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CSR committee and firm value during the COVID-19 pandemic

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Abstract

This paper investigates whether the presence of CSR committees has a mitigating effect on firm value (measured by Tobin's Q) during the COVID-19 pandemic. Analyzing UK listed firm data, we find that although the pandemic results in lower firm value, the presence of CSR committees helps to mitigate the negative impact of COVID-19 on firm value. The results suggest that the formation of CSR committees is not a symbolic impression management tool but an effective sustainability governance mechanism during the crisis. Our results should be helpful for regulators and companies in making decisions related to CSR committees.

Keywords: corporate social responsibility, COVID-19, CSR committee, firm value, sustainability
JEL Classification Codes: G01, G30, G32, M14

1. Introduction

The COVID-19 pandemic has significantly affected economic activities and global markets. Literature often shows that this pandemic results in lower firm value and firm performance (Bose et al., 2022). Due to the emerging importance and increasing public awareness of corporate social responsibility (CSR) and sustainability, several studies have examined the relationship between CSR and firm value (or firm performance) during the COVID-19 pandemic. Some scholars show that better CSR performance or engagement in CSR activities is associated with higher firm performance and value during this pandemic (Qiu et al., 2021; Yi et al., 2021). However, others argue that CSR performance does not affect firm performance during this crisis (Bae et al., 2021). Since the current findings have been inconsistent, this paper aims to extend the existing literature by analyzing the mitigating effect of CSR committees, an emerging research area, on firm value during the COVID-19 pandemic.

The 2007-2008 global financial crisis has led to a proliferation of studies on corporate governance (Sánchez et al., 2020). Among various corporate governance mechanisms, the CSR committee, an important sustainability governance mechanism, has received considerable critical attention (Radu and Smaili, 2021; Velte and Stawinoga, 2020). The increasing interest in CSR issues makes the CSR committee become even more important.

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Literature has indicated the lack of empirical evidence on the role and impact of CSR committees (Elmaghrabi, 2021). Moreover, the empirical evidence on whether CSR committees help to improve firm value is inconclusive (Kuzey et al., 2021). While some scholars suggest that CSR committees which help to improve firm sustainability and balance different stakeholders' needs can improve firm value (Velte and Stawinoga, 2020), others argue that CSR committees which serve as an impression management tool cannot (Rodrigue et al., 2013). Extant literature on CSR committees mainly discusses non-crisis periods, and the effect of having a CSR committee on firm value during a crisis is still unknown.

During the COVID-19 pandemic, companies face high uncertainty and often need to respond promptly to rapidly changing environment to survive. The role of CSR committees in advising companies to improve sustainability and reduce risk (Kuzey et al., 2021; Radu and Smaili, 2021) will be particularly helpful for firms during the COVID-19 pandemic. Given that the evidence on the impact of CSR committees on firm value during non-crisis periods is mixed, and the regulations of CSR committees are not yet well-established (Elmaghrabi, 2021), it is important to understand whether the presence of CSR committees helps to improve firm value during a crisis. Currently, no research has examined the mitigating effect of CSR committees on firm value during the COVID-19 pandemic. Hence, our paper aims to fill this research gap.

Using data from UK listed companies, we show that although firm value is generally lower during the pandemic, the presence of CSR committees mitigates the negative impact of COVID-19 on firm value. The results imply that CSR committees are helpful in improving firm value and sustainability during the crisis and add to the ongoing discussion of the usefulness and impact of CSR committees (Chams and García-Blandón, 2019; Kuzey et al., 2021). The results of this study can be useful for regulators and companies in making decisions related to CSR committees. Since CSR committees are a relatively new idea than other board committees and the relevant regulations are not yet fully developed (Elmaghrabi, 2021), our study would provide helpful policy insights. Furthermore, previous literature indicates the challenges that managers face when balancing firm financial performance and CSR activities (Michelson et al. 2016). Our results, showing the mitigating effect of CSR committees on firm value during a crisis, can also help managers in making CSR related decisions.

The remainder of this paper proceeds as follows. Section 2 reviews literature on CSR committees and develops hypotheses. Section 3 describes data and research methods. Section 4 discusses our results. Finally, Section 5 concludes.

