

Greening Through Influence: How Lobbying Mediates the Link Between Ethical Reputation and Performance in Carbon-Intensive Firms

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Abstract

Despite growing ESG scrutiny, the strategic interplay between corporate lobbying and ethical controversies remains underexplored, particularly in energy sectors where environmental stakes intensify legitimacy challenges. This study addresses this gap by examining lobbying's moderating role in the ESG controversy–performance relationship using a 10-year panel of 76 S&P 500 energy firms. Results reveal lobbying buffers short-term financial losses from controversies but erodes long-term legitimacy, exposing temporal disconnects between sociopolitical influence and ethical accountability. High-ESG firms leverage lobbying to amplify policy alignment benefits, while low-ESG performers face amplified risks. The findings advance legitimacy theory by highlighting temporal decoupling between sociopolitical and moral legitimacy and refine strategic management by identifying optimal lobbying thresholds that balance regulatory gains with reputational risks. Practically, the study equips managers to align lobbying investments with ESG profiles and urges policymakers to mandate transparent lobbying disclosures to mitigate greenwashing risks in carbon-intensive industries.

Introduction

Policymakers across various levels of governance, from local to global, are increasingly adopting ESG-oriented strategies to curb fossil fuel consumption. These approaches include implementing carbon pricing mechanisms, establishing cap-and-trade systems, and enforcing mandatory CO₂ emission standards. However, the transition process is challenging because most of sustainable-friendly strategies cannot be considered genuine transition ones, but rather avoidance strategies. This has led to the phenomenon of greenwashing, the practice by which corporations make spurious claims with respect to environmental actions in an effort to rip the benefits of an environmentally conscious image without incurring the costs associated with environmental practices (Gorovaia & Makrominas, 2025). This deceptive approach not only undermines genuine sustainability efforts but also raises critical concerns about how firms are perceived by stakeholders, making reputation a key factor in assessing corporate credibility and long-term success. This indirectly underscores the need for precise metrics that effectively capture such constructs.

The previous research has found vast variety of influence of ESG metrics on firm performance reveals complex and conflicting dynamics. Poor ESG performance can trigger negative effects, impacting stakeholder trust and financial outcomes (Peng et al., 2024; Chen et al., 2024). At the same time firms with strong ESG reputations experience enhanced consumer trust and positive stakeholder reactions when engaging in sociopolitical actions (Ganesan & Mallapragada, 2025; Asmoro et al., 2024). However, previous research revealed the impact of ESG controversies on firm performance is not uniform across industries. Wong and Zhang (2021) found that ESG controversies' impact on share prices varies by industry. While companies in alcohol, tobacco, and gaming sectors were largely unaffected, firms in candy and soda, steelworks, banking, and insurance industries experienced significant negative investor reactions to adverse ESG media coverage. These differences suggest that firm characteristics, corporate reputation status, and industry context play a crucial role in shaping how investors respond to ESG controversies. Given the growing importance of ESG considerations in high-impact industries, there is an urgent need to explore how ESG controversies affect the energy sector, where environmental and social concerns are central to both regulatory pressures and stakeholder expectations.

Nascent industries focused on low or zero-carbon technologies may attract green investment funds, but they often lack the substantial non-market influence held by established fossil fuel sectors, which remain central to many national economies (Verrier & Strachan, 2023; Baer, 2016). The financial risks associated with phasing out fossil fuels, combined with regulatory uncertainty, have driven powerful corporations to engage in lobbying, as exemplified by ExxonMobil's involvement in shaping U.S. climate policy (Frumhoff et al., 2015; Kim et al., 2024), yet the its strategic use to sustain operations amid ESG risks remains understudied.

