Chapter 5

The Economic Consequences of Corporate Social Irresponsibility and Policy Implications

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5.1 Introduction

Although extensive research has explored topics related to corporate social responsibility (CSR)—particularly within the context of the Sustainable Development Goals—including its impact on firms' performance, the evidence is mixed and inconclusive.[1] Further, even as the research focusing on CSR has increased, a relatively small number of studies have investigated "corporate social irresponsibility" (CSI). Yet, CSR and CSI may exist simultaneously and have distinct economic consequences on firms.

This chapter first discusses the coexistence of CSR and CSI then expounds on their different economic consequences. It analyzes factors that affect the economic consequences of CSR and CSI, summarizes relevant regulations and legislation, and details the policy implications of CSR and CSI.

As governments and wider civil society have grown more aware of environmental and social issues, the public too has started to emphasize and expect companies to play a role as social citizens. This has fueled interest in CSR in academia, in practice, and from policymakers.

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1 Achieving sustainable development is a primary goal of the United Nations. In September 2015, UN member states adopted the 2030 Agenda for Sustainable Development, with its 17 goals. The agenda recognizes the critical importance of environmental and social issues, such as ending poverty, improving health and education, reducing inequality, and tackling climate change.

5.2 Coexistence of Corporate Social Responsibility and Corporate Social Irresponsibility

CSR and CSI coexist, according to considerable evidence. For instance, Siemens, a German multinational conglomerate corporation, operated with high social and environmental standards but was found guilty of bribery by the United States (US) Corrupt Foreign Practices Act in December 2008. Another German company, the automaker Volkswagen Group, claimed to be a "corporate citizen," and held a leading position in various international CSR indexes (Riera and Iborra 2017). Despite this outstanding performance in CSR, the US Environmental Protection Agency in September 2015 accused the company of cheating on the emissions test by installing a "defeat device" in diesel engines to deflate the reported level of excessive carbon dioxide emissions. These two scandals resulted in significant reputational losses and, relatedly, severe unfavorable economic consequences for the firms. Extant studies further suggest that a firm can have a strong CSR performance in one dimension of CSR or one geographic location but commit social misconduct in another dimension or geographic location (Strike, Gao, and Bansal 2006; Herzig and Moon 2013; Keig, Brouthers, and Marshall 2015).

Researchers further explore these seemingly contradictory behaviors of firms and propose a causal relationship between CSR and CSI. CSR engagement can be used as a vehicle to offset a firm's *past* socially irresponsible behaviors.[2] In this regard, firms that behave more socially irresponsibly will invest more in CSR to rebuild their reputation or conceal unethical behavior. CSR can also act as insurance against *future* CSI and alleviate the potential losses stemming from CSI (Godfrey, Merrill, and Hansen 2009; Minor and Morgan 2011). Klein and Dawar (2004) find that good CSR performance will mitigate the negative brand evaluation of consumers in the case of a product-harm crisis. Flammer (2013) demonstrates that firms that enjoy higher environmental CSR will experience lighter adverse stock market reaction to ecologically harmful events.

[2] For example, see Muller and Kräussl 2011; Kotchen and Moon 2012; Kang, Germann, and Grewal (2016); Lenz, Wetzel, and Hammerschmidt (2017); Raghunandan and Rajgopal (2022); Chen, He, and Krishnan (2023).

5.3 Economic Consequences of Corporate Social Responsibility and Corporate Social Irresponsibility

5.3.1 Corporate Social Responsibility

From political, economic, and societal expectations, there is little doubt that firms should take responsibility for their impact on society and the environment. However, there has been considerable debate whether CSR behaviors violate maximization of shareholder wealth (Karnani 2011). Conventional wisdom argues that the priority of a firm is to generate profits for its shareholders. Using limited corporate resources to perform CSR activities will generate unnecessary costs and siphon off the resources that can be invested in value-enhancing investment or operation activities (Friedman 1970; Brammer and Millington 2008). In the same vein, even if a firm has the resources, it should distribute more dividends to shareholders rather than devote itself to CSR activities. This is because involvement in CSR implies a transfer of wealth from the company's owners to a third party without rightful claims. Further, involvement in CSR activities can be time-consuming. Managers emphasizing CSR performance too much may overlook their primary management responsibilities and profitable-investment opportunities. This inefficient resource allocation is more evident when managers use CSR engagement to burnish their reputation[3] or to conceal corporate wrongdoing (Hemingway and Maclagan 2004; Kotchen and Moon 2012).