2. Literature and hypotheses

CSR committees are responsible for making decisions related to CSR and sustainability and are regarded as a sustainability governance mechanism (Radu and Smaili, 2021). There is an ongoing debate over whether the CSR committee can improve firm value through influencing CSR performance and business practices (Kuzey et al., 2021). On the one hand, Rodrigue et al. (2013) argue that the formation of CSR committees is mainly symbolic, aiming to manage stakeholders' impression rather than improve CSR practice and business operations. The view is further supported by Chams and García-Blandón (2019) who claim that CSR/sustainability committees do not improve business sustainability. These studies further suggest that the CSR committee which only provides suggestions but cannot really influence business operations is not helpful for improving firm value (Kuzey et al., 2021). Further empirical evidence also supports this argument that the presence of CSR committees does not lead to higher firm value (Peters and Romi, 2015). Following this impression management view, CSR committees would have limited impact on business operations during the COVID-19 crisis and would not be helpful in improving firm sustainability. Accordingly, the presence of CSR committees will not affect firm value during the COVID-19 pandemic.

On the other hand, several scholars show that CSR committees can effectively improve firm value through influencing CSR and business practices (Kuzey et al., 2021; Velte and Stawinoga, 2020). Based on the stakeholder theory, companies should fulfil different stakeholders' needs, and the creation of CSR committees can help to improve the communication and mitigate the conflicts between different stakeholders (Kuzey et al., 2021; Radu and Smaili, 2021). Therefore, the CSR committee which helps to meet stakeholders' needs better, resulting in better firm reputation and cost reduction, can lead to higher firm value (Kuzey et al., 2021). The effective sustainability governance mechanism provided by CSR committees can also reduce business risk and improve business sustainability, resulting in higher firm value (Kuzey et al., 2021; Radu and Smaili, 2021). During the COVID-19 pandemic, companies face high risk and frequent changes in markets and business operations. CSR committees which can provide suggestions to improve sustainability and to balance different stakeholders' interests (Elmaghrabi, 2021) may help companies to respond to the rapid changes in markets (e.g., the new needs of customers and suppliers) better during the pandemic. By improving stakeholder satisfaction (e.g., customer satisfaction), the CSR committee can thus help to improve firm value during the pandemic. The better communication between different stakeholders and the effective risk management associated with CSR committees (Kuzey et al., 2021), such as suggesting and implementing timely sustainability strategies, may also be helpful in reducing business risk during the COVID-19 pandemic. The reduced risk can therefore improve firm value during the pandemic. Therefore, the presence of CSR committees may also enhance firm value during the COVID-19 pandemic.

Based on the above discussion which suggests that having a CSR committee may have a positive impact or no impact on firm value during the pandemic, our paper develops and examines the following hypothesis:

Hypothesis 1: The presence of CSR committees has a mitigating effect on firm value during the COVID-19 pandemic.

3. Data and methods

3.1 Data and sample

Since the UK is the hardest hit by the COVID-19 among G7 (Hsu and Yang, 2022), this paper uses the UK listed firm data. Currently, the formation of a CSR committee in the UK is voluntary. The CSR committee, which advises companies on sustainability and CSR issues and helps to design and implement relevant policies, serves as a sustainability governance mechanism (Elmaghrabi, 2021; Radu and Smaili, 2021). Following previous literature (Hsu and Yang, 2022), we collected the data between 2018 and 2020, and treated 2020 as the pandemic period. The financial data on UK listed companies were obtained from the FAME database and CSR committee data were from the Refinitiv (Datastream) database. The initial sample from the FAME database consisted of 4,263 firm-year observations. We then excluded 1,557 observations of financial institutions because their firm characteristics are very different from those of non-financial firms and they are subject to different regulations (Gavana et al., 2022; Sun et al., 2017). We further excluded 1,952 observations with missing values, resulting in 754 firm-year observations in the final sample.

