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CORPORATE SOCIAL RESPONSIBILITY AND **CORPORATE FRAUD**

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Research Problem

Despite increased adoption of Corporate Social Responsibility (CSR) frameworks, corporate fraud continues to rise. This raises the question whether CSR genuinely promotes ethical conduct or is merely used as a strategic tool to conceal unethical and fraudulent practices.

ABSTRACT

Corporate Social Responsibility or CSR is a deal for companies to show they care about ethics and the environment. They want people to think they are responsible and care about society. There is a problem. Even though a lot of companies say they are doing CSR we still see a lot of fraud. This makes us wonder if CSR is really about being ethical or if it is a way for companies to look good. This paper is going to take a look, at how CSR and corporate fraud are connected. We want to know if CSR is a way for companies to be ethical or if it is just a way to trick people. We will look at what other people have said about this topic and study some real life examples. We also want to figure out why some companies use CSR to hide their behaviour. We will look at the rules and systems that are supposed to make sure companies are doing CSR correctly. We want to know if these rules are working or if they need to be changed. At the end of this paper we will suggest some ways to make CSR better. We want CSR to be a promise that companies make to be honest and fair not just something they say to look good. We think that everyone involved, including companies, governments and regular people needs to work to make this happen.

Keywords: Corporate Social Responsibility, Corporate Fraud, Greenwashing, Ethical Governance, Stakeholder Theory, Financial Fraud, CSR Disclosure, Corporate Misconduct, Regulatory Compliance, Business Ethics.

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1. Introduction

The idea of Corporate Social Responsibility or Corporate Social Responsibility came about in the middle of the century when people started talking about what businesses owed to society beyond just making money. People like Howard Bowen, who's an economist started this idea back in 1953¹. Over time Corporate Social Responsibility evolved from an idea into a real strategy that companies use and now it is a part of how they report on their activities deal with investors and present themselves to the world. Today big companies over the world spend a lot of money on Corporate Social Responsibility projects like trying to be more environmentally friendly helping their communities taking care of their employees and making sure their supply chains are ethical. Surprisingly while Corporate Social Responsibility has become really popular we have also seen some of the biggest corporate fraud scandals in history. Companies like Enron, WorldCom, Theranos, Volkswagen and Wells Fargo all looked like they were responsible and honest on the outside². On the inside they were doing some really bad things. This is a puzzle that this research paper is trying to figure out. So the main question of this research is: does Corporate Social Responsibility really help companies act in a way or is it just a way for them to hide their bad behaviour and make people think they are doing the right

¹ Howard R Bowen, *Social Responsibilities of the Businessman* (Harper & Row 1953).

² Michael C Jensen and William H Meckling, 'Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure' (1976) 3(4) *Journal of Financial Economics* 305.

thing? This is a question because investors, regulators, employees, consumers and policymakers all rely³ on what companies say about their Corporate Social Responsibility to decide if they are trustworthy.

To answer this question this paper has specific goals:

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- * To define what real Corporate Social Responsibility is and how it is different from fake or deceptive Corporate Social Responsibility practices.
 - * To look at the theories that explain how Corporate Social Responsibility is related to fraud.
 - * To study cases where Corporate Social Responsibility and corporate fraud happened at the time.
 - * To identify the factors that allow Corporate Social Responsibility to be used to hide fraud.
 - * To evaluate the role of bodies, auditors and stakeholders, in finding misconduct that is hidden by Corporate Social Responsibility.
 - * To propose a plan to make Corporate Social Responsibility a reliable way to measure ethics.

This study uses an analytical approach, which means it looks at a lot of different information, including academic papers, regulatory reports, financial disclosures and documented cases of corporate fraud. The paper combines ideas from business ethics psychology, corporate law and financial criminology to provide a complete analysis of Corporate Social Responsibility.

2. Defining the Key Concepts

2.1 Corporate Social Responsibility (CSR)

Corporate Social Responsibility or CSR is when companies choose to do business in a way that makes sense for the economy follows the law is fair and helps people. A man named Archie Carroll said in 1991 that CSR is like a pyramid⁴ with four parts: companies need to make money they need to follow the law they need to do the thing and they need to help their community. These days companies show they care about CSR by doing things like reporting on how they affect the environment being socially responsible and governing themselves well.

³ Mark C Suchman, 'Managing Legitimacy: Strategic and Institutional Approaches' (1995) 20(3) *Academy of Management Review* 571.

