

SOCIO-ENVIRONMENTAL CORRUPTION SCANDALS: EFFECTS ON THE FINANCIAL PERFORMANCE OF ESG-COMPLIANT COMPANIES IN LATIN AMERICA

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ABSTRACT

This study aimed to examine the effects of socio-environmental corruption scandals on the financial performance of ESG-compliant companies in Latin America. To this end, a descriptive methodological approach was adopted with respect to the objectives, a documentary approach regarding the procedures, and a mixed qualitative-quantitative approach in terms of the overall methodology. The sample for this study consisted of publicly traded ESG-compliant companies in Latin America that were involved in socio-environmental scandals. To select this sample, news articles were surveyed using Google News. Subsequently, financial statement data of the identified companies were collected from the Refinitiv database, covering the period from 2010 to 2023. The method employed in this study was a multiple linear regression model with panel data. The main findings indicate that socio-environmental scandals may actually enhance the financial performance of ESG-compliant companies in Latin America by generating additional business opportunities, even though such behaviors are inappropriate.

Keywords: Socio-environmental Corruption Scandals. Financial Performance. ESG. Latin America.

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1 INTRODUCTION

Issues related to Environmental, Social, and Governance (ESG), which represent the environmental, social, and governance characteristics of companies, increasingly guide business decisions regarding operational practices, corporate values, and the expected performance and returns for their stakeholders (Irigaray & Stocker, 2022). Considering this, ESG allows for the assessment of corporate sustainability aspects, providing relevant information on both performance and the impact on company value. Accordingly, Sempere-Ripoll et al. (2020) confirm the role of the environmental, social, and governance criteria, referred to as ESG, in the financial performance of organizations.

From this perspective, as companies leverage these sustainable mechanisms and ESG best practices to showcase actions they may not fully implement, stakeholders have pressured firms to disclose and align operational activities with sustainable aspects that respect the environment, social needs, and sound governance standards (Abbas & Sağsan, 2019). These aspects are particularly emphasized due to contemporary society pressuring consumers to choose products and services that comply with currently discussed sustainability principles (Masocha, 2018).

At the same time, while this scenario is highlighted, the consequences of corruption for society are being investigated in numerous studies in economics and other social sciences (Ucar & Staer, 2020). However, these authors note that few studies have examined the effects of corruption on corporate policies, and no research has explored the impact of corruption on socially relevant corporate policies.

Furthermore, there remains a gap in the literature regarding the formulation and implementation of responsible corporate policies, such as those related to ESG, and their effects on firm financial performance, particularly in developing countries (Olateju et al., 2021; Khan, 2022; DasGupta & Roy, 2023; Cardillo & Basso, 2025). Moreover, the financial consequences resulting from poor social performance are still considered insufficiently evident (Aouadi & Marsat, 2018).

According to Gillan et al. (2021), Lahouel et al. (2022), and Lee & Suh (2022), although some studies have analyzed the relationship between ESG conduct and corporate financial performance, most present inconclusive results. Supporting this, Lee & Suh (2022) found that the majority of studies conducted after 2015 examining this relationship remain insufficient to thoroughly explain the issues surrounding ESG conduct, ESG performance, and financial performance.

Given the context presented, the research problem can be stated as follows: **What are the effects of socio-environmental corruption scandals on the financial performance of companies adhering to ESG policies in Latin America?** In this context, the general objective of this study is to examine the effects of socio-environmental corruption scandals on the financial performance of companies that adopt ESG policies in Latin America.

Analyzing corruption in the field of Accounting is essential, given that the study by Macedo and Valadares (2021) revealed that only 3% of corruption studies focus on Accounting, highlighting the limited attention of researchers in this area, whereas the field of Law has the greatest number of studies on corruption. Accordingly, there is a gap regarding accounting research on companies involved in corrupt acts over the past decade, particularly concerning socio-environmental corruption.

Thus, in addition to its connection with monetary and accounting issues, corruption is related to social processes that involve values and norms, which justifies the relevance of analyzing corruption in terms of assessing compliance with aspects grounded in the recognition of formal and informal norms (Filgueiras, 2009), such as those related to the social contract, which can be examined through Stakeholder Theory, the theoretical basis for this study.

In this context, considering the gap in previous studies on this topic, conducting this research is justified, as it remains unclear how the market reacts to the disclosure of corruption scandals, not only of companies directly involved in corruption schemes, but also of entities in the same sector that are affected due to competitive disadvantages (Araújo et al., 2018).

As a social contribution, this study seeks to corroborate the argument that Corporate Social Responsibility (CSR) of which ESG is a distinctive framework plays a significant role, as it has prompted regulatory bodies and the general public to closely monitor corporate actions, thereby increasing the demand for companies that demonstrate social and environmental responsibility (Guimarães & Malaquias, 2023).

Moreover, the study aims to expand understanding of ESG-specific issues, considering that ESG increasingly guides business decisions regarding operational practices and values to be adopted, which in turn influence corporate image, performance, and the returns expected by investors (Irigaray & Stocker, 2022). Consequently, this research is innovative in its focus on companies that have actually been involved in socio-environmental scandals, using a qualitative approach with newspaper reports as the primary data source, which contributes not only to society but also to stakeholders.

This research becomes particularly relevant given the current context of increasing requirements for compliance with the Sustainable Development Goals (SDGs). Considering the need to deepen research on organizational sustainability, this study aims to contribute by addressing the demand for investigations into organizational practices, especially regarding the alignment of companies with sustainable principles, thereby mutually benefiting society, stakeholders, and academia in terms of information needs.

