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An Examination of The Impact of Corporate Social Responsibility on Firm Risk Using a Theoretical Analysis.

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Abstract

The objective of this study is to ascertain whether there is a correlation between risk and corporate social responsibility (CSR) in a sample of Pakistani enterprises. The approach employed by the authors is distinguished by three main attributes. The writers utilize a range of CSR projects to demonstrate the significance of CSR in organizational risk assessment. During the later phase of their inquiry, the writers attempt to identify non-linear connections by distinguishing between the positive and negative aspects of CSR. In addition, the authors avoid combining panel data into a single cross-section and employ a risk assessment technique that considers anticipated fluctuations in a company's performance. When evaluating the relationship between risk and corporate social responsibility (CSR), it is essential to carefully analyze both internal and interorganizational differences. The writers emphasize in their concluding conclusion that CSR involves not just corporate governance but also diversity and employee interactions. Previous findings support this viewpoint. Furthermore, the authors provide evidence that corporate social responsibility (CSR) characteristics related to diversity and employee interactions are linked to increased risk. The positive impact of corporate social responsibility (CSR) on a company's risk profile can be demonstrated by utilizing aggregate CSR indicators. However, it is important to consider both the possible advantages and disadvantages of CSR. This is because these two items can be simultaneously checked.The ideas of corporate social responsibility (CSR) and its associated advantages and issues are separate and should not be combined into a single metric, as seen from the supplied statistics. An aggregate index may create a false impression among investors that CSR has a smaller influence on corporate risk than it actually does.

Introduction

Although there has been significant research on the connection between CSR and financial performance, the link between corporate social responsibility (CSR) and company risk is still not well comprehended. Orlitzky and Benjamin (2001) emphasise the inconsistencies in methodology and the absence of uniformity in the research done, as they analyse the factual data. Conversely, there seems to be an adverse correlation between risk and corporate social responsibility (CSR). This demonstrates that incorporating corporate social responsibility (CSR) strategies can assist organisations in mitigating the impacts of negative events. Corporate social responsibility (CSR) can mitigate a company's exposure to legal liability arising from unintentional contamination. Additionally, it can assist firms in cultivating a favourable reputation, thereby safeguarding them against adverse responses from the broader populace. The objective of this study is to investigate

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the correlation between corporate social responsibility (CSR) and company risk by evaluating a specific sample of Pakistani enterprises. When assessing risk, we determine the absolute deviation from a company's anticipated performance. This enables us to maintain the panel structure of the data. By employing this approach, initially developed by Adams et al. (2005), we may use the internal and external variations that exist within and among companies. Moreover, it considers the anticipated alterations in a company's performance, which is a crucial aspect to analyse. Traditional measures of volatility fail to consider performance. Consequently, our review provides a more precise depiction of the real risk that impacts an organization's performance. We evaluate the consequences of each individual element of a company's social responsibility (CSR) and differentiate between areas where the company excels in CSR and places where there are concerns about CSR. This is in opposition to previous research, which utilised a composite index. This aligns with the principles proposed by Hillman and Keim (2001) and Rehbein et al. (2004). By employing this methodology, it is possible to discover intricate connections, including non-linear ones, and determine the precise elements of corporate social responsibility that exert a significant influence on the risk faced by a firm. Our research suggests that placing a stronger focus on corporate social responsibility is associated with higher risk for shareholders. This discovery aligns with the results of prior inquiries. The significance of diversity and employee interactions is often emphasised. Based on the results of this research, a narrow and short-term outlook, which could be swayed by financial gains (McGuire et al., 2003), can lead companies to ignore their moral responsibilities towards their employees, thereby raising the chances of facing more long-term financial burdens. Through our investigation, we have identified a significant correlation between elevated levels of CSR strengths and heightened risk. Diversity and employee relations are commonly recognised as the key components of corporate social responsibility. This connection highlights and underscores the trade-off that occurs when there is a conflict between the claims of a company's shareholders and employees. When a company commits to enhancing its treatment of employees across its activities, it is inevitable that more risk will be shifted to its shareholders. Prior research utilising a solitary comprehensive measure produced merely a moderately adverse outcome. This may be attributed to the fact that the study took into account both favourable and unfavourable risk factors.