⁴ Archie B Carroll, 'The Pyramid of Corporate Social Responsibility: Toward the Moral Management of Organizational Stakeholders' (1991) 34(4) *Business Horizons* 39.

They also start programs to be sustainable make sure everyone is included check on the people who supply them with things give to charity and talk to the people who have a stake in their business. Corporate Social Responsibility is also important, for how people think of a companies brand how investors rate them and whether they can get money from investors. This is because the people who control a lot of money to invest are now paying attention⁵ to how companies treat the environment and society and they want to invest in companies that do things.

2.2 Corporate Fraud

Corporate fraud is when people in a company do things on purpose like lying or cheating to get more money. This can happen in ways, such as fake accounting, tricking investors, bribery and other illegal things like insider trading, tax evasion and money laundering. Sometimes companies even lie about what they're selling. The Association of Certified Fraud Examiners says there are three types of fraud that happen at work: taking things that do not belong to you being corrupt and falsifying financial records. Corporate fraud costs a lot of money we are talking trillions of dollars every year. This includes money that is lost, fines, damage, to a companies reputation and problems it causes in the economy.

2.3 The Intersection: CSR and Fraud

The thing about Corporate Social Responsibility and corporate fraud⁶ is that they can be connected in a way that's not very honest. This connection is called "CSRwashing". It is when companies use things like Corporate Social Responsibility reports, charitable work and ethical advertising to make themselves look good and avoid people looking closely at what they are really doing. This idea of CSRwashing is similar to something called "greenwashing" which's when companies lie about how good they are for the environment. Corporate Social Responsibility has a few parts and companies can be dishonest in all of these areas. For example companies might say they have done charitable work than they really have. They might also make up numbers to make their management look better. Sometimes companies will say they are helping people more than they really're.. They might follow the law in a way that looks good on the surface but is actually hiding the fact that they are doing things that are not ethical. Corporate Social Responsibility is supposed to be, about companies being honest and doing

⁵ KPMG, *Big Shifts, Small Steps: KPMG Survey of Sustainability Reporting 2022* (KPMG International 2022).

⁶ Association of Certified Fraud Examiners, *Report to the Nations: 2022 Global Study on Occupational Fraud and Abuse* (ACFE 2022).

things but CSRwashing is the opposite of that

3. Theoretical Frameworks

3.1 Agency Theory

The idea of agency theory was created by Jensen and Meckling in 1976⁷. This theory says that there is a problem between the people who run companies, which are called managers and the people who own parts of these companies, which are called shareholders. Managers do things that help themselves even if it hurts the shareholders. They might even do things like cheating and hiding it by doing good things for the community, which is called corporate social responsibility or CSR for short. From this point of view CSR can be used by managers to make themselves look good. They use CSR to build a reputation for themselves to take peoples attention away from the bad things they are doing with money and to show everyone that they are good people. This way the people who have a stake in the company, like the shareholders might not look closely at what the company is really doing. The managers use CSR to make it seem like they are doing the thing when really they are just trying to help themselves. Agency theory and CSR are important to understand because they show how managers can use CSR to manage the costs of their actions, which is called agency cost management.

3.2 Stakeholder Theory

Freeman's stakeholder theory, from 1984 says that companies are responsible not to their shareholders but to all the people and groups that are affected by their actions. This includes employees, customers, suppliers, communities and regulators⁸. The theory provides a moral basis for real Corporate Social Responsibility. However it also shows where Corporate Social Responsibility can go wrong. When companies use Corporate Social Responsibility to make themselves look good instead of really helping stakeholders it is a form of manipulation. The stakeholder theory predicts that if companies really do Corporate Social Responsibility it should reduce cheating and dishonesty. This happens when companies make sure their goals match what is good for society. On the hand if companies just pretend to do Corporate Social Responsibility it might actually increase cheating and dishonesty. This is because it creates an image of being ethical. The stakeholder theory, by Freeman, Corporate Social Responsibility and stakeholder interests are key. Freeman's theory tells us that stakeholder theory should be

⁷ Michael C Jensen and William H Meckling, 'Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure' (1976) 3(4) *Journal of Financial Economics* 305.

⁸ R Edward Freeman, *Strategic Management: A Stakeholder Approach* (Pitman 1984).

used for Corporate Social Responsibility.

3.3 Legitimacy Theory

Legitimacy theory says that companies work within an agreement. This agreement means they must show they fit in with what society thinks is right and wrong. If they do they get to keep operating.

* Companies use CSR disclosures to show they are legitimate.

