What are the outcomes of corporate social irresponsibility (CSI)? The disconnect between CSI *theory* and CSI *practice*

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Abstract

Corporate social irresponsibility may, indeed, be one of the "grand challenges" of international business and management research. Corporate social irresponsibility (CSI) is broadly assumed to lead to performance decline and reputational damage for those firms involved in acts of wrongdoing. The overview of extant research presented in this chapter illustrates how and why these assumptions are not always supported, therefore explaining, at least in part, the many examples of irresponsible firm behaviour observed in business practice. The chapter points to the discrepancies between CSI *theory* and CSI *practice*, followed by a discussion concerning the opportunities and challenges associated with acts of irresponsible firm behavior, particularly during times of crises and disruptions. The discussion captures key managerial and policy implications around curtailing corporate social irresponsibility.

Keywords: Corporate social irresponsibility (CSI); performance outcomes; organizational reputation; stakeholder expectations; crises and disruptions

Introduction

Over the past four decades, management scholarship has been concerned with examining corporate social responsibility (CSR) opportunities, as well as understanding what may curtail corporate irresponsibility (CSI) and wrongdoing. Studies tend to discuss how irresponsible behaviour can be defined (e.g., Lange and Washburn 2012; Lin-Hi and Müller 2013), what drives some firms to behave irresponsibly (see Kim, Kim and Qian, 2018) and most relevantly, what the outcomes of corporate irresponsibility are (e.g., Jones and Rubin 2001; Karpoff, Lott and Wehrly 2005; Nardella et al. 2020). Interest in CSI as an area of research has increased to the point where corporate social irresponsibility itself has become referred to as a "grand challenge" in strategic and international management (see: Brammer, Branicki, Linnenluecke and Smith 2019; Buckley et al. 2017; Mellahi et al., 2021). Within this stream of research on CSI, studies agree that CSI has a negative effect on the associated organisation's reputation in the eyes of its many domestic and international stakeholders, followed by a swift decline in organizational performance (notably: Coombs 2004; Coombs and Holladay 2009; Fombrun and Shanley 1990; Highhouse, Brooks and Gregarus 2009; Lange, Lee and Dai 2011).

In practice, however, organizations continue to engage in irresponsible behaviour, with examples ranging from the tax avoidance scandals involving companies such as Google and

Amazon, to ongoing human rights abuses associated with the global value chains of fashion companies such as Primark, GAP and H&M, the child labour controversies associated with international companies such as Nike and Nestlé or the environmental and public health harm caused by organizations such as Dow and DuPont. These examples suggest that a firm's reputation and subsequent performance are not necessarily eroded when the firm becomes associated with, or accused of, CSI. Recent evidence has therefore started to emerge, depicting a more nuanced process of when and how stakeholders penalize (or not) organizations which behave irresponsibly (e.g., Bae, Choi and Lim 2020; Nardella et al. 2020; Wans 2020). The discrepancy between theoretical assumptions and observations of business practice is important (Jackson et al. 2014) in order to gain a better understanding of the managerial and policy decisions needed to curtail CSI and encourage more CSR activities.

Increasingly, multinational enterprises (MNEs) are amongst those firms accused of irresponsible behavior, both at home and abroad (Nardella and Brammer, 2021). MNEs provide a nuanced and complex context to study the relationship between CSI and organizational outcomes due to the scope of their operations and the diversity of home as well as host market stakeholders whose expectations these firms need to manage (Rabbiosi and Santangelo 2019; Wang and Li 2019). News of MNE irresponsibility together with current changes in home as well as host regulatory processes, are expected to place increasing pressures on multinational firms to behave more responsibly in the different locations in which they serve their international customers, as well as to manage their global value chains more sustainably and effectively. Although we are yet to see the effects of firms behaving more responsibly across the different markets in which they operate, crises and disruptions - such as the Covid-19 pandemic – tend to shed light on the sustainability of business operations (Juergensen, Guimón and Narula 2020) but also on the prevalence of irresponsible behavior by MNEs. The Covid-19 pandemic – as explained later in the chapter – has made the disconnect between what the theory assumes (i.e. that firms are penalized for CSI) and what actually happens in business practice (i.e. when financial pressures increase, firms do not take care of their key partners and stakeholders). In this context, it has become apparent that the role of nuanced host market policies is crucial to curtail MNE irresponsibility.