While extensive research has explored lobbying and its impacts on various business outcomes (Sun et al., 2024; Shirodkar et al., 2024; Mellahi et al., 2016), the potential for lobbying

to influence regulatory leniency or public perception during ESG controversies remains unexplored. This gap limits insights into how firms strategically align political engagement with ESG performance to manage reputation risks, warranting investigations into lobbying's dual function as a reputational safeguard or liability in ESG-related crises. This study aims to address this gap by examining the moderating role of lobbying on the relationship between ESG controversies and firm performance, providing crucial insights into the complex interplay between corporate ethics, political strategies, and environmental performance. Hence, this paper addresses the question: *To what extent do lobbying mediates the relationship between firm's ethical reputation and firm performance?*

The methodological approach in this research supports our theorising regarding the influence of lobbying on the relationship between ESG controversies and firm performance using a 10-year panel from 2014 to 2023, covering 76 firms from the energy sector included in the S&P 500. The energy sector has consistently and diversely been represented in the S&P 500, allowing for a comprehensive analysis of large, influential companies. Utilising Fortune 500 firms reveals patterns that are often reflective of broader industry trends and practices, thereby providing insights applicable to a wide range of organisations (Persakis et al., 2024; Amini et al., 2018). The industries listed ahead of O&G in annual revenue are completely dependent on O&G (IBISWorld, 2025). Finally, research on foreign firms' lobbying activities in the US has been comparatively very low (Hasijaa & Brown, 2024).

This study advances legitimacy theory (Meyer & Rowan, 1977) by arguing that higher lobbying intensity strengthens the positive relationship between ESG controversies and financial performance, as firms may use lobbying efforts to mitigate the financial repercussions of ESG-related issues, exposing temporal disconnects between sociopolitical legitimacy (policy influence) and moral legitimacy (ethical conduct). It extends strategic management showing how optimal lobbying thresholds amplify ethical firms' policy alignment while mitigating reputational risks for weaker performers. Practically, it equips managers to calibrate lobbying investments against reputational profiles, to appeal to a broader range of investors and informs policymakers on transparency reforms to curb legitimacy gaps (Arroyo et al., 2025; Xia et al., 2024).

The rest of this article proceeds as follows: Section 2 explores the theoretical foundations of legitimacy theory, providing a basis for our hypotheses. Section 3 outlines the research methodology, including the sample, data collection, and panel data analysis. Section 4 presents the empirical results, while Section 5 discusses key findings, theoretical and practical implications, study limitations, and future research directions.

2. Theoretical background

Establishing and maintaining legitimacy for oil and gas companies hinges critically on their ability to cultivate and preserve a positive reputation (Jaber & Oftedal, 2020). The public perception and credibility of these firms play a vital role in shaping their social license to operate

and influencing stakeholder relationships. Based on the legitimacy theory, the enterprises with high carbon emissions may over-disclose ESG information, indicating a potential greenwashing motive. A prevalent form of greenwashing occurs when companies strategically choose to reveal only certain environmental information: “positive information about a company's environmental or social performance, while withholding negative information on these dimensions”, so as to create an overly positive corporate image (Lyon & Maxwell, 2011, p. 5).

Firms may lobby to align with pro-ESG policies publicly while privately resisting substantive change. Foreign firms undertake lobbying in the host country to mitigate the liability of foreignness, adhere to both local and international labor standards, strengthen their competitive position, safeguard their reputation, and establish legitimacy (Crilly et al., 2016; Tokas & Yadav, 2023). Financially stronger firms may have more resources to invest in lobbying activities, while financially weaker firms may lack the capacity to engage in lobbying.

The five major publicly-traded oil and gas corporations (ExxonMobil, Chevron, Shell, BP, and Total) allocated substantial resources to influence climate policy in the three years following the Paris Agreement. Their combined expenditure on lobbying efforts related to climate issues during this period approached \$1 billion (The Guardian, 2019). This substantial investment in political influence may partially explain their continued profitability, as it has likely contributed to securing favourable government policies, including subsidies, tax breaks, and even bailouts during crises such as the COVID-19 pandemic. This significant financial commitment underscores the industry's concerted efforts to shape climate-related legislation and public perception.