However when companies are in trouble. Like when people accuse them of cheating hurting the environment or treating workers unfairly. They try to fix their image. They do this by being more open about their CSR efforts. This can create a situation. The companies that cheat the most might actually talk the most, about their CSR efforts. This happens because they are trying to seem legitimate. They want to keep their "license to operate". It is a way for them to try to fit in with norms and values.

3.4 Impression Management Theory

Drawing from psychology the idea of impression management (Goffman, 1959)⁹ says that people and companies try to control how others see them. In business things like CSR reports sustainability rankings and ethical certifications are used to manage impressions. When companies are accused of doing something they often do more CSR and make more information public to fix their reputation. This is a strategy, like what happened with BPs Deepwater Horizon oil spill and Nikes labour abuse problems. Companies do this to show they care about responsibility and to regain trust. CSR reports and rankings help show that a company is trying to be responsible. It is a way for companies to manage how others see them and to fix their reputation when things go wrong.

3.5 Fraud Triangle Theory

Cressey's work in 1953 talked about the Fraud Triangle¹⁰. It says that three things help fraud happen: opportunity, pressure and rationalization.

* A good reputation for being socially responsible can create opportunity. This is because people might not watch these companies as closely.

* Pressure to do well financially and to compete with others can make people feel like they

⁹ Erving Goffman, *The Presentation of Self in Everyday Life* (Anchor Books 1959).

¹⁰ Donald R Cressey, *Other People's Money: A Study in the Social Psychology of Embezzlement* (Free Press 1953).

have to commit fraud. At the time they want to seem ethical.

* The idea that a company is socially responsible can also help people justify doing wrong. They might think that their good deeds make up for their ones.

This helps us understand why companies that try to be socially responsible can still have fraud. They might even be more at risk, in situations.

4. The Paradox: CSR Adoption vs. Rising Corporate Fraud

4.1 Global Growth of CSR

The last twenty years have seen a growth in companies adopting CSR worldwide.

* A survey by KPMG found that by 2022 than 96 percent of the worlds largest 250 companies published CSR reports¹¹.

This was 35 percent back in 1999. MSCI, Sustainalytics and Bloomberg ESG are some of the agencies that rate companies on their social and governance practices. These ratings are now used to make investment decisions check credit ratings and ensure compliance. The global market for ESG investments had over \$35 trillion in assets under management by 2020. CSR adoption is clearly becoming a deal, for companies. The numbers show that more and more businesses are taking CSR seriously. The growth of ESG ratings agencies has helped make CSR a key part of business decisions. Companies are now using CSR metrics to improve their performance and reputation.

4.2 Concurrent Rise in Corporate Fraud

With all the talk about Corporate Social Responsibility companies are still cheating people. The Association of Certified Fraud Examiners said in their 2022 Report to the Nations that companies over the world lose about 5 percent¹² of the money they make every year because of fraud. This is a lot of money. Over \$4.7 trillion. We have seen some financial scandals lately. For example there was the Wirecard accounting fraud in 2020 where they lied \$2 billion or more. Then there was the Luckin Coffee fraud in 2020¹³ where they made up \$310 million in sales. The Nikola Corporation fraud in 2021 was about a hydrogen truck technology. Just recently the Adani Group was accused of manipulating stock prices and lying about their accounting in 2023. What is really surprising is that many of these companies were acting like

¹¹ KPMG, *Big Shifts, Small Steps: KPMG Survey of Sustainability Reporting 2022* (KPMG International 2022).

¹² Association of Certified Fraud Examiners, *Report to the Nations: 2022 Global Study on Occupational Fraud and Abuse* (ACFE 2022).

¹³ Financial Times, 'Wirecard: The Downfall of a German Fintech Star' (2020).

they cared about Corporate Social Responsibility at the time they were doing these bad things. Corporate Social Responsibility is supposed to be, about companies being honest and fair. It seems like some companies are just pretending to care about Corporate Social Responsibility.

4.3 The Decoupling Problem

Sociologists Meyer and Rowan came up with the idea of "decoupling" in 1977¹⁴. They said that some companies have a structure, like corporate social responsibility programs that does not really match what they actually do. Some other researchers, Kim, Park and Wier found out in 2012 that companies, in the United States that say they care about social responsibility are actually more likely to cheat with their money. This means that corporate social responsibility can make a company look good without being good. This happens because companies can much say whatever they want about their corporate social responsibility. They do not have to prove it like they do with their statements. Financial statements have to be checked by auditors to make sure they are accurate. But corporate social responsibility reports do not have to follow any rules so companies can pick and choose what they want to share make up numbers or even lie about what they are doing to help the environment and society.

