Do ESG Controversies Crowd Out Corporate R&D? The buffering Role of CSR Committees in French Listed Firms

Amira Lajmi
ARGUMANS, Université du Mans, France
amira.lejmi@gmail.com

Bilel Bzeouich,
ESLSCA Business School, CERFIM, Paris, France
bilel.bzeouich@eslsca.fr

Nadia Ben Farhat,
LITEM (EA 7363), University of Evry, IMT-BS, France
nadia.benfarhattoumi@univ-evry.fr

Amal Hamrouni
CERIIM, Excelia Buisness School
hamrounia@excelia-group.com

Abstract

Research Question

This paper examines whether ESG controversies affect corporate R&D intensity and whether the presence of a board-level CSR committee moderates this relationship. More specifically, it investigates whether reputational shocks related to environmental, social and governance controversies crowd out long-term innovation investment, or whether sustainability-oriented governance mechanisms help firms preserve their R&D effort under reputational adversity.

Theoretical Framework

The study draws on stakeholder theory, legitimacy theory, agency theory and the Porter hypothesis. ESG controversies are viewed as negative signals that damage stakeholder relationships and threaten corporate legitimacy (Freeman, 1984; Suchman, 1995). Under reputational and financial pressure, managers may reduce discretionary long-term investments such as R&D in order to protect short-term performance, consistent with agency theory (Jensen and Meckling, 1976). However, environmental and regulatory pressures may also stimulate innovation by encouraging firms to develop cleaner and more efficient technologies, as suggested by Porter and van der Linde (1995). Within this framework, CSR committees are considered as board-level governance mechanisms that may improve ESG oversight, stakeholder engagement, risk management and long-term strategic discipline.

Method

The empirical analysis is based on a panel of 262 French listed non-financial firms over the period 2005-2021, representing 3,412 firm-year observations. France provides a relevant setting because listed firms operate under strong non-financial disclosure expectations while retaining discretion over strategic innovation budgets. ESG controversy data are collected from Refinitiv Eikon, financial data from Compustat Global, and governance data from BoardEx and firms' annual reports. R&D intensity is measured as R&D expenditure scaled by total assets. ESG controversies are captured through an aggregate controversy score and three separate dimensions: environmental, social and governance controversies. The study uses two-way fixed-effects panel regressions with firm and year fixed effects, clustered standard errors and one-year-lagged controversy variables. Additional robustness tests include alternative binary controversy measures, dynamic system GMM, two-stage least squares and propensity score matching.

Findings

The results show that ESG controversies are negatively and significantly associated with corporate R&D intensity. This suggests that controversy exposure may generate reputational costs, financing constraints, crisis-related expenses and managerial distraction, thereby reducing firms' ability to sustain long-term innovation investment. The negative effect is observed across all ESG controversy dimensions and is particularly pronounced for environmental controversies. More importantly, CSR committees significantly attenuate this negative relationship. Firms with a dedicated CSR or sustainability committee experience a weaker decline in R&D intensity following controversy exposure. These findings indicate that board-level sustainability governance can act as an organisational resilience mechanism by preserving strategic investment when firms face reputational shocks. The paper contributes to CSR and corporate governance research by identifying innovation capacity as a hidden cost of ESG controversies and by showing that CSR committees do not merely serve symbolic or disclosure purposes, but may also protect long-term value creation. It also extends debates on responsible governance by linking ESG risk management to firms' capacity to sustain innovation during periods of controversy.

Keywords: ESG controversies ; R&D intensity ; CSR committee; corporate governance; innovation; France.