

Economic Policy Uncertainty and Corporate Scandals

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ABSTRACT

Using a panel dataset of 5,197 non-financial firms from 26 countries, we investigate the link between economic uncertainty dynamics and corporate misconduct. We document that this relationship varies across levels of uncertainty. During periods of high (low) uncertainty, we find that increases in EPU reduce (enhance) misconduct. This dichotomic behavior may be explained by general scrutiny, as economic agents tend to be more attentive to firm-specific information during periods of heightened uncertainty, ultimately deterring firms' opportunistic behavior. This conjecture is supported by our evidence that misconduct is more sensitive to EPU dynamics in the case of more visible firms (i.e., large firms, firms with greater analyst coverage, more leveraged firms, and firms in developed countries). Finally, we also report that ESG practices do not reduce wrongdoings in periods of low uncertainty.

Keywords: Economic policy uncertainty, Corporate misconduct, Corporate Social Responsibility, ESG, Investor attention.

JEL Classification: M14, G30, E44, E60

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1. Introduction

Policy uncertainty is widely recognized as influencing corporate decisions. For instance, empirical studies consistently find that periods of elevated uncertainty lead firms to behave more conservatively, including reducing long-term investment (Gulen and Ion, 2016), increasing their cash holdings (Julio and Yook, 2012; Demir and Ersan, 2017), cutting down employment (Ilut and Schneider, 2014), launching fewer initial public offerings (IPOs) (Çolak et al., 2017), avoiding merger and acquisition (M&A) activities (Nguyen and Phan, 2017; Bonaime et al., 2018) and reducing their dividend distributions (Panousi and Papanikolaou, 2012; Walkup, 2016). These initiatives act as safeguards against an imminent unstable environment. In the specific case of corporate social responsibility, a series of studies document that firms increase their ESG initiatives when uncertainty rises (Vural-Yavaş, 2021; Wu and Qiu, 2025; Ilyas and Mian, 2022; Wang et al., 2025). This behavior can be explained by evidence that ESG practices serve as a cushion against uncertainty (Zhang et al., 2024; Wang et al., 2025), as market participants become more sensitive to firm-specific information during turbulent periods (Kim and Yasuda, 2021; Andrei et al., 2023). Although the positive relationship between economic policy uncertainty (EPU) and ESG practices is well documented, it remains unclear whether this dynamic indeed translates into more ethical corporate behavior, since the literature reports that misconduct is more likely to be found among firms with higher ESG practices (Dorfleitner et al., 2022; Kathan et al., 2025). Our main purpose is to elucidate this question.

In this context, we argue that the link between EPU and corporate misconduct is nuanced, as it depends on uncertainty states. In other words, firms respond differently to increases in EPU depending on whether local economic uncertainty is low or elevated. We ground this argument in the fraud triangle framework (Cressey, 1953), which explains fraudulent behavior as the result of the interaction between opportunity, economic incentives, and individual rationalization. While not all corporate scandals constitute fraud per se, many involve fraudulent elements, and the three dimensions of the framework provide a useful structure for understanding their emergence. Since periods of heightened uncertainty are accompanied by elevated general surveillance (Kim and Yasuda, 2021; Lee et al., 2025), we would expect misconduct to decrease during such periods due to the weakening of the opportunity dimension, together with a reduction in economic incentives stemming from the higher risk of being caught. On the flip side, when uncertainty is low, managers feel more comfortable engaging in wrongdoing after weighing the benefits of such practices in a low-surveillance environment. This is consistent with the literature showing that managers assess costs and benefits when engaging in corporate controversies (Hannan et al., 2006; Tsang, 2002). Accordingly, it is rational to expect increases in EPU to be associated with a decrease (increase) in

corporate misconduct during high (low) uncertainty periods. This is exactly the behavior that we document.

To investigate this relationship, we employ firm-level data for 5,197 non-financial firms from 26 countries and match them with local EPU measures in a battery of tests. Our baseline results reveal that, in periods of low uncertainty, increases in EPU are associated with future decreases in misconduct ($t\text{-stat} = -4.18$), whereas during high-uncertainty periods these variables move in tandem ($t\text{-stat} = 3.03$). Using an alternative logit model, we also find that when uncertainty is high, the probability of corporate scandals decreases following increases in EPU, whereas the opposite behavior emerges during low-uncertainty periods. This dynamic is also economically meaningful, as we show that a one-standard-deviation increase in EPU reduces (increases) the probability of misconduct by 8% (15%) in the subsequent year when uncertainty is high (low). Overall, these results suggest that firms behave more ethically during periods of elevated economic uncertainty, while they are more likely to misbehave during calmer circumstances.

As previously mentioned, general scrutiny plays a central role in this dichotomous relationship between corporate misconduct and EPU increases, as it affects the dimensions of the fraud triangle. If societal surveillance is indeed a plausible mechanism underlying this relationship, it is reasonable to expect more salient firms to exhibit a stronger asymmetric link between scandals and EPU dynamics. To examine this conjecture, we test whether large firms – due to their higher visibility (Ilyas and Mian, 2022) – firms located in developed countries – due to stronger institutional environments (Dorfleitner et al., 2022) – firms with greater analyst coverage – due to lower information asymmetry (Chen et al., 2016) – and more leveraged firms – due to heightened scrutiny from creditors (Kim and Yasuda, 2021) – display a stronger dichotomous effect between EPU changes and scandals. Consistent with our predictions, we find that across all visibility specifications, more salient firms increase (reduce) misconduct more strongly when EPU is low (high). This pattern supports the view that general scrutiny is a plausible mechanism driving the nuanced relationship between EPU and corporate scandals.

Finally, in our last empirical exercise, we examine whether ESG practices moderate the EPU–misconduct relationship, motivated by studies showing that firms tend to improve their ESG initiatives during periods of elevated uncertainty (Vural-Yavaş, 2021; Chen et al., 2024; Zhang et al., 2024; Wu and Qiu, 2025). Contrary to our expectations, we do not find that high-ESG firms reduce misconduct more aggressively during periods of heightened uncertainty. Moreover, when uncertainty is low and general scrutiny is moderate, we document a significant positive association between EPU changes and corporate scandals ($t\text{-stat} = 2.66$) among high-ESG firms, whereas this relationship is absent for low-ESG firms ($t\text{-stat} = 0.82$). A plausible explanation for this pattern is greenwashing, as prior studies show that firms with high ESG scores are more likely to engage in corporate scandals

(Dorfleitner et al., 2022; Kathan et al., 2025). We add to this literature by documenting that low societal surveillance plays an important role in facilitating such opportunistic behavior.

Our findings contribute to at least three strands of the literature. First, we contribute to the literature on economic uncertainty and corporate decision-making as, to the best of our knowledge, this study is the first to document that EPU shapes corporate misconduct. Second, the evidence that economic uncertainty plays a pivotal role in corporate scandals contributes to the business ethics literature, by advancing our understanding of how environmental variables, such as uncertainty and general surveillance, can influence opportunistic corporate behavior. Finally, we contribute to the corporate social responsibility literature by demonstrating that societal scrutiny is crucial for curbing misconduct, whereas ESG initiatives appear to play a secondary role. For practitioners and regulators, our main implication is that firm monitoring should be intensified during periods of low uncertainty, when firms are more prone to misbehavior.

2. Hypothesis Development

An extensive literature documents that firms tend to adopt more conservative policies in periods of heightened uncertainty (Panousi and Papanikolaou, 2012; Gulen and Ion, 2016; Julio and Yook, 2012; Walkup, 2016; Demir and Ersan, 2017; Nguyen and Phan, 2017; Bonaime et al., 2018; Al-Thaqeb and Algharabali, 2019; Ghoul et al., 2021). More recent studies, however, report that the influence of economic uncertainty on firm-level decisions is not linear (Wang et al., 2025), while the direction depends on EPU states (Foerster, 2014; Al-Thaqeb and Algharabali, 2019; Farooq and Ahmed, 2019). These results suggest that the impact of political uncertainty on corporate behavior is rather state-dependent than necessarily monotonous. In the context of corporate misconduct, it therefore appears possible that the relationship between EPU and scandals may vary depending on the uncertainty situation (Wang et al., 2025). In this specific case, we argue that the fraud triangle (Cressey, 1953) provides a theoretical foundation to expect an asymmetric relationship between EPU and controversies depending on uncertainty states. The fraud triangle postulates that the likelihood of corporate fraud is determined by the interaction of three factors: opportunity, incentives, and individual rationalization (Chen et al., 2016; Hou et al., 2021). We argue that the general (high or low) level of uncertainty as well as increases in this level can affect all three dimensions by impacting the intensity of external monitoring, internal risk perceptions, and incentives. An increase in EPU is usually accompanied by higher earnings volatility and greater uncertainty regarding company performance (Baker et al., 2016), which increases pressure on management to meet market expectations (Jo and Lee, 2024) and thus affects the incentive component of the fraud triangle. At the same time, uncertainty shocks can trigger organizational adjustments and changes in the intensity of

corporate governance, which can alter the opportunities and perceived risks associated with corporate misconduct (Chen et al., 2016).