3.2 Methods

Drawing on Hsu and Yang (2022) and Villalonga and Amit (2006), we develop the following regression model to examine the mitigating effect of CSR committees on firm value during the COVID-19 pandemic.

$$Tobin's\ Q_{i,t} = \alpha_0 + \alpha_1 POST_{i,t} + \alpha_2 CSR\_COM_{i,t} + \alpha_3 POST * CSR\_COM_{i,t} + \alpha_4 SIZE_{i,t} + \alpha_5 PROFIT_{i,t} + \alpha_6 LEV_{i,t} + \alpha_7 AGE_{i,t} + \alpha_8 BIGN_{i,t} + YEAR_{i,t} + IND_{i,t} + \varepsilon_{i,t} \quad (1)$$

Where *Tobin's Q* represents firm value and is calculated as the market value of equity plus total liabilities divided by total assets, for firm i in year t. *POST* is a dummy variable to indicate the pandemic period, and equals 1 if year is 2020, and 0 otherwise. *CSR_COM* equals 1 if a firm has a CSR committee, and 0 otherwise. *POST*CSR_COM* is an interaction term, and its coefficient helps to examine the mitigating effect of CSR committees on firm value during the COVID-19 pandemic.

Following previous literature (Liu et al., 2021; Villalonga and Amit, 2006), we also control several variables which may affect Tobin's Q. *SIZE* is the natural logarithm of total assets. While smaller firms with more growth opportunities are likely to experience higher Tobin's Q, larger firms with stronger corporate governance may also be associated with higher Tobin's Q (Conheady et al., 2015). Hence, the sign of the *SIZE* coefficient is ambiguous. *PROFIT* is net income over total sales. Firms with higher profitability tend to have higher firm value (Varaiya et al., 1987). Thus, a positive association between *PROFIT* and *Tobin's Q* is predicted. *LEV* is total liabilities over total assets. Higher leverage may suggest financial distress and hence lower firm value (Conheady et al., 2015). Thus, a negative coefficient of *LEV* is predicted. *AGE* is a firm's age. Older firms tend to have a lower growth rate, but they are also more established and have more stable business operations (Atayah et al., 2022). Hence, *AGE* can be positively or negatively associated with Tobin's Q. *BIGN* is a dummy variable which equals 1 if a firm is audited by a Big 4 accounting firm, and 0 otherwise. The presence of a BIG 4 auditor implies better audit quality, which would lead to higher firm value (Conheady et al., 2015). Hence, a positive coefficient of *BIGN* is predicted. *YEAR* and *IND* are the year and industry fixed effects, respectively. The definitions of variables are summarized in Appendix 1.

All continuous variables in this study are winsorized at the 1% and 99% levels to mitigate the influence of extreme values. We also report the variance inflation factor (VIF), and the results (i.e., all VIFs are less than 4) suggest that multicollinearity is not a major issue here. Furthermore, robust standard errors clustered at the firm level are used in this paper to deal with heteroscedasticity (Alhadab and Clacher, 2018).

4. Results

4.1 Descriptive statistics

Table 1 presents the descriptive statistics of key variables. About 65% of the sample firms have a CSR committee. The average leverage is 0.54%. The range of sample firms' age is wide, from 2 to 116.

Table 1. Descriptive statistics.

Variable	N	Mean	Std. Dev.	Min	Q1	Median	Q3	Max
Tobin's Q	754	2.1454	1.8093	0.7222	1.1462	1.5196	2.3600	11.6064
POST	754	0.4231	0.4944	0.0000	0.0000	0.0000	1.0000	1.0000
CSR_COM	754	0.6485	0.4777	0.0000	0.0000	1.0000	1.0000	1.0000
SIZE	754	13.8760	1.6966	10.8923	12.6886	13.6628	14.9110	18.6821
PROFIT	754	0.0350	0.4327	-2.7675	0.0065	0.0537	0.1218	1.8788
LEV	754	0.5399	0.2020	0.1321	0.3832	0.5293	0.6988	0.9834
AGE	754	33.7361	28.9592	2.0000	15.0000	23.0000	42.0000	116.0000
BIGN	754	0.8369	0.3697	0.0000	1.0000	1.0000	1.0000	1.0000

Note: All variables are defined in Appendix 1.

Table 2. Correlation.