Therefore, this study provides sufficient grounding for understanding issues related to corporate social responsibility, fostering discussions on SDG compliance and the behavior of companies considered socially responsible. In this regard, the research contributes by offering insights into the fulfillment of Sustainable Development Goal 12, which concerns Responsible Consumption and Production, aiming to ensure sustainable production and consumption patterns that minimize socio-environmental impacts, promote efficient use of natural resources, and reduce waste (Assembly, 2015). Additionally, the study advances the debate on SDG 16, which seeks to promote peace, justice, and strong institutions, achievable through effective anti-corruption policies encompassing risk assessments and transparent reporting (Chatterji et al., 2016).

Furthermore, this study aims to provide relevant information to stakeholders regarding the behavior of companies involved in socio-environmental corruption scandals in developing countries, which are under-researched, as Latin America is considered a largely unexplored region in academic studies (Hernandez-Pozas et al., 2021). These authors emphasize the necessity of studies focusing on this continent, as the lack of awareness regarding Latin American management persists, and misconceptions about its competitiveness, including misleading generalizations, create confusion (Hernandez-Pozas et al., 2021).

2 THEORETICAL FRAMEWORK

2.1 Stakeholder Theory

According to Freeman et al. (2010), Stakeholder Theory aims to examine the relationship between organizations and their stakeholders, providing a basis for explaining how these interactions occur. The theory seeks to create a context in which the added value for all stakeholders is maximized through the decisions made by the company. In line with this argument, Bazanini et al. (2020) state that Stakeholder Theory assumes that organizational decisions aim to balance the relationship between the company and its stakeholders, ensuring that these choices align with the interests of all individuals connected to the organization.

Thus, Stakeholder Theory can be used to provide relevant and timely information for decision-making, in order to meet the needs and interests of the organization's stakeholders (Barney & Harrison, 2020), since, according to Freeman and Reed (1983), organizations would not exist without these agents. With the aim of maintaining business balance through the satisfaction of stakeholders' expectations, and considering that addressing shareholders' needs and desires is fundamental for organizational continuity, Berman et al. (1999) asserted that stakeholder management must be integrated into organizational strategies so that the entity can achieve good performance. This is because managing stakeholders influences the financial performance of companies, and consequently, financial efficiency may be affected.

This is further supported by the fact that companies engaging in social responsibility activities are perceived as possessing integrity among stakeholders, which serves as a form of assurance that their reputation will not be compromised during periods of disruption (Godfrey, 2005). Moreover, stakeholder management can mitigate the negative impacts of conflicts of interest among stakeholders (Harrison & John, 1996).

Therefore, these authors emphasize the importance of satisfying stakeholders' needs and expectations, as failure to do so may lead the firm to financial problems and, consequently, jeopardize its continuity. Accordingly, Machado et al. (2009) argue that stakeholders' perspective considers that a company does not solely aim to maximize shareholder wealth, but rather pursues multiple objectives, seeking to meet the expectations of all involved parties, i.e., fulfilling the interests of both primary and secondary stakeholders.

Stakeholder Theory differs from other theories in the organizational context, as all individuals or groups with legitimate interests within a company do so to secure benefits (Donaldson & Preston, 1995). In other words, Stakeholder Theory does not necessarily assume that shareholders are the sole legitimate focus of corporate control and governance (Holanda et al., 2011).

Research in the field of social responsibility highlights the role of stakeholders as drivers of business decisions, establishing a theoretical basis that allows the analysis of the impact on a company's economic performance, as well as its behaviors and actions aimed at fulfilling its social responsibility (Roberts, 1992).

2.2 Socio-Environmental Corruption Scandals and Financial Performance

Although some studies have analyzed corporate corruption and its effects on financial performance, research on corruption in the socio-environmental context is still considered incipient. Socio-environmental corruption encompasses the abuse of entrusted power by an individual with the aim of obtaining private gain, resulting in environmental degradation, weakening of environmental governance, or socio-environmental injustice (Transparency International, 2003).

Governments and companies seek to conduct their activities sustainably by implementing alternatives that meet the collective needs without compromising resources for future generations (Leite Filho et al., 2009). This can be explained by the intense demand on governments and organizations to reduce the damages caused by corporate actions, such as air pollution, environmental degradation, scarcity and contamination of groundwater, social inequalities, and corruption (Koprowski et al., 2019).

Within the corporate sphere, research has examined the relationship between corporate reputation and the content of socio-environmental reports (Koprowski et al., 2019). According to Campbell (2007), companies act in a socially responsible manner if they demonstrate two types of behavior. First, the organization should not consciously engage in any action that harms stakeholders (investors, employees, customers, suppliers, and the community); second, if the entity has caused damage to stakeholders, it must seek to correct the harm and disclose it, with such

rectification carried out either voluntarily or in response to incentives such as moral persuasion, normative pressure, legal threats, regulatory decisions, and court orders (Campbell, 2007).

Thus, stakeholders' trust, especially regarding products marketed as sustainable, can influence both market share and the financial performance of companies (Torelli et al., 2020). Moreover, the quality of sustainability information disclosure impacts information asymmetry, preventing investors from making decisions based on private information (Brown & Hillegeist, 2007). In this regard, the implementation of Corporate Social Responsibility (CSR), which includes ESG policies within the organization, is demanded because integrating CSR into strategic business decisions and operational processes fosters improvements in corporate performance (Ashrafi et al., 2020).