However, although enacting CSR activities is costly, substantial evidence has found that CSR activities can bring myriad benefits to a firm in various facets. First, good CSR performance can enhance corporate reputation and strengthen the relationship with stakeholders (Sen, Bhattacharya, and Korschun 2006). Corporate reputation is an essential intangible asset conducive to a firm's competitive advantages. A good reputation due to CSR signals firm ability and commitment to work in the interest of stakeholders and increases its creditworthiness, contributing to its societal legitimacy and a solid contractual relationship or tacit agreement with its stakeholders (Choi and Wang 2009; Cao et al. 2015). Stakeholders, in turn, will have more favorable attitudes toward the firm and be more inclined to supply their resources (Frooman 1999; Backhaus, Stone, and Heiner 2002).

[3] For example, see Haley (1991); Galaskiewicz (1997); Cennamo, Berrone, and Gomez-Mejia (2009); and Barnea and Rubin (2010).

Employees are the most critical internal stakeholders for a firm, and their attitudes toward CSR engagement would significantly affect their work performance and even employee retention. Extant research reveals that a strong commitment to CSR showcases a prosocial firm culture (Collier and Esteban 2007; Linnenluecke and Griffiths 2010) and produces a sense of meaningfulness (Bauman and Skitka 2012; Grant 2012) that increases employees' commitment,[4] job satisfaction (Valentine and Fleischman 2008), and identification with the firm (Berger, Cunningham, and Drumwright 2006; Rodrigo and Arenas 2008; Kim et al. 2010). These positive employee work attitudes will improve productivity and create positive word-of-mouth for a firm as a good employer. This will, in turn, attract and retain more talented employees.[5]

Customers and suppliers are two external stakeholders that significantly impact corporate performance. Prior studies indicate that firms with higher CSR performance can reap economic benefits from customers and suppliers. CSR initiatives portray a positive corporate image among customers, fostering loyalty to the products/services of a firm and increasing their willingness to pay a higher price and resist other negative news about the firm.[6] These increased brand value and customer satisfaction further provoke positive word-of-mouth among customers, raise their active advocacy behavior, and enable the firm to differentiate itself from its competitors. In the long run, firm sales and profitability will increase (Bloom et al. 2006; Lev, Petrovits, and Radhakrishnan 2010). Further, good CSR performance helps a firm maintain a solid relationship with its suppliers and thereby attract more trade credit from them (Zhang et al. 2014; Xu, Wu, and Dao 2020).

Second, good relationships with broad stakeholders facilitate information communication between a firm and its stakeholders and enable the firm to derive more external knowledge (Jansen, Van Den Bosch, and Volberda 2006), spurring its innovation potential (Luo and Du 2015). From another perspective, better communication between insiders and outsiders reduces information asymmetry, mitigating conflict of interest between managers and stakeholders (Jo and Harjoto 2011, 2012; Cui, Jo, and Na 2018).

[4] See Peterson (2004); Rupp et al. (2006); Brammer, Millington, and Rayton (2007); and Collier and Esteban (2007).

[5] See Greening and Turban (2000); Bhattacharya, Sen, and Korschun (2008); Hansen et al. (2011); and Carnahan, Kryscynski, and Olson (2017).

[6] See Luo and Bhattacharya (2006); Du, Bhattacharya, and Sen (2007); Lev, Petrovits, and Radhakrishnan (2010); and Iglesias et al. (2020).

Third, firms behaving socially responsibly are more likely to realize capital market benefits, including lower cost of capital and better debt covenants with creditors. The cost of capital is the required rate of return based on capital providers' perception of a firm's financial performance and risks. A better (lower) financial performance (risk) is instrumental in lowering the cost of capital. Numerous studies document a positive association between CSR and financial performance that is proxied by accounting ratios such as return on assets and return on equity (Wang and Qian 2011). Meanwhile, researchers demonstrate that CSR activities will reduce firms' risk including investment, operational, financial, and information risks.[7] Investors who perceive better financial performance and lower risk as a result of CSR participation will charge lower costs for providing capital to the firm.[8]

