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## Impacts of ESG Controversies on the Financial Performance of the Energy Sector

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### Abstract

Controversial industries tend to be more sensitive to crises than uncontroversial industries mainly because of the products or services they offer. Usually, two types of industries are considered controversial: sinful industries (Tobacco, gambling, and alcohol) and industries involved in environmental, social, and ethical issues, including oil and gas, mining wastage, and defense-related weapons. The energy sector, especially, has higher exposure to controversial publicity due to the nature of the industry operations. For this reason, this study will focus on the energy sector, which comprises five industry groups: Coal, Oil and Gas, Oil & Gas Related Equipment and Services, Renewable Energy, and Uranium. A unique balanced dataset of 296 firms in the energy sector from 43 countries between 2017-2021 will be employed and path analysis will be used to analyze the data. Our paper aims to propose a new perspective in evaluating the impact of ESG controversies on corporate profitability and market value by using Refinitiv Eikon's ESGC scores, which are crucial for the energy sector. ESGC scores reflect the performance of the companies regarding Environmental Controversies, Consumer Complaints Controversies, Responsible Marketing Controversies and Product Quality Controversies. The study will investigate the relationship between ESG controversies and the financial performance of the firms operating in the energy sector with Path Analysis. We attempt to reveal the relations between various dimensions of ESG Controversies and specific measures of financial performance, especially with respect to profitability and market performance. The findings of the study may provide insights aimed at strategy development for companies operating in the energy sector for enhanced value creation.

**Keywords:** Consumer Complaints Controversies, Controversial Industries, Environmental Controversies, Product Quality Controversies, Responsible Marketing Controversies