	Tobin's Q	***POST***	***CSR_COM***	***SIZE***	***PROFIT***	***LEV***	***AGE***	***BIGN***
Tobin's Q	1.0000	-0.0705*	-0.2825***	-0.3568***	0.3771***	-0.2416***	-0.0889**	-0.0351
POST	-0.0345	1.0000	-0.0556	-0.2021***	-0.2255***	0.0337	-0.0200	-0.2104***
CSR_COM	-0.2675***	-0.0556	1.0000	0.4733***	-0.0513	0.0974***	0.1737***	0.2088***
SIZE	-0.3404***	-0.1845***	0.4615***	1.0000	0.0288	0.2992***	0.1793***	0.4383***
PROFIT	0.1066***	-0.1399***	0.0070	0.0837**	1.0000	-0.3511***	0.0651*	0.0417
LEV	-0.2559***	0.0378	0.0931**	0.2973***	-0.1133***	1.0000	-0.0579	0.0849**
AGE	-0.1163***	-0.0206	0.1860***	0.1451***	0.1363***	-0.0651*	1.0000	0.1148***
BIGN	-0.0879**	-0.2104***	0.2088***	0.4088***	0.0226	0.0804**	0.0848**	1.0000

Note: *, **, *** denote statistical significance at the 10 percent, 5 percent, and 1 percent levels, respectively. All variables are defined in Appendix 1. Figures above the diagonal represent Spearman rank correlations while those below the diagonal are Pearson correlations.

Table 2 presents the correlation matrix. There is weak evidence showing that firm value (i.e., Tobin's Q) is lower during the pandemic period. Furthermore, firm value is negatively associated with the presence of CSR committees, firm size, leverage, firm age, and the presence of Big 4 auditors. However, firm value is positively associated with companies' profit.

4.2 Regression results

Table 3 shows our regression results. In Column (1) of Table 3, the negative coefficient of *POST* suggests that firm value (measured by Tobin's Q) is lower during the COVID-19 pandemic, consistent with previous literature (Bose et al., 2022). This may be because COVID-19 brings many challenges and cause significant disruption (e.g., lockdown and demand changes in markets) to business operations, resulting in lower firm value. Furthermore, the positive coefficient of *POST*CSR_COM* shows that the presence of CSR committees helps to mitigate the negative impact of COVID-19 on firm value. The results remain the same after we control for other variables (see Column (2) of Table 3). Our findings are consistent with Hypothesis 1.

Overall, our results show that although the COVID-19 pandemic reduces firm value, CSR committees can help to improve firm value during this crisis. In contrast to the impression management perspective on CSR committees (Chams and García-Blandón, 2019; Rodrigue et al., 2013), our results are consistent with the stakeholder theory and support the argument that CSR committees can really help to leverage CSR to firm value (Kuzey et al., 2021). During the COVID-19 pandemic, stakeholders' interests change rapidly (e.g., customers have new demands, employees need to work from home, and suppliers have different expectations due to supply chain issues). CSR committees, which can provide suggestions related to CSR and sustainability, and balance different stakeholders' interests (Elmaghrabi, 2021), may help companies to respond to this COVID-19 crisis better (e.g., by addressing stakeholders' needs properly and ensuring sustainability). CSR committees, which can help to improve communication between different stakeholders and manage risk through implementing CSR related strategies (Kuzey et al., 2021), may also be very helpful in reducing risk and uncertainty during this crisis. Hence, the presence of CSR committees mitigates the negative impact of COVID-19 (e.g., high risk, and rapid changes in different stakeholders' expectations) and improves firm value during the pandemic. Previous literature, discussing non-crisis periods, shows mixed evidence on the impact of CSR committees on firm value; our paper shows the value of having a CSR committee during a crisis (i.e., improved firm value) extends our knowledge in this area.

Table 3. Regression results.