Overall, contributing to CSR involves both economic costs and benefits for a firm. On this account, whether and to what extent CSR will ultimately influence firm value rests on the trade-off between the costs and benefits of pursuing CSR. Existing literature provides conflicting evidence on the impact of CSR engagement on firm value. On the one hand, some studies show that firms executing CSR initiatives will have higher firm value.[9] On the other hand, some research argues that CSR activities have negative or no influence on corporate financial performance and firm value (Brammer, Brooks, and Pavelin 2006; Nelling and Webb 2009; Crisóstomo, de Souza Freire, and de Vasconcellos 2011). Some evidence indicates that the positive impact of CSR on firm value only exists in some conditions, without which there is no, or even a negative, relationship between CSR and firm value. For example, Servaes and Tamayo (2013) find that the value-enhancing role of CSR only exists for firms with high customer awareness (i.e., brand or firm visibility), whereas the relationship between CSR and firm value is either negative or insignificant for firms with low customer awareness. Arouri and Pijourlet (2017) find that a high CSR rating results in a higher value of cash holdings only for firms operating in countries where shareholders are well protected from expropriation by managers and in countries where the institutional and regulatory quality is high. Buchanan, Cao, and Chen (2018) find that

[7] See Boutin-Dufresne and Savaria (2004); Lee and Faff (2009); Hong and Andersen (2011); Kim, Park, and Wier (2012); Oikonomou, Brooks, and Pavelin (2012); Mishra and Modi (2013); Kim, Li, and Li (2014); Sun and Cui (2014); Bozzolan et al. (2015); Shahrour, Girerd-Potin, and Taramasco (2021); and Shih et al. (2021).

[8] See Sharfman and Fernando (2008); El Ghoul et al. (2011); Goss and Roberts (2011); Ye and Zhang (2011); Chava (2014); Oikonomou, Brooks, and Pavelin (2014); Ge and Liu (2015); Shi and Sun (2015); and Lin, Servaes, and Tamayo (2017).

[9] See Guenster et al. (2011); Jo and Harjoto (2011); Kim and Statman (2012); Gregory and Whittaker (2013); Gregory, Tharyan, and Whittaker (2014); and Lin, Servaes, and Tamayo (2017).

firms with high CSR-investment intensity experience more loss in firm value during financial crisis, while these firms have higher value before a crisis. This conflicting evidence may be attributed to the fact that CSR does not always bring benefits that outstrip the associated costs to all firms. Section 4 details country-, industry-, and firm-level characteristics that affect the benefits as compared with the costs of CSR.

5.3.2 Economic Consequences of Corporate Social Irresponsibility

CSI activities refer to either intentional or unintentional activities of a firm. In most scenarios, firms socially misbehaving, such as pollution, child labor, and bribery, have objectives to reduce costs and increase profits. Notwithstanding the potential of intentional CSI to create positive ramifications for the firm, it may be more detrimental for the firm once the CSI is discovered by stakeholders.

When regulators uncover corporate misbehavior in relation to environmental, social, and governance aspects, this may result in lawsuits that may take years to settle and would pose substantial litigation costs, regulatory fines, reputational harm, and other expenses on the firm. For instance, Siemens paid around $1.6 billion by December 2008 to resolve corruption-related charges;[10] British Petroleum paid about $65 billion by January 2018 to cover environmental cleanup, compensation, and penalties for the Deepwater Horizon oil spill in 2010 (Vaughan 2022). This pending litigation and associated expenses brings huge reputational losses and uncertainty to the firm's future performance.

Besides the preceding costs, CSI destroys firm value and diminishes the competitive advantages of a firm by eroding its relationship with stakeholders. Ample research evidence reveals stakeholders' negative attitudes toward, and strong intents to punish, unethical and socially irresponsible firms.[11] Consumers are inclined to stop buying products or services from a firm that behaves in a socially irresponsible manner and to spread negative word-of-mouth to a range of acquaintances to boycott the firm's products or services (Braunsberger and Buckler 2011). In addition, CSI behaviors also elicit employee anger, resulting

[10] Information obtained from the US Securities and Exchange Commission. https://www.sec.gov/news/press/2008/2008–294.htm (accessed 20 December 2022).

