

**THE IMPACT OF ESG CONTROVERSIES ON CORPORATE CREDIT RISK IN
BRAZIL**

CARLOS CUZINE
FUCAPE BUSINESS SCHOOL

NADIA CARDOSO MOREIRA
FUCAPE BUSINESS SCHOOL

SANDRIELEM DA SILVA RODRIGUES
FUCAPE BUSINESS SCHOOL

Introdução

The growth of sustainable investments and the increasing adoption of ESG standards underscore the relevance of socio-environmental risks for financial institutions. In Brazil, publicly traded companies face growing pressure to adopt sustainable practices, yet ESG metrics remain unevenly implemented. In this context, ESG controversies—widely publicized adverse events—emerge as a relevant source of reputational risk with potential effects on perceived solvency.

Problema de Pesquisa e Objetivo

Despite the growing interest in ESG practices, little is known about how ESG controversies affect corporate credit risk in emerging markets. This study investigates whether such controversies moderate the relationship between ESG performance and credit risk among Brazilian firms. It aims to assess whether reputational shocks weaken the expected positive effects of sound ESG practices on reducing default risk.

Fundamentação Teórica

The literature suggests that ESG practices may reduce credit risk, although they do not always capture hidden risks such as greenwashing. ESG controversies—negative events reported in the media—provide an exogenous reputation measure that complements self-reported indicators. The study draws on legitimacy theory and stakeholder theory to explain how reputational events shape risk perceptions and affect the credibility of ESG practices.

Metodologia

This study adopts a quantitative approach using data from listed Brazilian companies. The dependent variable is credit risk, while the independent variables are ESG performance and ESG controversies. Regression models with interaction terms were applied to test moderating effects. Controversies were captured using media-based indicators. ESG and financial data were obtained from standardized market databases.

Análise dos Resultados

Firms with higher ESG scores exhibited, on average, lower credit risk, confirming the hypothesis of financial resilience associated with sustainability. However, when ESG performance interacted with the ESG controversies variable, this effect was weakened, suggesting that reputational shocks undermine the benefits of sound ESG practices. No direct association was found between controversies and increased risk, reinforcing their indirect and moderating role.

Conclusão

ESG controversies partially diminish the positive effect of ESG performance on credit risk by eroding firms' reputational credibility. The distinction between endogenous and exogenous risks highlights the importance of reputational governance. Results suggest that traditional credit assessment models should incorporate external reputational variables to capture risks not reflected in self-reported ESG metrics.

Contribuição / Impacto

The study contributes by integrating ESG controversies as a moderating variable in credit risk models, addressing a gap in the emerging markets literature. It proposes incorporating reputational events as an adjustment to ESG indicators, enhancing the predictive power of solvency models. It also underscores the role of institutional communication and reputational monitoring in mitigating financial risks linked to sustainability.

Referências Bibliográficas

Aouadi & Marsat (2018); Barkemeyer et al. (2023); Brogi et al. (2022); Chasiotis et al. (2023); Chodnicka-Jaworska (2021); Dorfleitner et al. (2020); GSIA (2023); Jang et al. (2020); Mariia (2022); Mendiratta et al. (2023); Moreira et al. (2023); Passas et al. (2022); Piccioni et al. (2024); Possebon et al. (2024); Principles for Responsible Investment (2024); Pucci (2025); Zhou et al. (2022)