The overall aim of this chapter is to provide an overview of the key literature on CSI with a particular focus on CSI's main outcomes, namely organisational reputation and performance. Throughout the chapter, we discuss the managerial and policy implications associated with irresponsible corporate behaviour. We zoom in on multinational firms, which face on the one hand, pressures to reduce costs and adapt to host market consumer demand and keep up with technological advancements, and on the other hand, pressures to better monitor, and upgrade the capabilities of, their global value chains. Significant progress has been made to increase investment in sustainable practices driven by international organizations such as the World Bank, Organization for Economic Cooperation and Development (OECD), the International Labor Organization (ILO), and the World Trade Organization (WTO). Even so, this chapter sheds light on the fact that changes to become more socially responsible, will come with managerial effort and other costs which many firms cannot, or wish not to, bear post-crises such as post Covid-19 pandemic. This means that regulating and penalising irresponsible behaviour is becoming ever more important to continue the progress made to curtail CSI.

The remaining of this chapter is organized as follows. The next section will summarize some of the core as well as more recent studies on the main outcomes of CSI, such as the decline in organizational reputation and market performance. Then, we move on to explain that there are also key factors that may moderate this complex relationship between CSI and performance, and notable amongst them is the role of stakeholder expectations. Lastly, the chapter discusses the broader role of crises and disruptions such as, but not limited to, the Covid-19 pandemic, on making the disconnect between CSI theory and CSI practice more visible to a wider range of both home market and international organizational stakeholders.

What we know about the outcomes of CSI

Corporate irresponsibility has been associated with two broad and inter-related outcomes, namely (1) decline in corporate reputation; and (2) decline in organisational performance. In the earlier studies examining the relationship between CSI and organizational reputation - "a perceptual representation of a company's past actions and future prospects that describes the firm's overall appeal to its key constituents" (Fombrun, 1996: 72) -, authors have broadly theorised that CSI leads to reputation decline (see also Fombrun and Shanley 1990; Karpoff and Lott 1993), as stakeholders act to penalize those firms which are associated with acts of irresponsible behavior. Over the years, the increased popularity and relevance of CSI research has led to the idea that CSI renders organisational reputation fragile and that firms are expected to be constantly vulnerable to being penalised by stakeholders (Lange, Lee and Dai, 2011) following CSI disclosure (Karpoff, Lott and Wehrly 2005; Karpoff, Lee and Martin 2008). The idea that reputations of those associated with CSI are "fragile" has been proliferated over the years as the media and business press have increasingly disclosed and debated CSI.

To understand the relationship between CSI and organizational reputation, scholars have conducted numerous experiments, generally concerned with the perceptions of stakeholder groups such as existing or potential customers of the firm; these studies focus on measuring stakeholder perceptions of the firm following an act of wrongdoing; e.g. Coombs and Holladay (2002) found that customer trust decreases when firms are perceived to behave irresponsibly, which is translated into customers being less likely to continue purchasing the firm's products and services (Coombs and Holladay 1996; Yoon, Gürhan-Canli and Schwarz 2006). Kim later (2014) suggested that news of CSI behavior tend to lead to customers blaming the associated organisation for causing the CSI event, which is expected to also lead to a decrease in purchase intention, as well as negative word-of-mouth (see Sweetin et al. 2013).

