

Legal Obstacles to Corporate Social Responsibility: Examining Loopholes and Corporate Ethics

Abstract:

Corporate Social Responsibility (CSR) refers to the practice of companies voluntarily integrating social, ethical, and environmental concerns into their fundamental operations and interactions with stakeholders. However, despite CSR evolving into a critical aspect of corporate governance, current legal substructures remain ineffective when addressing its complexities. This literature review examines how the gaps in CSR regulation often result in corporations exploiting it for financial and reputational gains, ultimately undermining the rudimentary principles of CSR. By evaluating national and international CSR standards, this paper identifies inconsistencies in their overall implementation and the legal obstacles that inhibit their effectiveness. This research uses a qualitative approach by reviewing statutes, case studies, and scholarly literature to assess relevant limitations to CSR. It explores the recurrence of companies evading social responsibility while maintaining a reputable standing. Findings indicate that despite CSR gaining prominence, aspects such as voluntary adherence and minimal regulatory intervention allow corporations to prioritize profits over genuine ethical commitments. Additionally, disparities between national and international CSR guidelines have introduced further legal ambiguities, facilitating profiteering in developing nations. This review reveals the urgency to fortify compliance measures, enforce globally standardized CSR guidelines, and refine legal frameworks to remove ambiguity, all of which could boost business accountability and promote socially responsible corporate conduct.

Index Terms: Corporate Social Responsibility, legal loopholes, corporate ethics, business accountability, CSR regulations, CSR standards

Introduction:

Corporate Social Responsibility (CSR) has become an increasingly important element of current corporate practices. CSR is a business approach that encourages companies to be socially responsible to their stakeholders, employees, and the general public. By adopting CSR standards, companies become more mindful of their impact on all areas of society—social, economic, and environmental. For example, companies have implemented training for employees to recognize discrimination in the workplace. In the age of corporate globalization, companies must increasingly contribute to a greater society while minimizing the negative impacts of their business practices.

If implemented properly, CSR efforts can also result in greater consumer loyalty and trust, attract employees, improve brand image, and increase revenue ((Francés, D. S., & Tomás, L. P. The Effects of Corporate Social Responsibility on Consumer Loyalty through Consumer Perceived Value. *Economic Research-Ekonomska Istraživanja*, 32(1), 66–84 (2019.)). Scholars have argued that CSR efforts used to be considered charitable, where companies participated in social welfare programs ((Agudelo, M. A. L., Jóhannsdóttir, L., & Davídsdóttir, B. A Literature Review of the History and Evolution of Corporate Social Responsibility. *International Journal of*

Corporate Social Responsibility, 4(1), 1–23. Springeropen.

<https://doi.org/10.1186/s40991-018-0039-y> (2019).)). However, companies maintained this participation at a surface level since no corporations incorporated CSR practices in their fundamental business operations. Critics have pointed out that companies' increased engagement in social and charitable programs was geared more toward improving reputation and social standing than it was toward actually implementing change in company practices. A *Harvard Business Review* study revealed that 94% of business executives believe CSR efforts greatly improve a company's social standing ((Rangan, V. K., Chase, L., & Karim, S. *The truth about CSR*. Harvard Business Review. <https://hbr.org/2015/01/the-truth-about-cs> (2015).)). Regardless of a company's original intent, awareness and implementation of CSR have developed into an essential part of many corporations' practices, and CSR now includes a wide range of issues, such as ethical labor standards, corporate management, and sustainability. This transformation indicates a growing awareness of the connection between the corporate world and society and of the degree to which they influence each other.

CSR in the United States is not legally mandated, and companies engaging in CSR practices, therefore, must go beyond legal expectations and voluntarily take action to better the standard of living for all. CSR is a new concept in the business world, so there hasn't been enough time to mandate laws that are intended to enhance it. However, while CSR wasn't necessarily the intention when foundational labor laws and environmental policies were instituted, such as Title VII of the Civil Rights Act and the Resource Conservation and Recovery Act, these regulations play a vital role in defining CSR efforts today ((U.S. Equal Employment Opportunity Commission. *Title VII of the Civil Rights Act of 1964*. www.eeoc.gov. www.eeoc.gov/statutes/title-vii-civil-rights-act-1964 (2025).)), ((EPA. *Summary of the Resource Conservation and Recovery Act | US EPA*, US EPA (2018).)). For instance, environmental policies demand companies to oversee waste management, conserve natural resources, and minimize their carbon footprint, while labor laws safeguard hazard-free working conditions, fair compensation, and protection from discrimination. When examined on a global scale, legal frameworks like the United Nations Guiding Principles on Business and Human Rights also establish guidelines for companies to address any negative societal impacts concerning their corporate procedures ((United Nations. *Guiding Principles on Business and Human Rights*. United Nations (2011).)).

Even with these measures, there is a substantial difference between national and international CSR principles. National standards tend to differ greatly from country to country, indicating varying levels of regulatory systems, societal progression, and cultural norms. On the other hand, international standards tend to offer a consistent approach to CSR by facilitating positive corporate practices worldwide. This clear distinction frequently results in inconsistencies when executing CSR standards, leading global enterprises to comply with different standards based on the countries in which they reside. The separation between country-specific standards and worldwide uniformity brings light to a deeper concern: the insufficiency of existing legal frameworks to address the intricate realities of corporate

responsibility. Since current legal frameworks inadequately address the nuances of CSR, companies exploit loopholes and weaken voluntary ethical practices, indicating a need for legal language revision to remove ambiguity and ensure corporate dedication to social responsibility.

This literature review examines the legal loopholes that present obstacles to effective CSR implementation and the resulting exploitation of these gaps by companies prioritizing revenue over social welfare. It begins by laying out an overview of different CSR standards and how their distinctions have affected the facility of their execution. The paper then covers legal barriers, both internationally and domestically, which ultimately hinder these CSR standards from becoming a reality. It provides three recent examples of companies from various industries taking advantage of the inconsistencies resulting from legal barriers and the gaps within CSR application. By focusing on case studies, this review aims to provide clear insight into the consequences of regulatory loopholes on corporate responsibility efforts. It precedes by laying out the distinction between CSR compliance across various jurisdictions and the correlation between standardization and sustainable development. Subsequently, it introduces several legal solutions that would presumably address CSR-related legal hindrances while acknowledging their practical and logistical issues. Finally, the review applies said legal solutions to nations that have struggled with addressing the complexities of CSR, offering a more globally collaborative approach to counter national disparities.