Since firm stakeholders, fund managers, investors, and researchers often lack the ability to independently evaluate a company's ESG practices, they rely heavily on ESG scores provided by rating agencies. These scores help reduce information asymmetry and, alongside financial data, support analytical, investment, and research decisions (Lee & Suh, 2022). However, the inconsistent methodologies and varying ESG measurement approaches used by different rating agencies contribute to the mixed findings on the relationship between ESG practices and financial performance (Chatterji et al., 2016; Dorfleitner et al., 2015).

While companies invest in green initiatives to cultivate a positive reputation, past misconduct can shape their image in terms of ESG controversies. They defined as “... news stories such as suspicious social behavior and product-harm scandals that place a firm under the media spotlight ...”, causing firms to come under a significant level of media scrutiny and raises investor concerns, ultimately creating reputational risks for the firm (Aouadi & Marsat, 2018). Examples of ESG-related misconduct include employing forced labor, either directly or through suppliers, engaging in environmentally harmful farming or mining activities, participating in corrupt practices, and deceiving customers through fraudulent transactions (Lin-Hi & Blumberg, 2018; Minor & Morgan, 2011). In light of such reputational risks, firms are increasingly seeking governance mechanisms that can enhance ethical oversight and restore stakeholder trust. Two

mechanisms that have gained considerable attention are gender diversity on corporate boards and ownership structure.

H1. In oil and gas industry, there is positive relationship between the ESG Controversies and financial performance

H2. Lobbying intensity mediating the positive relationship between the ESG Controversies and financial performance

The importance of gender diversity on corporate boards and in the workplace is well recognised. Due to evolving boardroom demographics, there has been growing scholarly interest in examining gender diversity on corporate boards and its implications for organisational performance. Existing studies indicate that female board representation contributes positively to firm performance (Erhardt et al., 2003; Adams & Ferreira, 2009).

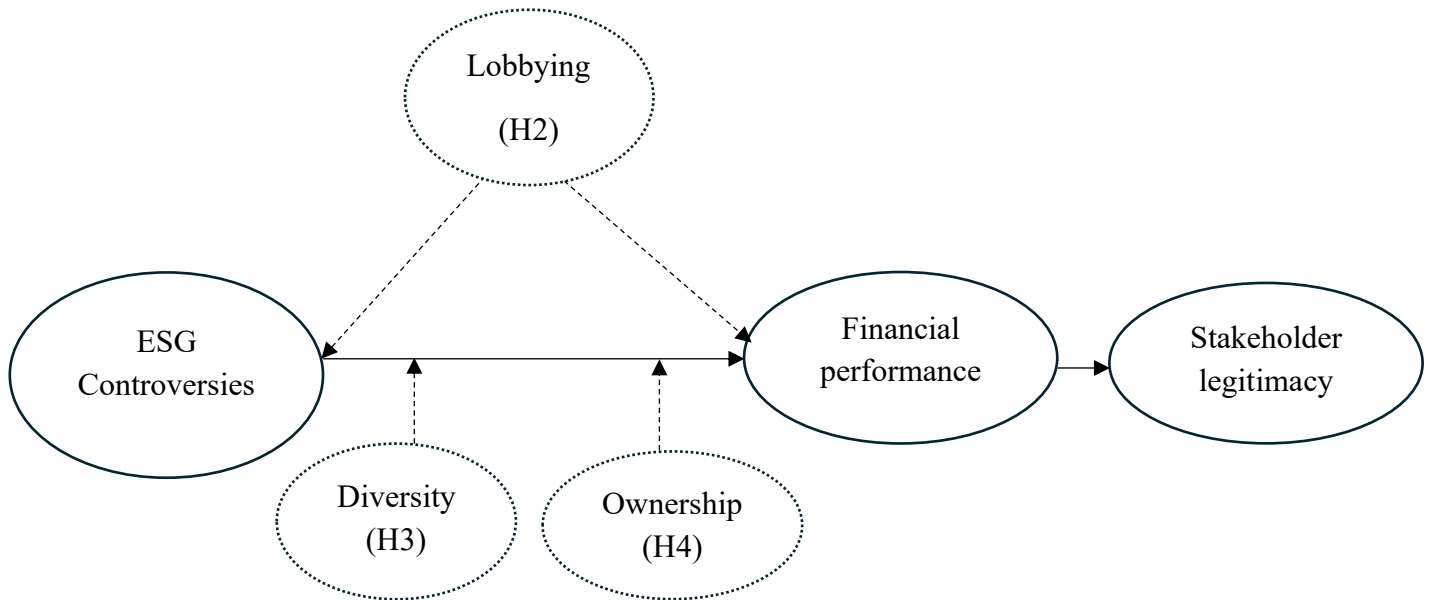
H3. Firm's diversity strengthens the positive relationship between the ESG Controversies and financial performance