[11] For example, see Lindenmeier, Schleer, and Pricl (2012); Grappi, Romani, and Bagozzi (2013); Sweetin et al. (2013); Xie, Bagozzi, and Gronhaug (2015); Antonetti and Maklan (2016); and Xie and Bagozzi (2019).

in negative word-of-mouth among them (Hericher and Bridoux 2022). These potential stakeholder sanctions or boycotts significantly limit the ability of a firm to achieve satisfactory financial outcomes. In line with this argument, prior research provides empirical evidence that CSI is negatively (positively) related to financial performance (risk).[12]

5.3.3 Comparing the Economic Consequences of Corporate Social Responsibility and Corporate Social Irresponsibility

The impact of CSR and CSI varies in direction, magnitude, and duration. Stakeholders may not require all firms to participate in CSR activities proactively, but they are more sensitive to any CSI issue that harms their interests (Foreman 2011; Barnett 2014; Kölbel, Busch, and Jancso 2017). So an asymmetry exists of stakeholders' reactions to good versus bad news associated with CSR versus CSI behavior. In particular, given that some firms—such as financially constrained and start-up companies—cannot afford to be socially responsible. This is based on their capacities and available resources and stakeholder expectations, and the attention to the CSR performance of these firms may be relatively low. However, all firms are expected to avoid taking socially irresponsible actions. This difference in the emphases on CSI as compared with CSR by stakeholders may result in stronger stakeholders' negative reactions to CSI scandals, including more severe punishment for CSI, compared with the positive rewards for CSR.

Indeed, some studies corroborate that CSI has a greater effect on corporate performance and risk than CSR.[13] Hawn (2021) finds that media coverage of CSR has no impact on the firms' cross-border acquisitions, while media coverage of CSI impedes the completion of such acquisitions. Li et al. (2021) show that providing CSR disclosures in the management discussion and analysis section of annual reports does not increase the value of firms with good CSR performance but does decrease the value of firms with high ESG concerns.

CSR and CSI affect corporate reputation and the firm's relationship with its stakeholders and thereby influence firm performance and firm value. Nevertheless, it often takes a long period for a firm to establish a good reputation via CSR activities. In contrast, corporate reputation could be quickly ruined by CSI scandals once discovered in the public arena.

[12] See Gupta and Goldar (2005); Karpoff, Lott, and Wehrly (2005); Oikonomou, Brooks, and Pavelin (2012); Mishra and Modi (2013); Kölbel, Busch, and Jancso (2017); and Harjoto, Hoepner, and Lie (2021).

[13] For example, see Chava (2014); Goss and Roberts (2011); Jayachandran, Kalaignanam, and Eilert (2013); and Oikonomou, Brooks, and Pavelin (2014).

5.4 Characteristics That Affect the Benefits versus the Costs of Corporate Social Responsibility and Corporate Social Irresponsibility

As the economic ramifications of CSR and CSI are inconclusive, it is of great importance to understand the major factors that would affect the benefits in relation to the costs of CSR and CSI.

5.4.1 Country-Level Characteristics

Firms in countries with diverse cultures, economic conditions, institutional environments, etc. may have distinct levels of benefits and costs of CSR and CSI (Doh and Guay 2006; Wang and Qian 2011; Wang, Dou, and Jia 2016). The rationales behind this notion are multifaceted. First is related to stakeholders' differential perceptions of CSR in relation to CSI, which play a crucial role in shaping their economic consequences on firms. Stakeholders with high levels of social concerns will expect firms to take more responsibility in society. Consequently, they will value (punish) the firm with better CSR performance (worse CSI behaviors) to a larger extent. Stakeholders' attitudes toward CSR and CSI are rooted in the culture of a country and thereby vary significantly across countries (Husted 2005; Williams and Zinkin 2008). Compared with people living in developed countries, citizens of developing countries are generally less sensitive to CSR behaviors (Xu and Yang 2010). Customers in developing economies, as an illustration, care more about the price and quality of a product and are more unaware of CSR (Chou and Chen 2004; Arli and Lasmono 2010).

Apart from the divergence of stakeholders' views, the institutional variations in the cross-national context can also explain the different economic consequences of CSR and CSI in different countries. Developed markets usually have well-established "reward and punishment" policies, as exemplified by tax relief to encourage firms to pursue CSR and by huge penalties to deter CSI. In such a scenario, firms may gain benefits from CSR that outweigh the associated costs and would suffer substantial reputational and legal losses due to CSI. Conversely, in a loose and ineffective institutional system, both the degree of regulatory sanctions caused by CSI and the economic benefits linked to CSR are lower. Hence, socially conscious firms under this institutional system may find the costs of CSR outweigh the benefits, while firms acting in a socially irresponsible way will not experience negative economic consequences. Furthermore, developed countries with mature

capital markets have more professional institutional investors. Existing studies show that institutional investors are more positive toward social capital and thus are inclined to invest in firms pursuing CSR.[14] Therefore, CSR activities are likely to be better recognized by investors in developed countries, so it is more likely to see the value-enhancing (value-destroying) role of CSR (CSI) in developed economies.

