THE IMPACT OF ESG CONTROVERSIES ON BANK RISK-TAKING: THE ROLE OF BOARD CHARACTERISTICS IN G20 COUNTRIES

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Abstract:-

Purpose: This present study aims to provide a shred of empirical evidence on the impact of ESG controversies on bank risk-taking within G20 countries in the banking sector. Moreover, the moderating role of board characteristics is also investigated. Additionally, the effects of firm size, profitability, leverage ratio, inflation rate, real GDP growth, Press Freedom Index and Covid-19 on bank risk-taking are also examined in this paper.

Design/Methodology/Approach: The sample of this study included 107 banks from G20 countries. The dataset used in this study was for the period 2013 to 2023 and they were extracted from the following sources: ESG controversies score, board characteristics, total assets, return on assets, and leverage ratio were extracted from Thomson Reuters, country variables were extracted from International Monetary Fund and World Bank website. EViews was used to analyse data.

Findings: The results obtained through regression with random estimates statistically confirmed that ESG controversies has a significant influence on bank risk-taking and board gender diversity moderates the relationship between ESG controversies and bank risk-taking. Conversely, board size, board independence and board meeting frequency do not moderate the ESGC-risk relationship. For the control variables, firm size, leverage ratio, inflation rate, GDP growth and Covid-19 significantly influence bank risk-taking while return on assets and Press Freedom Index have no significant effect.

Originality/value: This study also analyses the moderating effect of board characteristics on the relationship between ESGC and bank risk-taking. Most of the prior studies were based only on the effect of ESG controversies on bank risk-taking or financial performance.

Keywords: ESG controversies, ESG Controversy scores, banks, risk-taking, board characteristics, board gender diversity, board size, board independence, board meeting frequency