CSR Standards and Ethics:

It is crucial to comprehend the range of standards that mold CSR efforts. These standards include social and environmental matters, such as racial inclusivity, eco-friendly practices, and gender equality. Standards on racial inclusivity focus on maintaining non-discriminatory work environments where all people of any ethnic and racial background have equal opportunities. Gender equality standards focus on providing impartial treatment and recognition for all workers, regardless of gender identity. Gender standards tend to address issues like diversity and inclusion policies, equal pay, and the support of female executives. Environmental standards encourage corporations to mitigate their ecological footprint and adopt more sustainable practices. These standards include many environmentally friendly approaches, such as efficient energy use, waste reduction strategies, and resource conservation.

While these are just the central themes of CSR, there remains a difference in the specificity of standards on the national and international levels. Internationally, several standards provide guidelines for CSR implementation. A notable example is the ISO 26000 standard, created by the International Organization for Standardization, which offers fundamental guidelines on social responsibility. This includes individual rights, employment policies, ethical business practices, and environmentalism ((International Organization for Standardization. *ISO 26000 Social Responsibility*. ISO. <https://www.iso.org/iso-26000-social-responsibility.html> (2010.)). This standard highlights the significance of incorporating CSR efforts into everyday business operations. Another important international standard is SA8000, created by Social Accountability International in 1997, which focuses more on workers' rights ((Assoune, A. *All*

You Need To Know About The SA8000 Certification. Panaprium.

<https://www.panaprium.com/blogs/i/sa8000-certification> (2020).)). It covers employment issues such as forced labor, child exploitation, workplace conditions, and discrimination.

Additionally, it's important to acknowledge how intergovernmental organizations influence CSR efforts worldwide. The United Nations (UN) is a notable example, establishing international guidelines through directives such as the UN Global Compact and the Sustainable Development Goals (SDGs). The UN Global Compact from 2000 is a non-binding UN pact that encourages businesses to commit to sustainable and ethical practices. It aims to help corporations align their operations with ten universal principles covering ethical labor rights, environmental sustainability, and fraud prevention ((Kenton, W. *United Nations global compact*. Investopedia. <https://www.investopedia.com/terms/u/un-global-compact.asp> (2022).)). Despite its non-mandatory nature, it has supplied a broad moral groundwork for countless multinational corporations. In like manner, SDGs from 2015 established fundamentals for sustainable development by providing 17 goals, pushing corporations to adopt socially, economically, and environmentally responsible objectives ((United Nations. *The 17 Sustainable Development Goals*. United Nations. <https://sdgs.un.org/goals> (2024).)). Although these initiatives offer guidance, they remain discretionary, permitting companies to selectively adopt which principles they deem fit without legal liabilities. This raises concerns about the effectiveness of voluntary CSR compliance and the degree to which it provides opportunities for exploitation.

Now, on a national scale, United States standards, such as the Civil Rights Act and B Corp Certification, are among the many mandates linked to CSR. The Civil Rights Act, a transformative law in the United States, established protections for any form of discrimination based on race, ethnicity, religion, and gender. Even though this Act is a law, and therefore not voluntary, its principles align with and strengthen CSR efforts. The other example, B Corp Certification, is not a law but a certification that companies can earn by undergoing a thorough evaluation that assesses their impacts on the community and environment. This certification is advantageous to many organizations because it shows their dedication to CSR and sets them apart from others. These differing standards reveal that while the fundamental components of CSR are well-established, the existing legal frameworks often are not consistent or comprehensive.

However, when taking into account legal and ethical considerations, the problems intensify. Laws set the official regulations companies must follow, but ethics reflect a company's fundamental values. More frequently than expected, businesses exploit legal circumstances to meet the minimum criteria while neglecting the ethical side of CSR. Thus, the importance of strengthening regulation is significant, as it will ensure that CSR efforts create and reflect the legal requirements and ethical principles of responsibility and inclusion.

Lastly, another way to interpret CSR is through theories such as Freeman's Stakeholder Theory, developed by R. Edward Freeman in 1984. This theory states that for companies to gain long-term financial success, they must shift their attention beyond exclusively maximizing profits for shareholders and must also consider the interests of stakeholders. Stakeholders would

include suppliers, employees, consumers, communities, and the environment. The theory proposes that corporations have an ethical responsibility to weigh the effects of their decisions on these groups ((Justice, G. *Ed Freeman: Meet the "Father of Stakeholder Capitalism" | Institute for Business in Global Society*. Harvard Business School. <https://www.hbs.edu/bigis/ed-freeman> (2024).)). Contrary to conventional theories that prioritize financial gain, the Stakeholder Theory emphasizes the significance of balancing the social, economic, and environmental responsibilities of a company in a way that benefits all parties. This model is particularly relevant when examining CSR as it supports the idea that the growth of a business should incorporate voluntary moral obligations instead of solely profitability.

Legal Barriers:

Identifying the key legal barriers that hinder CSR implementation is essential when tackling the loopholes that enable companies to bypass ethical governance. These barriers include ambiguity in legal language, lack of enforcement measures, and historical progression. By analyzing these obstacles, we can gain a clearer understanding of the shortcomings of current CSR efforts and how there is a need for more effective legal frameworks.

A major legal barrier to CSR execution is the vagueness of legal terminology. Numerous standards, particularly international ones, are often general and imprecise, permitting businesses to have considerable flexibility in their interpretations and executions of said standards. For example, the ISO 26000 standard is criticized due to its lack of enforceable guidelines. Although it addresses important topics such as employment practices, environmentalism, and civil liberties, it needs to detail measurable requirements, so its non-certifiability makes it challenging to implement ((Wilhite, T. *The Limits and Pitfalls of ISO 26000 (Social Responsibility)*. HubPages (2021).)). This means companies can claim alignment with CSR regulations without implementing any significant changes to their business practices. Despite this, the fact that many countries still need to adopt this global standard is tied to a different problem surrounding international trade. In countries where this standard is adopted, every company must adhere to the ISO 26000 guidelines to do business in those countries. This dramatically disrupts international trade and is disadvantageous for many global corporations residing in countries without the ISO 26000 standard. This suggests that a trade-off between international commerce and ethical practices exists, ultimately complicating CSR implementation even more ((Kos, A., & Gudowska, B. *Publishers Panel*. Ijols.com. <https://ijols.com/resources/html/article/details?id=197250&language=en> (2024).)).

Furthermore, it is important to recognize that factors such as market pressures and resource constraints also contribute to CSR failures. Corporations in highly competitive industries typically prioritize maximizing returns over social responsibility, as the pressure from shareholders to receive immediate revenue can incentivize companies to seek out weak legal structures. Limited budget, sourcing, and staffing can also limit company investment in CSR practices as they are not financially sound. However, if CSR was legally mandated with

comprehensive language, companies would be forced to adhere to ethical guidelines, regardless of market demands or financial barriers. This shows how legal gaps are not simply one of many issues but the key driver allowing other barriers to thrive.