The economic consequences of CSR or CSI are also contingent on how well stakeholders are aware of the CSR and CSI activities and performance of firms.[15] Only the informed stakeholders can respond appropriately to CSR and CSI. In other words, a high level of stakeholder awareness gives rise to greater economic benefits (sanctions) toward CSR (CSI). Developed markets provide diverse information channels and effective market supervision. Hence, firms operating in developed countries are more visible and transparent to stakeholders than those in developing countries, facilitating the greater flow of information among stock market participants. In this sense, the positive (negative) association between CSR (CSI) and corporate financial performance is more evident for firms in developed markets (Wang, Dou, and Jia 2016).

Some other studies also provide evidence of how different country-level characteristics affect the economic consequences of CSR and CSI. Breuer et al. (2018) show that the level of investor protection in a country will determine how CSR affects the cost of equity of a firm. In countries with a higher (lower) level of investor protection that safeguards the shareholders against expropriation by insiders, CSR reduces (increases) the cost of equity. Chang, Shim, and Yi (2019) illuminate the role of country-level media freedom in the relationship between CSR and firm value, and specifically that CSR is positively associated with the financial performance of firms in countries with full media freedom but is negatively or insignificantly associated with the corporate performance in countries with partial or no media freedom. Sampath, Gardberg, and Rahman (2018) elucidate that firms engaging in bribery in a less corrupt country have greater market penalties. Harjoto, Hoepner, and Lie (2021) find that the negative impact of CSI on firms is larger for civil law countries and for nations with higher institutional trust and higher confidence in corporations.

[14] See Graves and Waddock (1994); Wang, Choi, and Li (2008); Petersen and Vredenburg (2009); and Zhang, Xie, and Xu (2016).

[15] See McWilliams and Siegel (2001); Schuler and Cording (2006); Du, Bhattacharya, and Sen (2010); Servaes and Tamayo (2013); and Dyck et al. (2019).

5.4.2 Industry-Level Characteristics

Stakeholders have different expectations of CSR engagement for firms in different industries, so industry-level characteristics may affect the economic consequences of CSR or CSI. For instance, firms in "sin" industries, which relate to tobacco, alcohol, gambling, firearms, military, and nuclear power, among others, are considered "harmful" to society and receive negative attitudes from stakeholders because these firms provide products/services that do not conform to social norms. Socially conscious investors or investors under high regulatory and public scrutiny tend to avoid investing in firms operating in such industries (Hong and Kacperczyk 2009; Fu, Lin, and Zhang 2020). It is thus of greater importance for firms in sin industries, relative to those in other industries, to strengthen their reputation among stakeholders. CSR engagement is a good means to achieve so. Prior studies find that engagement in CSR reduces firm risk and increases firm value in sin industries (Cai, Jo, and Pan 2012; Jo and Na 2012), and the risk-reduction effect is more pronounced, both economically and statistically, for firms in sin industries compared to those in other industries (Jo and Na 2012).

Some other studies also provide evidence that industry-level characteristics shape the economic consequences of CSR and CSI. For example, Lenz, Wetzel, and Hammerschmidt (2017) propose that a firm with CSR records in a domain where it also performs socially irresponsibly will be perceived as insincere, significantly damaging firm value. Yet, for firms in industries with a high level of CSI, this value-destroying effect is attenuated, as stakeholders may interpret this inconsistent behavior of firms (i.e., engaging in CSR and CSI simultaneously in one domain) as active corporate responses to the negative impact of the industrially unavoidable CSI rather than a lack of morality. Sun and Ding (2021) document that the negative impact of CSI on firm value persists longer and is stronger for firms in industries with high levels of business uncertainty or competition.

5.4.3 Firm-Level Characteristics

Firm characteristics reflect the capabilities and resources of a firm, so stakeholders' expectations of CSR or CSI also vary from firm to firm. As such, firms operating in the same industry and in the same country may be subject to different economic consequences of CSR and CSI. Research on the moderating effect of firm-level characteristics on the association between CSR/CSI and firm performance seems limited. The opinion in this chapter is that there are three main firm-level determinants of CSR/CSI.