However, Arbe and Feria-Dominguez (2022), when analyzing the financial performance of companies involved in corruption scandals, state that although these events may impact organizations, the effects may be reflected in the long term. By managing their disclosures, companies influence shareholders' perception, which may prevent short-term impacts on returns.

Accordingly, as indicated by Costa and Pinheiro (2022), the traditional market model has undergone transformations, with greater emphasis on social approval, competitiveness, and high governance standards, as contemporary investors are increasingly interested in responsible investments. In this perspective, perceived corruption in countries is associated with incentives to manipulate corporate profits in emerging markets (Lourenço et al., 2018). Consequently, it is understood that societies with higher levels of corruption exhibit lower levels of voluntary disclosure (Agyei-Mensah & Buerter, 2019) and lower levels of Corporate Social Responsibility (Ucar & Staer, 2020).

Unethical and illicit practices significantly compromise organizations' financial performance, with evidence showing that even companies in developed countries are not immune to the detrimental effects of misconduct (La Rocca et al., 2023). On the other hand, in developing markets, it is understood that companies may overcome institutional obstacles and other bureaucratic mechanisms to achieve greater sales and productivity growth through acts of corruption, which may indicate that such actions are employed as strategies to solve system inefficiencies, even though these acts are illegal and immoral and should not be performed (Williams, 2016; Ashyrov & Akuffo, 2020).

In a context of uncertainty, with issues such as corruption scandals and/or socio-environmental scandals, negative social impacts caused by companies, and the commission of environmental crimes as in the cases of Vale S.A. in Mariana and Brumadinho, Minas Gerais, due to mining activities, which resulted in financial, environmental, and social impacts there is a clear need for discussions on corporate sustainability and the quality of internal controls within companies (Costa & Pinheiro, 2022). In this scenario, ESG plays a mandatory role, including in its relationship with financial performance.

2.3 ESG Conduct and Financial Performance

The International Financial Reporting Standards (IFRS) S1 and S2, published in June 2023, are fundamental in the context of sustainability, particularly concerning ESG aspects, as they aim to require companies to disclose information regarding their risks and opportunities related to climate, for example, so that it is useful for financial report users in decision-making (International Financial Reporting Standards S1 [IFRS S1], 2023; International Financial Reporting Standards S2 [IFRS S2], 2023).

Thus, IFRS S1 indicates how an entity prepares and provides its financial disclosures regarding sustainability, defining the requirements for the disclosure of information concerning the organization's sustainability-related risks and opportunities. In this context, companies are

required to disclose information on the governance processes, controls, and procedures they use to monitor, manage, and oversee sustainability-related risks and opportunities [IFRS S1], 2023).

Furthermore, according to this standard, companies are also required to provide information on their strategy for managing sustainability-related risks and opportunities; to disclose information about the processes used to identify, assess, prioritize, and monitor risks and opportunities related to sustainability; and to report on the entity's performance concerning the risks and opportunities arising from its sustainability, including progress toward targets the company has set or is legally or regulatory obligated to achieve.

IFRS S2, in turn, provides guidance for applying scenario analysis, which requires a mechanism to evaluate climate-related contexts that is appropriate to the company's situation, as well as the use of all reasonable and available sustainable information accessible to the entity at the reporting date, without incurring undue cost or effort.

Therefore, the publication of these standards represents a significant milestone, as, according to Melo Neto (2004), sustainability-related issues ceased to be researched solely in the environmental context and have increasingly gained prominence in the business arena. In this sense, the author notes that the concept of social responsibility was incorporated into the sustainability framework, and this interaction of factors reflects the pursuit of a new development paradigm encompassing economic growth, social inclusion, and environmental justice, as is the case with ESG metrics. Society has become increasingly aware of corporate social responsibility, resulting in a growing demand for information that demonstrates companies' social initiatives (Azevedo & Cruz, 2007).

The concept of Environmental, Social, and Governance (ESG) encompasses a set of factors ranging from carbon credits to labor practices and corruption (Irigaray & Stocker, 2022). This diversity of considerations, according to the authors, justifies the adoption of criteria and practices that define the role and responsibilities of organizations regarding environmental, social, and corporate governance factors.

Consequently, due to increasing environmental pressures, both from society and through legal instruments, companies are striving to meet these demands (Aguiar & Côrtes, 2014). In this context, stakeholders play a fundamental role in the process, as they are concerned with the environmental management of organizations, and environmental issues can impact these users, potentially harming the reputation of the final product (Paloviita & Luoma-aho, 2010).

Thus, the importance and urgency of adopting ESG policies, as well as conducting research on these practices, are highlighted due to unforeseen risks, such as the climate crisis, which can significantly impact the global economy (Irigaray & Stocker, 2022). These potential risks, as the authors explain, have led to greater attention to enterprises that prioritize ESG practices, including policymakers and investors, thereby contributing to the achievement of the Sustainable Development Goals (SDGs).

In this way, it is evident that ESG metrics influence investors' decision-making, favoring investments that offer higher financial returns and incorporate sustainability mechanisms (Global Compact, 2020), which may also affect issues related to agency conflicts by reducing uncertainty about business risks (Costa & Pinheiro, 2022).

From this perspective, Corporate Social Responsibility policies, such as ESG metrics, can go beyond the interests of the company and legal requirements (McWilliams & Siegel, 2001), also providing benefits to society in humanitarian, community, employee, diversity, and product dimensions, aiming to address the main social consequences of business policies (Ucar & Staer, 2020). Supporting this line of thought, Barros et al. (2019) stated that certain measures can contribute to the continuity of organizations even in contexts of corporate scandals, such as good corporate governance practices and the disclosure of information regarding acts of corruption and/or socio-environmental scandals, as a means to combat these issues, since these actions

indicate that the organization, by voluntarily disclosing such information, demonstrates commitment to mitigating the underlying causes.