Another primary reason companies fly under the radar is the need for effective enforcement strategies. Even with CSR standards existing, the tools needed to implement them often need to be more effective and present. This deficiency in enforcement enables companies to pay less attention to their CSR obligations without severe penalties. Take, for example, the SA8000 standard, which provides thorough expectations for workplace conditions, but to implement them, it relies heavily on third-party evaluations that assess a company's level of social accountability and treatment of workers ((Social Accountability International. *SA8000® Standard*. SAI. <https://sa-intl.org/programs/sa8000/> (2023)).). This could result in gaps when identifying violations, as the impartiality and thoroughness of third-party audits can be difficult to standardize, so establishing clear evaluation guidelines is necessary. Additionally, while this standard is helpful for sizeable corporations, it is also impractical for smaller businesses, as maintaining oversight bodies for every company is costly and inefficient. Thus, aligning effective enforcement strategies and the status of a company is crucial to ensuring that CSR implementation remains productive without being overly extensive. When looked at on a national scale, the United Kingdom's Modern Slavery Act of 2015 was a major step towards ending modern slavery, but its impact has been undermined by weak enforcement. The Act requires companies with an annual revenue of £36 million or more to report their efforts to identify, prevent, and address modern slavery in their supply chains and operations ((Allen, B., Junk, R., Benson, J., & Kopczynska-Grobelny, K. *UK Modern Slavery Act: The Future of Transparency in Supply Chains*. Skadden.com; Skadden, Arps, Slate, Meagher & Flom LLP (2024)).). However, this mandate does not impose any legal penalties for non-compliance and relies on self-reporting ((Home Office. *Modern Slavery Act 2015*. GOV.UK. <https://www.gov.uk/government/collections/modern-slavery-bill> (2014)).). Companies can evade these standards by falsifying evaluations and avoiding compliance, presenting themselves as ethical without making substantial internal changes.

Additionally, considering the role of internal organizational culture in the authenticity of CSR initiatives can help one better understand CSR failure. Companies with executives who disregard social responsibility will largely superficially engage in CSR, focusing on image rather than internal improvement. Surprisingly, this behavior is safeguarded by numerous laws throughout the world. For example, the Business Judgement Rule in the U.S. can allow executives of a corporation to make reckless decisions without facing liability in court. The legal principle is designed to protect company executives from liability if their decisions were deemed to have been made in good faith, even at the expense of CSR ((Wex Definitions Team. *Business Judgment Rule*. LII / Legal Information Institute. https://www.law.cornell.edu/wex/business_judgment_rule (2022)).). While this protective measure is a wise approach to shielding executives in high-stakes business decisions, it ultimately leaves room for protected malfeasance ((Rosenberg, D. Galactic Stupidity and the

Business Judgment Rule. *the Journal of Corporation Law*, 32(2), 1067 (2006.)). It can be quite challenging to prove that an executive acted in bad faith or unethically during trials, preventing direct accountability and creating a loophole that discourages genuine CSR participation. So, a reevaluation of similar laws and stringent oversight is necessary so that even firms with weak ethical leadership would be unable to exploit such loopholes.

Historical context also contributes significantly to the development of legal frameworks concerning CSR. Changes in political views, economic conditions, and social norms throughout various countries have affected the evolution of CSR execution, resulting in vastly distinct regulatory frameworks ((ACCP. *Corporate Social Responsibility: A Brief History*. Association of Corporate Citizenship Professionals.

<https://accp.org/resources/csr-resources/accp-insights-blog/corporate-social-responsibility-brief-history/> (2021).)). With globalization and businesses residing in different regulatory

environments, maintaining consistency in CSR application is near impossible. The lack of uniformity in standards from one country to another has allowed companies to leverage areas of weaker regulations, compromising effective CSR implementation. The ability for companies to relocate is also strengthened by tax loopholes, as they can move their operations to tax havens and contribute less to public welfare, all while maintaining an ethical image in their home country ((Semuels, A. *How Corporations Shift Profits to Avoid Taxes*. TIME.

<https://time.com/6326583/tax-shelters-multinational-corporations/> (2023.)). However, the most significant leveraging seen by companies has been found in their global supply chains. To illustrate, in 2011, several global corporations, such as Nestlé, were revealed to be acquiring palm oil from Indonesian distributors associated with labor exploitation and deforestation ((Limb, L. *Death and deforestation: The dirty palm oil companies supplying the EU*. Euronews.

<https://www.euronews.com/green/2021/10/08/nestle-kellogg-s-linked-to-shocking-palm-oil-abuses-in-papua-new-guinea> (2021.)). Additionally, a 2019 report revealed that over 1,000 cases of deforestation daily were discovered within Nestlé's palm oil supply chain ((Rainforest Rescue. *Palm Oil for Nestlé: More than 1,000 Cases of Deforestation per Day*.

Www.rainforest-Rescue.org.

<https://www.rainforest-rescue.org/updates/9904/palm-oil-for-nestle-more-than-1000-cases-of-deforestation-per-day> (2020.)). Despite their alleged CSR initiatives, these multinational

corporations managed to capitalize on Indonesia's weaker environmental and labor standards just to obtain inexpensive palm oil. In general, areas that have faced historical events of economic

crisis and significant political shifts often have limited enforcement and are more vulnerable to corporate exploitation. A 2023 study examining European retail supply chains found that 8.5%

of companies are at risk of child labor on the first tier of their supply chain, 82.4% on the second tier, and over 99.1% on the third ((Hurt, J., Ledebur, K., Meyer, B., Friesenbichler, K.,

Gerschberger, M., Thurner, S., & Klimek, P. *Supply Chain Due Diligence Risk Assessment for the EU: A Network Approach to estimate expected effectiveness of the planned EU directive*.

ArXiv.org. <https://arxiv.org/abs/2311.15971> (2023.)). This demonstrates how multinational companies can avoid direct accountability using their global supply chains and how many

intentionally shift operations to regions with weak regulatory frameworks to maximize profits. Unfortunately, certain mandates have allowed corporations to oppose national public policy efforts. For example, the Investor-State Dispute Settlement (ISDS) permits foreign investors to sue governments over the introduction of policies that could be harmful to their investments ((Reuters, T. *Investor-State Dispute Settlement (ISDS)*. Practical Law. [\(https://uk.practicallaw.thomsonreuters.com/0-624-6147?transitionType=Default&contextData=\(sc.Default\)](https://uk.practicallaw.thomsonreuters.com/0-624-6147?transitionType=Default&contextData=(sc.Default))) (2025)).). Companies can challenge mandates aimed to benefit society and the environment if it could lower their profits. In some cases, large multinational corporations hold more resources than developing countries, which can create an imbalance of power. This imbalance puts governments at a disadvantage as they can become hesitant to introduce beneficial policies if they pose a threat to financially dominant foreign investors ((Wittmeier, C. *Understanding Problems With Investor State Dispute Mechanisms*. Transnational Matters. <https://www.transnationalmatters.com/understanding-problems-with-investor-state-dispute-mechanisms/> (2023)).). To overcome these challenges, reevaluating such mandates, eliminating ambiguity, and harmonizing standards across nations can help remove the inconsistencies that enable companies to exploit legal loopholes, halting any incentive to relocate and ultimately resulting in more uniform and efficient CSR practices globally.