Since during periods of heightened uncertainty investors are more attentive to firm-level information (Andrei et al., 2023), firms tend to improve their disclosure quality (Ghoul et al., 2021) to deal with the increase in information asymmetry (Kim and Yasuda, 2021; Lee et al., 2025). This elevation in general scrutiny, which can materialize through intensified media coverage (Zavyalova, 2012; Carberry et al., 2018; Barkemeyer et al., 2020) and greater regulatory attention to firm activities (Hail et al., 2018; Driel, 2019; Holzman et al., 2024), may also reduce the opportunity dimension of the fraud triangle, since this factor is associated with conditions that enable unethical acts due to the reduced risk of being caught (Murphy and Dacin, 2011). Consequently, due to heightened scrutiny and the associated increase in the probability of detection, increases in EPU may reduce opportunities for misconduct, undermining the marginal benefits of manipulation and, consequently, the incentives for misconduct.

On the other hand, when external monitoring is weak (i.e., in a low economic uncertainty environment), the opportunity dimension rises. In these circumstances, increases in EPU elevate the pressure for firms to meet market expectations (Chen et al., 2016; Hou et al., 2021), as earnings volatility rises, and performance becomes harder to reconcile with market expectations. Such situations presumably provide an additional incentive for misconduct. Additionally, in stable macroeconomic environments, attention to firm-specific behavior may decline, reducing external monitoring intensity (Andrei et al., 2023). The increase in both opportunity and incentive dimensions may induce firms to engage in wrongdoings after trading off the benefits of these practices in an environment of low surveillance (rationalization factor), as the literature reports that managers weigh the potential benefits against the perceived probability of detection (Hannan et al., 2006; Tsang, 2002), making opportunistic behavior easier to rationalize when external scrutiny is weak. Consequently, we assume that societal scrutiny fostered by economic uncertainty, shapes the three dimensions of the fraud triangle. This, in turn, leads to changes in corporate misbehavior when shocks in EPU emerge.

Figure 1 summarizes the framework. High EPU periods elevate general scrutiny, increasing the probability of detecting firms' unethical behavior, which, in turn, undermines the opportunity dimension of the fraud triangle. On these occasions, further increases in uncertainty deteriorate economic conditions, eroding the pecuniary incentives that accompany misbehavior. This dynamic leads to a decrease in the incentive dimension of the fraud triangle. When weighing the pros and cons of misconduct, the interplay between reduced opportunity and diminished incentives leads managers to rationalize against wrongdoing, resulting in a decrease in observed scandals. On the flip side, when EPU is low, general scrutiny declines, reducing the risk of detection, which increases the opportunity

to misbehave. Under these circumstances, increases in uncertainty raise the pressure on firms to release good news. Given the low-surveillance environment, managers are more likely to misbehave, since the pecuniary motivation linked to wrongdoing can compensate for the reduced chance of being caught, ultimately leading to an increase in scandals.

(Figure 1)

Consistently, we hypothesize that in periods of low uncertainty, increases in EPU are positively related to corporate controversies. In such environments, uncertainty shocks increase managerial pressure while societal scrutiny remains limited, allowing firms to exploit the stronger incentive, opportunity, and rationalization forces underlying corporate misconduct. For these reasons, our first hypothesis is as follows:

H1: Increases in EPU are positively (negatively) associated with corporate scandals during periods of low (high) economic uncertainty.

According to the framework presented above, general scrutiny is the underlying mechanism for the asymmetric response of corporate misconduct to EPU dynamics depending on economic uncertainty states. If this were indeed the case, it would be rational to expect that firms that are more closely monitored by society would be more likely to exhibit stronger asymmetric behavior. This conjecture is based on previous studies documenting that external monitoring and corporate wrongdoings move in opposite directions. For example, Chen et al. (2016) document that analyst coverage plays a pivotal role in deterring corporate fraud. Consistently, Ghoul et al. (2021) report that earnings management tends to decrease when EPU is high (i.e., elevated attention periods). This result is corroborated by Kim and Yasuda (2021), who also find that bank monitoring plays a relevant role in this negative relationship. Consequently, more visible firms would tend to deter misconducts more strongly than less notorious companies in periods of heightened attention. Conversely, in periods of reduced general scrutiny, prominent firms may be more likely to engage in controversies after weighing the pros and cons (rationalization factor), aiming to take advantage of the weakness of external surveillance during these occasions (opportunity factor).

Based on this rationale, it is reasonable to expect that firms which are monitored more closely by economic agents (e.g., large firms, firms with greater analyst coverage, highly leveraged firms and firms in developed countries) tend to exhibit a more pronounced asymmetric relationship between EPU changes and wrongdoings. These firms are referred to as more visible firms. Based on these arguments, we hypothesize that:

H2: More visible firms exhibit a stronger asymmetric relationship between corporate scandals and EPU changes.

3. Data and Methodology

3.1 Sample definition

The primary source of our data is the LSEG database, formerly Refinitiv, commonly used in the study of corporate misconduct due to its comprehensive ESG Controversies Scores (Dorfleitner et al., 2022; Komath et al., 2023; Dorfleitner and Kreuzer, 2024). Our global dataset covers 95,286 firm-year observations for 5,203 different companies, excluding financial firms, located in 26 countries over the period from 2002 to 2023. This database covers the entire universe of firms available in LSEG for countries with available EPU information. From this sample, we exclude observations without ESG Controversies Scores data, resulting in the loss of 39,602 firm-year observations. From the remaining sample, we additionally exclude observations with missing data on EPU, with a loss of 766 observations. Consequently, the final sample consists of 54,918 firm-year observations for 5,197 non-financial firms from 26 countries.

Table 1 presents the sample composition by country. As expected, U.S. firms dominate the sample, representing almost one-third of the firm-year observations, followed by India (10.57%), Japan (8.50%), and Hong Kong (6.18%). Given the diverse socio-economic backgrounds of the sampled countries and the geographical dispersion of firms, it is unlikely that our estimates are biased by regional idiosyncrasies.

(Table 1)

Our secondary source data is the EPU for each of the 26 countries of the sample, obtained from the Economic Policy Uncertainty website¹ managed by Scott Baker, Nick Bloom and Steven Davis which aggregates the EPU index data for all countries in our dataset. The country-level indexes are based on the methodology developed by the authors in their seminal paper (Baker et al., 2016), which measures policy-related economic uncertainty based on leading newspaper articles discussing economic policy uncertainty. Figure 2 presents the mean monthly EPU of our sampled countries from 2002 to 2023. It is worth noting that some peaks coincide with periods of global turbulence, such as

¹ See <https://www.policyuncertainty.com/index.html>

the subprime crisis (2008), the Greek debt crisis (2011), the COVID-19 outbreak (2020), and the Russia–Ukraine war (2022).

(Figure 2)

The country-level EPU indexes are reported on a monthly basis. Since the firm-level variables are yearly, we take the mean EPU within a year for a given country to obtain a series that matches the firm-level data. Since our focus is on uncertainty shocks, in the baseline model, we employ the arithmetic change in EPU as our central explanatory variable.