In this context, stakeholder activism has increasingly pressured companies to adopt environmentally responsible behavior in order to improve both ESG performance and financial performance (Lee & Raschke, 2023). Accordingly, these authors argue that stakeholders have expectations regarding companies' ESG conduct in relation to financial performance, as, according to Barman and Mahakud (2024), the impact of critical events on financial performance is relatively lower in companies with higher levels of sustainability disclosure. Supporting this perspective, Shaikh (2022) points out that researchers and analysts argue that ESG analysis has become more relevant due to stakeholders' demand for information regarding its impact on financial performance.

On the other hand, the lack of standardization in ESG classification can lead to differing interpretations of an entity's sustainable performance, particularly in the areas of anti-corruption policies and human rights practices (Chatterji et al., 2016), raising questions about the reliability of organizations' ESG ratings (Strang & Vajihala, 2024). Furthermore, although previous research has shown that corruption constitutes a mechanism capable of affecting organizations across different countries and sectors, there is still insufficient evidence regarding the relationship between institutional corruption and the financial performance of entities (Magerakis & Tzelepis, 2023).

In view of the above, the hypothesis of this research is presented:

H1: Socio-environmental corruption scandals positively affect the financial performance of companies adhering to ESG policies.

3 METHODOLOGICAL PROCEDURES

3.1 Data and Sample

The sample of this research was composed of publicly traded companies in Latin America that were involved in socio-environmental corruption scandals. The period of this study covers the years 2010 to 2023, considering that these were the years in which the first scandals occurred and the most recent one up to the time of this research, as reported by the media, following the official proposal for the adoption of ESG policies by companies and their process of convergence with international accounting standards. Thus, for the selection of the sample, news about socio-environmental scandals published by newspapers in the respective countries was analyzed using the Google News tool.

This tool was used as a data collection source due to its wide coverage of news, allowing the identification of reports from a larger number of newspapers in the countries included in this study, considering that news about this type of scandal is less frequent and less detailed. Thus, the Google News tool was employed to enable a greater amount of information regarding the events under investigation. For this purpose, searches were conducted in Portuguese and Spanish, the languages of the Latin American countries, using the keywords presented in Table 1.

Table1
Keywords Used in the Research

Terms in Portuguese	Terms in Spanish
corrupção socioambiental	corrupción socioambiental
corrupção ambiental	corrupción medioambiental
corrupção ecológica	corrupción ecológica
escândalo socioambiental	escándalo socioambiental
escândalo ambiental	escándalo medioambiental
escândalo ecológico	escándalo ecológico
crime socioambiental	delincuencia socioambiental
crime ambiental	delito medioambiental
crime ecológico	delito ecológico
incidente socioambiental	incidente socioambiental
incidente ambiental	incidente medioambiental
incidente ecológico	incidente ecológico
controvérsia socioambiental	controversia socioambiental
controvérsia ambiental	controversia medioambiental
controvérsia ecológica	controversia ecológica
polêmica socioambiental	polémica socioambiental
polêmica ambiental	polémica medioambiental
polêmica ecológica	polémica ecológica
problema socioambiental	problema socioambiental
problema ambiental	problema medioambiental
problema ecológico	problema ecológico
falha socioambiental	fracaso socioambiental
falha ambiental	fallo medioambiental
falha ecológica	fracaso ecológico
desastre socioambiental	desastre socioambiental
desastre ambiental	desastre medioambiental
desastre ecológico	desastre ecológico
catástrofe socioambiental	catástrofe socioambiental
catástrofe ambiental	catástrofe medioambiental
catástrofe ecológica	catástrofe ecológica

Source: Authors' elaboration(2025).

Considering these metrics, the sample of this study consisted of the entities listed in Table 2, which were involved in socio-environmental scandals.

Table2

Companies Involved in Socio-Environmental Corruption Scandals in Latin America

Company	Country	Sector	Period
Braskem	Brazil	Basic Materials	2018 to 2023
Carnival Corp	Panama	Cyclical Consumption	2016 to 2019
Coca-Cola Femsa SAB de CV	Mexico	Non-Cyclical Consumption	2015 to 2022
Companhia Siderúrgica Nacional SA	Brazil	Basic Materials	2010 to 2023
Dexco SA	Brazil	Basic Materials	2020 and 2021
Empresas CMPC SA	Chile	Basic Materials	2010 e 2011
Gerdau SA	Brazil	Basic Materials	2023
Grupo Mexico SAB de CV	Mexico	Basic Materials	2014 a 2023
JBS SA	Brazil	Consumption Non-Cyclical	2017 a 2019
Suzano SA	Brazil	Basic Materials	2018 a 2023
Usinas Siderúrgicas de Minas Gerais SA USIMINAS	Brazil	Basic Materials	2010 a 2023
Vale SA	Brazil	Basic Materials	2019 a 2023
Volcan Compania Minera SAA	Peru	Basic Materials	2010 a 2022

Source: Authors' elaboration (2025).

It was observed that, among the Latin American countries included in the sample (Antigua and Barbuda, Argentina, Brazil, Chile, Colombia, Curaçao, Mexico, Panama, Peru, and Puerto Rico), the countries that had companies involved in socio-environmental scandals reported in newspapers were Brazil, Chile, Mexico, Panama, and Peru. In total, 19 companies were involved in socio-environmental scandals between 2010 and 2023, out of the 311 companies that comprised the overall sample.

