and ESG irresponsibility.

Our study addresses this gap by showing that the sustainability challenges associated with internationalization arise not only from operational dispersion but also from governance strain. From a resource dependence standpoint, boards must help firms interpret unfamiliar regulatory landscapes and stakeholder expectations (Hillman et al. 2009). However, as firms internationalize, these expectations multiply and conflict, increasing the probability of ESG controversies unless boards can absorb the resulting institutional complexity (Marano and Kostova 2016; Surroca et al. 2013). This governance-focused lens complements emerging work showing that ESG risks often escalate when organizational structures are subject to demands that exceed their monitoring and integrative capacity (Jain and Zaman 2020; Gündoğdu et al. 2023).

In line with the integrated RDT-institutional-stakeholder framework, we expect that internationalization increases the likelihood of ESG controversies because firms struggle to harmonize sustainability practices across institutional contexts while facing intensified scrutiny from heterogeneous stakeholder groups (Aguilera et al. 2018; Hussain et al. 2024). This broader framing highlights our study's contribution to the ESG literature, rather than focusing solely on domestic governance structures; we foreground globalization pressures as a critical antecedent of ESG irresponsibility, an angle underdeveloped in the literature but increasingly relevant as firms operate across multiple institutional arenas. Hence, we formulate the following hypothesis:

H1. *Internationalization is positively associated with ESG controversies.*

2.2.2 | The Role of Foreign Directors

Foreign directors are commonly portrayed as valuable boundary spanners who bring international experience, specialized knowledge, and cross-border networks that can help boards navigate the governance challenges of internationalization (Masulis et al. 2012; Harjoto et al. 2019; Hooghiemstra et al. 2019). From the RDT standpoint, these directors are expected to enhance the board's advisory capacity by providing insights into foreign markets, regulatory developments and global ESG norms, thereby equipping firms to align more closely with international sustainability expectations (Aggarwal et al. 2011; Yu and Van Luu 2021). Empirical studies report that foreign directors and directors with foreign experience can support stronger ESG performance and disclosure, for example, through improved environmental reporting, more robust waste management and better alignment with global sustainability practices (Hussain et al. 2022; Uyar et al. 2024; Zhu et al. 2024).

At the same time, research grounded in institutional theory and stakeholder theory highlights that these benefits are conditional. Foreign directors often confront informational disadvantages and limited familiarity with local regulatory frameworks, cultural norms and stakeholder expectations, which can weaken their ability to monitor management and enforce accountability effectively (Oxelheim and Randøy 2003; Estélyi and Nisar 2016; Kazim et al. 2024). In complex international settings, such monitoring challenges are exacerbated by institutional distance and the dispersion of operations, making it difficult for foreign directors to detect emerging ESG problems and understand their salience for local communities and regulators (Surroca et al. 2013; Li et al. 2024). Upper-echelons-inspired work further suggests that directors' human capital and experiential profiles shape how they interpret sustainability issues and allocate attention, implying that foreign directors' impact depends on their capacity—and not just their position—to mobilize expertise in the service of monitoring (Volonté and Gantenbein 2016; Mahadeo et al. 2020).

When these advisory and monitoring roles are considered together, a more comprehensive picture emerges. Although foreign directors may help firms interpret and respond to global sustainability trends, their limited embeddedness in local institutional and stakeholder contexts can create governance blind spots, particularly when firms are highly internationalized, and ESG oversight is already stretched (Kuzey, Al-Shaer, et al. 2024; Elmghaamez et al. 2024). In such circumstances, the presence of foreign directors can inadvertently strengthen the sustainability risks generated by internationalization, as their advisory strengths fail to compensate fully for weakened monitoring and local responsiveness (Estélyi and Nisar 2016; Kuzey, Gerged, et al. 2024). Consistent with this integrated RDT–institutional–stakeholder–upper-echelons framework, we expect that foreign directors will intensify, rather than dampen, the positive relationship between internationalization and ESG controversies. Thus, we formulate the following hypothesis:

H2. *The positive association between internationalization and ESG controversies is stronger when the firm has a higher proportion of foreign directors on its board.*

3 | Research Design

3.1 | Sample and Descriptive Statistics

The sample of the study covers the period between 2002 and 2021 and consists of US firms. The London Stock Exchange Group (LSEG) Workspace database (formerly known as Thomson Reuters Eikon/Refinitiv database) is our primary data source, as it is well-known for its standardized ESG scoring system. The sample period starts with 2002, as it is the earliest year for which ESG controversy data are provided, and ends with 2021, which was the latest period when we initiated this study. The sample size focuses on the firm-year observations associated with the US firms having firm-level ESG controversies, financial, and board data. After eliminating observations with missing data, we have a final sample size of 5834 observations. The resulting sample size remains comparable to prior US studies employing ESG controversy measures and board-level data and is sufficient to support robust statistical inference (Treepongkaruna et al. 2024a, 2024b). Our sample, compared to those prior studies, shrinks a bit more due to the lack of data for internationalization data for some firms.

The descriptive statistics reported in Table 1 show the distributional properties of the variables used in our main analyses on the association between internationalization and ESG controversies and how foreign directors moderate this relationship. The dependent variable, ESG_CONT, which represents the natural logarithm of ESG controversy scores, has a mean of 4.41, corresponding to an average controversy score of approximately 82.11 on a scale of 0 to 100. The ESG controversies score captures realized negative ESG-related events and allegations reported in global media, reflecting firms' exposure to corporate irresponsibility. The controversies score focuses on observable misconduct, alleged regulatory violations, and adverse incidents. As such, lower values indicate greater involvement in ESG-related controversies and, by extension, higher levels of corporate irresponsibility (Schiemann and Tietmeyer 2022). Given that higher ESG_CONT values indicate fewer controversies, whereas lower values suggest more controversies, this indicates that many firms in the sample experience relatively low levels of ESG controversies.