Literature Review

The stakeholder theory was introduced by Donaldson and Preston (1995) and Jones (1995). This hypothesis suggests that companies have the capacity to reduce risk by actively engaging in corporate social responsibility programmes. Engaging in corporate social responsibility (CSR) allows companies to establish relationship capital with stakeholders, which serves as a safeguard against potential losses similar to an insurance policy (Godfrey, 2005). The fundamental concept is that during a crisis, stakeholders are less inclined to impose severe consequences. Corporate social responsibility provides a protective barrier for businesses against potential risks and enhances their capacity to withstand future economic downturns. Customers are inclined to acquire the products provided by the company. Enterprises that possess a high corporate social

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responsibility (CSR) rating, sometimes referred to as responsible companies, are anticipated to experience less impact from unfavourable occurrences, such as environmental catastrophes, compared to their direct rivals. Sen et al. (2006) argue that corporate social responsibility (CSR) generates positive emotions, which in turn help to counteract unfavourable opinions held by stakeholders. Enhanced customer loyalty can assist companies in reducing the impact of external market volatility and allow them to modify their operations. Moreover, as stated by Melo (2012), corporate social responsibility has the capacity to enhance employees' perception of the firm during their tenure. During times of economic hardship, individuals are more inclined to openly discuss and reveal their financial difficulties. Employees may engage in unpaid overtime to cultivate support through alternate avenues, such as advocating to lawmakers or convincing acquaintances to buy the company's products. Engaging in corporate social responsibility (CSR) initiatives has the capacity to strengthen a company's capacity to efficiently handle challenging circumstances. Corporate social responsibility measures not only alleviate the impacts of adverse shocks, but also reduce the likelihood of firms facing such challenging situations in the first instance. Adopting environmental responsibility decreases the probability of accidental pollution release. The recognition of the beneficial return on investment in corporate social responsibility should be acknowledged due to its ability to mitigate the risk of incurring substantial penalties. According to Spicer's (1978) seminal research on corporate social responsibility, firms that have a history of effectively implementing pollution control measures are less prone to encountering substantial fines. This was the final determination made. Establishing a robust safety culture for employees and other stakeholders can be achieved by implementing a well-designed strategy that places corporate social responsibility as a top priority. Corporate Social Responsibility (CSR) can help a corporation anticipate and handle potential situations that could harm the company by increasing knowledge of risks. This not only diminishes the severity of the dreadful occurrences, but it also diminishes the probability of their occurrence altogether. By investing in maintenance, a company not only reduces the probability of accidents among its personnel, but also demonstrates a strong commitment to worker safety. Likewise, the implementation of eco-friendly technology often comes with a high price tag; yet, it is linked to a decrease in the frequency and severity of environmental incidents. This is because technology, by its very nature, should possess a greater understanding of these challenges. To mitigate the probability of events that may possibly harm customers, it is crucial to prioritise product safety and conduct thorough testing. Overall, the implementation of corporate social responsibility is anticipated to enhance producers' vigilance in effectively managing diverse forms of risk. McGuire et al. (1988) found that organisations that neglect their stakeholders' concerns are more prone to incurring future expenses. Oritzky and Benjamin (2001) found that tobacco corporations have faced substantial legal actions due to their high-risk business methods, resulting in large financial constraints. The expenses are consistently increasing at a swift rate, causing apprehension on the heightened likelihood of regulatory measures, such as more stringent manufacturing criteria and restrictions on advertising. The likelihood of the public's perception of inadequate corporate social