After identifying the companies that experienced socio-environmental corruption scandals, the variables listed in the following subsection were selected. These variables were collected using the Refinitiv Eikon® database, which is considered reliable due to its multiple sources, extensive news coverage, and continuous updates from various media outlets (Aouadi & Marsat, 2018).

3.2 Selected Variables

Table 3 presents the variables analyzed in this study.

Table3

Research Variables

Variable	Type of Variable	Operationalization	Previous Studies
Return on Assets (ROA)	Dependent (Regression Model 1)	Ratio between EBIT, or Operating Profit, and Total Assets	Ojeka et al. (2019); Tran (2022); Magerakis e Tzelepis (2023)
Tobin's Q (QT)	Dependent (Regression Model 2)	Ratio between Market Value and Total Assets	Bai et al. (2013)
Sales Growth (ΔSales)	Dependent (Regression Model 3)	Current period sales revenue minus previous period sales revenue	Aouadi e Marsat (2018); Fatemi et al. (2018)

Environmental, Social, and Governance (ESG) Index	Explanatory	The index measures the environmental, social, and governance performance, commitment, and effectiveness of companies. Therefore, the more criteria met, the closer the score will be to 100	Passos e Campos-Rasera (2023); Dorfleitner et al. (2020)
Corruption (CORRUP)	Explanatory	Dummy variable, represented by the value 1 in periods when the company was reported as involved in corruption and 0 in periods when the company was not reported as involved in corruption	-
Company Size (TAM)	Control	Logarithm of Total Assets	Yu et al. (2018); Ojeka et al. (2019); Magerakis e Tzelepis (2023)
Company Age (IE)	Control	Indicates the period during which the entity has been operating	McBrayer (2018); Sadiq et al. (2020); Ojeka et al. (2019)
Gross Domestic Product (GDP)	Control	Sum of all goods and services produced in a region	Bătae; Dragomir; Feleagă (2020); Beckmann; Rogmann (2024)
Leverage (END)	Control	Ratio of Total Liabilities to Total Assets	Fatemi et al. (2018); McBrayer (2018); Yu et al. (2018); Wong et al. (2021); Passos e Campos-Rasera (2023)
Tangibility (TANG)	Control	Ratio of Fixed Assets to Total Assets	Ojeka et al. (2019); Wong et al. (2021); Magerakis e Tzelepis (2023); Passos e Campos-Rasera (2023)
Capex (CAPEX)	Control	Capital expenditures divided by profit (%)	Yoon et al. (2024)

Source: Authors' elaboration (2025).

3.3 Econometric Model

Considering the objective and the hypothesis established in this research, a multiple linear regression model with panel data was employed, as this method aims to predict changes in the dependent variable resulting from variations in the explanatory variables (Hair, 2005). Thus, taking into account the variables selected for this study, in order to test the hypothesis and achieve the research objective, the first, second, and third regression models are presented in Equations 1, 2, and 3, respectively, below:

$$ROA_{it} = \alpha + \beta_1 CORRUP_{it} + \beta_2 ESG_{it} + \beta_3 TAM_{it} + \beta_4 IE_{it} + \beta_5 GDP_{it} + \beta_6 END_{it} + \beta_7 TANG + \beta_8 CAPEX_{it} + \mu_{it} \quad (1)$$

$$QT_{it} = \alpha + \beta_1 CORRUP_{it} + \beta_2 ESG_{it} + \beta_3 TAM_{it} + \beta_4 IE_{it} + \beta_5 END_{it} + \beta_6 GDP_{it} + \beta_7 TANG + \beta_8 CAPEX_{it} + \mu_{it} \quad (2)$$

$$\Delta Vendas_{it} = \alpha + \beta_1 CORRUP_{it} + \beta_2 ESG_{it} + \beta_3 TAM_{it} + \beta_4 IE_{it} + \beta_5 GDP_{it} + \beta_6 END_{it} + \beta_7 TANG + \beta_8 CAPEX_{it} + \mu_{it} \quad (3)$$

In the aforementioned regression models, i and t represent the entity and the period, respectively. These three models were specified to test the research hypothesis, considering that three variables were adopted to measure financial performance (ROA, Tobin's Q, and Sales Growth).

In regression models 1 to 3, in order to determine the most appropriate model (Fixed Effects, Random Effects, or Pooled), the Chow F-test, Breusch-Pagan LM test, and Hausman test were performed, in addition to the Shapiro-Francia, Breusch-Pagan, and Wooldridge tests, aiming to verify the assumptions of normality, homoscedasticity, and autocorrelation of the residuals, respectively. Furthermore, the Variance Inflation Factor (VIF) test was conducted to assess multicollinearity among the explanatory variables.

Descriptive statistics of the quantitative variables were also computed to examine their behavior. Therefore, the descriptive statistics, panel data regression estimations, and model adequacy and assumption tests were all performed using RStudio, compatible with the R programming language.

4 DATA ANALYSIS AND DISCUSSION OF RESULTS

4.1 Descriptive Statistics Analysis

Table 4 presents the Descriptive Statistics of the variables used in this research.