Our main explanatory variables, INTER (internationalization) and FD (foreign directors), show significant variations. The mean value of INTER is 14.42%, with significant variability (SD = 16.97%), suggesting that firms differ widely in their international asset exposure. The proportion of FD has a mean of 13.68%, with a standard deviation (SD = 9.49%), reflecting wide variability in the inclusion of foreign board members across firms. This distribution initially suggests the potential for variation in the moderating effect of foreign directors on the internationalization–ESG controversies relationship.

Moreover, our set of control variables further explains our sample's innate characteristics. On average, firms exhibit moderate leverage (mean = 0.25) and strong liquidity (current ratio mean = 2.30). Capital expenditures (mean = 4.15%) and R&D intensity (mean = 2.87%) suggest cautious investment strategies, whereas the high mean free float (92.45%) reflects

TABLE 1 | Descriptive statistics.

Variable	<i>n</i>	Mean	Median	SD	p25	p75
ESG_CONT	5834	4.414	4.605	0.579	3.986	4.605
INTER	5834	14.416	7.606	16.966	0.854	38.960
FD	5834	13.685	10.000	9.491	8.333	14.286
Firm size	5834	22.226	22.172	1.563	20.358	24.245
Leverage	5834	0.249	0.230	0.186	0.003	0.485
Current ratio	5834	2.301	1.851	1.726	1.018	3.977
Capital expenditure	5834	0.042	0.030	0.038	0.010	0.085
R&D intensity	5834	0.029	0.001	0.053	0.000	0.095
Free float	5834	92.452	98.386	13.873	76.871	99.750
Board size	5834	9.798	10.000	2.286	7.000	13.000
Board independence	5834	80.144	83.333	12.040	63.636	91.667
Gender diversity	5834	17.559	16.667	10.953	0.000	33.333
Duality	5834	0.645	1.000	0.479	0.000	1.000
WGI	5834	1.204	1.242	0.097	1.027	1.272

Note: This table reports summary statistics of the main variables used in our analyses. All continuous variables are winsorized at 1% on both tails. Variable definitions are provided in Appendix A.

widespread ownership dispersion. Regarding governance structures, our firms, on average, have a board size of 9.80 members, 80.14% board independence, board gender diversity of 17.56%, and 64.47% CEO–chairperson dual role. The average worldwide governance indicator (WGI) of 1.20 indicates the governance strength of the United States over the sample period. Collectively, these results demonstrate significant heterogeneity across firms in terms of our main variables of interest and control variables. This variation aligns with the previous studies in similar contexts and supports our analysis of how internationalization and foreign directors influence ESG controversies.

Table 2 reports the pairwise correlations (Pearson product-moment correlations are exhibited on the upper-right-hand portion, and Spearman rank-order correlations are exhibited on the lower-left-hand portion). We discuss the Spearman rank-order correlations, but note that the Pearson correlations are generally consistent with the Spearman rank-order correlations. At the 5% significance level, as expected, the INTER variable is negatively associated with ESG_CONT (−0.1). In addition, FD is negatively correlated with ESG_CONT (−0.2). Recall, consistent with the ESG_CONT definition above, the negative signs in our tests imply a positive association with increased ESG controversies. Among control variables, leverage (−0.04), board size (−0.30), board independence (−0.10), board gender diversity (−0.12), CEO–chair duality (−0.073), total assets (−0.479), capital expenditure (−0.102), and free float (−0.231) are negatively correlated with ESG_CONT. Conversely, the current ratio (0.199), R&D intensity (−0.015), and WGI average (−0.040) show varying directions of association. These bivariate results align with prior research and provide initial support for our hypotheses.

3.2 | Empirical Model

Our research objective is to examine the relationship between internationalization and ESG controversies and how foreign directors moderate this relationship. To this end, we employ the following ordinary least squares (OLS) regression:

$$ESG_CONT_{it} = B_0 + B_1 INTER_{it} + B_2 FD_{it} + B_3 INTER * FD_{it} + \sum_{j=1}^{nj} \delta_j C_{jit} + \eta_{kt} + \varepsilon_{it} \quad (1)$$

where ESG_CONT equals the natural logarithm of ESG controversies score, ranging from 0 (highest controversies) to 100 (no controversies) (Schiemann and Tietmeyer 2022).¹ Hence, the lower (higher) the score, the more (fewer) controversies firms. INTER captures internationalization as the firm's international assets scaled by total assets (Kuzey, Gerged, et al. 2024). FD is foreign directors measured as the proportion of foreign directors on the board of directors (Kuzey, Gerged, et al. 2024). The interaction term INTER * FD for the moderating role of foreign directors in the internationalization–ESG controversies nexus. In our tests, INTER and the interaction term INTER * FD are our main variables of interest. $C_{i,t-1}$ is a vector of control variables. Following the literature (Jain and Zaman 2020; Kuzey, Al-Shaer, et al. 2024; Treepongkaruna et al. 2024a), our set of control variables includes leverage as total debt divided by the total assets; current ratio as total current assets divided by total current liabilities; the natural logarithm of total assets; capital expenditure as capital expenditures divided by total assets; R&D intensity as research and development expenditure divided by total assets; the percentage of shares free float; board size as the number of members on board of directors; board independence

TABLE 2 | Pearson (top) and Spearman (bottom) correlation coefficients.