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responsibility exacerbating the intensity of any adverse response is high. By undertaking this action, the company increases the probability of encountering penalties and attracting undesirable attention. Deficient corporate social responsibility (CSR) initiatives can exacerbate a company's financial strain during a period when it is already grappling with substantial challenges. The corporation may under pressure to allocate substantial resources to public relations and advertising in order to repair the damage inflicted on its reputation. Businesses cannot rely on the allegiance of their employees and customers unless they effectively execute initiatives to showcase their dedication to corporate social responsibility. Amid challenging circumstances, customers may opt to purchase goods or services from alternative vendors, while staff members may decide to depart from the company due to the difficulties they are encountering. Irrespective of the circumstances, the company's difficulties would escalate, so heightening the risk for its shareholders. However, firms may be obligated to bear these ongoing costs either because of constraints in their financial resources or due to a pressing need to meet immediate objectives, such as meeting profit projections set by financial analysts. Consequently, there is an undue focus on reducing current expenditures, while anticipated issues are either ignored or missed. According to McGuire et al. (2003), the absence of corporate social responsibility (CSR) might be ascribed to managerial incentives that prioritise short-term goals. The corpus of research substantiating an inverse correlation between CSR (Corporate Social Responsibility) and risk expands continuously. Luo and Bhattacharya (2009) discovered that the implementation of corporate social responsibility diminishes idiosyncratic risk. Oikonomou et al. (2010) discovered an inverse correlation between the levels of corporate social responsibility (CSR) and systematic risk. Conversely, there is a direct correlation between corporate social responsibility issues and systemic hazards. Key concerns of utmost importance encompass community engagement, employment prospects, and environmental sustainability. In their study, Salama et al. (2011) investigated the correlation between community and environmental responsibility (CER) and systemic risk in the United Kingdom. These findings confirm the hypothesis that there is a substantial negative correlation between the two variables under consideration. Sharfman and Fernando (2008) discovered a direct correlation between reducing the cost of capital, namely the cost of equity, and enhancing sustainability in environmental risk management. Based on the acquired information, the main reason for the increase in interest rates is the firms' inclination to increase their leverage, even when they perceive themselves to be less risky. El Ghoul et al. (2011) confirm similar results using KLD data. Attig et al. (2013) shown that there is a correlation between positive corporate social responsibility (CSR) and elevated credit ratings. The outcomes of this study indicate that investors see firms with a high dedication to corporate social responsibility (CSR) as having lower levels of risk.

H1: Corporate Social Responsibility (CSR) is linked to reduced risk.

According to Barnea and Rubin (2010), expenditures in corporate social responsibility (CSR) can divert significant economic resources away from other projects. These projects may include the creation of new product lines or the enhancement of R&D capabilities. It is likely that corporate

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social responsibility (CSR) measures will reduce the firm's competitiveness and make it more vulnerable to external shocks. For example, putting too much attention on environmental issues may result in increased manufacturing costs and a loss of competitiveness for businesses. A corporation's participation in corporate social responsibility efforts may raise the likelihood of the company failing, offering a greater risk to the company's shareholders. Maintaining a harmonic balance between the competing needs of a large number of stakeholders is an important aspect of corporate social responsibility (CSR). One set of stakeholders' costs will rise as a result of increasing attention to the requirements of another group of stakeholders. A company's decision not to terminate employees due to concerns about their health and happiness is an example of a fixed cost. This might be considered a fixed expense. As a result, the company's exposure to risk from its shareholders increases. It is possible that other employees will be held accountable for the financial costs connected with providing medical care to a certain set of employees. This phenomenon arises when a corporation is forced to reduce the salary it pays to its highly effective employees in order to compensate for the increased costs incurred by its less efficient employees, whom the company chooses not to fire. As a result, the organisation may lose some of its most exceptional employees, and potential external recruits may be discouraged from applying for the position. This will undoubtedly have a significant impact on the company's performance, increasing the risk for shareholders. Using agency theory, Cespa and Cestone (2007) claim that managers are more willing to participate in corporate social responsibility projects in order to obtain support from local communities and politicians. This is according to the findings. It is projected that the implementation of corporate social responsibility will exacerbate management entrenchment by preventing hostile takeovers. It is unsurprising that the view of the corporation as more risky may arise as a result of the negative consequences associated with the organization's performance. The empirical research undertaken to date has yielded no evidence that suggests a favourable relationship between risk and corporate social responsibility. Nonetheless, the preceding discussion gives a significant amount of evidence that the hypothesis is correct:

H2: Corporate Social Responsibility (CSR) is linked to increased risk.