5. How CSR Can Be Used to Conceal Fraud

5.1 Reputational Shielding

One way companies get away with fraud is through shielding. When a company invests in CSR it builds a name and a kind of moral credit. This credit can be used when people start to suspect or find out about wrongdoing. Research by Godfrey in 2005¹⁵ and Roulet and Touboul in 2015 shows that companies with a CSR reputation get treated more gently by regulators, the media and consumers when fraud is revealed. This means that the cost of getting caught is lower for these companies, which makes it less scary for them to do something. As a result the CSR efforts actually help companies get away with more. Companies, with CSR reputations are less likely to be punished harshly for fraud. This can make it seem like CSR is a way for companies to look good while still doing bad things.

¹⁴ John W Meyer and Brian Rowan, 'Institutionalized Organizations: Formal Structure as Myth and Ceremony' (1977) 83(2) *American Journal of Sociology* 340.

¹⁵ Paul C Godfrey, 'The Relationship Between Corporate Philanthropy and Shareholder Wealth: A Risk Management Perspective' (2005) 30(4) *Academy of Management Review* 777.

5.2 Distraction and Attention Management

Companies do things to make people think they are good. They want people to look at the things they do and not the bad things. Big companies like Volkswagen do things to help people and the earth. They tell everyone about the things they do so people do not think about the bad things. Volkswagen said they had cars that did not hurt the earth. They told people this so people would not find out that their cars were actually bad, for the earth. Volkswagen did this for a time and people did not know. They wanted people to think they were a company so they told people about all the good things they were doing. Volkswagen and other companies do this to make people happy and to make people think they are good.

5.3 Governance Theater

A lot of companies have things like ethics committees and compliance officers. They are supposed to make sure everything is done fairly and honestly. Sometimes these things are just for show. They make it look like the company is doing the thing but they do not really do anything.

For example Enron had a set of rules that said how people should behave. They also had a committee that was supposed to make sure the company was being responsible. They gave a lot of money to charity. Even with all these things in place the people, in charge of Enron were still able to do some very bad things. The ethics committees and other structures did not stop them from doing these things. Enron companies had these structures. They did not work very well to prevent bad things from happening.

5.4 Selective and Misleading Disclosure

When it comes to CSR reporting companies have a lot of freedom to decide what they want to share and how they want to present it. This is different from reporting. Companies often choose to share the good things they have done while hiding the bad things in small print or leaving them out altogether. They use numbers that're not really accurate and they do not always use the same standards to measure things. They also do not always get other people to check their numbers. This means that companies can make it seem like they are doing a job with CSR even if that is not really true. This happens a lot when companies are talking about the environment. For example companies use methods to calculate their carbon footprint and they often do not include the bad things that happen in their supply chain. CSR reporting is something that companies do. It is very different, from financial reporting. Companies have a lot of control over what they share in their CSR reports.

5.5 Regulatory Arbitrage

Because companies follow CSR rules by choice and there are no rules they can take advantage of the difference between what they promise to do for CSR and what the law requires. When companies say they will do more, than what the law says they get a reputation but do not have to follow any strict rules. This makes it more appealing for companies to focus on looking good with CSR than actually doing the work. In places where the rules are not enforced well CSR can be used of real rules to make things seem better.

6. Case Studies of CSR and Corporate Fraud

6.1 Enron Corporation (2001)

The collapse of Enron in December 2001 is still a good example of how companies can use corporate social responsibility or CSR to hide the truth. At one point Enron was seen as a company to work for. They had a code of ethics that they liked to talk about they gave a lot of money to charity. They were even on Fortune magazines list of most admired companies¹⁶. They also put out a report every year about how they were being responsible.

The CEO, Kenneth Lay gave a lot of money to causes and got to know important people in politics and the community, which helped Enron seem like a trustworthy company. At the time the people in charge at Enron were doing some very bad things. They were hiding billions of dollars, in debt. Lying to investors, analysts and auditors. They were also manipulating the energy market. This shows how Enron used CSR to make people think they were a company, when really they were not. It is like they were saying "look at all the things we are doing" to distract people from the bad things they were doing. This is called the "citizen defence" and it is when companies use the fact that they do some good things to make people trust them even if they are doing some bad things. Enron and its use of CSR is an example of this.