Table 4
Descriptive Statistics

Variables	N	Mean	Median	Standart Desviation	Minimum	Maximum
ROA	2.338	0.0773	0.0731	0.0781	-0.2135	0.3435
QT	2.338	0.7407	0.4721	0.8042	0.0002	4,5015
VV	2.338	0.0871	0.0440	0.3490	-0.6591	1,6130
ESG	2.338	45.4036	47.2618	21.4546	0.6068	93.4451
TAM	2.338	15.0304	15.0565	1.4444	10.8092	18.3043
IE	2.338	21.7863	18.6288	14.0175	0.8793	61.7204
GDP_PC	2.338	10578.8897	10130.3207	2835.9308	5936.2610	17212.2160
END	2.338	0.5934	0.5845	0.2000	0.1220	1.4362
TANG	2.338	0.3434	0.3208	0.2375	-0.3977	0.9274
CAPEX	2.338	0.0420	0.0337	0.0368	0.0000	0.1916

Source: Research Data (2025).

It can be observed that, on average, the Return on Assets (ROA) of Latin American entities was considered low, corresponding to only about 8% profitability over the analyzed period. The standard deviation of this variable was considered high, nearly equal to the mean, at 0.0781. Furthermore, the market value, represented by Tobin's Q, did not show significant results, indicating that, on average, the market performance of the companies represents only 0.7407. This suggests that the market value of the analyzed entities was lower than the replacement cost of their assets, although this variable exhibited a high standard deviation (80.42%).

Similarly, the average Sales Growth of the companies in the sample was minimal (8.71%). Although this represents a positive change, it shows that, in general, the companies experienced only slight growth in sales over time. However, this variation can be considered of limited significance. The standard deviation was not negligible (34.90%), indicating high variability in the

Sales Growth of the companies. This may be explained by differences in the size of the companies in the sample, which operate across various sectors, as well as seasonal factors.

The ESG variable, in turn, had an average of 45.40% across the three dependent variable samples (ROA, Tobin's Q, and Sales Growth), indicating that the entities achieved moderate results in the implementation of ESG practices during the investigated period. The standard deviation of this variable was also moderate (21.45), reflecting an average variability in ESG performance.

Regarding the Size variable, the average was 15.03, suggesting that the sample analyzed in this research included entities with little size dispersion, as shown by the low standard deviation (1.44). This may be explained by the sample being limited to companies within the same continent, which may share more homogeneous market characteristics. On the other hand, the Age of the entities displayed high variation, with a standard deviation of 14.01, although the average age was 21.78 years, indicating medium market maturity.

The Per Capita GDP variable exhibited a low standard deviation, which may indicate that, despite the heterogeneity in company performance, there is limited variability in the income generated across different Latin American countries, given that all the entities belong to the same continent.

The data also show that Latin American companies had moderate leverage (average of 0.59), which can be explained by the characteristics of entities in this region, as Latin American countries have a considerable demand for external financing to make investments.

Consequently, Tangibility among the Latin American companies averaged around 34% during this period, indicating a relatively low reliance on tangible assets for the functioning of the organizations. While some entities had up to 92% of their assets concentrated in tangible assets, others exhibited very low tangibility (-0.39), suggesting a higher concentration of intangible assets, such as brands and patents.

In contrast, the Capex of the entities indicates that they spent approximately 4% of their resources on capital investments. These results also reveal significant heterogeneity in this variable, reflecting the wide variability in Capex distribution.

4.2 Panel Data Regression Analysis

After determining the model with the best fit for estimating each dependent variable (POLS model, fixed effects, or random effects), it was examined whether the assumptions of normality, homoscedasticity, and autocorrelation of the regression residuals were met, using the Shapiro-Francia, Breusch-Pagan, and Wooldridge tests, respectively. The results indicated that, for all regression models, the assumptions of normality, homoscedasticity, and residual autocorrelation were not satisfied. Therefore, to correct the violations of homoscedasticity and autocorrelation in the residuals, the Driscoll and Kraay (1998) robust covariance matrix estimation methodology was employed to provide more consistent standard error estimates.

Although meeting the assumptions, including the normality assumption which allows the results of the models to be generalized is important, it is possible to obtain interesting models that can provide conclusions about the sample even when the normality assumption is not met (Field et al., 2012). However, the results obtained cannot be generalized beyond the samples analyzed in this study.

Multicollinearity among the explanatory variables was also assessed using the VIF test, which indicated that the highest value did not exceed 5, showing that there is no multicollinearity among any explanatory variable in the regression models analyzed, considering that explanatory variables with multicollinearity problems usually have values above 10 (Fávero & Belfiore, 2017). Table 5 presents the Panel Data Regression Results for periods t and $t-1$ without time effects.

Table 5

Panel Data Regressions without Time Effects for Financial Performance Variables

Variables	Dependent Variables			Dependent Variables		
	ROA	QT	VV	ROA	QT	VV
Robust Fixed Effects						
CORRUP _t	0.0304 (0.0199)	0.2032*** (0.0308)	0.0865 (0.0532)			
CORRUP _{t-1}				0.0205** (0.0081)	0.1632*** (0.0469)	0.0056 (0.0677)
ESG	0.0000 (0.0001)	-0.0006 (0.0014)	-0.0028** (0.0011)	0.0000 (0.0001)	0.0002 (0.0015)	-0.0030** (0.0013)
TAM	-0.0037 (0.0092)	-0.2263*** (0.0336)	0.1761*** (0.0595)	-0.0123 (0.0095)	-0.2387*** (0.0548)	0.1294*** (0.0480)
IE	-0.0001 (0.0009)	-0.0082 (0.0064)	0.0036 (0.0102)	-0.0002 (0.0014)	-0.0078 (0.0082)	0.0057 (0.0147)
GDP_PC	0.0000 (0.0000)	-0.0000 (0.0000)	0.0000 (0.0000)	0.0000 (0.0000)	-0.0000 (0.0000)	0.0000 (0.0000)
END	-0.1220*** (0.0205)	-0.8299*** (0.0632)	0.2452 (0.1715)	-0.1283*** (0.0221)	-0.8289*** (0.0635)	0.1183 (0.1542)
TANG	-0.0723*** (0.0260)	-0.3259 (0.2077)	-0.4018** (0.1635)	-0.0669* (0.0342)	-0.4439** (0.2051)	-0.3286* (0.1714)
CAPEX	0.4204*** (0.0467)	2.1896*** (0.7285)	1.0501* (0.6100)	0.3866*** (0.0603)	2.4008*** (0.7115)	0.7407 (0.6530)
Observations	2.338	2.338	2.338	2.027	2.027	2.027
R ²	0.0750	0.1177	0.0564	0.0802	0.1161	0.0513
F-Statistic	20.4638***	33.6633***	15.0736***	18.7536***	28.2288***	11.6246***
Time Fixed Effects	No	No	No	No	No	No