While several studies integrate various dimensions of corporate social responsibility (CSR) to generate a consolidated score (Luo and Bhattacharya, 2009; Menz, 2010; Salama et al., 2011; Jo and Na, 2012; Sun and Stuebs, 2012; Attig et al., 2013), it is essential to bear in mind that a company can display social responsibility in one area while exhibiting social irresponsibility in another. Hillman and Keim (2001) and Rehbein et al. (2004) have found that different aspects of corporate social responsibility (CSR) should be handled separately. Throughout the investigation, a corporation may exhibit both conscientious and negligent conduct at the same site. This is done to enhance the intricacy of the inquiry. ExxonMobil initiated the implementation of extensive retirement benefit packages for these personnel circa 2000. Simultaneously, the firm became entangled in intense disputes on health and safety, resulting in repercussions for its employees. Consequently, this supports the idea that the benefits and drawbacks of each aspect of corporate social responsibility (CSR) are inherently distinct and should not be merged. In their 2006 essay,

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Mattingly and Berman contend that the notion of integrating positive and negative social behaviours is flawed as it implies that a firm cannot excel in one aspect while still excelling in another. When considering risk, each aspect of CSR may possess a unique connotation or significance. Moreover, investors may lack a shared comprehension of all facets of corporate social responsibility (CSR), and they may assign varying degrees of importance to each. The demonstration has revealed that the different variables of corporate social responsibility (CSR) have distinct ramifications on risk. In their study, Bird et al. (2007) discovered that investors do not assign comparable value to all dimensions of corporate social responsibility. Likewise, there is no justification to assume that any specific form of corporate social responsibility will exert an identical impact on risk. Consequently, we can formulate the following hypothesis:
H3: The correlation between Corporate Social Responsibility (CSR) and risk varies depending on the specific aspect of social performance being examined.

Through conducting multiple inquiries, experts have found that a singular concern regarding corporate social responsibility (CSR) can potentially have diverse ramifications on a company's financial risk. According to Meijer and Schuyt (2005), customers do not necessarily anticipate a company to engage in substantial social responsibilities. Nevertheless, higher degrees of social responsibility do not necessarily result in higher product sales. Lankoski (2009) posits that the economic influence of corporate social responsibility (CSR) is more significant in scenarios characterised by negative externalities, such as pollution, compared to instances with positive externalities, such as promoting diversity. Businesses that demonstrate insufficient social responsibility, as seen by a weak dedication to corporate social responsibility, should be exposed to increased risk. However, firms that possess a robust commitment to social responsibility and comprehensive corporate social responsibility programmes may only be capable of partially mitigating their risk. Goss and Roberts (2011) found that businesses that give priority to corporate social responsibility (CSR) incur significant increases in debt-related costs, specifically higher interest rates on bank loans. In contrast, companies that demonstrate exceptional corporate social responsibility encounter just a modest decrease in their debt levels. This perspective aligns with the conclusions drawn from the study. In their study, Mishra and Modi (2012) found a strong correlation between corporate social responsibility (CSR) capabilities and a notable reduction in idiosyncratic risk.
H5: CSR flaws exert a more significant impact on risk in comparison to CSR strengths.

Methodology

We utilise SECP ratings to assess the level of social responsibility exhibited by firms in Pakistan. The SECP evaluates firms' corporate social responsibility (CSR) efforts, considering various characteristics. Organisational governance involves various aspects such as community involvement, diversity, employee relations, environmental impact, product quality, protection of human rights, and adherence to corporate governance principles. Rakotomavo (2012) and Stubbs and Rogers (2013) indicate that the SECP takes into account a wider array of criteria for every