Notwithstanding the contribution of these studies, there is little evidence that consumer perceptions will, indeed, endanger the reputation of a firm and lead to changes in their purchase behaviour towards the firm following CSI. For instance, in July 2013, UK fashion retailer – Primark - experienced a 20% increase in sales, after having avoided a consumer boycott over one of their plants in Bangladesh which collapsed in April of the same year and claimed around 1,129 worker lives (The Guardian 2013). In July 2020, Nike and Apple were warned to monitor their Chinese suppliers more closely as international organizations suspect the companies to have used "forced labour" of Chinese ethnic minorities (BBC, 2020); again, we observe stakeholder attention and pressure, but this does not translate in decreased reputation or reduction in performance. Using large-scale secondary data, studies reveal a complex CSI-reputation-performance relationship (Breitinger and Bonardi 2019; Nardella et al. 2020; Zyglidopoulos 2001), whereby CSI does not always affect reputation (Nardella et al. 2020) and moreover, there may be a CSI reputational gain (Nardella et al. 2020; Zyglidopoulos 2001).

Extant research has also examined specific performance outcomes following CSI disclosure. For instance, by examining the short-term decline in stock market value, scholars have, again, proposed that CSI has a significant and negative impact on performance (e.g., Ertimur, Ferri and Maber 2012; Karpoff et al. 2008), and this impact may be greater than actual litigation (Karpoff and Lott 1993; Engelen 2010). In other words, investor perception of the firm's involvement in a CSI event is proposed to lead to greater performance decline than outcomes following the actual decision made by the court concerning the firm's culpability; such findings point to the subjective and socially constructed nature of reputation and its performance impact (Ravasi, Rindova, Etter and Cornelissen 2018). Overall, scholars have associated a short-term decline in stock market price following the disclosure of a CSI event in the media, with negative long-term performance outcomes for the associated firm.

Whilst the stock market reaction to CSI may be an indicator of investor perception, and thus, short term performance; we know that markets overreact to CSI news (Gillet, Hübner and Plunus 2010); and after a few days have passed following the event disclosure, companies and markets recover, and may even benefit from the CSI event. Take for instance, the share price of Samsung following product recalls due to faulty batteries in the Galaxy Note 7 (Tech Times 2017); or that of Apple, following child labour and human rights controversies involving Foxconn, their main Chinese supplier (The Guardian 2011): the losses in share price which incurred soon after the CSI activities were disclosed, were recouped in a very short time frame. In other instances, the market even reacts positively, particularly when the outcomes of CSI are less penalising than expected (The Conversation 2020); e.g. in 2017, DuPont agreed to pay the amount of US$671 million in order to settle the class-action lawsuit whereby the company was accused of, and found culpable for, highly toxic spills; notably, since the final settlement amount was below Wall Street expectations, the company's share price increased by 1% on the day of the announcement, and continued to increase by over 4% in the following days.

Consequently, measuring performance by simply examining stock market reactions contributes to the overly simplistic and naïve view that CSI leads to negative performance outcomes and thus, firms will be disincentivised to engage in CSI. There may be an opportunity cost for stakeholders to significantly alter their behavior towards the organisation. For instance, in the case of companies such as Apple, there is a degree of uniqueness of the company's offering and position in the marketplace which makes their reputation and performance more resilient. The expected impact of CSI may also matter; as per the DuPont example, when the impact of CSI on the firm is less significant than previously expected, firms may even benefit from engaging in CSI, or at the very least, not be massively hindered by CSI media disclosure.