Additionally, the ownership structure has garnered significant attention as a key determinant of corporate behaviour and performance (Cao et al., 2024; Kavadis & Thomsen, 2023), not without contradictory findings. Government ownership has been associated with enhanced levels of accountability, responsibility, and transparency, thereby contributing to organisational legitimacy (Monk, 2009). Research by Ozcan (2020) demonstrated a significant positive correlation between government ownership and ESG performance in the rail industry, with stronger effects observed as government shareholding increases. On the contrary, Wei et al. (2024) showed that when firms have a lower level of institutional ownership, a higher level of managerial ownership, and a lower level of state ownership, they tend to disclose more environmental information.

H4. Ownership strengthens the positive relationship between the ESG Controversies and financial performance

Using legitimacy theory to guide the relationships between constructs in our process and integrated research model, we develop and test the conceptual research model in Figure 1.

Figure 1. Conceptual research model (*preliminary*)



3. Methods

Research setting

The importance of incorporating contextual factors into theoretical frameworks has been increasingly recognised in international business research. This emphasis stems from the observation that many This focus arises from the recognition that earlier academic approaches often analysed phenomena in isolation from their surrounding contexts, which may restrict the explanatory power and real-world relevance of research findings (Meyer and Peng, 2016; Teagarden et al., 2018).

Three main factors make USA an ideal context for experimenting with our theoretical arguments and research hypotheses. First and foremost, The European Union and the United States adopted contrasting approaches to energy policy, with the EU favouring a more regulatory stance while the US promoted a market-driven strategy (Boon, 2019). The Inflation Reduction Act (2022), which advanced fossil fuel lease provisions despite climate goals, exemplifies how lobbying can secure regulatory concessions (Sayki & Cloutier, 2023). This environment allows researchers to test whether lobbying buffers financial losses from ESG controversies by securing favourable policy outcomes.

Secondly, the US exhibits unique polarisation around ESG frameworks, with 37 states introducing anti-ESG legislation since 2021 targeting fossil fuel divestment (Hilson, 2024). This politicisation creates measurable variation in how firms operationalise legitimacy management strategies. Cojoianu et al. (2021) showed that oil companies in states with stringent environmental

policies experience 18% greater capital constraints than peers in fossil-friendly jurisdictions, intensifying pressure to leverage lobbying as a legitimacy-restoration mechanism.

Finally, these dynamics align with legitimacy theory's emphasis on symbolic conformity strategies. By lobbying to alter the *regulatory and legal landscape* rather than substantively improving ESG performance, oil firms engage in institutional manipulation to maintain legitimacy (Asare et al., 2021). Borgstedt et al. (2019) distinguished between substantive actions (e.g., emissions reductions) and symbolic strategies (e.g., lobbying for favourable laws), with the latter dominating in contexts where accountee power is weak. The U.S. context, where corporate political spending disproportionately influences policy outcomes, enables such symbolic legitimacy repair, decoupling ESG controversies from financial penalties.

Sample

For hypothesis testing, this study relies on panel data from the O&G companies listed in Fortune 500 (76 companies). We believe that this sample provides us a particularly appropriate context in which to verify our hypothesis, for two reasons.