Case Studies:

Historically, there have been many instances where companies have exploited gaps within CSR-related legal frameworks. Towards the end of the 20th century, various global enterprises were said to have used inhumane labor practices in developing countries while promoting their dedication to CSR principles ((Sayeed, K. *It is the most common form of exploitation and discrimination used by people with authority, power or having a strong network of powerful people. It is a process of dominance reflected by their unwelcome verbal, physical or psychological behavior centered on race, color, religion, gender, financial*. LinkedIn.com. <https://www.linkedin.com/pulse/workplace-harassment-common-form-manipulation-kishwar-sayeed/> (2018)).). These businesses leveraged the vagueness of international labor standards and the lack of enforcement in the countries where they operate to cut costs and maximize profits. For example, most recently, multiple companies have been accused of “greenwashing” or marketing themselves as eco-friendly without making significant changes to minimize their environmental impacts ((United Nations. *Greenwashing – the deceptive tactics behind environmental claims*. United Nations. <https://www.un.org/en/climatechange/science/climate-issues/greenwashing> (2022)).). In the past year, “greenwashing” instances have risen more than 35% worldwide ((Johnson, L. *Greenwashing growing in frequency and complexity: report*. ESG Dive. <https://www.esgdive.com/news/greenwashing-rising-report-rep-risk-social-washing-sustainability/696289/> (2023)).). A 2023 report even revealed that one in every four environmental, social, and governance (ESG) risks found globally was associated with “greenwashing”, which is a notable increase from the previous year’s one in five ((Fürer, M. *RepRisk | RepRisk data shows increase in greenwashing with one in three greenwashing public companies also linked to social*

washing. Reprisk.com.

<https://www.reprisk.com/research-insights/news-and-media-coverage/reprisk-data-shows-increase-in-greenwashing-with-one-in-three-greenwashing-public-companies-also-linked-to-social-washing> (2023.)). Scholars argue that the lack of standardized verification in CSR frameworks has permitted companies to label products as sustainable without facing repercussions ((Wolniak, R., & Habek, P. *Reporting Process of Corporate Social Responsibility and Greenwashing*. Proquest.com.

<https://www.proquest.com/openview/b4ae5f609a0d10edb7828af2816791e9/1?pq-origsite=gscholar&cbl=1536338> (2025.)). The increased number of companies “greenwashing” also shows a shift from focusing on labor standards to environmental concerns and branding. To provide examples of these issues, the three cases of CSR exploitation involving Starbucks, Volkswagen, and Apple present differing outcomes from corporations across various industries. These cases were selected to highlight the extent of CSR integration, covering issues surrounding the environment, labor, and race. The inclusion of varying industries and consequences provides a holistic perspective on CSR implementation challenges while acknowledging the potential for selection bias due to media coverage and publicly accessible data.

Case 1: Back in 2018, Starbucks faced a reputational crisis after two African-American men were wrongfully detained at one of their stores in Philadelphia because a manager contacted the authorities when they were sitting but not ordering ((Rios, M. *Starbucks closed more than 8,000 stores for an afternoon of bias training. Will it work?* PBS NewsHour.

<https://www.pbs.org/newshour/nation/starbucks-closed-down-for-an-afternoon-of-bias-training-will-it-work> (2018.)). The widespread outrage was severe, with protests and national boycotts of the corporation ensuing; Starbucks immediately closed 8,000 stores across the United States for one day to implement racial-bias training for all employees ((Arkin, D. *Starbucks will temporarily close 8,000 U.S. stores for racial-bias training*. NBC News.

<https://www.nbcnews.com/news/us-news/starbucks-will-temporarily-close-8-000-u-s-stores-racial-n866746> (2018.)). This decision was viewed as a genuine CSR initiative, helping rebuild their public image and demonstrate their dedication to ethical practices. Despite this, critics argued that the company’s decision was a PR strategy rather than a sincere attempt to confront discrimination and would only be a one-time event ((Calfas, J. *Was Starbucks’ Racial Bias Training Effective? Here’s What These Employees Thought*. Time; Time.

<https://time.com/5294343/starbucks-employees-racial-bias-training/> (2018.)). After taking these criticisms into account, the CEO of Starbucks, Kevin Johnson, met face-to-face with the two men to apologize and invite their suggestions on avoiding the recurrence of such situations ((Whack, E. *2 black men arrested at Starbucks get an apology from police*. AP News.

<https://apnews.com/general-news-45547c3ae5324b679e982c4847ee1378> (2018.)). This, along with Starbucks’s racial bias training, ultimately left them without any significant damage to their reputation, underlining how CSR efforts are not only used for societal benefit but can also be used to shape public image and preserve consumer loyalty. Freeman’s stakeholder theory indicates that Starbucks’ actions were considered an effort not merely for shareholders but also

its stakeholders, mainly its employees, consumers, and local communities. By addressing the problem of racism directly, they rebuilt trust in stakeholders, resulting in the sustained growth of their business. Despite that, Starbucks reacted mainly to limit bad press in place of addressing the broader systemic issue. Even though it successfully saved their image, their actions had no significant impact on policies concerning racial discrimination in retail. This calls into question whether companies treat CSR as a genuine commitment or a short-lived tactic to mitigate backlash.