3.2 Empirical model

We use the ESG Controversies Score as our proxy to corporate scandals. The score provided by LSEG is constructed from 23 categories of ESG-related controversies, incorporating any recent incidents reported in the most up-to-date period (LSEG, 2023). It records the number of misconduct events a company faces within a fiscal year, drawing on reputable media outlets such as Bloomberg and the Wall Street Journal. When a single incident spans multiple ESG topics, each affected category is counted separately, increasing the assessed severity of the event. As a result, the measure reflects not only the intensity of media coverage but also the magnitude of ESG violations involved. Since larger firms are more likely to attract media attention, market capitalization is included in the score’s methodology. Companies with no scandals in a given year receive a score of 100, which diminishes to as low as 0 depending on the gravity of the scandal. Following Dorfleitner et al., (2022), we invert the scale to provide a more intuitive interpretation, so that more severe scandals present larger Rescaled ESG Controversies Score, as follows.

$$\text{Rescaled ESG Controversies Score} = 100 - \text{ESG Controversies Score}$$

Hereafter, when we mention ESG Controversies Score, we refer to the Rescaled ESG Controversies Score.

Our baseline model is as follows:

$$\begin{aligned} \text{ESG Controversies Score}_{i,j,t} &= \alpha_0 + \alpha_1 D_{j,t-1} + \alpha_2 D_{j,t-1} \times \Delta EPU_{j,t-1} + \alpha_3 (1 - D_{j,t-1}) \times \Delta EPU_{j,t-1} \\ &+ \sum \alpha_4 \text{Controls}_{t-1} + \text{Industry Dummies} + \text{Country Dummies} \\ &+ \text{Year Dummies} + \varepsilon_{s,t} \end{aligned} \quad (1)$$

where the dependent variable is the ESG Controversies Score of firm “ i ” in country “ j ” and year “ t ” and ΔEPU is the arithmetic change of EPU during the two previous years ($t-1$ and $t-2$) in country “ j ”. Since our concern is to investigate whether the EPU-scandals relationship is sensitive to EPU states, the model includes a dummy variable that equals one when EPU is above its country-level median (high EPU) and zero otherwise (low EPU). Our focus is on the comparison among coefficients α_2 and α_3 , since a significant difference between them would indicate that the exposure of scandals to EPU is sensitive to EPU states. We employ a series of firm-level control variables aiming to reduce endogeneity. The control variables include the following. Firm size, since larger companies tend to receive greater media scrutiny, making their misconduct more visible (e.g., Drempetic et al., 2020). Leverage, because firms that rely heavily on external financing often have stronger incentives to avoid unethical actions, as scandals may limit their access to capital markets (e.g., Dorfleitner et al., 2022). Return on assets, given evidence that firms experiencing weaker financial performance may be more prone to relax ethical standards (e.g., Campbell, 2007). Analyst coverage, as broader monitoring by analysts is generally associated with reduced corporate wrongdoing (e.g., Chen, 2016; Aouadi and Marsat, 2018). Finally, Cash and Capex as firms are more likely to curtail short and long-term investments in periods of higher EPU (Gulen and Ion 2016; Abakah et al., 2024).

A detailed definition of these variables is available in Appendix A, Table A.1, while the correlations among these variables are presented in Table A.2 of the same appendix. The highest VIF among the control variables is 2.55, suggesting that our estimates are not biased by multicollinearity. All variables are winsorized at the 2% and 98% levels to control for outlier effects.² In the model, we include industry and country dummies because corporate scandals vary across industries and are sensitive to institutional quality (e.g., Dorfleitner et al., 2022; Tan et al., 2024).

For robustness, we also employ a logit model in which the dependent variable is a dummy that takes the value of one when the ESG Controversies Score is different from zero.

3.3 Summary statistics

In Table 2, we present the summary statistics of the key variables after winsorization. Corporate scandals are not the dominant behavior, as misconduct represents 19% of the ESG Controversies Score sample. As the EPU index is standardized so that the value of 100 represents a long-term mean, the fact that most of the EPU distribution is above this level indicates that periods of higher

² We run alternative specifications without winsorizing the variables. The baseline results remain the same. In some cases, we observe that part of the control variables ceases to be significant due to their large dispersion, compromising their role in controlling for concurrent explanations. For this reason, we opt to report only the results after winsorization.

uncertainty dominate our sample. We can also observe that our sample is largely composed of profitable firms funded by their own capital. Finally, it is worth noting that the central variables exhibit moderate dispersion, suggesting that our findings are not driven by outliers.

(Table 2)

4. Empirical results

4.1 Economic policy uncertainty and scandals during high/low EPU periods

We start the empirical analysis with the baseline results. Table 3 presents the estimates.

(Table 3)

The results reveal a nuanced association between EPU dynamics and misconduct, whose direction depends on EPU states. During periods of elevated uncertainty, increases in EPU make firms more cautious about misconduct, leading to a reduction in these practices. However, during less turbulent periods, increases in EPU fuel corporate misbehavior. This dichotomic behavior suggests that, when uncertainty is high, further increases in EPU deteriorate the incentives for misconduct due to both higher scrutiny and decreased risk appetite (Bloom, 2009; Panousi and Papanikolaou, 2012). When uncertainty is low, however, societal scrutiny decreases and the pressure for conservative decisions falls. Under these circumstances, when EPU increases – elevating the pressure to improve firms’ performance (Hou et al., 2021) – firms feel more likely to misbehave due to the lower chance of being caught, leading to an increase in wrongdoing after EPU rises.

This rationale is consistent with the patterns of the logit estimates, as they show that the probability of scandals decreases (increases) after EPU elevations during high (low) EPU periods. Regarding economic significance, our results indicate that an increase of one standard deviation in EPU reduces (increases) the probability of misconduct by 8% (15%) in the following year when uncertainty is high (low).³ We argue that this magnitude is significant given the scandals’ probability of 19% in our dataset.

Regarding the control variables, the estimates indicate that corporate scandals are more likely to be reported in large firms and in firms with greater analyst coverage, which can be explained by their higher visibility. It is also worth noting that decreases in profitability significantly explain future

³ Since the standard deviation of ΔEPU is 0.35, we have that: $\rho_{High\ EPU} = \frac{1}{e^{-0.244*0.35}}$ and that $\rho_{Low\ EPU} = e^{0.403*0.35}$

misbehavior. The evidence that, in general, the significance of the coefficients in the univariate models (1) and (2) is not undermined when the control variables are included indicates that EPU dynamics explain a dimension of corporate scandal dispersion that is not captured by classical idiosyncratic factors, further suggesting that EPU indeed represents an exogenous shock to firms' ethical behavior.

To provide a more in-depth understanding of the role of EPU states in the uncertainty–scandals relationship, we run an alternative model suppressing the dummy variable (and the corresponding interaction terms) and estimate it separately for each EPU subsample. Table 4 presents the results, where the left (right) panel reports the estimates during high (low) uncertainty periods, employing the same definition mentioned previously.

(Table 4)

The asymmetric relation of EPU changes with scandals remains clear under this alternative approach, since in periods of high (low) uncertainty, increases in EPU is related with a significant reduction (rise) in controversies in the following year. This asymmetric relationship is also observable in terms of magnitude and significance, as the coefficients of EPU changes during low-uncertainty conditions are larger than when uncertainty is elevated, whereas the significance is more pronounced when uncertainty is high. These patterns are also observable across all model specifications in Table 3. To investigate which effect dominates over time, we run an additional specification for the entire sample but omit the dummy variable and the interaction terms. Table 5 presents the results. The estimates indicate that the negative effect prevails, which suggests that, in general, increases in EPU are linked to fewer future corporate scandals. This negative relationship is consistent with previous studies documenting that firms engage in more ESG practices during periods of heightened economic uncertainty (Ilyas et al., 2022; Chen et al., 2024; Wu and Qiu, 2025; Wang et al., 2025), presumably due to higher general scrutiny during these occasions (Wu and Qiu, 2025). As a counterpart to augmented ESG practices, it is reasonable to expect a decrease in corporate misbehavior after EPU increases, as captured by the negative relationship reported in the table.

(Table 5)

Overall, the results so far indicate a nuanced association between EPU and corporate misconduct, in which uncertainty states play a crucial role. This is consistent with H1. The next section examines whether this central finding may be driven by model specification or by the way we define high/low EPU periods.