Firstly, these firms are economically influential, impacting environmental policies and industry standards. Additionally, the highly regulated nature of this industry means these companies engage in significant lobbying activities, providing a rich context for examining the relationship between lobbying and environmental performance. Many Fortune 500 energy firms are actively pursuing sustainability initiatives and transitioning to cleaner energy sources, demonstrating their commitment to reducing their environmental impact. Jucá et al. (2024) found that industries characterised by high scrutiny also exhibit higher coefficients on ESG score. It demonstrates that ESG controversies display industry-specific patterns warranting focused examination. Increasing regulatory pressures further emphasise the dynamics of corporate lobbying in shaping environmental regulations. Because of their greater visibility and wider stakeholder network, larger firms face intensified scrutiny from the public, media, and regulators (Chiu & Sharfman, 2011; Naughton et al., 2018). In response to this heightened oversight, larger firms are more likely to adopt a broader range of activities as a strategic approach to managing stakeholder expectations and mitigating potential reputational risks (Bouslah et al., 2023). By focusing on these companies, researchers can gain valuable insights into how large corporations navigate environmental responsibilities while influencing policy outcomes.

Secondly, studies utilising Fortune 500 firms, such as those examining carbon dioxide emission reporting and corporate sustainability, reveal patterns that are often reflective of broader industry trends and practices, thereby providing insights applicable to a wide range of organizations (Persakis et al., 2024; Amini et al., 2018). Furthermore, the substantial employee data from these firms allows for robust analyses of perceptions related to diversity and inclusion, highlighting variations across demographic groups that can inform best practices in workplace culture (Carberry & Meyers, 2017). Additionally, the use of a large sample size, as advocated in international business research, supports stronger evidence for relationships between variables,

making findings more credible and applicable across different contexts (Franke & Richey, 2010). Thus, the Fortune 500 serves as a critical benchmark for understanding corporate behaviour.

Finally, by limiting research to the energy sector, studies can control for industry-specific variables and reduce noise from cross-industry differences. Each industry faces distinct ESG risk profiles that would complicate cross-industry analysis. Sector-specific research can achieve greater depth and precision (García-Amate et al., 2023).

Sources of data

OpenSecrets.org. is a constantly updated open database from The Center for Responsive Politics (CRP). Based in Washington DC, it is a non-profit research group focused on monitoring the impact of money and lobbying on elections and public policy, including from foreign entities.

Refinitiv's Datastream offers a comprehensive ESG data solution that has evolved from the former ASSET4 ESG ratings to reflect a new strategic ESG framework. This enhanced platform provides extensive coverage of ESG data for over 12,000 companies, both active and inactive, across 22 global and regional indices. The database encompasses 80% of global market capitalisation, spanning 76 countries, and offers insights on 1.8 million Officers and Directors. With more than 450 ESG data points and 100 ESG analytics dating back to 2002, Datastream provides a rich historical context for ESG analysis. The platform also includes over 18 years of historical data on Officers and Directors for both public and private companies. Additionally, Datastream enables users to measure a country's relative performance across each of the UN Sustainable Development Goals and their associated sub-metrics, offering a comprehensive tool for ESG-focused research and analysis.

Orbis is the premier company database provided by Bureau van Dijk. It offers detailed information on companies worldwide, with a particular emphasis on private firms. The platform presents company data in standardised, comparable formats and includes records for approximately 400 million businesses across the globe.