Case 2: In 2015, Volkswagen had a considerable emission scandal dubbed the “diesel dupe” when it was discovered the company had installed software in their cars to deceive emission tests ((Hotten, R. Volkswagen: the Scandal Explained. *BBC News*. <https://www.bbc.com/news/business-34324772> (2015.)). This software was embedded in a defeat device, which is designed to bypass emission testing by mitigating a car’s emissions when under testing conditions while releasing pollutants well over legal limits during everyday driving. It was installed in over 11 million cars globally, enabling the company to falsely advertise these vehicles as eco-friendly. A 2015 report revealed that this scandal added an estimated 1 million tonnes of additional air pollution ((Mathiesen, K., & Neslen, A. *VW scandal caused nearly 1m tonnes of extra pollution, analysis shows*. *The Guardian*. <https://www.theguardian.com/business/2015/sep/22/vw-scandal-caused-nearly-1m-tonnes-of-extra-pollution-analysis-shows> (2015.)). While the United States Clean Air Act (CAA) and the European Union’s Regulation (EC) No 715/2007 both prohibit these defeat devices, the procedures for emission testing are primarily based on controlled lab conditions ((United States Environmental Protection Agency. *Summary of the Clean Air Act*. US EPA. <https://www.epa.gov/laws-regulations/summary-clean-air-act> (2024.)), ((European Parliament. *Regulation - 715/2007 - EN - EUR-Lex*. Europa.eu. <https://eur-lex.europa.eu/eli/reg/2007/715/oj/eng> (2020.)). Emission testing in the U.S. is regulated by the Environmental Protection Agency (EPA), and in the EU, it was, at the time, regulated by the New European Driving Cycle (NEDC). Both systems used laboratory-based emission testing and did not account for real-world driving conditions, permitting companies like Volkswagen to utilize defeat devices without being discovered ((US EPA, O. *Vehicle and Fuel Emissions Testing*. US EPA. <https://www.epa.gov/vehicle-and-fuel-emissions-testing> (2015.)), ((*Laboratory test*. ACEA - European Automobile Manufacturers’ Association. <https://www.acea.auto/fact/laboratory-test/> (2017.)). Ultimately, Volkswagen’s actions resulted in an intense fallout, making them face billions in legal fees, penalties, and fines. Their stock value fell dramatically, and they experienced widespread public backlash. In contrast to Starbucks, which was able to restore consumer trust through its socially responsible actions, Volkswagen’s intentional misrepresentation left no room for them to correct their mistakes, leading to a sharp drop in stocks of around 40% within the first two weeks after the incident, and fines approximating at \$35 billion, revealing the company’s substantial loss of trust and reliability ((Jung, J. C., & Sharon, E. *The Volkswagen emissions scandal and its aftermath*. *Global Business and Organizational Excellence*, 38(4), 6–15. <https://doi.org/10.1002/joe.21930>

(2019.)), (*Biggest greenwashing fines worldwide by company*. Statista; Statistics Research Department.

<https://www.statista.com/statistics/1459160/biggest-greenwashing-fines-worldwide-by-company/> (2024.)). Their strategy of deception illustrated the limitations of CSR as a means of misleading rather than a voluntary commitment. Based on Freeman's Stakeholder Theory, Volkswagen disregarded its moral obligation to its stakeholders, particularly its customers and the environment, prioritizing shareholder returns. The corporation's actions not only harmed the environment but threatened its future profitability. Furthermore, this scandal uncovered inherent flaws in environmental oversight, as it demonstrated how emission testing, often regulated by government agencies, was unable to detect large-scale fraud.

Case 3: Apple has been known to have ongoing labor rights violations resulting in negative publicity. In 2021, one of Apple's primary contractors, Pegatron, a Taiwanese company that assembles iPhones, was caught concealing student labor violations. Pegatron allowed students to work night shifts and overtime and to break the maximum work hours permitted. In addition, Pegatron was found falsifying documents that revealed these infractions. China's Labor Contract Law of 2008 was the primary offense, requiring formal labor contracts for workers, which Pegatron avoided by classifying students as interns instead of employees (*laws*. www.npc.gov.cn.

http://www.npc.gov.cn/zgrdw/englishnpc/Law/2009-02/20/content_1471106.htm (n.d.)).

Additionally, Pegatron also violated Apple's Supplier Code of Conduct, which outlines overtime restrictions and human rights standards (*Apple. Apple Supplier Code of Conduct*.

<https://www.apple.com/hk/supplier-responsibility/pdf/Apple-Supplier-Code-of-Conduct-and-Supplier-Responsibility-Standards.pdf> (2022.)). As a result, Apple gave Pegatron an ultimatum:

they either terminate their contract, or Pegatron implements immediate corrective action and fire the executive accountable for the violations (*Mozur, P. Apple Puts Key Contractor on Probation Over Labor Abuses in China. The New York Times*.

<https://www.nytimes.com/2020/11/09/business/apple-china-pegatron.html> (2020.)). This

reaction by Apple was met with doubt and skepticism by the public, who criticized Apple's foreign oversight mechanisms and commitment to labor rights. A workers' advocacy organization, China Labor Watch (CLW), even raised concerns about the credibility of Apple's statements, highlighting how Apple reacted only after this issue garnered media attention (*Zhang, X. Improvement or just Public Relations? China Labor Watch challenges Apple's statement on Pegatron: China Labor Watch*. China Labor Watch.

<https://chinalaborwatch.org/improvement-or-just-public-relations-china-labor-watch-challenges-apples-statement-on-pegatron/> (2020.)). Unlike Starbucks, which regained the trust of their

customers, and Volkswagen, which was met with permanent damage, Apple's reaction received skepticism, as its approach to the matter appeared to be an attempt at damage control rather than confronting the fundamental issue. This case highlights the challenges of holding global corporations liable for labor misconduct, as their extensive supply chains often obscure direct accountability. With Apple's headquarters being in the U.S., the enforcement of Chinese Labor

Laws falls within its jurisdiction, leaving few legal liabilities for Apple. Freeman's Stakeholder theory suggests that Apple's failure to address ongoing labor violations within its global supply chain reveals blatant disregard for its stakeholders' interests, in this case it's workers, once again showcasing that shareholders are the priority.

These three instances offer different outcomes when a corporation is accused of exploiting legal loopholes regarding CSR. When Starbucks responded to the incident in Philadelphia, they faced criticism with little impact as their decision was viewed as a pledge to improve their ethical standards. In comparison, Volkswagen's intentional rigging of emission tests revealed their apparent disregard for environmental standards, leading to extensive damage to their reputation. Similarly, Apple has faced enduring challenges with international suppliers, specifically with Pegatron and the exposure of its labor violations, leading to persistent questioning about their sincerity in resolving the issue. The case with Starbucks demonstrates how genuine CSR efforts can sometimes help with PR management, while Volkswagen's case illustrates that being exposed for manipulating CSR can have severe repercussions. Apple's struggles spotlight the obstacles to enforcing CSR expectations across multiple jurisdictions. Even with this, it is also essential to recognize the differences between the circumstances. Starbucks's situation mainly impacted the local population and resulted in a national boycott limited to a specific audience and problem. Volkswagen's scandal was a multinational issue, affecting many consumers and receiving far greater media exposure. Apple's case emphasized the challenges of standardizing labor practices within a global supply chain and how ties to certain suppliers can put profits at odds with brand image. This contrast points out the diverse circumstances and outcomes of CSR abuse and the value of integrity and transparency when upholding a company's reputation. Additionally, integrating Freeman's Stakeholder Theory into each case's analysis highlights the significance of companies balancing profit generation and ethical obligations. By acknowledging the effects of their decisions on all stakeholders, whether society or nature, businesses are more likely to prevent reputational harm and establish long-term success.