Variable	The dependent variable: Tobin's Q (1) Coeff (t-statistic)	(2) Coeff (t-statistic)
Intercept	1.9523*** (5.57)	4.8494*** (4.55)
POST	-0.6079*** (-2.63)	-0.5919** (-2.51)
CSR_COM	-1.0134*** (-3.26)	-0.5563** (-2.08)
POST*CSR_COM	**0.7205*** (2.58)**	**0.7037** (2.51)**
SIZE		-0.1954** (-2.25)
PROFIT		0.4522* (1.68)
LEV		-1.8448*** (-2.76)
AGE		-0.0087** (-2.33)
BIGN		0.0495 (0.14)
YEAR	Yes	Yes
IND	Yes	Yes
Adjusted R^2	0.1501	0.2340
N	754	754

Notes: *, **, *** denote statistical significance at the 10 percent, 5 percent, and 1 percent levels, respectively. Robust standard errors clustered by firm are used. The variance inflation factors here are all less than 4. All variables are defined in Appendix 1.

Given that the formation of CSR committee is voluntary in the UK (and mainly voluntary worldwide) and the regulations related CSR committees are not yet well-developed (Elmaghrabi, 2021), our results, showing that CSR committees can provide effective sustainability governance during a crisis, should be very useful for companies to determine whether they should have CSR committees and for regulators to design relevant regulations.

4.3 Further tests: CSR Performance

Since prior studies indicate that CSR performance is positively associated with firm performance value during the COVID-19 pandemic (Yi et al., 2021), this section aims to control for the effect of CSR performance. We obtain companies' ESG scores from the in the Refinitiv (Datastream) database and use the ESG scores as the proxy for companies' CSR performance (Yi et al., 2021).

As shown in Table 4, the coefficient of *POST*CSR_COM* is still positive and significant after we include the ESG score in the model. The results are consistent with our main findings in Section 4.2 and provide support for our Hypothesis 1. Overall, the results in Table 4 suggest that the presence of CSR committee does have an incremental effect and helps to mitigate the negative impact of COVID-19 on firm value. Our findings again show the benefits of having CSR committees during the crisis. Consistent with the findings of Kuzey et al. (2021) during non-crisis periods, our results support the stakeholder theory rather than the impression management view on CSR committees.

Table 4. Further Tests: CSR Performance as an additional control variable.

Variable	The dependent variable: Tobin's Q Coeff (t-statistic)
Intercept	7.2124*** (4.46)
POST	-0.4593** (-2.14)
CSR_COM	-0.7944*** (-2.79)
POST*CSR_COM	**0.6075** (2.35)**
ESG	0.0181*** (2.98)
SIZE	-0.3624*** (-2.93)
PROFIT	0.4402* (1.68)
LEV	-1.8579*** (-2.80)
AGE	-0.0084** (-2.30)
BIGN	-0.1079 (-0.32)
YEAR	Yes
IND	Yes
Adjusted R^2	0.2600
N	754

Notes: *, **, *** denote statistical significance at the 10 percent, 5 percent, and 1 percent levels, respectively. Robust standard errors clustered by firm are used. The variance inflation factors here are all less than 4. *ESG* refers to a firm's ESG score, in the Refinitiv (Datastream) database. All other variables are defined in Appendix 1.

Furthermore, the evidence on whether CSR committees can improve CSR performance is inconclusive (Kuzey et al., 2021). Hence, it will also be interesting to examine the effect of CSR committees on CSR performance during the COVID-19 pandemic. Following previous literature (Baldini et al., 2018; Dyck et al., 2019; Yi et al., 2021), we use the natural logarithm of ESG scores as the dependent variable to measure companies' CSR performance and control several variables which may influence CSR performance. Table 5 shows that CSR performance tends to be lower during the COVID-19 pandemic. However, companies with a CSR committee are associated with better CSR performance during the pandemic. The result suggests that having CSR committees can be helpful for improving CSR performance during a crisis. The improved CSR performance due to the presence of CSR committees may also explain our early findings that having CSR committees helps to improve firm value during the pandemic.

Table 5. Further Tests: CSR Performance as a dependent variable.