6.2 Volkswagen Emissions Scandal (2015)

Volkswagen (VW) diesel scandal, which was uncovered in September 2015 when the U.S. Environmental Protection Agency¹⁷ found out that VW was using "defeat devices" – software which enabled VW cars to emit much higher levels of nitrogen oxides under actual driving conditions than during laboratory tests – to circumvent emission laws, is a prime example of how the tool of environmental CSR has been used to cover a systemic fraud operation.

¹⁶ Bethany McLean and Peter Elkind, *The Smartest Guys in the Room: The Amazing Rise and Scandalous Fall of Enron* (Portfolio 2003).

¹⁷ United States Environmental Protection Agency, 'Notice of Violation to Volkswagen AG' (2015).

Indeed, VW had constructed its product line of “TDI clean diesel cars” based entirely on its environmentally friendly value proposition, suggesting that its cars are significantly more fuel-efficient than their petrol counterparts. Moreover, it won numerous awards for environmental performance, produced detailed sustainability reports, and became included in various ESG indices. At the same time, the defeat devices were already active from 2009, allowing cars to exceed by 40 times the permitted limit of NOx pollution.

6.3 Wells Fargo Fake Accounts Scandal (2016)

Wells Fargo is one of the banks in the US. It had a CSR program that focused on community banking helping people get access to money and keeping employees healthy. People thought highly of the bank because it got ESG scores and gave a lot to communities that needed it. Between 2002 and 2016 something went very wrong. Employees made around 3.5 million bank and credit card accounts in customers names without them knowing or agreeing. This happened because the bank pushed employees to sell a lot and they had a system that encouraged behaviour. This scandal shows that a company can talk about being socially responsible but still do things inside. Wells Fargos CSR story made it seem like it cared about the people it served. Really it was taking advantage of them. The bank had to pay \$3 billion, in fines in 2020 and still faces rules today. This case shows why it's not enough to look at what a company says it values. You have to see if its really living up to those values. Wells Fargos CSR program and Wells Fargos actions did not match.

6.4 Wirecard AG (2020)

Wirecard, the payment company had a big problem. It said it had a lot of money. It did not really have it¹⁸. This happened in June 2020. Wirecard is an example of how companies can use good things they do to make people think they are good even when they are doing bad things. Wirecard wrote reports that said it was doing things for the earth and it wanted to help people in poor countries have better access to money. Even when people said things about Wirecard the company said it was doing good things and important people believed them. Important people like the ones who checked the companies money and the German government people who watch over money companies. They all thought Wirecard was okay until the bad things the company was doing became too big to hide. This made a lot of people want to change the rules so that companies like Wirecard cannot do things again. Wirecard, the payment

¹⁸ Financial Times, ‘Wirecard and the Missing €1.9 Billion’ (2020).

company is still an example of what can go wrong. Wirecard had a problem and now people want to make sure that other companies like Wirecard are honest, about what they are doing.

7. Psychological and Organizational Factors

7.1 Moral Licensing

Moral licensing is something that happens¹⁹ to people and organizations when they do things and then think it is okay to do bad things later. Some people who did things might even be more likely to do bad things because they feel like they have earned the right to. This is because they think they have credit. For example executives who have supported causes might feel like they can do some not so good things in other areas because they think the good things they did make up for it. Moral licensing is like a pass to do something bad because you did something good before. Executives who have been a part of social responsibility initiatives might feel like they can cut corners in other areas because they think their good work, in corporate social responsibility makes it okay. Moral licensing can be a problem because it makes people think they can do things and it is okay because they have moral credit from doing good things before.

7.2 Organizational Culture and Tone at the Top

The way a company works and what it values is really important when it comes to Corporate Social Responsibility or CSR. If a company genuinely cares about doing the thing then CSR is a good thing. If a company only talks about doing good things then it is not really doing anything good. When the people in charge of a company really mean what they say about CSR, then bad things like fraud are less likely to happen. When the people in charge do not do what they say then it is okay for other people to do bad things too. We can see this in companies like Enron and Wells Fargo, where the people in charge said one thing but did another. That led to a lot of problems. Corporate Social Responsibility or CSR is important, at these companies. It was not really working.