4.2 Robustness tests

4.2.1 Tobit regression

Since ESG controversies are truncated at zero and most observations are null, we run the baseline model using a Tobit regression, which is particularly relevant when the dependent variable is censored. The results are presented in Table 6.

(Table 6)

The results align with the previously documented patterns, showing an asymmetric relationship between EPU changes and misconduct depending on uncertainty states. The negative (positive) effect of EPU increases on controversies during periods of elevated (low) uncertainty under this alternative specification further confirms H1. It is also worth mentioning that, consistent with earlier findings, the significance of our central coefficients is not affected by the inclusion of control variables, providing additional evidence that EPU dynamics capture a singular dimension in explaining firms' misconduct.

4.2.2 High EPU periods definition

In identifying EPU states, we defined high EPU periods as those above the median historical EPU for a given country. Although this approach has the clear advantage of splitting the sample into groups with similar numbers of observations, it is legitimate to question whether it indeed captures periods of elevated uncertainty. To address this, we follow previous studies (Hou et al., 2021; Bisset et al., 2022) and define high EPU periods as those when the local EPU exceeds the third quartile. We then run Equation 1 using this alternative operationalization for the dummy variable. The results are available in Table 7.

(Table 7)

Using this more restrictive definition, the asymmetric relationship between EPU dynamics and corporate scandals remains observable and significant. It is also noteworthy that the magnitude of the negative relationship during high EPU periods is more pronounced under this definition compared with the median criterion. Since this alternative definition retains periods of more severe uncertainty, this evidence offers strong support for one of our central claims: increases in EPU during periods of

high uncertainty indeed make firms more attentive to wrongdoing, leading to decreases in misconduct. On the flip side, under this specification, low-uncertainty periods also include circumstances of moderate uncertainty. Consistently, we would expect a decrease in the magnitude of α_3 compared with the estimates in Table 3, given this broader definition of low-uncertainty periods. This is exactly the observed behavior across all models, further confirming our previous findings.

So far, our results indicate a dichotomous link between EPU increases and corporate controversies, depending on uncertainty states. Our explanation for this nuanced behavior relies on the fraud triangle, in which opportunities and incentives play a central role (Cressey, 1953; Chen et al., 2016, Hou et al., 2021). During more turbulent periods, elevated scrutiny from stakeholders deteriorates the incentives that typically accompany misconduct, leading to a negative relationship between EPU increases and misbehavior. However, when uncertainty is low, general attention diminishes, and the benefits inherent to misconduct become more attractive due to the lower chance of being caught. Under this rationale, societal scrutiny is a crucial mechanism to explain our findings. The next subsection explores whether this factor provides a consistent mechanism for the documented behavior.

4.3 Mechanism analysis: general scrutiny

If general scrutiny is indeed a driving force that explains the contradictory association between EPU dynamics and controversies, we would expect more visible firms (e.g., larger firms, firms with higher analyst coverage, more leveraged firms, and firms located in developed countries) to exhibit a larger asymmetric effect in comparison with low-attention firms. We define large firms, firms with larger analyst coverage, and more leveraged firms as those above the median market capitalization, number of analysts, and leverage, respectively. Developed countries are defined according to the World Bank criteria for high-income countries.⁴ We then run Equation 1 on each subsample separately. Table 8 informs the results.

(Table 8)

In line with our expectations (H2), the asymmetric effect is more pronounced in large firms, especially when considering the effect of EPU changes during low-uncertainty periods. Under such circumstances, small firms do not engage in misconduct in response to EPU increases, whereas large

⁴ In the case of our sample, the high-income countries are Australia, Belgium, Canada, Denmark, France, Germany, Ireland, Italy, Japan, Netherlands, New Zealand, Singapore, South Korea, Spain, Sweden, United Kingdom and United States of America.

firms do. A similar pattern is observable when we segment the sample based on analyst coverage, as firms with a larger number of analysts tend to increase their wrongdoings when societal scrutiny is low (i.e., low EPU periods) and to curtail these practices when general attention increases (i.e., high EPU periods). Consistently, we document an analogous pattern for more leveraged firms. It is also worth noting that the magnitude of the ΔEPU –controversies relationship is, in absolute terms, more pronounced for large firms, for companies with greater analyst coverage, and for more leveraged companies. Finally, when we split the sample based on the quality of the institutional environment, we document that the dichotomic behavior is only found in countries where societal vigilance is more advanced. In light of our rationale, this indicates that in countries with stronger institutions, when general scrutiny is low, firms are more likely to misbehave and, conversely, to reduce this behavior in periods of elevated surveillance. All in all, these findings support the notion that general scrutiny is a consistent mechanism explaining the link between EPU and corporate controversies.

4.4 Moderator effect of ESG practices

In this last empirical exercise, we examine whether ESG practices exert a moderating effect on the relationship between EPU changes and future controversies. This investigation is motivated by previous studies documenting that firms tend to increase their ESG practices in periods of high EPU as a safeguard against the externalities of economic uncertainty (Vural-Yavaş, 2021; Chen et al., 2024; Zhang et al., 2024) or to improve their risk perception with the aim of reducing their financial constraints in periods of elevated uncertainty (Ilyas et al., 2022; Wu and Qiu, 2025). Therefore, it is legitimate to investigate whether firms with higher ESG performance are less likely to engage in misconduct in periods of low societal attention. To address this, we split the sample into two groups according to their ESG scores in a given year, obtained from the LSEG database. Firms with a score above (below) the median in each year are grouped as high (low) ESG firms. We then run regression (1) on each subgroup separately. The results are reported in the left panel of Table 9.

(Table 9)

Contrary to our initial expectation, during periods of low uncertainty, high ESG firms are more prone to misbehave, whereas no association between EPU dynamics and controversies is found for low ESG firms. This divergent behavior among high and low ESG firms, however, is not observed during periods of elevated uncertainty, since for both subgroups EPU increases tend to reduce firms' controversies in these circumstances. The evidence that high ESG firms are more likely to misbehave when general scrutiny is low contrasts with prior findings that firms increase ESG practices in

response to rising economic uncertainty (Vural-Yavaş, 2021; Wu and Qiu, 2025; Ilyas and Mian, 2022; Wang et al., 2025). This apparent contradiction can be reconciled through greenwashing, as we show that high-ESG firms are more likely to misbehave when uncertainty is low. Consequently, increases in ESG initiatives following rises in EPU do not necessarily translate into lower unethical behavior, at least during low-uncertainty periods. This explanation is in line with recent evidence that corporate scandals are more frequently identified among firms with higher ESG scores (Dorffleitner et al., 2022; Kathan et al., 2025).

One alternative explanation for these results could be a lack of investment during low-uncertainty periods. Since the literature reports that ESG practices tend to increase when EPU is high (Ilyas et al., 2022; Chen et al., 2024; Wu and Qiu, 2025; Wang et al., 2025), the positive relationship between EPU changes and future misconduct during low-uncertainty periods could actually be explained by a shortage of ESG investments rather than by greenwashing behavior per se. To investigate this possibility, we employ Equation (1) but now use ESG scores as our dependent variable. The right panel of Table 9 presents the estimates. For both models, we find that EPU increases and future ESG scores are positively related during low-uncertainty periods (t-statistics 2.26 and 3.33, respectively). Moreover, we also find that the magnitude of this relationship when EPU is low is larger than in high-EPU periods. Taken together, these findings do not support the argument that a deficiency of ESG investment during low-uncertainty periods explains the positive association between EPU changes and scandals for high ESG firms. Consequently, greenwashing behavior offers a more consistent explanation for this relationship.

6. Conclusion

This paper examines the relationship between economic policy uncertainty and the occurrence of corporate scandals. While prior studies document that firms adopt more conservative policies during periods of heightened uncertainty, much less is known about how uncertainty affects unethical corporate behavior. In particular, we examine whether changes in EPU influence corporate scandals differently depending on the prevailing level of economic uncertainty, i.e. we investigate the asymmetry of the relationship.

Using comprehensive firm-level data of 5,197 non-financial firms from 26 countries combined with country-level EPU indices, we document a clearly asymmetric relationship between EPU increases and corporate scandals. More specifically, when levels of economic uncertainty are already high, further increases in EPU are associated with a decline in corporate misconduct. By contrast, increases in EPU are linked to a higher incidence of corporate scandals during periods of low uncertainty. These patterns have economic significance: a one-standard-deviation increase in EPU

reduces the probability of misconduct by around 8% in situations of high uncertainty but increases it by about 15% in situations of low uncertainty.