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category. This includes both advantages and challenges. Regarding employee relations, a profit-sharing programme serves as a positive indicator, while inadequate safety precautions have a negative impact. A value of one signifies the existence of a concern or strength, whereas a value of zero signifies its nonexistence. The SECP gathers data from corporate archives in addition to media publications. The SECP acquires information through direct engagements with company executives, government officials, and non-governmental organisations. The SECP conducts a yearly assessment of the social performance of around 650 firms, which includes all corporations listed on the KSE 500. The initial step in the sample involves incorporating all of the KSE 500 firms that were assessed by KLD from 1991 to 2003. Utilities and financial companies were omitted due to their divergent performance and risk indicators (see to the subsequent section). This is consistent with previous studies. Compustat offers an extensive compilation of financial data. The database maintained by the Centre for Research in Security Pricing (CSRP) includes crucial stock values necessary for evaluating companies. We exclude any incomplete data and mandate that organisations possess data for a continuous period of five years to maintain a balance between comparing companies within a single year and evaluating the behaviour of each company over a period of time. The imposed restrictions restrict the sample size to 3,728 observations from the corporate fiscal year. Human rights were excluded from our analysis, following the approach of Bird et al. (2007) and Melo (2012), due to their absence prior to 2002. We have six primary categories available. Prior research on corporate social responsibility (CSR) assessed the advantages and disadvantages of each element by calculating the difference between the total strengths and concerns. The execution of this method renders it unfeasible to conduct an impartial evaluation of the correlation between risk and corporate social responsibility endeavours. This statement also suggests that a firm that is socially responsible cannot be lacking in responsibility. We refrain from amalgamating issues and strengths into a singular Corporate Social Responsibility (CSR) dimension due to their potential differentiation as independent phenomena. This aligns with the findings of Mattingly and Berman (2006) as well as Bird et al. (2007). An other option is to integrate all of the local potency evaluations, often known as concerns. Upon calculating the sum of the scores, we proceed to divide the resulting total by the number of entries inside the category. We can enhance our ability to evaluate the risk impact of each group with greater precision. In order to determine the extent to which each strength (and fear) impacts risk, we aggregate all of the strengths into a unified evaluation. To assess the advantages and disadvantages, calculate the sum of all the individual elements and then divide the total by the number of items that were evaluated accurately. Hillman and Keim (2001) state that approach enables the evaluation of coefficients for both overall indicators and specific attributes and elements. The standard deviation of a performance indicator is utilised in risk assessment to evaluate the variability of its values over a specific time frame. Luo and Bhattacharya (2009) state that most studies on corporate social responsibility (CSR) primarily use stock return volatility as a measure, encompassing both systematic and unsystematic (or idiosyncratic) elements. There are two reasons to be worried about idiosyncratic risk. At first, it is the most significant menace,

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comprising 80% of it. The company is exposed to systematic risk due to its susceptibility to cash flow fluctuations that arise during the economic cycle and are beyond its influence. Rumelt (1974) and Porter (1980) discovered that idiosyncratic risk is dictated by a company's operational strategy. When studying the volatility of stock returns over time, this method has a number of downsides, one of which is that it reduces the original panel to a single cross-section. It is concerning if alternative treatments have the opposite effect as conventional ones. When calculating volatility, intra-year returns or rolling windows over shorter time periods should be employed. Both of these tactics offer alternatives to the standard approach. The volatility indicator's persistence can be attributable to overlapping estimating windows or the short-term behaviour of stock prices throughout a given year. Both subjects are very important. In the literature on asset pricing, risk is frequently examined over a five-year period, which is comparable to 60 months. According to Adams et al. (2005), we evaluate the level of risk by calculating the absolute deviation from the company's projected performance. This is done in consideration of the constraints. To evaluate success, our organisation uses Tobin's Q and return on assets. This strategy provides three unique benefits. One of its advantages is that it emits a continuous warning signal. Using this strategy, the data is kept in the panel format, allowing us to compare organisations and see how they evolve in order to assess the risk and accountability of global corporations. Furthermore, the deviation is not based on the sample period's average, which does not change over time; rather, it is based on forecasted performance, which varies with time and takes into account the expected variances in performance that the organisation encounters. Despite this, the sample average does not show any changes. The difference between observed and estimated values is not squared, considerably reducing the influence of extreme values (as in median and quantile regressions). The first stage involves creating a model of the company's performance using the previously stated parameters. The fitted value can help predict the company's performance. The difference between the company's expected and actual performance is known as the residual. Adams et al. (2005) used the absolute residual value to estimate the company's risk exposure. In the second stage, a regression analysis is performed using the CSR indicators as explanatory factors and the absolute value of the residual from the first stage as the dependent variable. The variables that influence a company's performance also have an impact on risk; thus, they are controls. Their influence can be divided into the following categories. There is a perception that larger, more established businesses are safer. Larger businesses have greater flexibility in implementing risk reduction strategies. Reliable income is beneficial to established businesses. Businesses with a diverse portfolio of investments and a high return on investment carry less risk. A higher payout rate is strongly correlated with a more secure organisation. A larger investment portfolio reduces the risk posed by unique factors. On the other hand, growing risk is represented by increased expenditure in R&D and capital. Leverage increases risk. Less risky enterprises use more debt, therefore the total impact may be less visible.