7.3 Cognitive Dissonance and Rationalization

People who do things at companies often come up with complicated excuses. These excuses help them think they are people even when they are doing something wrong. When companies talk about social responsibility it gives them a way to make excuses. They might say something

¹⁹ Anna C Merritt, Daniel A Effron and Benoît Monin, 'Moral Self-Licensing: When Being Good Frees Us to Be Bad' (2010) 4(5) *Social and Personality Psychology Compass* 344.

like: We do a lot of things for people so it is okay that we do some bad things with money. They might say: Our company will be around for a long time because of what we do and that helps the people who have a stake in the company so it is better than always following the rules. These excuses work because it is not always clear what is right and wrong when companies do things. Also when there are a lot of people working at a company it can be hard to figure out who is responsible for what. This makes it easier for people to come up with excuses for their behaviour. Corporate social responsibility is used to make excuses, for things that companies do.

7.4 Groupthink and Organizational Silence

In companies where doing good is a part of who they are people might not want to ask if they are really doing what they say. If employees see that the company is not doing what it says it is they might not say anything because they are scared of what will happen to them. They might also think that nobody will listen to them or they do not want to go against what everyone else's doing. This makes it so that nobody is talking about the problems and bad things can go on for a time without anyone, inside the company finding out like what happened with Volkswagen and Wells Fargo.

8. The Role of Stakeholders and Regulatory Bodies

8.1 Investors and ESG Rating Agencies

Companies really want to do with something called ESG ratings. This is because big investors are now looking at these ratings when they decide where to put their money. So companies have a reason to get good scores for being socially responsible. The people who give out these ESG ratings have been criticized a lot. They do not always use the methods and sometimes they have conflicts of interest. Also they rely much on what the companies tell them about themselves. Some researchers, Berg, Kolbel and Rigobon did a study in 2022²⁰. They found out that different rating agencies give different scores to the same companies. This means that these ratings are not a way to know if a company is really acting ethically. This is a problem because it lets companies that are not acting well get scores sometimes. They can do things and still look good on one of these rating systems. ESG ratings are supposed to show how well companies are doing with social responsibility. The way these ratings are given out now is not

²⁰ Florian Berg, Julian F Kolbel and Roberto Rigobon, 'Aggregate Confusion: The Divergence of ESG Ratings' (2022) 26(6) *Review of Finance* 1315.

reliable. Companies can get ESG ratings even if they are not acting responsibly.

8.2 Auditors and Assurance Providers

Financial auditors are really important when it comes to finding out if a company is cheating. They have some big problems that stop them from doing their job properly. For example the company they are checking pays them so that can cause some issues. Also the people who do the cheating might hide it from the auditors. The rules that auditors have to follow do not include checking if a company is being honest about things that are not related to money. The company Ernst & Young is an example of this problem. They were the auditors for a company called Wirecard for a time but they did not find out that the company was cheating with its accounting. This shows that the way we do audits now is not working well. When it comes to checking if a company is being honest about how it affects the environment and society this is usually done on a basis. This means that companies can choose to do it or not and they do not have to follow the strict rules as they do for financial audits. CSR assurance, which is the process of checking these things is not always done in the way and the standards are usually lower than for financial audits. Financial auditors and CSR assurance have a lot of work to do to make sure that companies, like Wirecard are being honest.

8.3 Regulatory Bodies

Securities regulators, like the SEC in the United States and the FCA in the United Kingdom have always looked at disclosure and fraud detection. They have not really looked at Corporate Social Responsibility or CSR monitoring. Now Environmental, Social and Governance or ESG risks are really important to investors. This has made regulators change the way they do things. The SEC has proposed some climate disclosure rules for 2022²¹. The European Union has a Corporate Sustainability Reporting Directive, which is also called the CSRD. There is also the International Sustainability Standards Board, which is called the ISSB. These are steps towards making companies tell us about their CSR in a standard way that we can check. These new rules are still new and not really being used yet. The people in charge of making sure companies follow these rules do not have all the power they need. Securities regulators and the Securities and Exchange Commission or SEC are still working on this. Corporate Social Responsibility or CSR is getting attention from the SEC and other regulators like the FCA, in the United

²¹ Securities and Exchange Commission, 'Enhancement and Standardization of Climate-Related Disclosures for Investors' (2022) *Federal Register*.

Kingdom.

8.4 Civil Society and Investigative Journalism

People who work for organizations that're not part of the government like Non-governmental organizations and academic researchers and investigative journalists are really good at finding out when companies are doing bad things with Corporate Social Responsibility. The Financial Times did a long investigation into Wirecard and the Organized Crime and Corruption Reporting Project did a lot of work on corporate corruption. This shows that we need people who're not part of the government to investigate companies and make sure they are doing the right thing. We also need to protect people who tell us when something is wrong. The laws that are supposed to protect these people called Whistleblower protection laws are not good enough, in many places. This means that when people try to report things that are happening inside a company they are not protected and it does not work very well. Corporate Social Responsibility is still a problem because of this.