Variable	The dependent variable: ESG+ (1) Coeff (t-statistic)	(2) Coeff (t-statistic)
Intercept	-5.4474*** (-9.01)	-6.6467*** (-10.27)
POST	-1.2158*** (-7.85)	-1.3568*** (-9.33)
CSR_COM	0.3642*** (2.63)	0.3688*** (2.71)
POST*CSR_COM	**0.7683*** (4.50)**	**0.8246*** (4.93)**
SIZE	0.4301*** (8.02)	0.5226*** (9.47)
PROFIT	-0.0441 (-0.44)	
LEV	-0.1228 (-0.36)	-0.3303 (-0.85)
AGE	-0.0025 (-1.08)	
BIGN	0.9203*** (3.76)	
ROA		0.2977 (0.43)
MB		0.0471** (2.55)
SalesGrowth		-0.3271* (-1.77)
YEAR	Yes	Yes
IND	Yes	Yes
Adjusted R^2	0.5346	0.5187
N	754	754

Notes: *, **, *** denote statistical significance at the 10 percent, 5 percent, and 1 percent levels, respectively. Robust standard errors clustered by firm are used. The variance inflation factors here are all less than 4. ESG+ the natural logarithm of a firm's ESG score, in the Refinitiv (Datastream) database. ROA is net income over total assets; MB is market value of equity over book value of equity; SalesGrowth is the annual sales growth rate. All other variables are defined in Appendix 1.

5. Conclusion

This paper investigates the mitigating effect of CSR committees on firm value during the COVID-19 pandemic and fills a research gap. Using UK listed firm data, we show that the presence of CSR committees helps to mitigate the negative impact of COVID-19 on firm value. The results suggest that CSR committees can provide effective sustainability governance and improve business sustainability during the pandemic rather than being symbolic. Our results are in accordance with the stakeholder theory (Kuzey et al., 2021) but in contrast to the impression management perspective on CSR committees (Chams and García-Blandón, 2019; Rodrigue et al., 2013). Previous literature mainly discusses non-crisis periods and shows mixed evidence on the effect of having CSR committees on firm value. Our research, showing the benefits of having CSR committees during a crisis (i.e., improved firm value), adds to the ongoing discussion of the role of CSR committees (Elmaghrabi, 2021) and provides further evidence on the relationship between CSR committees and firm value (Kuzey et al., 2021).

Since the regulations regarding CSR committees have not been well-established worldwide (Elmaghrabi, 2021), our results provide important policy implications that having CSR committees can be crucial for improving firm value and sustainability during a crisis. For instance, this information can be helpful for regulators in determining whether the formation of CSR committees should be mandatory. Moreover, our results, showing the importance and value of having CSR committees during a crisis, should be useful for companies in determining whether to form a CSR committee. For example, companies which hope to tackle the COVID-19 pandemic or similar crises better may consider forming a CSR committee.

The findings of this study are subject to several limitations. First, our paper focuses on the UK setting. The effect of CSR committees on firm value during the COVID-19 pandemic may be different in other countries which are affected by the pandemic differently and have different institutional attributes. Hence, future research can analyze whether our findings remain the same using data from other countries, to further understand the impact of CSR committees. Furthermore, our study did not investigate the characteristics of CSR committees, which can result in different impacts on companies (Elmaghrabi, 2021). Future research can thus analyze whether different characteristics of CSR committees lead to different results.

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Appendix 1 - Variable definitions

Variable	Definition
Tobin's Q	"Market value of equity plus total liabilities" divided by total assets (Villalonga and Amit, 2006)
POST	A dummy variable equals 1 if year is 2020 (i.e., the pandemic period), and 0 otherwise (Hsu and Yang, 2022)
CSR_COM	A dummy variable equals 1 if a firm has a CSR committee, and 0 otherwise (Radu and Smaili, 2021)
*POST*CSR_COM*	An interaction term equals *POST* times *CSR_COM*
SIZE	the natural logarithm of total assets (Liu et al., 2021)
PROFIT	net income over total sales (Liu et al., 2021)
LEV	total liabilities over total assets (Liu et al., 2021)
AGE	A firm's age (Liu et al., 2021; Villalonga and Amit, 2006)
BIGN	A dummy variable equals 1 if a firm is audited by a Big 4 accounting firm, and 0 otherwise. (Liu et al., 2021)
YEAR	Year dummy variable
IND	Industry dummy variable