Stakeholder expectations, CSI and organisational outcomes

In this chapter, we emphasize that, in order to truly understand the nature of the relationship between CSI and outcomes such as reputation and performance, we must understand what factors moderate these complex relationships. A key moderating factor, we propose, is the role played by *stakeholder expectations*. We know by now that expectations influence perceptions and subsequent behavior (Lange and Washburn 2012; Mishina et al. 2012). Stakeholder expectations of a given firm may therefore influence the extent to which stakeholders will penalise the firm (or not) in light of CSI. For instance, companies which have built good reputations over time, may benefit from stakeholder good-will and be protected against reputation damage (e.g., Brammer and Pavelin 2005; Nardella et al. 2020). This is because firms which have been known to be "good social actors" are often afforded the benefit of the doubt when associated with, or accused, of CSI. Jones, Jones and Little (2000) examined the reputational outcomes of firms following the 1980s financial crisis and found that, those firms which had greater reputations prior to the crisis suffered less reputational penalties post-crisis. Godfrey (2005) suggested that stakeholders may choose to ignore, or pay little attention to CSI news, when the information provided by the media does not meet their own expectations about the company (see also Love and Kraatz 2009 and Pfarrer, Pollock and Rindova 2010). Similar studies found that the stock market prices of well-reputed firms suffered less as a result of disclosed CSI compared to counterparts with weaker reputations (Raithel et al. 2010). In general, a good reputation may be expected to act as a buffer against the potential negative effects of CSI on the organisation. This is particularly important in times of crises, when firms are likely to already experience performance challenges that may threaten their survival.

In a recent study, Nardella et al. (2020) further examined the role of stakeholder expectations and found that firms with a past reputation for high social performance may also carry the burden of high stakeholder expectations; these expectations, in turn, become violated when the firm is associated with CSI. Stakeholder expectancy violations may have an even stronger negative reputational effect when firms have a strong reputation for certain characteristics (Janney and Gove 2011; McDonnell and King 2013; Rhee and Haunschild 2006). Firms which build their reputations around product and service excellence are likely to be more severely penalised by stakeholders following product recalls or product harm (Rhee and Haunschild 2006), whereas firms which build their reputations around superior governance are more severely penalised when associated with CSI events such as executive compensation controversies, earnings mismanagement, taxation or fraud (Janney and Gove 2011). McDonnell and King (2018) added that, when the well reputed firms were associated with CSI in the media, the reputation penalty was great, irrespective of actual litigation, yet again drawing attention to the difference between stakeholder expectations and law-determined culpability (Nardella et al. 2020). When stakeholder expectations are violated, stakeholders may perceive firm behavior as being hypocritical and deceitful and thus, penalise previously well-reputed firms even more in light of CSI. Therefore, reputations are not always "fragile", but some reputations are more fragile than others, as a result of the stakeholder expectations.

From a managerial perspective, the abovementioned findings illustrate the importance of managing stakeholder expectations. Organisational responses to CSI range from admitting culpability, to scapegoating strategies, firing CEOs and executive teams, or compensating for the harm caused by investing significantly in CSR initiatives. Extant research on the types of organizational responses needed to manage stakeholder expectations, suggests that the effectiveness of communication strategies depends on the prior reputation of the accused firm (Coldwell, Joosub and Papageorgiou 2012; Fennis and Stroebe 2014). This may mean that, for instance, organizations can self-disclose acts of CSI if they benefit from a superior reputation and thus, are likely to elicit stakeholder trust (Fennis and Stroebe 2014). Stakeholder trust is important when organisations invest in CSR post a CSI-crises, whereby their responses may be interpreted as a strategy to distract from the harm caused. Alternatively, firms may opt for shorter term fixes; a recent example is that of Rio Tinto, whose top executives have resigned following the scandal whereby the mining company destroyed a 46,000-year-old aboriginal site in Australia to extract natural resources from that site (S&P Global 2020). Yet, we observed with the example of Rio Tinto, and the many policy and media debates that this scandal has elicited, that the worldwide political upheaval triggered to some extent by the Covid-19 pandemic, has increased stakeholder emotions and awareness of the activities of global firms.