Visibility. Corporate visibility is the prerequisite for firms to benefit from CSR endeavors and receive punishments as a result of CSI. A higher level of corporate visibility will heighten stakeholders' awareness of CSR/CSI and prompt their reactions to this corporate behavior to a larger extent. Therefore, visibility should increase the benefits or penalties to a firm for pursuing CSR or CSI activities. Firms with considerable investments in advertising are more likely to be seen and followed by various stakeholders. A great deal of literature has proved that firms with higher advertising intensity will attract more attention from stakeholders, and consequently, CSR/CSI, if any, will induce more pronounced economic benefits or penalties for these firms (e.g., Wang and Qian 2011).

Firm size. Larger firms tend to have more resources (Gupta, Raj, and Wilemon 1986). Hence, they are able to invest more in projects with uncertain future returns and long payback periods, such as CSR-related projects which strengthen firm performance in the long run (van Beurden and Gössling 2008; Aguinis and Glavas 2012). On the other hand, larger firms are more visible to the market, and thus more likely to attract stakeholders' attention and reaction to their behaviors. In this regard, the economic consequences of CSR and CSI are more pronounced for larger firms.

Financial health. Financial constraints will restrict managers' discretionary investment in CSR. In this circumstance, stakeholders may understand that the firm's limited resources should be primarily applied to the core business activities rather than the pursuit of CSR. As such, stakeholders may not expect financially constrained firms to perform in a socially responsible way and will be less interested in their CSR performance. Conversely, financially healthy firms not constrained in their financial ability to pursue CSR will enjoy more benefits from their CSR investment, as it will likely be more recognized and expected by stakeholders (Wang and Qian 2011).

5.5 Regulations and Legislation of Corporate Social Responsibility and Corporate Social Irresponsibility and Its Policy Implications

Corporate social responsibility is generally a voluntary initiative rather than a legal mandate in most countries worldwide (Lin 2021). Yet, with the increasing importance and expectations attached to firms' role in serving society, a growing number of countries have enforced legislation that explicitly requires

firms to carry out CSR. Against this backdrop, Mauritius is a pioneer in legally mandating firms to devote a specific amount to CSR. Since independence in 1968, Mauritius has long been plagued by poverty and inequality. Therefore, it is imperative to appeal to corporate contribution in CSR activities for Mauritius. In 2009, the Government of Mauritius amended "The Income Tax Act of 1995" and released "The Finance (Miscellaneous Provisions) Bill (No. XVI of 2009)," which compels all profitable firms to set up a CSR fund that accounts for 2% of their preceding year's book profits.[16] According to the current regulation, at least 75% of this CSR fund should be remitted to the Ministry of Finance. Then the National Social Inclusion Foundation will allocate this remitted money to CSR-related national schemes, such as poverty reduction, educational support, and environmental protection. The company can use the remaining CSR fund to implement a CSR program or lend financial support to a nongovernmental organization implementing a CSR program in the priority areas of governmental intervention as specified in the 10th Schedule of Income Tax Act (Mauritius Revenue Authority 2021).[17]

In August 2013, India passed a mandatory CSR law, Section 135 of the Companies Act formulated by the Ministry of Corporate Affairs. This act requires firms, which have a net worth of over ₹50 billion (about $616 million), a sales turnover of over ₹100 billion (about $1.2 billion), or a net profit of over ₹50 billion (about $616 million) in the previous financial year, to establish a CSR board committee. This board committee should ensure that the firm annually allocates at least 2% of the average of its net profits, which are made in the three immediately preceding financial years, to its qualified CSR programs. If a firm fails to invest the required amount, the board should expound the reasons for the noncompliance in its annual report.[18]

Following Mauritius and India, corporate philanthropy became compulsory in Nepal. Under the "Industrial Enterprise Act (IEA) 2076 (2020)," a firm in industries with an annual sales turnover of more than NRs150 million (about $1.2 million) must deposit at least 1% of its annual profits in the CSR fund. Besides, in 2017, Nepal Rastra Bank, the central bank of Nepal, issued the Circular No. 11/073/74 that forces all Nepalese banks and financial institutions

16 See The Finance (Miscellaneous Provisions) Bill (No. XVI of 2009): Explanatory Memorandum at https://mauritiusassembly.govmu.org/Documents/Bills/intro/2009/bill1609.pdf.