Variable	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
1 ESG_CONT	1	-0.082	-0.100	-0.433	-0.019	0.116	-0.052	0.005	-0.066	-0.223	-0.071	-0.102	-0.042	-0.025
2 INTER	-0.096	1	0.127	0.099	0.024	-0.117	0.204	-0.175	0.019	0.084	0.018	-0.023	0.060	0.024
3 FD	-0.155	0.141	1	0.194	0.038	-0.061	0.008	-0.030	0.018	0.141	0.051	0.025	-0.046	-0.009
4 Firm size	-0.479	0.148	0.241	1	0.167	-0.356	0.073	-0.222	0.241	0.592	0.169	0.167	0.137	0.176
5 Leverage	-0.036	0.077	0.072	0.233	1	-0.266	0.019	-0.201	-0.039	0.168	0.047	0.087	-0.024	-0.041
6 Current ratio	0.199	-0.149	-0.114	-0.411	-0.334	1	-0.077	0.226	-0.042	-0.288	-0.069	-0.152	-0.068	-0.057
7 Capital expenditure	-0.102	0.333	0.016	0.057	0.020	-0.082	1	-0.052	-0.032	-0.002	-0.028	-0.075	0.054	0.131
8 R&D intensity	-0.015	-0.185	-0.027	-0.102	-0.206	0.282	-0.043	1	-0.007	-0.208	-0.019	-0.055	-0.074	-0.020
9 Free float	-0.231	0.111	0.119	0.456	0.078	-0.137	0.027	0.056	1	0.145	0.348	0.082	0.085	0.099
10 Board size	-0.295	0.140	0.207	0.593	0.208	-0.314	0.052	-0.180	0.271	1	0.144	0.158	0.117	0.139
11 Board independence	-0.101	0.076	0.101	0.206	0.152	-0.126	-0.011	0.026	0.344	0.208	1	0.219	0.012	-0.066
12 Gender diversity	-0.120	0.003	0.059	0.170	0.095	-0.174	-0.043	-0.039	0.133	0.146	0.238	1	0.010	-0.311
13 Duality	-0.073	0.098	-0.034	0.145	-0.009	-0.073	0.042	-0.055	0.069	0.120	-0.007	0.010	1	0.103
14 WGI	-0.040	0.050	-0.039	0.144	-0.043	-0.061	0.143	-0.013	0.125	0.115	-0.060	-0.273	0.099	1

Note: This table reports the correlation coefficients of the main variables used in our analyses. Bold numbers indicate significance based on two-tailed t tests, at the 0.10 level or better. All continuous variables are winsorized at 1% on both tails. Variable definitions are provided in Appendix A.

as the proportion of independent members on the board of directors; gender diversity as the proportion of females on the board of directors; duality as dummy variable takes the value of one if the CEO is also chairperson of the board of directors; and WGI as the average of six WGIs. $\eta_{k,t}$ controls for industry and year-fixed effects. We further use industry and year-fixed effects to control for inherently volatile industries and unobserved effects over the years, as well as robust standard errors that control for both serial correlation and heteroscedasticity. Additionally, we winsorize continuous variables on the 1% of both tails to mitigate the influence of outliers (Ahmed et al. 2024).² Appendix A gives the variable definitions and their sources.

4 | Results

4.1 | Internationalization, ESG Controversies, and the Role of Foreign Directors

Table 3 presents the results of the OLS regression models testing the relationship between internationalization, ESG controversies, and the moderating effect of foreign directors. Specifically, Column 1 of Table 3 shows a negatively statistically significant coefficient for INTER (t statistic = -4.48 , significant at the 1% level). This suggests that greater internationalization is associated with higher levels of ESG controversies. In economic terms, a one-standard-deviation increase in internationalization (16.97%, as shown in Table 1) corresponds to a 0.034-unit decrease in ESG_CONT. When this change is exponentiated, it translates into a 3.4% increase in ESG controversies, reflecting the challenges associated with managing ESG performance in international contexts. This finding supports H1.

Column 2 of Table 3 reports our results for the moderating role of foreign directors. The coefficient on the interaction term INTER \times FD is negative and statistically significant (t statistic = -3.57 , significant at the 1% level). The negative and significant sums of the parameters of (INTER + INTER \times FD) indicate that foreign directors amplify the adverse effect of internationalization on ESG controversies. At the mean level of INTER (14.42), a one-standard-deviation increase in foreign directors (+9.49%) leads to a 0.137 decrease in ESG_CONT, equivalent to a compounding effect of approximately 12.8% more ESG controversies. This finding supports H2.

Notably, the coefficient for FD exhibits a positive and statistically significant association with ESG_CONT in column 2 (t statistic = 2.90, significant at the 1% level). This suggests that, in isolation, a higher proportion of foreign directors is associated with fewer ESG controversies. However, the moderating results above indicate that this positive effect diminishes when combined with high levels of internationalization, underscoring the complexity of their role in ESG governance. Overall, our results indicate that internationalization is significantly associated with increased ESG controversies and that foreign directors exacerbate this relationship. Our evidence supports prior studies highlighting the complexities of operating in diverse and complex regulatory, cultural, and institutional environments (Surroca et al. 2013; Marano and Kostova 2016). Firms with higher international asset exposure may face greater scrutiny

TABLE 3 | Internationalization, ESG controversies, and the role of foreign directors: OLS regression results.

	ESG_CONT (1)	ESG_CONT (2)
INTER	-0.002*** (-4.48)	-0.002*** (-4.76)
FD	0.001 (0.45)	0.008*** (2.90)
INTER \times FD		-0.001*** (-3.57)
Firm size	-0.224*** (-32.22)	-0.215*** (-29.93)
Leverage	0.159*** (3.46)	0.109** (2.33)
Current ratio	-0.015*** (-2.97)	-0.012** (-2.31)
Capital expenditure	-0.651*** (-2.90)	-0.591*** (-2.61)
R&D intensity	-1.376*** (-7.63)	-1.312*** (-7.01)
Free float	0.002*** (3.72)	0.002*** (3.61)
Board size	0.012*** (2.82)	0.017*** (3.76)
Board independence	-0.000 (-0.16)	-0.001 (-0.93)
Gender diversity	-0.001 (-1.27)	-0.001 (-1.07)
Duality	0.030* (1.79)	0.023 (1.37)
WGI	0.594*** (2.66)	0.509** (2.22)
Industry FE	Yes	Yes
Year FE	Yes	Yes
Constant	8.565*** (30.13)	8.474*** (28.89)
n	5834	5834
Adj. R^2	0.228	0.225

Note: This table reports the coefficient estimates from the OLS regression models. Robust standard errors adjusted for clustering at the firm level. t Statistics in parentheses. Variable definitions are provided in Appendix A.