These cases show the profound impacts that exploiting CSR can have on business morals and public trust. When corporations are seen leveraging CSR as a branding strategy instead of a voluntary commitment to bettering society, it can undermine customer trust. As seen with Starbucks' approach, while being effective at the moment, it risks coming across as disingenuous and can still affect the company's public perception. However, what Volkswagen had done was apparent, leading to significant consequences both reputationally and financially. In Apple's case, despite the company's attempt to address its suppliers' labor concerns, it continues to aim to balance financial success and ethical integrity, resulting in mixed reactions and a long-term stain on its image. Although these cases differ, they reflect a broader underlying issue regarding the insufficiency in preventing corporate misconduct. In these scenarios, and many others, CSR is used as a reactive measure rather than a proactive one, with corporations only confronting moral concerns after being exposed. Ultimately, these situations reveal a need for a sincere

commitment to corporate responsibility, as deceptive or exploitative actions threaten a company's standing and undermine overall trust in CSR.

ESG and Global Compliance:

Environmental, social, and governance (ESG) ratings are statistical indicators of CSR, measuring a corporation's environmental, administrative, and social performance. ESG ratings supply a comprehensive report on how well companies adhere to ethical business principles and their broader societal influence. These ratings are calculated through publicly available information from external assessments, corporate disclosures, and environmental violations by companies ((Tayan, B., Larcker, D., Watts, E., & Pomorski, L. *ESG Ratings: A Compass without Direction*. The Harvard Law School Forum on Corporate Governance.

<https://corpgov.law.harvard.edu/2022/08/24/esg-ratings-a-compass-without-direction/> (2022)).

Nonetheless, it is important to note that scholars have argued against the effectiveness of similar rating systems and the difficulty of keeping them standardized across nations ((Chatterji, A. K., Levine, D. I., & Toffel, M. W. How Well Do Social Ratings Actually Measure Corporate Social Responsibility? *Journal of Economics & Management Strategy*, 18(1), 125–169.

<https://doi.org/10.1111/j.1530-9134.2009.00210.x> (2009)).

The methodology of ESG rating varies by country, as compliance structures and CSR obligations differ and are rooted in development, stringency of laws, and societal demands. However, international organizations such as the Organization for Economic Co-operation and Development (OECD) strive to standardize and advance ESG ratings worldwide. The OECD is a multinational body of 38 nations, promoting sustainable economic growth and publishing guidance on ESG investing to help financial institutions to commit to sustainable investment strategies ((OECD. *The OECD: Better policies for better lives*. OECD.

<https://www.oecd.org/en/about.html> (2024)). Member countries in the OECD tend to have

higher environmental performance, with the top 5 countries in the 2024 Environmental Performance Index (EPI) all being part of the OECD ((Yale Center for Environmental Law & Policy. *Environmental Performance Index*. [epi.yale.edu](https://epi.yale.edu/measure/2024/EPI). <https://epi.yale.edu/measure/2024/EPI> (2024)). Additionally, scholars found that carbon dioxide productivity has increased more than 31% in OECD countries from 2000 to 2019, suggesting increased efficiency in energy use and reduced carbon emissions ((Gavurova, B., Megyesiova, S., & Hudak, M. Green Growth in the OECD Countries: A Multivariate Analytical Approach. *Energies*, 14(20), 6719.

<https://doi.org/10.3390/en14206719> (2021)). Overall, these efforts highlight the importance of such organizations in implementing ESG principles, though it is still important to be aware that not all OECD member countries are making equal progress.

This disalignment in progress indicates the need for somewhat more stringent and systemized ESG-related directives. A prime example is the European Union (EU), which includes numerous OECD members and has well-established regulations that directly impact their ESG ratings. One significant directive in the EU is the Sustainable Finance Disclosure Regulation (SFDR) from 2019, which requires investment firms and asset managers to disclose

their approach to integrating sustainability into their business operations. This indirectly affects overall ESG ratings as investors from said companies prioritize corporations with committed sustainability efforts to adhere with SFDR requirements ((Leader, E. *EU Action Plan – Deep dive on Disclosure Regulation (SFDR)*. Ey.com.

https://www.ey.com/en_ch/insights/sustainability-financial-services/eu-action-plan-deep-dive-on-disclosure-regulation-sfdr (2025)). Another significant directive is the EU Taxonomy Regulation from 2020, which directly influences the EU's corporate ESG ratings. It mandates company compliance with coherent guidelines that define what constitutes environmentally friendly practices. It then pushes corporations to align their sustainability initiatives to be considered “green”, incentivizing them to improve their ecological impact and, in turn, their ESG ratings ((Doyle, D. H. *A Short Guide to the EU's Taxonomy Regulation*. S&P Global.

<https://www.spglobal.com/esg/insights/a-short-guide-to-the-eu-s-taxonomy-regulation> (2021)). Such regulatory measures in the EU have led to their average corporate ESG score jumping from 74 to 80.6 (on a scale from 0 to 100) since 2019 ((*Environmental, Social, and Governance Performance of EU Companies*. Europa.eu.

<https://www.eea.europa.eu/en/circularity/thematic-metrics/business/environmental-social-and-governance-esg-performance-of-eu-companies> (2024)).

To further support the impact of CSR regulations, one can explore the correlation between country-specific CSR policies and recorded environmental violations. Nations that have implemented more rigorous CSR guidelines largely observe fewer environmental violations, due to corporations facing amplified legal and social scrutiny. To illustrate, a research study conducted by PRI found that multinational corporations residing in countries with stricter sustainability policies generally reduce their domestic carbon dioxide emissions by 29%. It also found that certain countries, such as Trinidad and Tobago, Bosnia and Herzegovina, Suriname, and Barbados, have some of the highest levels of carbon dioxide emissions relative to their GDP. These countries have noticeably weaker environmental regulatory frameworks, consequently resulting in multinational corporations choosing to relocate their polluting operations to these nations ((PRI. *Exporting pollution: where do multinational firms release Co2?* PRI.

<https://www.unpri.org/pri-blog/exporting-pollution-where-do-multinational-firms-release-co2/5592.article> (2020)). The disparity of CSR regulation between developed and developing nations has enabled companies to participate in environmentally harmful practices that would otherwise be unacceptable in their home country. Note that none of these countries are members of the OECD, also demonstrating how the lack of robust global environmental policies can lead to businesses profiting at the expense of future ecological stability.

In terms of labor rights, countries with more stringent CSR guidelines also typically report fewer labor violations. For example, a 2023 survey examining which countries ranked highest and lowest in terms of labor rights concluded that Denmark, Norway, and Ireland were the top three countries due to their comprehensive labor protections and high union participation, with Denmark scoring 0.95 out of 1. On the other hand, Iran, Sudan, and China scored the lowest due to their suppression of trade unions and systematic violations of labor rights, with Iran

scoring 0.23 out of 1 ((World Justice Project. *We Measured Labor Rights in 142 Countries. Here's What We Found.* World Justice Project. <https://worldjusticeproject.org/news/we-measured-labor-rights-142-countries-here%E2%80%99s-what-we-found> (2024))). As with environmental violations, businesses often relocate nations with weak labor laws to maximize profits, often at the expense of their suppliers' workers. Additionally, the highest ranked countries are once again members of the OECD, whereas the lowest ranked countries are not, demonstrating the considerable role global CSR-related mandates play in safeguarding labor protections. This contrast underlines the limitations of current domestic legal frameworks and the need for a more cohesive approach towards the globalization of CSR.