To explain this asymmetry, we build on the fraud triangle framework (Cressey, 1953) to argue that societal scrutiny plays a central role in shaping the incentives, opportunities and rationalization processes that underlie corporate misconduct. When uncertainty is high, investors, regulators and the media intensify their monitoring of firms. This increases the perceived probability of detection and compresses the dimensions of the fraud triangle. Conversely, when uncertainty is low and societal attention weakens, the incentives and opportunities for misconduct become stronger. Consistent with this mechanism, we show that the asymmetric relationship between EPU increases and scandals is significantly stronger for firms subject to greater societal scrutiny, including large firms, firms with higher analyst coverage, highly leveraged firms, and firms operating in stronger institutional environments. Our analysis also provides new insights into the role of ESG practices. Contrary to expectations, we find that high-ESG firms are more likely to engage in misconduct when uncertainty is low, rather than exhibiting stronger ethical behavior during uncertain times. This pattern is consistent with the greenwashing hypothesis, suggesting that a lack of societal scrutiny could enable firms to exploit the reputational benefits of ESG initiatives.

These results have important practical and policy implications for regulators and investors. First, our findings highlight the importance of maintaining consistent monitoring of corporate behavior even during periods of economic stability. While heightened uncertainty naturally attracts public attention, calmer periods may allow opportunistic behavior to flourish due to weaker societal scrutiny. Second, investors should be aware that corporate misconduct may be more likely to occur during periods of low economic uncertainty, when monitoring intensity declines and the incentives for opportunistic behavior increase. Third, our findings urge caution when interpreting high ESG scores as a guarantee of ethical behavior, particularly in environments characterized by weak social control.

This study also has its limitations. Above all, our analysis is not designed to establish causal links. Although reverse causality is unlikely, given that EPU manifests itself at the country level and our measures of misconduct are lagged, unobservable factors may nevertheless influence both uncertainty and corporate behavior. To address this issue, future research could examine the micro-level channels through which uncertainty shocks impact managerial decision-making and ethical behavior within firms. Another promising approach would be to examine the role of media coverage and the dissemination of information in shaping the relationship between uncertainty and corporate scandals.

Overall, our findings suggest that economic policy uncertainty does not simply discourage corporate misconduct. Instead, its effects depend crucially on the surrounding informational

environment and the intensity of societal scrutiny, highlighting the complex interplay between uncertainty, monitoring, and corporate ethics.

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Table 1: Geographic dispersion of sampled firms

The table shows the number of firms per country and the representativeness of each country in terms of firm-year observations. The sample period is from 2002 to 2023.

N°	Country	# of Firms	% Sample	N°	Country	# of Firms	% Sample
1	Australia	251	4.61%	14	Italy	78	1.43%
2	Belgium	36	0.66%	15	Japan	463	8.50%
3	Brazil	113	2.07%	16	Mexico	42	0.77%
4	Canada	263	4.83%	17	Netherlands	33	0.61%
5	Chile	33	0.61%	18	New Zealand	45	0.83%
6	China	255	4.68%	19	Poland	25	0.46%
7	Denmark	38	0.70%	20	Singapore	71	1.30%
8	France	119	2.18%	21	South Korea	166	3.05%
9	Germany	133	2.44%	22	Spain	51	0.94%
10	Greece	19	0.35%	23	Sweden	198	3.63%
11	Hong Kong	337	6.18%	24	Turkey	75	1.38%
12	India	576	10.57%	25	United Kingdom	224	4.11%
13	Ireland	10	0.18%	26	United States of America	1,795	32.94%

Table 2: Summary statistics

This table shows the summary statistics of the key variables used in the study. Please refer to Appendix A.1 for the definition of all variables.

	N	Mean	Std Dev	P25	P50	P75
ESG Controversies	54,914	9.07	22.30	0.00	0.00	0.00
Dummy Controversies	54,914	0.19	0.39	0.00	0.00	0.00
Economic Policy Uncertainty	54,918	170.30	97.47	110.72	145.13	307.05
Δ Economic Policy Uncertainty	54,457	0.09	0.35	-0.13	0.03	0.25
Size	54,113	22.23	1.55	21.24	22.242	23.28
Leverage	54,113	0.26	0.18	0.12	0.25	0.38
ROA	54,113	0.04	0.08	0.02	0.04	0.08
Num. of analysts	54,485	12.09	8.78	5.00	11.00	18.00
Cash	54,113	0.11	0.11	0.03	0.07	0.14
Capex	54,113	5.08	4.40	2.02	3.89	6.72

Table 3: Asymmetric relationship between EPU changes and corporate scandals

This table presents the estimates for the baseline model designed to capture the relationship between changes in EPU and corporate scandals under different EPU regimes:

*ESG Controversies Score*_{*i,j,t*}

$$= \alpha_0 + \alpha_1 D_{j,t-1} + \alpha_2 D_{j,t-1} \times \Delta EPU_{j,t-1} + \alpha_3 (1 - D_{j,t-1}) \times \Delta EPU_{j,t-1} + \sum \alpha_4 Controls_{t-1} + Industry Dummies + Country Dummies + Year Dummies + \varepsilon_{s,t} \quad (1)$$

where D=1 when the local EPU is above its historical median. The ESG Controversies Score corresponds to the rescaled Refinitiv ESG Controversies measure for firm *i* in country *j* in year *t*. ΔEPU is the arithmetic change in EPU for country *j* between two consecutive years. The control variables are Size, Leverage, Return on Assets, Analyst Coverage, Cash Holdings, and Capex. Variable definitions are given in Appendix A.1. In the right panel, the table reports estimates using a logit model in which the dependent variable equals one when the ESG Controversies Score is different from zero. ***Significant at the 1%, **5%, and *10% levels.

Dependent:	ESG Controversies _{<i>t</i>}				Controversies Dummy _{<i>t</i>}			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
D	1.25*** (3.50)	1.381*** (5.48)	1.322*** (3.69)	1.256*** (4.99)	0.171*** (3.83)	0.182*** (4.05)	0.188*** (4.22)	0.174*** (3.85)
D× ΔEPU_{t-1}	-1.849*** (-4.52)	-1.665*** (-4.08)	-1.664*** (-4.18)	-1.619*** (-3.98)	-0.247*** (-3.26)	-0.208*** (-2.69)	-0.224*** (-2.98)	-0.199*** (-2.57)
(1-D) × ΔEPU_{t-1}	1.553** (1.98)	2.120*** (3.16)	2.255*** (3.03)	2.190*** (3.27)	0.325*** (2.73)	0.392*** (3.28)	0.403*** (3.39)	0.398*** (3.31)
Size _{<i>t-1</i>}			5.245*** (11.24)	3.758*** (14.35)			0.916*** (41.04)	0.613*** (13.49)
Leverage _{<i>t-1</i>}			-5.934*** (-5.61)	-1.282 (-1.23)			-0.865*** (-6.40)	-0.339* (-1.84)
ROA _{<i>t-1</i>}			-11.188*** (-5.51)	-8.610*** (-4.97)			-1.532*** (-6.18)	-1.064*** (-3.54)
Num. of Analysts _{<i>t-1</i>}			0.181*** (5.55)	0.039 (1.61)			0.028*** (9.43)	0.005 (1.17)
Cash _{<i>t-1</i>}			14.067*** (7.08)	-1.209 (-0.75)			2.354*** (10.66)	-0.078 (-0.26)
Capex _{<i>t-1</i>}			0.058* (1.71)	-0.063** (-1.90)			0.012** (2.40)	-0.004 (-0.60)
Firm FE	N	Y	N	Y	N	Y	N	Y
Industry FE	Y	N	Y	N	Y	N	Y	N

Country FE	Y	N	Y	N	Y	N	Y	N
Year FE	Y	Y	Y	Y	Y	Y	Y	Y
N	49,255	49,255	49,255	49,255	49,255	49,255	49,255	49,255
adj. R ²	0.03	0.01	0.19	0.12	N.A.	N.A.	N.A.	N.A.