* $p < 0.1$, using two-tailed tests.

** $p < 0.05$, using two-tailed tests.

*** $p < 0.01$, using two-tailed tests.

from stakeholders, whereas the dispersion of operations can create coordination challenges in addressing ESG issues effectively. Moreover, although board-level cultural diversity may be beneficial in some respects as discussed earlier, foreign directors may introduce complexities in decision-making that amplify ESG-related controversies, especially in firms with significant international operations.

4.2 | Robustness Tests

4.2.1 | Heckman's Two-Step Model

We validate our findings and test robustness using various powerful econometric methods and techniques. Testing whether board-level cultural diversity influences the internationalization–ESG controversies relationship using an OLS method can trigger self-selection bias. Specifically, a potential bias is that a firm's decision to recruit foreign directors to the board is unlikely to be exogenous. Companies are not required to appoint foreign directors. Given that doing so or not is left to the companies' discretion, it is possible that our sample is systematically biased. Therefore, we employ the Heckman (1979) two-step estimation method to correct for self-selection bias resulting from the possibility that a foreign director's appointment is a managerial decision rather than a random choice. In the first step, we run a probit regression of the likelihood of having a foreign director on the board of directors on the set of our control variables (e.g., Elsayed et al. 2022; Chu et al. 2025). In the second step, the inverse Mills ratio (IMR) estimated from the probit model in the first step is included as an additional variable in our models. Columns 1 and 2 of Table 4 report Heckman's second-step regression results, which are qualitatively consistent with those reported under the main analysis, suggesting that our findings are not subject to self-selection bias.

4.2.2 | Propensity Score Matching Technique

As a further effort to address endogeneity concerns, we employ propensity score matching by establishing a treatment group (e.g., board with foreign directors) matched to a control group (e.g., board without foreign directors). First, we calculate each observation's propensity score using a logit model that predicts the likelihood of the presence of foreign directors as a function of firm-level innate characteristics (Elshandidy et al. 2025). Then, we use two matching methods: the nearest neighbors and caliper (Ahmed and Elshandidy 2021). We further apply the nearest neighbor matching approach without replacement, which means that each firm in the control group can only appear and match one firm in the treated group (Ge and Lennox 2011). We also restrict observations to being on the common support by excluding firms in the control group whose propensity lies above the maximum value or below the minimum value of propensity score among firms in the treated group, and vice versa. This guarantees that we do not match firms concentrated at the extreme boundaries (Saunders and Steffen 2011). Table 5 shows that our results from the propensity score matching technique are consistent and support our previous results. This also confirms that our results are not subject to endogeneity problems.

TABLE 4 | Internationalization, ESG controversies, and the role of foreign directors: Heckman's two-step method.

	ESG_CONT (1)	ESG_CONT (2)
INTER	−0.002***	−0.003***
	(−4.74)	(−5.17)
FD	0.003**	0.007***
	(2.38)	(2.80)
INTER × FD		−0.001**
		(−2.23)
Firm size	−1.158***	−1.103***
	(−21.32)	(−19.76)
Leverage	−0.324***	−0.341***
	(−6.14)	(−6.37)
Current ratio	−0.074***	−0.068***
	(−12.46)	(−11.05)
Capital expenditure	5.503***	5.276***
	(13.18)	(12.31)
R&D intensity	−9.073***	−8.650***
	(−18.99)	(−17.54)
Free float	0.019***	0.018***
	(16.72)	(15.57)
Board size	−0.286***	−0.267***
	(−16.15)	(−14.65)
Board independence	−0.010***	−0.010***
	(−11.11)	(−10.88)
Gender diversity	0.009***	0.009***
	(9.28)	(8.76)
Duality	0.747***	0.707***
	(16.80)	(15.45)
WGI	19.803***	18.776***
	(17.53)	(16.17)
IMR	−4.624***	−4.393***
	(−17.32)	(−16.03)
Industry FE	Yes	Yes
Year FE	Yes	Yes
Constant	18.685***	18.088***
	(28.87)	(27.17)
<i>n</i>	5814	5814
Adj. <i>R</i> ²	0.265	0.259

Note: This table reports the coefficient estimates after controlling for the inverse Mills ratio (IMR) estimated by Heckman's two-stage method to control for self-selection bias. Robust standard errors adjusted for clustering at the firm level. *t* Statistics in parentheses. Variable definitions are provided in Appendix A.

***p* < 0.1, using two-tailed tests.

****p* < 0.05, using two-tailed tests.

****p* < 0.01, using two-tailed tests.

TABLE 5 | Internationalization, ESG controversies, and the role of foreign directors: PSM technique.