Legal Solutions:

Significant changes are necessary to increase clarity and strengthen enforceability in CSR-related frameworks, managing the existing loopholes and inconsistencies. These revisions should concentrate on refining legal terminology, facilitating business transparency, enforcing penalties for non-adherence, providing practical solutions to the lack of enforcement mechanisms, and establishing third-party oversight bodies to assess CSR compliance.

A central issue with current legal frameworks regarding CSR is the ambiguity in legal language. To resolve this issue, standards should provide requirements with clear definitions of key terms and detailed explanations of corporate conduct. For example, rather than making general statements like "support a precautionary approach to environmental challenges," which is said in the UN Global Compact, standards should outline specific practices such as limiting waste, reducing carbon footprint, and promoting ethical material sourcing ((Karbassi, L. *Environment | UN Global Compact.* Unglobalcompact.org. <https://unglobalcompact.org/what-is-gc/our-work/environment> (2024))). In addition, the extent of the laws should be well specified, listing which corporations fall under these requirements through determinants like industry, size, and market influence ((Madu, K. *The Challenges of Implementing Corporate Social Responsibility in a Democratic Capitalist System.* Georgetown Law. <https://www.law.georgetown.edu/denny-center/blog/corporate-social-responsibility/> (2024))). With this in mind, it is also important to acknowledge the possibility that if CSR standards become overly specific, companies can claim they don't apply to them, so walking the fine line between being more specific but not excessively precise is profound ((Felter, E. B., & Komar, B. *Move from corporate responsibility to impact economy.* World Economic Forum. <https://www.weforum.org/stories/2023/04/moving-from-corporate-responsibility-to-impact/> (2023))).

Furthermore, establishing mandated business transparency in CSR-related activities is critical to maintaining sustainable corporate practices. Companies must be obligated to share any details regarding their CSR efforts, disclosing their goals and initiatives to the public. Such transparency would allow consumers and stakeholders to examine a company's devotion to CSR efforts. Corporations would also be more willing to commit to more ethical and sustainable

practices if they knew the public was supervising their actions. This can improve employment standards, environmental practices, and more conscientious company actions. However, nations with similar disclosure requirements often lack uniformity with other jurisdictions, which can lead to selective reporting of favoring CSR initiatives and omitting harmful ones. Particularly in industries where third-party oversight is not utilized, the potential for self-reported misleading data is higher. Addressing such challenges would require comprehensive, standardized transparency guidelines that align CSR reports with financial disclosures to ensure credibility. The feasibility of implementing this would require the consideration of factors such as competition, regulatory framework differences, data collection, and the complexity of global supply chains.

Additionally, effective penalties should be mandated for any company that violates CSR-related standards to discourage businesses from taking advantage of regulatory gaps. Possible penalties include fines or limitations on corporate operations. However, to ensure fairness, these liabilities must be proportionate to the extent of the damage of non-compliance. For example, a significant global enterprise violates an environmental policy, but instead of being fined a predetermined amount, they are fined proportionately to the ecological damage inflicted. This signifies the importance of making the penalties impactful enough to a company that they act as a repellent to such behavior instead of merely a business expense. Despite the fairmindedness of this approach, inflicting financial burdens on a company after violating CSR regulations won't necessarily make the corporation change for the better ((Wu, C.-C., Cheng, F.-C., & Sheh, D.-Y.. Exploring the factors affecting the implementation of corporate social responsibility from a strategic perspective. *Humanities and Social Sciences Communications*, 10(1), 1–11. <https://doi.org/10.1057/s41599-023-01664-4> (2023).)). Financial penalties alone often fail to make substantive change in corporate behavior, with companies viewing fines as a manageable cost as long as their financial gain outweighs their penalty. An alternative to a direct fine could be the integration of executive accountability. This would make the leadership of a corporation face direct liability for CSR violations, such as personal financial penalties or bans from holding directorial positions, ultimately incentivizing them to prioritize CSR integration. The case of Volkswagen demonstrates this well, as following the exposure of their scandal, they received significant fines, but in the long run, their reputational damage ultimately affected the corporation the most and led to their stock market value dropping.

In addition, forming independent external oversight bodies might be beneficial to guarantee company adherence to CSR standards. These bodies would be authorized to conduct in-depth assessments of CSR-related corporate activities, validate company report accuracy, and examine claims of non-adherence to regulations. They would play a vital role in maintaining established CSR standards, pressuring companies to comply and commit to genuine CSR engagement. This oversight would keep consistent CSR efforts across different areas and industries and narrow the gap between legal regulations and corporate behavior. These legal reforms would ensure corporations exceed their commitments to CSR, contributing to increased voluntary ethical actions and uniformity for businesses overall. However, it's essential to

acknowledge the logistical and financial concerns of implementing something like this, as organizing and funding oversight bodies for thousands of companies is no easy task. A minor adjustment to lighten this might be, similar to penalties, creating oversight bodies that would be proportionate to the company's market influence so time and money are spent more efficiently as opposed to having an equal amount per company. Another major challenge is the danger of regulatory corruption, where audit agencies lack impartiality through the influence of the very companies they are meant to oversee. To prevent oversight bodies from becoming compromised, stringent autonomy measures must be put in place, such as government-backed funding or rotating executive leadership to avoid any influence.

Lastly, to improve weak enforcement mechanisms, incentivizing CSR compliance alongside fostering collaboration between intergovernmental organizations presents two feasible solutions. Firstly, to incentivize CSR, governments can further extend tax reductions for corporations that have a strong dedication to CSR. This approach not only encourages accountable actions by companies but also improves national ESG ratings, which can attract investors, fuel economic growth, and establish long-lasting benefits for a government and its people. Additionally, offering benefits such as priority in procurement processes is also a strong incentive, ensuring that corporations committed to CSR are given priority in obtaining government funding. These benefits would make CSR compliance more financially sustainable for companies and motivate them to integrate CSR into their operations. Moreover, given that forming a unified intergovernmental body is unrealistic, fostering collaboration between existing ones can help standardize enforcement mechanisms, particularly in global supply chains. For example, collaboration between the UN and the OECD could significantly improve CSR oversight by aligning their common principles with investment regulations and global commerce. The UN's emphasis on labor rights and sustainability, alongside the OECD's guidelines on governance, ethical investment, and transparency, could establish more coherent and stringent global frameworks, ultimately tightening regulatory gaps.