Table 4: EPU changes and corporate scandals during high and low uncertainty periods.
This table shows the estimates for following model during high and low uncertainty periods.

*ESG Controversies Score*_{*i,j,t*}

$$= \alpha_0 + \alpha_1 \Delta EPU_{j,t-1} + \sum \alpha_2 Controls_{t-1} + Industry Dummies + Country Dummies + Year Dummies + \varepsilon_{s,t} \quad (2)$$

High (low) uncertainty periods are defined when the local EPU is above (below) its historical median. The ESG Controversies Score corresponds to the rescaled Refinitiv ESG Controversies measure for firm *i* in country *j* in year *t*. ΔEPU is the arithmetic change in EPU for country *j* between two consecutive years. The control variables include Size, Leverage, Return on Assets, Analyst Coverage, Cash Holdings, and Capex. Variable definitions are given in Appendix A.1

Dependent:	High EPU periods		Low EPU periods	
	(1)	(2)	(1)	(2)
ΔEPU_{t-1}	-2.380*** (-5.45)	-2.465*** (-5.68)	2.628*** (3.13)	2.848*** (3.38)
Size _{t-1}	5.108*** (10.08)	4.327*** (13.76)	5.75*** (11.63)	2.767*** (6.15)
Leverage _{t-1}	-4.792*** (-4.70)	0.582*** (0.48)	-9.069*** (-5.27)	-3.256* (-1.86)
ROA _{t-1}	-10.149*** (-4.59)	-4.482** (-2.35)	-4.25 (-1.19)	-11.518*** (-3.47)
Num. of Analysts _{t-1}	0.260*** (7.65)	0.188*** (6.61)	0.161*** (3.70)	-0.026 (-0.67)
Cash _{t-1}	15.262*** (6.84)	1.127 (0.65)	17.337*** (5.54)	-1.892 (-0.63)
Capex _{t-1}	0.068 (1.52)	-0.097** (-2.43)	0.165*** (2.85)	-0.023 (-0.42)
Firm FE	N	Y	N	Y
Industry FE	Y	N	Y	N
Country FE	Y	N	Y	N
Year FE	Y	Y	Y	Y
N	34,026	34,026	20,055	20,055
adj. R ²	0.19	0.14	0.18	0.09

Table 5: Changes in EPU and corporate scandals

In the left panel this table shows the estimates for the model:

$$ESG\ Controversies\ Score_{i,j,t} = \alpha_0 + \alpha_1 \Delta EPU_{j,t-1} + \sum \alpha_2 Controls_{t-1} + Industry\ Dummies + Country\ Dummies + Year\ Dummies + \varepsilon_{s,t} \quad (2)$$

where ESG Controversies Score is the rescaled Refinitiv ESG Controversies for firm “i” in country “j” on year “t”. ΔEPU is the arithmetic change in EPU for the given country “j” in two consecutive years. The control variables are Size, Leverage, Return on Assets, Analyst Coverage Cash holdings and Capex. Variable definitions are given in Appendix A.1. In the right panel, the table reports the estimates using a logit model, in which the dependent variable takes the value of one when ESG controversies Score is different from zero, indicating that a scandal is reported for firm “i” on year “t”. ***Significant at the 1%, **5%, and *10% levels.

Dependent:	ESG Controversies _t				Controversies Dummy _t			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
ΔEPU_{t-1}	-0.859** (-2.61)	-0.754** (-2.14)	-0.747** (-2.31)	-0.753** (-2.14)	-0.099 (-1.44)	-0.130*** (-3.18)	-0.076 (-1.10)	-0.061 (-0.87)
Size _{t-1}			4.803*** (11.36)	3.423*** (14.86)			0.909*** (42.34)	0.619*** (14.37)
Leverage _{t-1}			-4.697*** (-5.03)	0.461 (0.50)			-0.756*** (-5.80)	-0.182 (-1.04)
ROA _{t-1}			-9.725*** (-5.13)	-6.763*** (-4.36)			-1.365*** (-5.70)	-0.862*** (-2.98)
Num. of Analysts _{t-1}			0.201*** (7.03)	0.101*** (4.81)			0.034*** (12.36)	0.017*** (4.65)
Cash _{t-1}			12.447*** (7.35)	-0.738 (-0.52)			2.277*** (10.71)	-0.021 (-0.07)
Capex _{t-1}			0.049* (1.66)	-0.072** (-2.43)			0.010** (2.19)	-0.007 (-1.18)
Firm FE	N	Y	N	Y	N	Y	N	Y
Industry FE	Y	N	Y	N	Y	N	Y	N
Country FE	Y	N	Y	N	Y	N	Y	N
Year FE	Y	Y	Y	Y	Y	Y	Y	Y
N	54,453	54,453	54,081	54,081	54,453	54,453	54,081	54,081
adj. R ²	0.03	0.03	0.19	0.12	N.A.	N.A.	N.A.	N.A.

Table 6: Tobit regression of corporate scandals on EPU during different uncertainty states
This table reports the Tobit regression estimates for the following model:

$$\begin{aligned}
 &ESG\ Controversies\ Score_{i,j,t} \\
 &= \alpha_0 + \alpha_1 D_{j,t-1} + \alpha_2 D_{j,t-1} \times \Delta EPU_{j,t-1} + \alpha_3 (1 - D_{j,t-1}) \times \Delta EPU_{j,t-1} \\
 &+ \sum \alpha_4 Controls_{t-1} + Industry\ Dummies + Country\ Dummies + Year\ Dummies \\
 &+ \varepsilon_{s,t}
 \end{aligned} \tag{1}$$

where D=1 when the local EPU is above its historical median. The ESG Controversies Score corresponds to the rescaled Refinitiv ESG Controversies measure for firm i in country j in year t . ΔEPU is the arithmetic change in EPU for country j between two consecutive years. The control variables include Size, Leverage, Return on Assets, Analyst Coverage, Cash Holdings, and Capex. Variable definitions are given in Appendix A.1

Dependent:	ESG Controversies _t			
	(1)	(2)	(3)	(4)
D	4.949*** (2.78)	4.949*** (3.79)	4.257*** (3.36)	4.257** (2.42)
D×ΔEPU _{t-1}	-13.07*** (-5.48)	-13.07*** (-5.79)	-11.285*** (-5.25)	-11.285*** (-4.58)
(1-D)×ΔEPU _{t-1}	18.002*** (4.21)	18.002*** (5.24)	21.425*** (6.74)	21.425*** (5.30)
Size _{t-1}			22.668*** (28.84)	22.668*** (14.06)
Leverage _{t-1}			-18.407*** (-3.43)	-18.407** (-2.02)
ROA _{t-1}			-31.388*** (-2.91)	-31.388* (-1.93)
Num. of Analysts _{t-1}			1.474*** (12.68)	1.474*** (6.61)
Cash _{t-1}			51.06*** (5.86)	51.06*** (4.33)
Capex _{t-1}			0.641*** (3.39)	0.641* (1.72)
Clusters	Firm	Industry	Firm	Industry
Year FE	Y	Y	Y	Y
N	49,255	49,255	49,255	49,255
pseudo R ²	0.01	0.01	0.06	0.06

Table 7: EPU changes and corporate scandals relationship using an alternative definition for high EPU periods

This table presents the estimates for the baseline model designed to capture the relationship between changes in EPU and corporate scandals during periods of elevated uncertainty:

*ESG Controversies Score*_{*i,j,t*}

$$= \alpha_0 + \alpha_1 D_{j,t-1} + \alpha_2 D_{j,t-1} \times \Delta EPU_{j,t-1} + \alpha_3 (1 - D_{j,t-1}) \times \Delta EPU_{j,t-1} + \sum \alpha_4 Controls_{t-1} + Industry Dummies + Country Dummies + Year Dummies + \varepsilon_{s,t} \quad (1)$$

where D=1 when the local EPU exceeds the third quartile of its historical distribution. The ESG Controversies Score corresponds to the rescaled Refinitiv ESG Controversies measure for firm *i* in country *j* in year *t*. ΔEPU is the arithmetic change in EPU for country *j* between two consecutive years. The control variables are Size, Leverage, Return on Assets, Analyst Coverage, Cash Holdings, and Capex. Variable definitions are given in Appendix A.1. In the right panel, the table reports the estimates from a logit model in which the dependent variable equals one when the ESG Controversies Score is different from zero, indicating that a scandal is reported for firm *i* in year *t*. ***Significant at the 1%, **5%, and *10% levels.