Result

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Table I presents the CSR indexes and firm characteristics. Panel A presents a comprehensive overview of all the facts related to the CSR score. The mean values for each CSR dimension are relatively low. The mean values for community concerns and employee relations strengths are 0.02 and 0.09, respectively. Based on the findings of this survey, only a small number of firms have corporate social responsibility (CSR) programmes that are either successful or unsatisfactory. Quality concerns are infrequent in the majority of enterprises. Indices exhibiting low mean numbers. Strengths (0.0756) possess a greater degree of statistical significance compared to worries (0.0673). The company's features indicate a mean age of 42 years. Corporations encompass eight essential industries. The mean dividend disbursed per share amounts to 1.6% of the share price, while their long-term debt-to-equity ratio is at 19%. The median rate of capital spending is 4.8 percent, although the average rate of 7.8 percent appears to be significantly inflated as a result of a few companies seeing significant increase. The mean level of research and development (R&D) stands at 3.1%, a figure that is considered quite low for most companies. Table II displays the Pearson product-moment correlations that were observed between the individual and aggregate CSR indexes. There exists a notable correlation between the strengths of individuals and groups, especially when it comes to variations. Column 8 exhibits a significant correlation between signs of anxiety and societal worries. There is a strong correlation between individuals' personal attributes and corporate social responsibility. The range of products and their concerns are influenced by community characteristics. Moreover, there exists a correlation between environmental hardships and communal obstacles. Rehbein et al. (2004) and Hillman and Keim (2001) both advocate for the separate examination of individual components of CSR in their respective studies. There is a strong and statistically significant relationship between individuals' capacities and anxiety over Corporate Social Responsibility (CSR). The correlation between strengths and problems within the same CSR category is typically significant. Examine the correlation between environmental concerns and ecological benefits. Due to this correlation, it is apparent that organisations have the ability to function in both ethical and unsuitable manners. The study findings indicate that corporate social responsibility exhibits both advantageous and disadvantageous attributes. Multicollinearity is not taken into account in multivariate regressions because of the low correlation coefficients observed between variables. The regression results for the strength of corporate social responsibility (CSR) are displayed in Table III. The study's findings indicate that the presence of diversity and positive employee interactions reduces risk. Tobin's Q provides some statistical support for this, although to a smaller degree. The evidence indicates that corporate social responsibility (CSR) programmes elevate the risk for shareholders. The concept of workplace diversity and employee relations highlights the trade-off between the interests of shareholders and employees. In periods of economic uncertainty, heightened expenditure on individuals might have detrimental effects on investment. The employment security of employees poses a threat to shareholders. The company's diminished demand for its products and services can be attributed to the owners' culpability. Organisations lacking a well-defined people strategy may have the ability to decrease their fixed