	ESG_CONT (1)	ESG_CONT (2)	ESG_CONT (3)	ESG_CONT (4)
INTER	-0.003*** (-2.62)	-0.003*** (-2.78)	-0.003*** (-2.94)	-0.003*** (-3.08)
FD	0.001 (0.38)	0.005 (1.46)	0.000 (0.10)	0.005 (1.49)
INTER × FD		-0.000* (-1.83)		-0.0001* (-1.96)
Firm size	-0.344*** (-22.15)	-0.340*** (-20.88)	-0.303*** (-18.76)	-0.312*** (-18.23)
Leverage	0.226** (2.02)	0.160 (1.41)	0.137 (1.22)	0.111 (0.97)
Current ratio	-0.047*** (-3.32)	-0.035** (-2.37)	-0.034** (-2.48)	-0.027* (-1.86)
Capital expenditure	-0.999* (-1.75)	-0.847 (-1.45)	-0.725 (-1.28)	-0.743 (-1.27)
R&D intensity	-1.341*** (-2.90)	-1.193*** (-2.58)	-1.229*** (-2.68)	-1.214*** (-2.61)
Free float	0.002 (1.40)	0.003* (1.88)	0.002 (1.50)	0.003* (1.80)
Board size	0.030*** (3.12)	0.037*** (3.72)	0.020** (2.01)	0.030*** (2.92)
Board independence	0.002 (1.04)	0.001 (0.29)	0.001 (0.53)	0.000 (0.21)
Gender diversity	-0.003 (-1.52)	-0.002 (-0.88)	-0.003 (-1.54)	-0.002 (-0.94)
Duality	0.042 (1.08)	0.036 (0.90)	0.049 (1.26)	0.048 (1.18)
WGI	0.825 (1.25)	0.883 (1.29)	0.630 (0.95)	0.938 (1.36)
Industry FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Constant	10.993*** (13.67)	10.820*** (13.06)	10.441*** (12.89)	10.201*** (12.13)
<i>n</i>	1774	1774	1636	1636
Adj. <i>R</i> ²	0.306	0.307	0.271	0.282

Note: This table reports the coefficient estimates of OLS regression models using a matched propensity scores sample of firms with culturally diverse boards and firms without culturally diverse boards. The analysis uses two matching approaches: nearest neighbors (Columns 1 and 2) and caliper (Columns 3 and 4). Robust standard errors adjusted for clustering at the firm level. *t* Statistics in parentheses. Variable definitions are provided in Appendix A.

**p* < 0.1, using two-tailed tests.

***p* < 0.05, using two-tailed tests.

****p* < 0.01, using two-tailed tests.

4.2.3 | Instrumental Variables Two-Stage Least Squares Model

Consistent with prior research (e.g., Adams et al. 2010; Farrell and Hersch 2005), we employ a two-stage least squares (2SLS) statistical technique to address endogeneity concerns related to possible omitted variables. Following previous studies (e.g., Ho et al. 2023; Elshandidy and Elsayed 2024; Ebaya et al. 2024), the average industry-year percentage of foreign directors and FD lagged values are instrumentalized in the first stage. These are founded on the job segmentation hypothesis that the diversity of occupations is rigid and, therefore, demand for foreign labor can be dependent on demand in foreign-dominated industries (Rubery 2010). Specifically, the industry-year foreign director ratio varies at a level that is plausibly exogenous to firm-level ESG controversies, as individual firms' ESG incidents are unlikely to influence board composition patterns at the industry level. Similarly, the use of lagged foreign director representation exploits temporal separation, reducing concerns that contemporaneous ESG controversies drive board restructuring.

This identification strategy implies that variation in the instruments is driven by industry-level labor market conditions rather than firm-specific ESG-related behavior and that the instruments are unlikely to be affected by firms' ESG practices in the distant future. This is also jointly supported by the high statistical significance and *F* statistics (e.g., Kini and Williams 2012; Larcker and Rusticus 2010). Thus, our two instruments are relevant and exogenous. Collectively, with no theoretical reason to suspect that these instruments are correlated with the error term, and statistical estimates suggest that instrumental variables used in our analysis are valid and not weak (e.g., Stock et al. 2002; Larcker and Rusticus 2010; Correia 2014), the 2SLS second stage regression results reported in Table 6 suggest that our results are robust and less likely to be affected by endogeneity attributable to omitted variables bias.

4.2.4 | Firm Fixed Effects Model

We further employ a firm fixed effects regression model to account for any possible bias that would arise in the dependent variable due to unobserved heterogeneity of a firm-specific and time-invariant nature (Elsayed and Elshandidy 2021). This also addresses any possible endogeneity concerns due to omitted variables and time-invariant characteristics such as firm culture, attitudes, and/or beliefs that might affect a firm's ESG-related practices (Faccio et al. 2016; Mekhaimer et al. 2022). Table 7 reports the results that are qualitatively consistent with our previous findings and further confirms that our evidence is not driven by firm-specific unobservable factors.

4.2.5 | Financial Crisis Effects

The financial crisis caused a dramatic fall in global credit markets, which led to a severe reduction in the availability of external finance and impeded firms' ability to invest. This

TABLE 6 | Internationalization, ESG controversies, and the role of foreign directors: the 2SLS method.

	ESG_CONT (1)	ESG_CONT (2)
INTER	−0.002***	−0.002***
	(−3.077)	(−3.077)
FD	0.000	0.008*
	(0.244)	(1.815)
INTER × FD		−0.0001**
		(−2.219)
Firm size	−0.240***	−0.232***
	(−21.158)	(−20.269)
Leverage	0.194***	0.156***
	(3.933)	(3.100)
Current ratio	−0.014***	−0.011**
	(−3.191)	(−2.298)
Capital expenditure	−0.355	−0.359
	(−1.553)	(−1.574)
R&D intensity	−1.196***	−1.136***
	(−6.851)	(−6.242)
Free float	0.003***	0.003***
	(4.341)	(4.074)
Board size	0.009	0.013**
	(1.610)	(2.200)
Board independence	0.000	−0.000
	(0.348)	(−0.226)
Gender diversity	−0.002**	−0.002*
	(−2.523)	(−1.957)
Duality	0.029	0.017
	(1.600)	(0.908)
WGI	0.398***	0.313***
	(4.110)	(3.266)
Industry FE	Yes	Yes
Year FE	Yes	Yes
Constant	8.870***	8.813***
	(43.525)	(42.248)
<i>n</i>	5242	5242
Partial <i>F</i> statistic (instrument, stage 1)	254.76	19.35
Exogeneity test (<i>p</i> value)	0.990	0.039
Adj. <i>R</i> ²	0.219	0.213

Note: This table reports the coefficient estimates of the two-stage least squares (2SLS) regression models, with the key explanatory variable, FD, being instrumentalized by its lagged values and average industry-year percentage. Robust standard errors adjusted for clustering at the firm level. *Z* statistics in parentheses. Variable definitions are provided in Appendix A.