Note: *** Significant at the 0.01 level (1%). **Significant at the 0.05 level (5%). *Significant at the 0.1 level (10%). Standard errors are shown in parentheses.

Source: Research Data (2025).

It is observed that Corruption exhibits a positive and significant relationship with Tobin's Q at time t, at the 1% significance level, indicating that entities involved in socio-environmental scandals or corruption tend to increase their market value in the same period. This can be explained by the negative relationship between the quality of disclosure and information asymmetry in companies, which is mainly due to the fact that, when a company does not adequately disclose its information, the probability that investors are aware of the actual business situation and trade based on private information decreases (Brown & Hillegeist, 2007). Therefore, due to the limited disclosure of corruption scandals when they are discovered, as well as the delayed reporting of these scandals in widely circulated media sources, stakeholders may continue investing their resources in the companies, which explains this positive relationship between corruption and Tobin's Q.

Thus, even with extensive or limited disclosure, socio-environmental scandals have effects that are not significant in the short term (one year) for companies and the market in general. Although this scenario is undesirable and should not be encouraged, this behavior may be related

to the understanding that such scandals can create investment opportunities for stakeholders, who may take advantage of stock drops at the time of disclosure and benefit from the rapid recovery and appreciation of these assets, potentially impacting the financial performance and market value of firms positively. Moreover, over time, as the memory of events that weakened corporate reputation fades, and as stocks continue to be traded almost at usual volumes, the financial performance of companies is boosted.

These findings are supported and explained by the study by Arbe and Feria-Dominguez (2022), who argue that, although corruption scandals affect corporate reputation, they do not result in significantly negative short-term performance. This occurs because, according to these authors, corporate reputation does not significantly influence market value, since other factors can impact both market value and financial performance. One explanation for this slow market reaction is that a company's positive reputation may overlap the negative repercussions of socio-environmental scandals, meaning these adverse events may take some time to erode reputation and, even then, do not substantially affect the company, as entities adopting socially responsible mechanisms are seen as having integrity among stakeholders, indicating that their reputation tends not to be distorted even during periods of instability (Godfrey, 2005).

Furthermore, this behavior can be explained by the fact that, although corruption is condemnable, it enables or facilitates opportunistic behavior by investors, which can contribute to improved business performance in certain contexts, as noted by Williams et al. (2016). In developing economies, where regulatory environments are inefficient, corruption can act as an informal mechanism to overcome bureaucratic barriers and excessive regulations, resulting in increased revenue and employment and exceeding usual productivity levels (Williams et al., 2016). However, it is considered an illegal and unacceptable practice that should not be encouraged. These arguments were confirmed in the study conducted by these authors, which included a sample of companies from 132 developing countries between 2006 and 2014, using data from the World Bank Enterprise Survey (WBES).

Additionally, political inefficiency and bureaucracy are also mechanisms that can explain the enhancement of business productivity, as regulatory inefficiency and complexity generate opportunities for organizations to seek alternatives to overcome administrative obstacles, sometimes adopting practices that reduce bureaucracy-related costs or accelerate decision-making processes. This conduct, although controversial and extralegal, emphasizes that institutional aspects of developing countries can shape organizational behavior and directly impact financial performance (Ashyrov & Akuffo, 2020), factors that contribute to explaining the findings of this research.

This result differs in developed countries, where corruption has a significantly negative effect on firm performance, demonstrating that corrupt practices harm operational efficiency and profitability, as verified in the research by La Rocca et al. (2023), which investigated the impact of illicit and unethical managerial practices on firm performance in developed countries. These findings highlight that corruption negatively affecting organizational performance underscores the importance of robust corporate governance and anti-corruption disclosure mechanisms, which can help mitigate corrupt practices within firms (Barros et al., 2019).

Similarly to time t , Corruption also showed a positive and significant relationship with financial performance at time $t-1$, with statistical significance for Tobin's Q and ROA at the 1% and 5% significance levels, respectively. An explanation for why socio-environmental corrupt acts may contribute to short-term financial performance is provided by Arbe and Feria-Dominguez (2022), who reveal that the negative effects of corruption scandals on company financial performance emerge gradually, making the impact of socio-environmental corruption more noticeable in the long term.

Although it is generally understood that corruption requires a longer period to manifest its consequences on companies and the behavior of related agents, the results of this study showed that, at both time t and time $t-1$, corruption exhibited a positive relationship with organizational financial performance. These findings are consistent with the results of Strang and Vajjhala (2024), who examined major asset managers in the United States and found that even when entities engaged in corrupt practices, these actions did not affect their ESG ratings, allowing these organizations to maintain satisfactory financial performance despite being involved in socio-environmental scandals.