17 See Mauritius Revenue Authority (2022). Specific priority areas of governmental intervention can be gained from the same report.

18 The clause of the Section 135 of the Companies Act was acquired from the Ministry of Corporate Affairs at https://www.mca.gov.in/Ministry/pdf/InvitationOfPublicCommentsHLC_18012019.pdf.

to spend at least 1% of their net profits in specific CSR sectors—social projects, direct donation, Sustainable Development Goals (SDGs), and/or childcare centers for employees.[19]

Except for the foregoing three countries that have enacted mandatory CSR laws and created quantifiable legal standards to measure corporate endeavors in CSR, other countries have also made CSR a legal obligation in relevant laws, although they do not have quantitative criteria. For instance, in the United Kingdom (UK), Section 172 of the Companies Act (2006), says that it is a statutory and fiduciary duty of directors to consider the interests of firms' stakeholders, including employees, suppliers, customers, communities, environments, etc., when promoting the success of the firm.[20] Article 5 of the China Companies Law, revised in 2018, stipulates that firms should bear social responsibility.[21] Likewise, Article 74 of the Indonesian Law No. 40 of 2007 on Limited Liability Companies specifies that "the company having its business activities in the field of, and/or related to, natural resources shall be obliged to perform its social and environmental responsibility."[22] Unlike the foregoing laws, the French Duty of Vigilance Law 2017 interprets CSR as a management process, and requires business groups, which employ above 5,000 employees in France or 10,000 worldwide, to identify social and environmental hazards related to their operations and implement practical plans to mitigate the hazard risks.[23]

Although only a few countries have executed mandatory CSR laws/regulations, most countries have relevant laws/regulations focusing on social issues (i.e., human rights and labor) and environmental issues. Any violation of these laws/regulations, such as corporate social and environmental misconduct, will engender legal punishments, including fines and imprisonments.[24]

19 Articles of the law in English can be found in Chapters 9–54 of the Industrial Enterprise Act 2076 from https://moics.gov.np/uploads/shares/laws/Industrial%20Enterprises%20Act%20%202020.pdf. The relevant information in English about Circular No. 11/073/74 was obtained from https://pioneerlaw.com/existing-laws-on-corporate-social-responsibility/.

20 Legal provision retrieved from https://www.legislation.gov.uk/ukpga/2006/46/section/172.

21 "Company Law of the People's Republic of China" (Chinese version) from http://www.gov.cn/ziliao/flfg/2005-10/28/content_85478.htm. English translation: http://zyxy.zuel.edu.cn/_upload/article/files/e1/f1/78afb97f426d88d621c8a14e725d/774ca606-4d62-4729-8009-9f6c816441ec.pdf.

22 The Indonesian Law No. 40 of 2007 on Limited Liability Companies (in English) from https://www.indonesia-investments.com/business/foreign-investment/company-law-indonesia/item8311.

23 The English version of French Duty of Vigilance Law 2017 could be checked via https://vigilance-plan.org/wp-content/uploads//2019/06/2019-VPRG-English.pdf#page=80.

24 Since specific regulations and laws focusing on environmental and social issues differ from country to country, and that the number of these laws is large even for one country, this chapter does not discuss detailed provisions of these laws for any country.

5.6 Conclusion

Researchers have widely explored topics relating to CSR and CSI, as emphasis on the role that firms play in society has increased. More and more research distinguishes between CSI and CSR, and studies these two distinct concepts separately.

This chapter expounds on the coexistence of CSR and CSI by providing evidence from real cases and studies that show the relationship between CSR and CSI. It discusses the economic consequences of CSR and CSI and identifies the country-, industry-, and firm-level characteristics that shape the economic outcomes of CSR and CSI.

In general, given the coexistence of CSR and CSI and their different economic impacts on firms, CSI should be regarded as a construct separate from CSR rather than the opposite end of the same continuum of CSR. Given that regulations and legislation relating to CSI (through "punishment") are better established than those of CSR (through "reward"), policymakers should put more emphasis on improving the regulations and legislation of CSR. Finally, when founding the relevant regulations that encourage firms to contribute to CSR, it is essential to consider the associated costs and benefits for different firms in various industries in the context of a specific country.

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