9. CSR AS A GENUINE ETHICAL TOOL: THE POSITIVE CASE

9.1 Evidence of Authentic CSR

While this paper has focused a lot on the use of Corporate Social Responsibility (CSR) it is important to say that there is strong evidence that CSR, when done genuinely does promote honest corporate behaviour and reduce the chance of fraud. Studies by Ferrell, Fraedrich and Ferrell in 2013²² and researchers show that companies with real ethical cultures and practices that involve stakeholders have lower rates of breaking rules, lawsuits and reputation problems. Companies, like Patagonia, Interface and Novo Nordisk have built their businesses around CSR. For them CSR is not an extra thing they do but a key part of how they make decisions. It shapes how they design products manage their supply chains treat employees and allocate capital. These companies show that CSR can drive behaviour when it is linked to what executives are rewarded for how the company is governed and how it operates. CSR helps these companies make decisions. CSR is a part of their business models.

9.2 The Conditions for Authentic CSR

Research shows that real Corporate Social Responsibility. The kind that actually helps stop fraud and promotes doing the thing. Has some key features. First it is part of the business plan

²² OC Ferrell, John Fraedrich and Linda Ferrell, *Business Ethics: Ethical Decision Making and Cases* (9th edn, South-Western Cengage Learning 2013).

and decision making not just something a separate Corporate Social Responsibility team does. This team usually does not have a lot of power in the organization. Second it is checked by parties to make sure the things companies say are true. This is similar to when a companies finances audited. Third the people in charge are rewarded for doing a job with Corporate Social Responsibility. This means their pay and performance reviews are based on how they do with Corporate Social Responsibility. So the people in charge want to do what is best for everyone involved. Fourth real Corporate Social Responsibility is honest about what does not go not just what goes well. Companies that talk about the things that happen the goals they miss and the problems they are still working on show that they are committed to telling the truth. This is very different, from companies that only talk about the things they do. Finally real Corporate Social Responsibility listens to what the people affected have to say. This includes the communities, employees and other groups that care about what the company's doing. The company uses this feedback to make its plans and reports better.

10. Bridging the Gap: Reforms and Recommendations

10.1 Mandatory and Standardized CSR Disclosure

The best way to stop companies from pretending to be socially responsible and hiding the truth is to make them tell us about their social responsibility activities by law. This means companies have to follow the rules when they tell us about what they are doing to be socially responsible. The European Union has a rule called the CSRD²³ that will make around 50,000 companies tell us about their sustainability by 2025. The International Sustainability Standards Board is also working on rules for companies to tell us about their sustainability. These rules should be used everywhere in the world. We need to make sure that companies are telling us the kinds of things so they cannot take advantage of different rules in different places. When companies tell us about their social responsibility activities they should tell us about how they're affecting the environment how they are governed how they prevent fraud and how they work with the people who are affected by their activities. This includes things, like how they make decisions and how they talk to their stakeholders. The CSRD and the global sustainability disclosure standards are a start and we should build on these to make sure that companies are really being socially responsible not just pretending to be.

²³ European Commission, 'Corporate Sustainability Reporting Directive (CSRD)' (2022).

10.2 Independent CSR Assurance

CSR reports need to be checked by a third party to make sure they are reliable. This check should be done using standards to those used for financial statements. Currently CSR checks vary a lot in what they cover how they are done and how independent they are. Often they only provide assurance, not a thorough check. Regulatory bodies should set rules for CSR check providers. They should also require these providers to disclose their methods, any limitations and how independent they're The CSR reports should be assured by third-party. The assurance should be done to standards to those applied to financial statements. The CSR assurance engagements vary widely in scope, methodology and independence. They often provide limited assurance rather than reasonable assurance. Regulatory bodies must establish standards for CSR assurance providers. They should require disclosure of assurance methodologies. They should also require disclosure of limitations and auditor independence, for CSR assurance. The CSR assurance providers must follow these rules. The CSR reports must be assured.

10.3 ESG Rating Reform

The people who decide how well companies do with the environment and social things which is called the ESG ratings industry needs to change a lot. We need to make sure these ratings are good and fair so companies can be compared easily. The government should keep an eye on how these ratings are made and make sure the people who make them are not biased. They should also be clear about how they decide these ratings. Investors should use different sources to find out about companies, not just one. They should also talk to the companies directly. Think about what kind of culture and leadership they have not just look at the ESG ratings. This way investors can make decisions about which companies to invest in and ESG ratings will be more useful, to them.