Furthermore, the study by Barman and Mahakud (2024) demonstrated that corruption diminishes the positive effect of socio-environmental disclosure on organizational financial performance, indicating that its impact becomes more significant over time. Therefore, the findings of this research support the study hypothesis, which posits that socio-environmental corruption scandals positively affect the financial performance of companies that adhere to ESG policies.

Furthermore, the ESG variable shows a negative and significant relationship with the Sales Growth variable at both t and $t-1$, at the 5% significance level. This indicates that the higher the ESG performance, the lower the Sales Growth of companies in Latin America. This behavior between the variables can be explained primarily by the implementation of better governance mechanisms, with improved control and resource management measures, which leads to reduced fluctuations in financial performance. In this way, companies maintaining stable sales performance is beneficial, as it provides important information that the entity is not excessively affected by seasonal factors, thereby conveying security to investors.

A negative and significant relationship at the 1% level was also observed between firm Size and Tobin's Q, both at time t , and $t-1$. This result suggests that the smaller the company, the higher its market value. This may be associated with the opportunities that smaller firms have in developing markets, given that, after a certain period, larger companies face greater growth challenges, partly due to bureaucratic processes that hinder the rapid expansion of their market value. Furthermore, a positive and significant correlation was observed between firm Size and Sales Growth at both time points (t and $t-1$), at the 1% significance level, a result consistent with findings generally reported in the literature and with the study by Magerakis and Tzelepis (2023).

Additionally, a negative and significant relationship was found between Debt and ROA, as well as between Debt and Tobin's Q, both at the 1% significance level. This indicates that higher levels of indebtedness are associated with lower profitability and market value. It can be inferred that, during the analyzed period, companies in the sample used resources primarily to finance operational activities rather than to make investments capable of generating returns, which directly affects market value, as highly leveraged firms are less attractive to investors, negatively influencing their market valuation.

Tangibility exhibited a negative and significant relationship with ROA (1% significance level) in the context of Corruption at time t . Similarly, at time $t-1$, the relationship between Tangibility and financial performance remained negative and significant, with ROA significant at the 10% level and Tobin's Q significant at the 5% level. This indicates that the greater a company's reliance on tangible assets for its operations, the lower its financial performance, as reflected by reduced profitability (ROA) and lower market value (Tobin's Q), which aligns with the findings reported by Magerakis and Tzelepis (2023).

Regarding the relationship between Tangibility and Sales Growth, which is also negative and significant at the 5% level at time t and at the 10% level at time $t-1$, there is an indication that Tangibility negatively influences financial performance measured by sales variation. In other words, a greater reliance on tangible assets for the operation of corporate activities results in lower sales volatility, which does not necessarily reflect poor financial performance. On the contrary,

higher investments in tangible assets may occasionally contribute to more stable financial outcomes, thereby providing more consistent support for sales growth.

Consequently, Capex showed a positive and significant association with ROA and Tobin's Q at the 1% significance level at both time t and time $t-1$, whereas Sales Growth exhibited a positive and significant relationship only at time t , at the 10% significance level. These findings corroborate the study by Shaikh (2022). This behavior can be explained by the fact that capital investments, such as the acquisition of machinery and equipment and improvements in infrastructure, lead to better financial performance and, consequently, higher market values for the entities.

The results found in this study support the principles of Stakeholder Theory, as there is evidence that entities generally engage in stakeholder management. For an organization to achieve good performance, it is necessary to meet the expectations and interests of its stakeholders (Berman et al., 1999). Thus, stakeholder management can be a factor capable of mitigating the negative effects of conflicts of interest among stakeholders (Harrison & John, 1996). Therefore, the confirmation of the research hypothesis suggests that the observed relationship between the analyzed variables may have been influenced by stakeholder management.

5 FINAL CONSIDERATIONS

This study aimed to investigate the effects of socio-environmental corruption scandals on the financial performance of companies adhering to ESG policies in Latin America.

The results indicated that the research hypothesis was confirmed, stating that socio-environmental corruption scandals positively affect the financial performance of companies following ESG policies. Companies involved in such scandals tend to have more opportunities to engage in transactions that yield good financial performance, even though such actions are condemnable.

Another explanation for the results, which show no negative impact on the financial performance of organizations even in companies experiencing socio-environmental scandals, is that firms adopting sustainable mechanisms tend to be perceived as having integrity, even during periods of vulnerability. Accordingly, in line with Stakeholder Theory, organizations appear to manage their stakeholders to meet the interests and expectations of the relevant parties, even in adverse contexts.

The limitations of this study include the fact that the data cannot be generalized to other samples, as the normality assumption of the regression residuals was violated. In addition, the research on scandal-related news presented limitations, since news sources often lack detailed accounts of the events.

For future studies, it is suggested that this research context be examined using multilevel regression. Moreover, it is recommended that companies from developed countries that have indeed been involved in socio-environmental corruption scandals be analyzed to allow comparison with the results of this study.

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CONFLICT OF INTERESTS

The authors declare that there is no conflict of interest regarding this submitted work.

AUTHOR CONTRIBUTIONS

Roles	1^a author	2^o author
Conceptualization	♦	♦
Data Curation	♦	
Formal Analysis	♦	
Funding Acquisition	♦	
Investigation	♦	
Methodology	♦	
Project Administration	♦	♦
Resources	♦	
Software	♦	
Supervision		♦
Validation		♦
Visualization	♦	♦
Writing – Original Draft	♦	
Writing – Review and Editing	♦	♦