Dependent variable

Tobin's Q is a variable commonly used in strategy research to measure firm performance (Flammer, 2018), and it represents a longer-term measure of performance than other accounting-based measures (Jayachandran et al., 2013). Besides, Tamayo-Torres et al. (2019) found, that the governance factor is positively related to Tobin's Q performance measure. Tobin's Q is a ratio that compares a company's market value to the replacement cost of its assets. Here's how to calculate it:
$$\text{Tobin's Q} = \frac{\text{Total Market Value of Firm}}{\text{Total Asset Value of Firm}}$$

Independent variable

Refinitiv is a global provider of financial market data and infrastructure. They have developed a comprehensive ESG scoring system that includes the ESG controversies score (Shakil, 2021). The ESG controversies score is calculated based on 23 ESG controversy topics, which includes anti-competition, business ethics, intellectual property, operations in critical countries, public health, tax fraud, child labour, human rights, executive compensation, consumer issues, customer health and safety, privacy, product access, responsible marketing, responsible R&D, environmental concerns, accounting practices, insider trading, shareholder rights, diversity and opportunity, employee health and safety, wages, working conditions, and labour strikes. All new media events are captured as the controversy progresses. The impact of the event may still be seen in the following year if there are new developments related to the negative event, for example, lawsuits, ongoing legislation disputes or fines. Default value of all controversy measures is 0. Companies with no controversies will get a score of 100. To improve interpretability, we reverse-coded the original score so that higher values (ranging from 0 to 100) indicate a greater number of ESG controversies and a more negative reputation. The scales' validity is supported by their application in prior studies (Dorfleitner et al., 2020; Svanberg et al., 2022).

Mediator

Lobbying itself is likely to be endogenously influenced by ESG controversies and financial performance, which challenges the validity of the choice to put lobbying as moderator. We initiated a manual search for *lobbying expenditures* by querying the names of each firm on the OpenSecrets website, which is managed by the Center for Responsive Politics. Under the Lobbying Disclosure Act of 1995, lobbyists representing all firms, including foreign entities, are required to disclose specific details about their lobbying activities. This includes the particular legislation or agency that was lobbied, the public policy issue at hand, the lobbying firm involved in the effort, and the value of lobbying expenditures. This comprehensive data is digitally stored and made accessible through OpenSecrets, allowing for detailed tracking of lobbying activities across various industries and policy areas, thereby providing transparency in the relationship between lobbying efforts and policy-making.

Moderators

Board Diversity

When firms encounter ESG controversies, diverse boards - in terms of gender and cultural backgrounds - function as a legitimacy-restoring mechanism by signaling alignment with evolving societal norms and stakeholder expectations. Through the presence of varied perspectives and

networks, diverse boards demonstrate proactive responsiveness to social concerns, thereby mitigating legitimacy deficits arising from controversies and enhancing stakeholder trust (Ellili and Seow, 2025).

Empirical applications of legitimacy theory show that board diversity dampens the reputational damage and financial fallout associated with ESG controversies by conveying an image of inclusiveness and ethical governance. In this way, diverse boards transform potential threats into legitimacy-reinforcing opportunities, strengthening the conditional positive link between ESG controversies and financial performance (Salem et L., 2025).

Ownership Structure as a Moderator

Under legitimacy theory, ownership structure serves as an external endorsement mechanism: the involvement of reputable investors confers legitimacy on firms navigating ESG controversies. Institutional, foreign, and pension investors act as legitimacy guarantors, signaling to other stakeholders that the firm's governance and practices meet accepted societal and market standards. Conversely, ownership structures perceived as insular or opaque may exacerbate legitimacy challenges post-controversy (Giordino et al., 2025). Empirical studies confirm that long-term oriented institutional ownership - such as holdings by financial institutions, pension funds, and government-related entities - positively moderates ESG-performance linkages by reinforcing the firm's legitimacy in eyes of regulators, capital markets, and the public. Thus, ownership structure amplifies the firm's capacity to convert legitimacy risks posed by controversies into sustained financial gains.

By positioning both board diversity and ownership structure within legitimacy theory, the research design captures how internal governance heterogeneity and external investor endorsement jointly restore and bolster stakeholder legitimacy following ESG controversies. This legitimacy-theoretic framework offers a coherent explanation of how governance mechanisms interact with ESG controversies to influence firm outcomes, emphasizing legitimacy restoration as the core driver of the hypothesized moderating effects.