Dependent:	ESG Controversies _{<i>t</i>}				Controversies Dummy _{<i>t</i>}			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
D	2.052*** (6.91)	1.657*** (6.54)	1.531*** (5.19)	1.455*** (5.74)	0.279*** (6.40)	0.234*** (5.32)	0.226*** (5.23)	0.207*** (4.66)
D× ΔEPU_{t-1}	-3.126*** (-5.88)	-2.875*** (-5.76)	-2.899*** (-5.44)	-2.88*** (-5.79)	-0.394** (-4.21)	-0.353*** (-3.68)	-0.376*** (-4.03)	-0.35*** (-3.63)
(1-D) × ΔEPU_{t-1}	0.758 (1.03)	1.864*** (3.13)	1.889** (2.66)	2.043*** (3.44)	0.099 (0.92)	0.219** (2.02)	0.224** (2.09)	0.239** (2.18)
Size _{<i>t-1</i>}			5.232*** (11.25)	3.759*** (14.34)			0.914*** (40.95)	0.610*** (13.42)
Leverage _{<i>t-1</i>}			-5.859*** (-5.54)	-1.156 (-1.11)			-0.853*** (-6.31)	-0.328* (-1.78)
ROA _{<i>t-1</i>}			-11.271*** (-5.56)	-8.702*** (-5.03)			-1.535*** (-6.19)	-1.068*** (-3.55)
Num. of Analysts _{<i>t-1</i>}			0.180*** (5.51)	0.038 (1.55)			0.027*** (9.38)	0.005 (1.14)
Cash _{<i>t-1</i>}			13.985*** (7.13)	-1.313 (-0.82)			2.342*** (10.60)	-0.093 (-0.31)
Capex _{<i>t-1</i>}			0.055 (1.62)	-0.068** (-2.04)			0.011** (2.32)	-0.004 (-0.67)
Firm FE	N	Y	N	Y	N	Y	N	Y
Industry FE	Y	N	Y	N	Y	N	Y	N

Country FE	Y	N	Y	N	Y	N	Y	N
Year FE	Y	Y	Y	Y	Y	Y	Y	Y
N	49,255	49,255	49,255	49,255	49,255	49,255	49,255	49,255
adj. R ²	0.03	0.01	0.19	0.12	N.A.	N.A.	N.A.	N.A.

Table 8: Mechanism analysis

This table reports the estimates of Equation (1) applied to different subsamples. We classify large firms, firms with higher analyst coverage, and more leveraged firms as those above the median market capitalization, number of analysts, and leverage, respectively. Developed countries are defined according to the World Bank's high-income classification. In the model, $D = 1$ when the local EPU is above its historical median. Variable definitions are provided in Appendix A.1. ***Significant at the 1%, **5%, and *10% levels.

Dependent:	Size		Institutional Environment		Analysts coverage		Leverage	
	Large	Small	Developed	Emerging	High	Low	High	Low
D	-3.768*** (-6.64)	-1.682*** (-3.37)	-2.418*** (-6.24)	-1.310*** (-2.21)	-4.18*** (-8.06)	-1.471*** (-5.02)	-3.327*** (-7.13)	-1.685*** (-3.55)
$D \times \Delta EPU_{t-1}$	-2.77*** (-3.61)	-1.530*** (-3.25)	-2.133*** (-4.29)	0.415 (0.64)	-3.560*** (-5.00)	-0.870** (-2.24)	-2.622*** (-4.08)	-1.664** (-2.73)
$(1-D) \times \Delta EPU_{t-1}$	2.424** (2.03)	0.618 (0.89)	1.760** (2.12)	-0.775 (-0.49)	2.317** (2.38)	1.352 (1.57)	2.981*** (3.35)	0.825 (0.90)
Size _{t-1}	7.960*** (9.22)	1.688*** (8.70)	5.133*** (12.18)	3.262*** (4.54)	6.267*** (12.20)	2.983*** (8.81)	5.212*** (9.47)	4.812*** (11.20)
Leverage _{t-1}	-5.312*** (-3.15)	-1.556** (-2.29)	-5.384*** (-5.57)	-1.343 (-0.62)	-6.508*** (-4.83)	-2.029** (-1.96)	-2.975*** (-2.62)	-4.834** (-3.05)
ROA _{t-1}	-17.646*** (-3.85)	-3.753** (-2.42)	-12.627*** (-6.15)	0.840 (0.26)	-13.407*** (-4.08)	-5.112*** (-3.94)	-13.810*** (-3.96)	-6.776*** (-3.90)
Num. of Analysts _{t-1}	0.215*** (6.36)	0.161*** (4.36)	0.227*** (6.34)	0.070 (1.47)	0.217*** (6.43)	0.077 (1.45)	0.236*** (5.24)	0.169*** (5.45)
Cash _{t-1}	15.586*** (4.06)	6.693*** (7.54)	11.709*** (7.08)	14.997*** (4.51)	12.942*** (4.16)	9.326*** (7.58)	17.409*** (5.82)	10.314*** (6.52)
Capex _{t-1}	0.053 (0.96)	0.009 (0.34)	0.019 (0.58)	0.211*** (3.02)	0.077 (1.35)	0.03 (1.10)	0.037 (1.06)	0.115** (2.48)
Firm FE	N	N	N	N	N	N	N	N
Industry FE	Y	Y	Y	Y	Y	Y	Y	Y
Country FE	Y	Y	Y	Y	Y	Y	Y	Y
Year FE	Y	Y	Y	Y	Y	Y	Y	Y
N	28,101	25,993	43,346	10,748	26,103	27,991	27,020	27,074
adj. R ²	0.20	0.03	0.20	0.12	0.20	0.09	0.18	0.20

Table 9: Moderator effect of ESG Score on the EPU-Scandals relationship

This table presents the estimates of Equation (1) applied to subsamples based on firms' ESG Scores. Firms with a score above (below) the yearly median are classified as High (Low) ESG firms. In the model, $D = 1$ when the local EPU is above its historical median. Variable definitions are provided in Appendix A.1. The right panel reports the estimates of Equation (1) for the full sample, using firms' ESG Scores as the dependent variable. ***Significant at the 1%, **5%, and *10% levels.

Dependent:	ESG Controversies _t				ESG Score _t	
	High ESG Score		Low ESG Score			
D	-3.795*** (-6.17)	-3.688*** (-5.87)	-1.66*** (-4.16)	-1.382*** (-2.85)	0.092 (0.48)	0.034 (0.19)
D×ΔEPU _{t-1}	-2.165*** (-3.32)	-2.022*** (-3.02)	-2.354*** (-4.49)	-2.257*** (-4.32)	0.635*** (3.33)	0.644*** (3.40)
(1-D) × ΔEPU _{t-1}	3.092** (2.44)	2.993*** (2.66)	0.814 (0.95)	0.653 (0.82)	0.860** (2.62)	1.064*** (3.33)
Size _{t-1}	7.294*** (10.00)	4.099*** (7.87)	3.077*** (9.43)	3.586*** (11.55)	5.317*** (18.04)	4.103*** (9.30)
Leverage _{t-1}	-7.807*** (-3.89)	-3.011 (-1.52)	-3.009** (-2.47)	0.392 (0.33)	-1.027 (-1.27)	-0.342 (-0.41)
ROA _{t-1}	-12.074** (-2.60)	-12.272*** (-3.55)	-8.323*** (-4.50)	-3.97** (-2.14)	3.717*** (3.22)	1.539 (1.14)
Num. of Analysts _{t-1}	0.186*** (4.07)	0.032 (0.79)	0.172*** (4.93)	0.094*** (2.98)	0.172*** (7.40)	0.13*** (5.09)
Cash _{t-1}	21.313*** (4.97)	-1.295 (-0.40)	9.587*** (6.18)	-0.150 (-0.09)	-0.065 (-0.06)	-0.620 (-0.52)
Capex _{t-1}	0.218*** (2.96)	-0.007 (-0.11)	0.005 (0.16)	-0.063* (-1.76)	0.037* (1.67)	0.049** (2.17)
Firm FE	N	Y	N	Y	N	Y
Industry FE	Y	N	Y	N	Y	N
Country FE	Y	N	Y	N	Y	N
Year FE	Y	Y	Y	Y	Y	Y
N	23,077	23,077	26,178	26,178	54,098	54,098
adj. R ²	0.22	0.14	0.08	0.03	0.39	0.28