How crises and disruptions may act as catalysts to changing stakeholder expectations

We know by now that crises and disruptions – economic recessions, climate changes, wars, terrorist attacks and of course, pandemics - cause shifts in patters of consumption, investor behavior, policies and subsequently, changes to firm activities and long-term performance

(Klassen and McLaughlin 1996). But, how are stakeholder expectations changing? Stakeholder expectations may have shifted during the Covid-19 pandemic, as people are becoming more aware of, and invested in understanding about, aspects linking business and society. For instance, in the midst of the onslaught caused by the pandemic, the higher death toll in certain communities in the UK has been associated with race, injustice, poorer working and living standards and air pollution (The Guardian 2020). In the same vein, the deepening of economic problems for firms in developing countries such as Bangladesh, is associated with the irresponsible practices of foreign retailers which, following the Covid-19 pandemic, have withheld billions in payments that should have been made to their suppliers, resulting in millions of job losses (Forbes 2020). Parallel to these issues, domestic and international firms are becoming more focused on reducing costs and making strategic decisions aimed at recovering the losses incurred due to the demand shocks of the pandemic.

The challenges of reconciling economic and social goals are even greater for MNEs which have suffered both demand and supply shocks due to the spontaneous reactions of home and host governments to implement national lockdowns and impose trade restrictions. Given the international scope of their operations, MNEs have also been associated with CSI, particularly activities conducted by firms within the MNE controlled global value chains. An MNE's global value chain – defined as the collection of governance arrangements that utilize geographically dispersed activities of the supply chain (see Buckley 2009) - consists of hundreds and even thousands of firms which are contracted to produce, assemble or deliver goods for the lead firm. Notable examples associated with CSI in global value chains include worker rights controversies, the use of child labour and the lack of appropriate health and safety conditions for factory workers in the developing world. The fashion industry, in particular has come under scrutiny over the years, due to the poor working conditions that often characterize their developing market factories (Narula, 2019). In many instances, the blame for CSI has been passed on to the lead firm's main suppliers who are contractually responsible with managing those parts of the value chain. The Covid-19 pandemic has seen MNEs reneging on their supplier contracts, under-paying workers or firing without compensation; in this context, the fashion industry's exploitative business model has been placed under scrutiny (Forbes 2020). Lead MNE power over developing market suppliers (often located in Bangladesh, Cambodia, Vietnam) leads to the latter accepting orders below cost (a common practice in the industry), undermining supplier ability to offer decent working conditions to employees. These irresponsible practices did not begin with Covid-19, but the emotionality caused by the pandemic, we argue, has brought MNE CSI to global stakeholder attention.

Here also, there is a discrepancy between what the literature proposes and examples from business practice. On the one hand, for an MNE, reputation is a key source of competitive advantage which the firm can leverage in different international markets. In fact, a firm's international growth is expected to be primarily driven by its ability to exploit superior firm-specific resources such as organizational reputation in the host markets targeted (Rugman, Verbeke and Nguyen 2011). Negative stakeholder assessment of MNE behavior can therefore increase the legal and other transaction costs associated with managing and protecting reputation-based advantages (Rugman et al. 2011; Maggioni, Santangelo and Koymen-Ozer 2019; Wang and Li 2019). Reputation damage following media disclosure of CSI in a host market is expected to spread globally and damage the reputation of the firm in its home and host markets; as such, firms are expected to benefit from reducing ownership of those host market operations which are associated with CSI to avoid global reputational damage and financial risk (Kölbel, Busch and Jancso 2017; Wang and Li 2019).

On the other hand, the examples of CSI behavior suggested earlier indicate that there are many benefits to being irresponsible. When pressures to reduce costs increase, we are likely to see more of these firms divesting their operations and reneging on their international orders with little to no notice. Furthermore, despite the increased stakeholder scrutiny observed recently, there is a real possibility that the reputation of the MNE at home and in its key markets is likely to remain unaffected because stakeholders have become accustomed to these firm practices and often associate unfair employee treatment with lack of effective host market legislation. Customers, in turn, may, in theory, support better practices, and rise against CSI behavior, but have been historically unwilling to pay more for sustainable and responsible products, which companies could produce if they were to make value chain decisions beyond raw material costs and cheap labour considerations (White, Hardisty and Habib 2019). Similarly, investors understand the potential cost savings that often come with exploiting factor markets in developing countries (Ke, Ng and Wang 2010). The role of policy in curtailing CSI has never been so important. In mid 2020, together with Nike and Apple, Boohoo (UK fashion retailer) was associated with labour exploitation scandals in China, an investigation which resulted in no visible outcomes. At the same time, Boohoo and their suppliers were accused of inappropriate labour conditions at a factory in their home market in Leicester, UK (The Guardian, 2020); this home-based CSI event, however, resulted in PWC resigning as their main auditor and a 20% decline in shares.