Control variables

We control for several firm- and industry-level variables because of their influence on corporate lobbying. First, we control for firm size by employing the natural logarithm of a firm's total assets. Secondly, we included Return on Assets (ROA) in our regression models to control for prior firm performance. ROA serves as a proxy for current financial performance, which is often the strongest predictor of future outcomes. This choice is particularly relevant since our dependent variable, Tobin's Q, measures long-term performance, while ROA is a measure of shorter-term results (Sauerwald et al., 2016). By incorporating ROA, we aim to better isolate the effects of our variables of interest on long-term market valuation while accounting for the influence of current financial health. We also control for country- and time-effects using categorical variables

and lag all control variables by three years to address potential endogeneity, as done in previous studies (Bertrand et al., 2021; Husted et al., 2016).

Table 1. List of collected variables

Name of Variable	Description	Source of Data
Company_Name	The legal name of the business entity included in the study sample	Authors' own work
Company_ID	A unique identifier assigned to each company in the dataset to facilitate tracking across multiple years and data sources	Authors' own work
Year	The fiscal year for which the company data was collected and analysed	Authors' own work
ESG Controversies Score	ESG controversies category score measures a company's exposure to environmental, social and governance controversies and negative events reflected in global media	Refinitiv's Datastream
Total Assets (USD)	The total monetary value of all assets owned by the company at the end of the reporting period, expressed in US dollars	Orbis
Lobbying expenditures (USD)	Proxy for measuring lobbying activity, expressed in US dollars	OpenSecrets
Public/Private		Orbis
ROA (%)	Net income divided by the total assets, expressed in percents	Orbis
Tobin Q	Book value of liabilities plus the market value of common equity divided by the book value of assets	Orbis
Number of Employees	The total count of full-time equivalent employees working for the company during the reporting period	Orbis
R&D Intensity	The ratio of a firm's R&D investment to its revenue (the percentage of revenue that is reinvested in R&D)	Orbis
Emission Score	Emission category score measures a company's commitment and effectiveness towards reducing environmental emission in the production and operational processes	Refinitiv's Datastream
Total Renewable Energy (Purchased and Produced)	Total primary renewable energy purchased and produced in gigajoules.	Refinitiv's Datastream
ESG Score	A company's relative ESG performance, commitment and effectiveness across 10 main themes (emissions, environmental	Refinitiv's Datastream

	product innovation, human rights, shareholders, etc.) based on publicly-reported data.	
Environmental Innovation Score	Percentage of board members who identify as female, reflecting the gender composition of the corporate board	Refinitiv's Datastream
Policy Diversity and Opportunity	Does the company have a policy to drive diversity and equal opportunity?	Refinitiv's Datastream
DIR Diversity Score	How well companies track, report, and achieve results in diversity, inclusion, and people development	Refinitiv's Datastream
Board Cultural Diversity, Percent Score	Percentage of board members that have a cultural background different from the location of the corporate headquarters.	Refinitiv's Datastream
Board Gender Diversity, Percent Score	Percentage of board members that have a cultural background different from the location of the corporate headquarters.	Refinitiv's Datastream
Total Liabilities	The total debts and obligations a company or individual owes to external parties, expressed in US dollars	Refinitiv's Datastream
Policy Energy Efficiency	Dummy Variable - “Does the company have a policy to improve its energy efficiency? - in scope are the various forms of processes/mechanisms/procedures to improve energy use in operation efficiently - system or a set of formal documented processes for efficient use of energy and driving continuous improvement”	Refinitiv's Datastream
Environmental Expenditures	Dummy Variable - “Does the company report on its environmental expenditures or does the company report to make proactive environmental investments to reduce future risks or increase future opportunities?”	Refinitiv's Datastream
CSR Strategy Score	The score reflects a company's practices to communicate that it integrates the economic (financial), social and environmental dimensions into its day-to-day decision-making processes.	Refinitiv's Datastream

The results of the analysis will be presented at the upcoming BAM Conference

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