**p* < 0.1, using two-tailed tests.

***p* < 0.05, using two-tailed tests.

****p* < 0.01, using two-tailed tests.

TABLE 7 | Internationalization, ESG controversies, and the role of foreign directors: controlling for firm fixed effects.

	ESG_CONT (1)	ESG_CONT (2)
INTER	-0.002*** (-2.99)	-0.002*** (-2.91)
FD	-0.000 (-0.29)	0.004 (1.42)
INTER × FD		-0.001* (-1.92)
Firm size	-0.171*** (-18.16)	-0.171*** (-18.13)
Leverage	0.053 (0.93)	0.038 (0.67)
Current ratio	-0.002 (-0.38)	-0.002 (-0.31)
Capital expenditure	-0.141 (-0.55)	-0.188 (-0.72)
R&D intensity	-1.202*** (-5.64)	-1.188*** (-5.43)
Free float	0.000 (0.57)	0.001 (0.81)
Board size	0.014*** (2.82)	0.017*** (3.45)
Board independence	0.000 (0.45)	-0.000 (-0.01)
Gender diversity	-0.001 (-1.35)	-0.001 (-1.58)
Duality	-0.013 (-0.67)	-0.015 (-0.78)
WGI	0.477** (2.38)	0.401* (1.92)
Firm FE	Yes	Yes
Year FE	Yes	Yes
Constant	7.542*** (25.23)	7.639*** (24.95)
<i>n</i>	5834	5834
<i>R</i> ²	0.216	0.214

Note: This table reports the coefficient estimates from the firm-fixed effects regression models. Robust standard errors adjusted for clustering at the firm level. *t* Statistics in parentheses. Variable definitions are provided in Appendix A.

**p* < 0.1, using two-tailed tests.

***p* < 0.05, using two-tailed tests.

****p* < 0.01, using two-tailed tests.

TABLE 8 | Internationalization, ESG controversies, and the role of foreign directors: controlling for financial crisis effects.

	ESG_CONT (1)	ESG_CONT (2)
INTER	-0.002*** (-4.46)	-0.002*** (-4.70)
FD	0.000 (0.24)	0.007*** (2.74)
INTER × FD		-0.0001*** (-3.48)
Firm size	-0.229*** (-33.32)	-0.221*** (-31.10)
Leverage	0.192*** (4.24)	0.149*** (3.21)
Current ratio	-0.014*** (-2.86)	-0.011** (-2.19)
Capital expenditure	-0.680*** (-3.04)	-0.627*** (-2.77)
R&D intensity	-1.365*** (-7.56)	-1.296*** (-6.90)
Free float	0.002*** (3.51)	0.002*** (3.35)
Board size	0.011** (2.52)	0.015*** (3.38)
Board independence	-0.000 (-0.04)	-0.001 (-0.78)
Gender diversity	-0.000 (-0.49)	-0.000 (-0.17)
Duality	0.027 (1.62)	0.019 (1.13)
WGI	0.363*** (4.02)	0.292*** (3.15)
During crisis	-0.159*** (-4.47)	-0.156*** (-4.35)
Post crisis	-0.120*** (-4.42)	-0.106*** (-3.82)
Industry FE	Yes	Yes
Constant	8.977*** (51.19)	8.885*** (48.77)
<i>n</i>	5834	5834
Adj. <i>R</i> ²	0.224	0.220

Note: This table reports the coefficient estimates of OLS regression models after controlling for the effects of the financial crisis. Robust standard errors adjusted for clustering at the firm level. *t* Statistics in parentheses. Variable definitions are provided in Appendix A.

**p* < 0.1, using two-tailed tests.

***p* < 0.05, using two-tailed tests.

****p* < 0.01, using two-tailed tests.

TABLE 9 | Internationalization, ESG controversies, and the role of foreign directors: controlling for the COVID-19 pandemic effect.

	ESG_CONT (1)	ESG_CONT (2)
INTER	-0.002*** (-4.30)	-0.002*** (-4.51)
FD	-0.000 (-0.32)	0.007*** (2.68)
INTER × FD		-0.0001*** (-3.74)
Firm size	-0.227*** (-33.04)	-0.219*** (-30.86)
Leverage	0.175*** (3.88)	0.135*** (2.93)
Current ratio	-0.016*** (-3.20)	-0.013** (-2.48)
Capital expenditure	-0.643*** (-2.88)	-0.593*** (-2.62)
R&D intensity	-1.354*** (-7.48)	-1.282*** (-6.82)
Free float	0.002*** (3.85)	0.002*** (3.63)
Board size	0.012*** (2.76)	0.016*** (3.61)
Board independence	-0.001 (-0.73)	-0.001 (-1.38)
Gender diversity	-0.001 (-0.81)	-0.000 (-0.41)
Duality	0.031* (1.88)	0.023 (1.36)
WGI	0.391*** (3.13)	0.294** (2.29)
COVID-19 pandemic	-0.013 (-0.34)	-0.018 (-0.46)
Industry FE	Yes	Yes
Constant	8.815*** (45.07)	8.767*** (43.30)
<i>n</i>	5834	5834
Adj. <i>R</i> ²	0.221	0.217

Note: This table reports the coefficient estimates of OLS regression models after controlling for the effect of the COVID-19 pandemic. Robust standard errors adjusted for clustering at the firm level. *t* Statistics in parentheses. Variable definitions are provided in Appendix A.