Specifically, the role of policy is particularly important in order to mediate the relationships between lead MNEs (which are often developed market players) and their (generally non-developed market) partners and suppliers (Narula 2019). When disruptions and crises occur, the losses are unevenly distributed amongst global value chain partners (Crane, Palazzo, Spence and Matten 2014). This is reflected in the further shocks delivered to informal sectors in developing economies, whose market players will continue to struggle (Narula 2020). In these contexts, global stakeholders tend to substitute the media hype around societal issues with the actual measures taken to curtail CSI. Due to the institutional and cultural distance between the MNE's main markets and stakeholders (Campbell, Eden and Miller 2012) (which tend to be the U.S. or other developed Western markets) and those harmed by CSI in the different host markets, social regulation triggered by the media alone is unlikely to lead to CSI practices becoming reduced (see the study by Surdu and Nardella 2020). In fact, we are yet to see significant, large-scale evidence that either the global reputation or performance of MNEs associated with irresponsible practices in host markets, has been impacted by CSI disclosure of those practices (also illustrated by the example of Boohoo earlier, whereby only CSI in the home market was shown to have an impact on the company's performance). Without appropriate measures taken by home but also host market policymakers, there is little incentive for lead MNEs to invest time, managerial capabilities and financial resources in upgrading the working conditions of factory workers and improving labour standards. This could be achieved with better control over key suppliers who are responsible for curtailing irresponsible practices in the global value chains – but again, control and coordination of these partners come at a cost.

Importantly, there are examples where MNEs, through socially responsible initiatives, have been able to increase their reputation and legitimacy following crises and disruptions. During times of crisis, some firms may, indeed, benefit from having positive reputations, but at the same time, crises and disruptions could be an opportunity to build reputation and legitimacy by increasing involvement in societal issues. A study by Mithani (2017) showed that philanthropy can mitigate the liability of foreignness that many firms experience when entering international markets, in the aftermath of crises such as natural disasters; the social restructuring that comes with these natural disasters may provide MNEs with opportunities to establish strong local ties and gain acceptance by contributing to recovery efforts. This indicates that major crises and disruptions can frame or reframe social perceptions of firms, in their home as well as host markets (e.g., Baron 2013; Mithani 2017). CSR activities offer opportunities for firms to build legitimacy with relevant market players and institutions, increase trust in their operations and reduce the tendency of stakeholders to view the firm as distant from society and merely profit driven.

Conclusions

What are the outcomes of corporate social irresponsibility? And why is this question a "grand challenge" of international business and management research? CSI research has, for many years, taken for granted that socially irresponsible behavior results in reputational penalties and performance decline for firms associated with it. However, this chapter discussed why some firm characteristics, such as a firm's prior reputation may buffer against negative CSI outcomes. In this way, we showed that CSI outcomes are much more complex and nuanced, and in some cases, they do not occur, as irresponsible behavior remains unpenalized. The discrepancy between theory and practice is also reflected in the context of multinational firms, as their irresponsible behavior in host markets, appears to rarely impact home market reputation or performance. In times of crises and disruptions, stakeholders become more aware of, and actively interested in, societal issues, but again, it is important to avoid substituting stakeholder interest with actual negative CSI outcomes for the firm accused. We discuss the managerial implications and role of policy in managing and curtailing corporate social irresponsibility.

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