Figure 1: Theoretical framework

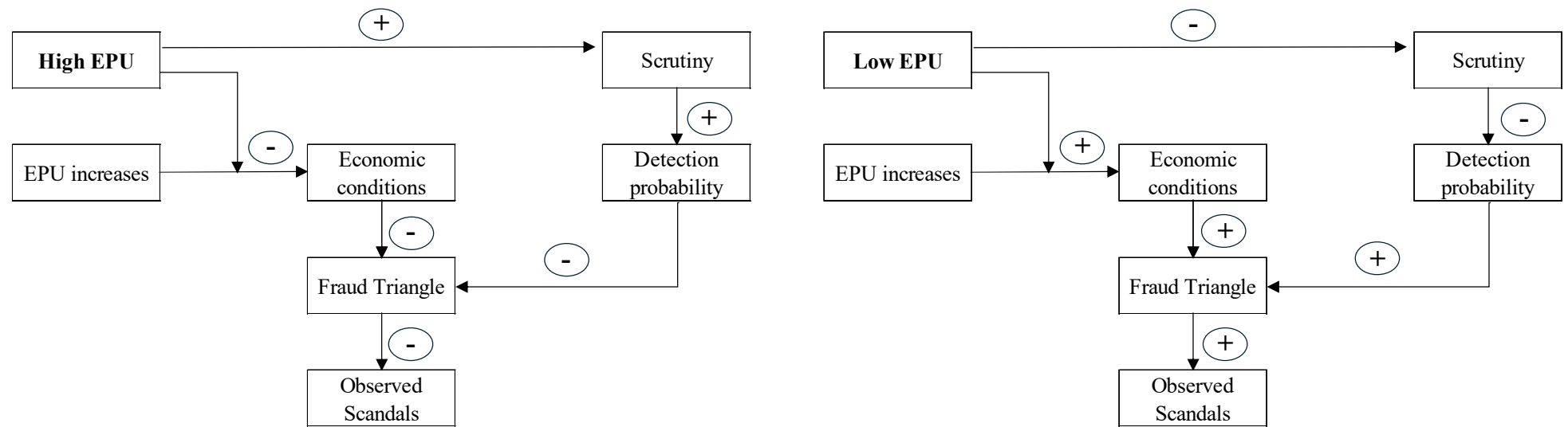
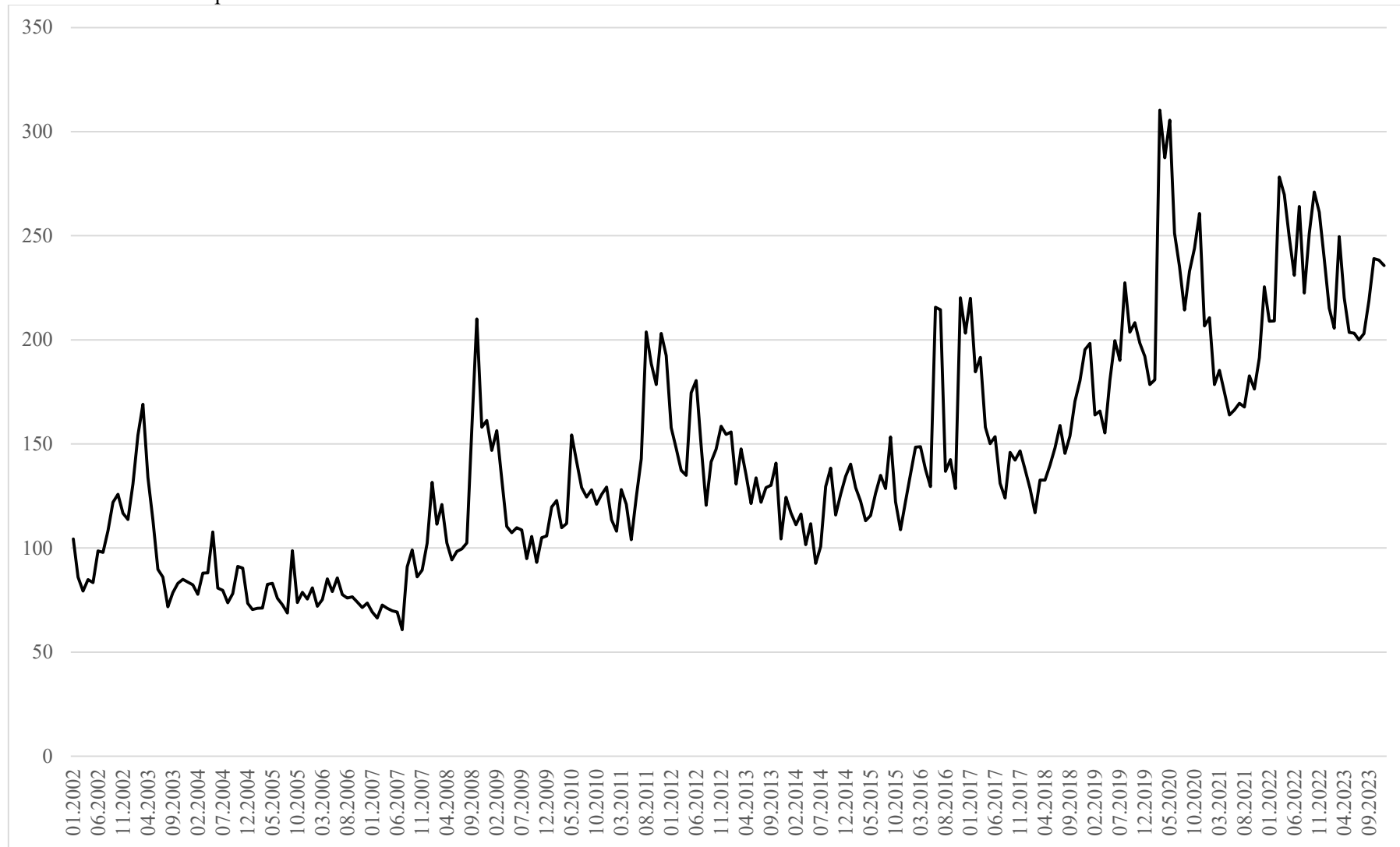


Figure 2: Mean EPU of sampled countries



Note: The figure shows the mean monthly EPU for the countries in our sample.

Appendix A

Table A.1: Variables definition

	Variable	Definition	Source
1	ESG Controversies Score	100 – Refinitiv ESG Controversies Score	Authors' own calculation
2	Dummy Controversies	Equals 1 when the ESG Controversies Score is different than 0.	Authors' own calculation
3	Δ EPU	Arithmetic variation of the annualized EPU. The annualized EPU is the mean EPU in a country within a year.	Economic Policy Uncertainty webiste
4	Size	Natural logarithm of Total Assets	LSEG
5	Leverage	Ratio between Total Debt and Total Assets	LSEG
6	Return on Asset	Ratio between Net Income and Total Assets	LSEG
7	Num. of analysts	Number of analysts	LSEG
8	Cash	Cash and Cash equivalents scaled by Revenues	LSEG
9	Capex	Capital Expenditures scaled by Revenues and multiplied by 100	LSEG

Table A.2: Key variables' correlation

	ESG Controversies	Δ EPU	Size	Leverage	ROA	Num. of analysts
ESG Controversies	1.00					
Δ EPU	-0.02	1.00				
Size	0.33	-0.03	1.00			
Leverage	0.03	0.01	0.27	1.00		
ROA	0.00	-0.04	0.04	-0.17	1.00	
Num. of analysts	0.27	-0.02	0.48	-0.01	0.12	1.00
Cash	-0.04	-0.01	-0.29	-0.34	-0.09	-0.04
Capex	0.01	0.01	-0.03	0.07	0.09	0.05