**p* < 0.1, using two-tailed tests.

***p* < 0.05, using two-tailed tests.

****p* < 0.01, using two-tailed tests.

may have consequences for firms with higher international asset exposure and governance structures such as diversity (Duchin et al. 2010; Samarakoon 2011). Hence, we control the financial crisis effects using three variables, representing the periods before, during, and after the crisis. The financial crisis variable takes the value one for the years of the financial crisis, 2008 and 2009, and zero otherwise (Frankel and Saravelos 2012; Lins et al. 2017).³ The dummy variable prior to the financial crisis takes the value one for the years before the financial crisis period, and zero otherwise. For these periods, we employ dummy indicators for the periods during and after the crisis, relative to the period before the crisis. Table 8 shows that our results remain the same after excluding the effects of the financial crisis.

4.2.6 | COVID-19 Pandemic Effects

The COVID-19 pandemic has resulted in the worst economic crisis since the Great Depression in its suddenness and severity (Baldwin and Weder 2020; Gopinath 2020; IMF 2020). This caused unprecedented crashes worldwide and serious disruption to all business activities (Baker et al. 2020). Therefore, crises such as the COVID-19 pandemic magnified governance challenges for internationalized firms, underscoring both the strengths and weaknesses of foreign directors (Broadstock et al. 2021; Elmghaamez et al. 2024). Hence, we control for the COVID-19 pandemic effect using a dummy variable that takes the value one in 2020, and zero otherwise (Elnahass et al. 2024). Table 9 shows that our results are all qualitatively consistent with our main findings.

Collectively, our set of sensitivity tests documents that our inferences are robust and not subject to possible endogeneity problems.

5 | Discussion and Conclusions

Although internationalization offers firms opportunities such as accessing broader markets, diversifying revenue streams, and driving innovation, it also introduces significant challenges, including the need to navigate complex regulatory environments, cultural differences, and varying stakeholder expectations. As global stakeholders increasingly scrutinize corporate behavior, understanding whether internationalization increases exposure to ESG controversies becomes a critical concern for managers and policymakers. Furthermore, as corporate boards play a central role in addressing or exacerbating corporate challenges, particularly through their composition and diversity, the inclusion of foreign directors on boards has attracted growing attention for its potential to influence ESG outcomes. Accordingly, we examine whether internationalization contributes to a greater incidence of ESG controversies and whether board composition, specifically the presence of foreign directors on the board, plays a role in shaping this relationship.

We document a positive association between internationalization and ESG controversies, reinforcing prior research that shows firms operating internationally are often implicated in

exploitative labor practices, human rights violations, and the excessive use of local natural resources, contributing to social and environmental degradation (Pisani et al. 2017). Such controversies are frequently rooted in two key drivers: first, strategic exploitation of weaker regulatory regimes to reduce costs (Marano and Kostova 2016); and second, the operational and governance challenges associated with managing complex international structures (Gündoğdu et al. 2023). Thus, the challenges arising from operational and governance complexity abroad may require a more sophisticated governance structure, such as mobilizing corporate governance committees, namely audit, remuneration, and ESG committees. Efficient functioning of these committees can prevent ESG controversies such as accounting controversies, fraud, environmental controversies, and workforce controversies. Otherwise, weakness in harnessing ESG controversies in international firms may exacerbate reputational, legitimacy, and litigation risks through international media coverage and integrated stakeholder networks (Schiemann and Tietmeyer 2022; Elmghaamez et al. 2024).

Importantly, we find that foreign directors intensify the effect of internationalization on ESG controversies. Although foreign directors are typically appointed for their global expertise, diverse perspectives, and access to transnational networks (Masulis et al. 2012), our results suggest that these attributes may not necessarily translate into stronger ESG oversight. This may reflect limitations in foreign directors' monitoring effectiveness, especially in contexts where board members face information asymmetry, limited local knowledge, or a focus on advisory rather than monitoring responsibilities (Kuzey, Al-Shaer, et al. 2024). Whereas earlier research connects foreign directors to positive ESG outcomes, such as improved ESG disclosure and waste management practices (Hussain et al. 2022; Uyar et al. 2024; Zhu et al. 2024), our findings emphasize that advisory strengths do not necessarily substitute for the monitoring ability needed to prevent ESG controversies. In addition to the ethnic diversity of the directors, considering skills and expertise diversity in director recruitment would be useful, such as expertise in ESG issues, to prevent ESG controversies. In a growing climate, social, and governance risks across frontiers, the existence of such directors with essential ESG skills and expertise can reduce the associated risks. These results imply that nomination committees need to consider additional features in director recruitment amid growing ESG risks and responsibilities.

Our study contributes to a growing body of literature on corporate governance and sustainability by demonstrating that internationalization heightens firms' exposure to ESG controversies and that culturally diverse boards, particularly through the inclusion of foreign directors, can exacerbate these risks. These insights underscore the importance of thoughtful board composition and robust oversight structures in managing the ESG challenges of global business. We contribute to the theory by challenging the classical RDT according to which the board is a useful mechanism in navigating the external environment and secure the resources necessary for organizational survival (Pfeffer and Salancik 1978). In line with this perspective, foreign directors may enhance the board's advisory capacity with their expertise and knowledge on foreign markets and comparative regulatory insights, and thus facilitate firms' cross-border expansion (Masulis et al. 2012; Yu and Van Luu 2021). Although

recent studies support this perspective and find that foreign directors foster stronger ESG performance and disclosure (i.e., environmental reporting, waste management, and alignment with global sustainability practices) (Hussain et al. 2022; Uyar et al. 2024; Zhu et al. 2024), our findings in the current study depart from this perspective. The possible reasons for this divergence could be that the complexity of internationalization results in greater ESG controversies, and foreign directors are not sufficient in controlling for these controversies. Limited familiarity with local regulatory norms, cultural expectations, and stakeholder priorities might fuel the failure in managing ESG risks. Aligning with RDT's proposition, foreign directors are conduits of critical resources; however, controlling for ESG controversies require risk management integration into corporate governance mechanism which require mobilization of board monitoring and internal control functions (Kuzey, Al-Shaer, et al. 2024).