The Possibility of CSR Laws:

Rising interest has been shown in the potential to legally mandate CSR in countries yet to do so. This would require all companies to comply with fixed CSR regulations, removing the voluntary aspect. Many factors, such as public approval, government support, and existing legal frameworks, determine the likelihood of such laws being implemented.

Creating new statutes enforcing CSR offers both benefits and challenges. From one perspective, enforced CSR regulations could result in more consistent and uniform business practices, aligning them with international standards and eliminating the specificity disparity. From another perspective, enacting these laws would require an analysis of current political and economic environments across multiple nations. Scholars have argued that CSR has become increasingly challenging to integrate in developing nations, particularly ones in South America and Africa ((Dobers, P., & Halme, M. Corporate social responsibility and developing countries. *Corporate Social Responsibility and Environmental Management*, 16(5), 237–249.

<https://doi.org/10.1002/csr.212> (2009.)). While some countries have already started incorporating CSR into their regulatory frameworks, others have yet to begin due to flawed government systems or economic limitations.

Recent government initiatives in various countries have advanced the possibility of enforced CSR worldwide. As a starting point, within the European Union, there have been several legislative actions regarding the enforcement of CSR, such as the creation of the Non-Financial Reporting Directive of 2014. This law requires large corporations to be transparent about their environmental practices, societal involvement, work environment, and diversity. The initiative was created to hold companies accountable by providing consumers with information on their businesses' internal CSR performance, yet it proved to have more problems than anticipated ((European Parliament. *Non-financial Reporting Directive*.

[https://www.europarl.europa.eu/RegData/etudes/BRIE/2021/654213/EPRS_BRI\(2021\)654213_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/BRIE/2021/654213/EPRS_BRI(2021)654213_EN.pdf) (2021.)). There has been considerable acknowledgment of this directive being too ambiguous by allowing corporations to select a range of standards to report on, such as ISO 26000. This has led to inconsistencies since these standards have shortcomings, leaving more room for companies to provide vague and fragmented data. The EU has even recognized these issues and decided to implement a stricter framework, the Corporate Sustainability Reporting Directive, to help reverse some of the faults of the Non-Financial Reporting Directive¹².

A further illustration is India's less recent efforts to integrate CSR into their legal system with the creation of the Companies Act of 2013, which prescribes certain businesses to set aside at least 2% of their net profits to use towards CSR efforts. This Act was initially created to systematize CSR and help alleviate national poverty, healthcare issues, and environmental concerns. What came about was that companies viewed this law as a tax obligation instead of a step toward positive social change. There also arose loopholes in non-compliance as this law allowed companies to simply outline their grounds for non-compliance without any considerable penalties ((Aswani, J., & Aswani, J. *The Costs of India's Mandatory Corporate Social Responsibility Rule - ProMarket*. ProMarket.

<https://www.promarket.org/2024/07/11/the-costs-of-indias-mandatory-corporate-social-responsibility-rule/> (2024.)).

Both these initiatives had a goal that began with supporting CSR and having positive societal and environmental impacts but have faced serious obstacles with implementation. In the European Union, the directive's accountability expectations have been insufficient, leading to surface-level data collection due to imprecise legal language. In India, the increasing discontent of companies due to their interpretation of the law as a tax obligation and the exposure of legal gaps has hindered genuine CSR engagement. Examining the legal revisions mentioned earlier, it is clear that they apply to the flaws of these two initiatives. With the Non-Financial Reporting Directive, creating more specified terms requiring companies to report only on one or two CSR standards will improve consistency and reduce the chances of imprecise reporting. Regarding the Companies Act of 2013, instituting more stringent penalties for non-compliance and attentively

tracking companies' obedience can contribute to meaningful CSR involvement and business transparency.

Conclusion:

This paper has examined the nuances of implementing CSR within existing legal frameworks and systems. Legal constraints such as ambiguity in legal terminology, lack of effective enforcement mechanisms, and historical circumstances have all enabled businesses to exploit legal loopholes, undermining the fundamental moral aspects of corporate responsibility. In the case studies involving Starbucks' enforcement of racial-bias training, Volkswagen's "diesel dupe" misconduct, and Apple's ultimatum towards Pegatron, it is apparent how utilizing these legal gaps can either strengthen a company's image or destroy its reputation entirely. Having an external oversight body, less ambiguous legal terminology, stronger business transparency, and additional penalties could have mitigated the harm from Volkswagen's actions and also reduced cases of the company's manipulating CSR altogether. Although challenging, implementing these reforms is vital for protecting consumers' physical and psychological well-being, fostering ethical business environments, and prioritizing social accountability over profit.

However, to fully resolve these loopholes, alternative regulatory frameworks must be considered. For example, countries in Scandinavia, particularly Denmark and Norway, have developed stringent and comprehensive CSR laws, which enforce not only substantial fines for noncompliance but also demand significant transparency ((Strand, R., Freeman, R. E., & Hockerts, K. Corporate Social Responsibility and Sustainability in Scandinavia: An Overview. *Journal of Business Ethics*, 127(1), 1–15. <https://doi.org/10.1007/s10551-014-2224-6> (2014))). These systems have had great impacts but continue to face challenges when it comes to the genuineness of corporate CSR participation. In contrast, fewer mandatory CSR frameworks in countries such as France and South Korea incentivize companies to participate through tax deductions rather than imposing legal obligations ((*France Introduces Its "New Green Industry Investment" Tax Credit* | Cleary Gottlieb. www.clearygottlieb.com. <https://www.clearygottlieb.com/news-and-insights/publication-listing/france-introduces-its-new-green-industry-investment-tax-credit> (2023))), ((PWC. *Korea, Republic of - Corporate - Tax credits and incentives*. [Taxsummaries.pwc.com](http://taxsummaries.pwc.com). <https://taxsummaries.pwc.com/republic-of-korea/corporate/tax-credits-and-incentives> (2024))). While these models encourage more sincere involvement, they aren't structured to foster sustained ethical behavior in internal business operations. Given these challenges, introducing a global approach to CSR implementation that harmonizes national standards could facilitate worldwide collaboration on improving existing structures and ultimately prevent companies from relocating to nations with weak regulatory environments.

In conclusion, this analysis reveals the significant gaps between CSR-related frameworks and current legal systems, often allowing corporations to bypass participating in sincere CSR efforts. By addressing these legal loopholes and reassessing existing frameworks, the integrity of CSR efforts can be reinforced, ensuring that companies engage in genuine ethical practices

instead of manipulating regulatory inconsistencies. In the future, government officials and industry leaders must dedicate effort toward developing more defined, standardized, and enforceable standards that are aligned with CSR principles. This approach will promote long-term business accountability and help regain public trust in both the corporate and legal sectors permanently.

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