10.4 Executive Accountability and Incentive Alignment

Companies should make sure that they consider how well they do with social responsibility and ethics when they decide how well their top people are doing their jobs and how much they should get paid. If the people in charge are only rewarded for making money then they will not think that corporate social responsibility is as important as making a profit. If we pay the people based on how well they do, with corporate social responsibility how happy their employees are, if they follow the rules and if they do not have a lot of fraud then they will really try to do the right thing and run the company in an honest way. This is because corporate social responsibility is a part of running a company and it should be considered when we decide how

well the top people are doing.

10.5 Strengthening Whistleblower Protections

We really need protection for people who report wrongdoings, like fraud. This can help stop things from happening in the first place. The Securities and Exchange Commission has a program that protects and rewards people who report fraud. It has been very successful with lots of money being recovered and given to the people who reported the fraud. We should use this as an example. Make it stronger all around the world. People who report things should be protected, not just when it comes to money but also when companies are not honest about how they treat people or the environment or when they break labour laws. Whistleblower protection is very important. Whistleblower reward programs can really make a difference. The whistleblower program should be a model for other countries to follow. We should make sure that whistleblower protection covers all kinds of bad things, including environmental violations and labour abuse in addition, to financial fraud and CSR misrepresentation.

10.6 Civil Society and Academic Oversight

Governments and foundations should put money into investigative journalism and academic research. They should also fund groups that keep an eye on what companies say about being socially responsible. We need to know what companies are really doing. This is important for holding them accountable. Independent people and groups should look at what companies are doing and report on it. This helps us know if companies are telling the truth about being socially responsible. It is like having people check on companies to make sure they are honest. We should think of this as something that's good, for everyone and support it with money.

11. Conclusion

This paper looks at the relationship between Corporate Social Responsibility and corporate fraud. It is interesting to see that even though Corporate Social Responsibility is becoming more popular around the world corporate fraud is still on the rise. The relationship between Corporate Social Responsibility and corporate ethics is not clear. Corporate Social Responsibility can be a way to make sure companies act in an ethical way or it can be a way for companies to deceive people depending on if their Corporate Social Responsibility commitments are real and can be checked. Different theoretical frameworks like agency theory stakeholder theory and legitimacy theory show that Corporate Social Responsibility can

actually help fraud happen than prevent it. Looking at companies like Enron, Volkswagen, Wells Fargo and Wirecard we can see how this can happen in life. These companies were known for being corporate citizens but at the same time they were involved in big cases of fraud. There are also reasons why companies and people can say they are doing Corporate Social Responsibility while still doing bad things. For example licensing organizational culture and cognitive dissonance can all play a role. When we look at stakeholders and regulatory bodies we can see that there are gaps in how companies are held accountable especially when it comes to Corporate Social Responsibility standards and how well companies are rated for their environmental and social impact²⁴.

However when Corporate Social Responsibility is done in a way it can actually help reduce corporate misconduct and fraud. This happens when Corporate Social Responsibility is part of a companies strategy and when it is checked by independent people. It also helps when executives are rewarded for doing Corporate Social Responsibility and when there are laws to make sure companies follow the rules. This paper suggests some changes that could be made to make Corporate Social Responsibility more real and effective. These changes include making companies disclose information having independent people check Corporate Social Responsibility and making sure executives are held accountable. It also suggests protecting people who report wrongdoing and getting society involved in investing. To make these changes happen regulators, investors, boards, academics, journalists and civil society need to work. The stakes are high. With problems like climate change, inequality and people not trusting institutions it is very important that companies are seen as responsible. If Corporate Social Responsibility is going to work it needs to be more than something companies say they do. It needs to be a commitment to doing the right thing. Corporate Social Responsibility needs to be freed from being used as a way for companies to hide their behaviour. Corporate Social Responsibility can help make sure companies use their power in a way that's good, for society. Corporate Social Responsibility is important for Corporate Social Responsibility to be taken seriously.

²⁴ Michael C Jensen and William H Meckling, 'Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure' (1976) 3(4) *Journal of Financial Economics* 305; R Edward Freeman, *Strategic Management: A Stakeholder Approach* (Pitman 1984); Mark C Suchman, 'Managing Legitimacy: Strategic and Institutional Approaches' (1995) 20(3) *Academy of Management Review* 571.

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