The findings have practical implications, too. First, firms should align board composition not only with strategic goals but also with the governance demands of international operations. Boards should ensure that foreign directors are adequately equipped and empowered to actively monitor ESG risks, rather than serving in predominantly symbolic or advisory roles. Indeed, foreign directors are expected to be knowledgeable about regulatory and societal sensitivities in foreign markets so that they can sensitize the governance bodies of the firms for taking precautionary steps to prevent ESG controversies. This is related to what tasks and responsibilities are allocated for the recruitment of foreign directors as well. Their failure in mitigating ESG controversies is alerting the firm's governance system concerning foreign director recruitment, task allocation, and accountability. Second, investors should scrutinize board diversity through a more nuanced lens, recognizing that cultural and national diversity does not automatically translate into improved governance or mitigate ESG risks. As ESG controversies are rapidly demolishing the firm's reputation and stakeholder trust, they can trigger huge market value loss, causing shareholder wealth erosion. For example, the "Dieselgate" Scandal of 2015 related to the Volkswagen Emissions had severe consequences on the company in terms of fines and penalties and caused a significant decline in the company's stock price.

Third, regulators' focus on corporate governance code development is mostly about female and independent directors' existence on board, and hence, they can point out the diversity of directors in terms of skills and expertise regarding ESG issues. Another point in regulatory focus is that corporate governance codes should draw attention to negative ESG (i.e., ESG risks) as well as positive ESG in an integrated manner. For example, in the G20/OECD Principles of Corporate Governance recently issued by OECD, "identifying and responding to environmental and social risks and impacts stemming from their operations and supply chains" is counted among "the responsibilities of the board" concerning reviewing and assessing risk management policies and procedures. Given the cross-border operations of international firms' operational, social, and supply chain risks, integrating such a dimension of risk management policies will be helpful in managing and controlling ESG controversies.

This study opens promising avenues for future research. Whereas this study relies on an aggregated ESG controversies

score due to data availability, future research could benefit from disaggregated ESG controversy measures (if data are available) to examine whether internationalization and board composition affect specific dimensions of ESG controversies differently. In addition, as our sample is restricted to firms with available ESG controversies and board composition data, caution is warranted as firms with missing ESG data may differ systematically in size, visibility, or international exposure. As with most observational studies, our findings should be interpreted in light of potential endogeneity concerns that cannot be fully eliminated. For example, we cannot entirely rule out the possibility of reverse causality. Although the use of lagged instruments and fixed effects mitigates this concern, future research could further explore the propensity of foreign director appointments following ESG controversies as a reputational or signaling response. Future studies may also explore the contextual factors that may affect ESG oversight, such as board dynamics, industry characteristics, or firm-level ESG maturity. Moreover, research could also examine whether experience, tenure, or local stakeholder engagement mechanisms strengthen the monitoring role of foreign directors. As the global regulatory environment becomes increasingly focused on ESG accountability, understanding how diverse boards can both support and undermine ESG goals remains a critical area for investigation.

Author Contributions

Mohamed Elsayed: methodology, writing – original draft, writing – review and editing, conceptualization, investigation, formal analysis, software, visualization, conceptualization. **Ali Meftah Gerged:** writing – original draft, investigation, conceptualization, writing – review and editing. **Yousry Ahmed:** methodology, software, formal analysis, writing – review and editing, investigation, visualization, conceptualization. **Ali Uyar:** conceptualization, investigation, resources, project administration. **Abdullah S. Karaman:** resources, data curation.

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Conflicts of Interest

The authors declare no conflicts of interest.

Endnotes

¹ Consistent with prior research (Wang et al. 2023; Kuzey, Al-Shaer, et al. 2024a), we use the natural logarithm of the ESG controversies score to correct for skewness. The score applies equal weighting across ESG dimensions.

² Throughout our regressions, we evaluate the effects of multicollinearity by calculating the variance inflation factors (VIFs) for each independent variable. With VIFs less than 10, we conclude that multicollinearity is not a concern in our analyses.

³ Our results remain consistent after including 2010 to financial crisis period.

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Appendix A

Variable Definitions

Variables	Definitions	Source
ESG_CONT	The natural logarithm of ESG controversies. The ESG controversies score (based on 23 metrics on a scale of 0–100) measures a company's exposure to environmental, social, and governance controversies and negative events reflected in global media. The score aggregates controversy indicators with equal weighting across ESG dimensions, where lower values indicate higher levels of controversies and higher values indicate fewer controversies.	LSEG database
INTER	Internationalization is proxied by the firm's international assets scaled by total assets.	LSEG database
FD	Foreign directors' proportion on the board of directors.	LSEG database
Firm size	The natural logarithm of total assets.	LSEG database
Leverage	The ratio of total debt to total assets.	LSEG database
Current ratio	The ratio of current assets to total current liabilities.	LSEG database
Capital expenditure	The capital expenditures are scaled by total assets.	LSEG database
R&D intensity	The research and development expenditures are scaled by total assets.	LSEG database
Free float	Free float percentage of shares available for trading.	LSEG database
Board size	The number of directors on the board.	LSEG database
Board independence	Independent directors' proportion on the board of directors.	LSEG database
Gender diversity	The proportion of female directors on the board of directors.	LSEG database
Duality	The CEO duality indicator equals one if the same person holds the chairperson and the CEO positions, and zero otherwise.	LSEG database
WGI	World Governance Indicators' (six metrics) average, which consists of government effectiveness, control of corruption, political stability and absence of violence/terrorism, the rule of law, regulatory quality, and voice and accountability (all metrics range from –2.5 [weak] to +2.5 [strong]).	World Bank