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expenses, so minimising the negative effect of the shock on performance. If a corporation cannot identify managers who are capable of surpassing their competition, it may encounter difficulties in enhancing diversity by recruiting more women and others from underrepresented groups for high-level positions. Videras and Owen (2006) found that corporate social responsibility (CSR) programmes focused on diversity and employee relations redistribute money from shareholders to individuals within the company. Cespa and Cestone (2007) and Barnea and Rubin (2010) argue that companies make investments in corporate social responsibility with the aim of gaining the backing of stakeholders. Investors exhibit a greater propensity to assume risks with organisations that value corporate social responsibility. Investors express concerns about the historical risk due to the elevated borrowing costs and unfavourable credit ratings. Our analysis reveals that the incorporation of corporate social responsibility (CSR) results in increased expenses, leading to a greater deviation from the company's anticipated return on assets. Tobin's Q illustrates a direct correlation between the characteristics of corporate governance and the level of risk encountered by a corporation. This demonstrates that accountability and openness played crucial roles in the formulation of the governance index. Ferreira and Laux (2007) and Nguyen (2011) argue that improved corporate governance leads to an increase in idiosyncratic risk. Stock prices are influenced by a myriad of factors. Implementing sophisticated business procedures can elevate the level of risk, leading to heightened volatility. Sanders and Hambrick (2007) and Low (2009) argue that compensating senior executives with stock options and equity shares increases the likelihood of implementing such restrictions. The probability of idiosyncrasy should be higher. Our findings confirm these ideas by demonstrating the company's financial vulnerability and the significant risk that investors encounter. The correlation between research and development (R&D) expenditure and volatility in return on assets (ROA) has the capacity to induce significant changes in the financial performance of innovative entities. Projections have been made on the coefficients of the remaining control variables. Both firm success indices indicate that larger and more diverse companies have a lower level of risk. Tobin's Q, however, is a risk-reduction tool that quantifies the company's age. According to Tobin's Q, employing leverage augments a company's risk by five percent. The firm that poses a higher level of danger is the one that has a greater amount of debt compared to the other. The trade-off hypothesis of capital structure posits that enterprises with elevated risk levels tend to have lower levels of debt. A negative leverage coefficient suggests the presence of an unmitigated increased risk. The strengths suggest that employee responsibilities should be included into the framework of corporate social responsibility. Bird et al. (2007) suggest that decreased market pricing could have negative consequences for employee interaction issues. In order to consider the nonlinearity of the influence, it is necessary to identify the strengths and weaknesses of employee contact. Mishra and Modi (2012) argue that the advantages of global corporate social responsibility (CSR) issues outweigh their effects on idiosyncratic risk. While there is a significant emphasis on employee welfare, there is also a rise in shareholder risk caused by inadequate focus. Shareholders consistently emerge as victors, as opposed to employees. The second scenario pertains to the

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compensation of the employees. Stockholders might instantly profit from the discontinuation of corporate social responsibility. Utilising inadequately maintained machinery by employees can result in a temporary surge in sales. Employee dissatisfaction and declining morale might pose a threat to the organization's future. This gives rise to the potential for interpersonal conflicts among employees. Opting to not hire and assimilate new personnel may seem like a straightforward strategy when there is a lack of women and individuals from underrepresented groups in positions of power. The business may inadvertently experience the loss of valued staff. Moreover, it is improbable to allure novel clientele. The company's loyal client base is likely to decrease if it fails to actively involve women and members of minority groups, which is crucial under challenging circumstances. Failure to include minority groups in the future may adversely affect employee engagement. The emergence of corporate governance problems increases the level of risk, as evidenced by the failure to meet expectations, particularly in terms of return on assets. This confirms previous findings that a lack of transparency exposes shareholders to heightened risk. Beasley (1996) and Klein (2002) contend that inadequate disclosure is the main catalyst for numerous cases of inappropriate accounting. Enhancing financial transparency allows experts and investors to closely monitor operations, hence minimising the occurrence of unforeseen outcomes. Botosan (1997) and Plumlee (2002) provide evidence for the negative impact of enhanced corporate disclosure on capital costs. Shareholder risk has not been heightened with regards to community, environmental, and product concerns in the context of corporate social responsibility. This discovery does not exclude the potential for hazards. If the company makes investments that have an impact on the local economy, it could potentially harm its reputation and financial performance. Conversely, meticulous capital planning may demonstrate that revenue from investments is sufficient to meet expenses. In practical terms, the risk can be disregarded. Recalls of products due to safety concerns might incur significant expenses. Diminishing the quality of a product can generate sufficient funds to offset financial losses. The competitive advantage held by responsible manufacturers is likely to result in their dominance in the market, while also helping less responsible firms manage customer responses to their behaviour. The impact of the control factors is the same as that shown in the previous table. Companies with more size and diversity exhibit lower levels of risk compared to organisations that prioritise research and development, as the latter tend to have more unpredictable operations. Panel regressions are employed to ascertain the impact of two risk factors on the strengths and concerns regarding corporate social responsibility following the completion of the study. The CSR measures displayed in Table V have statistically significant positive coefficients. Corporate governance and employee connections are more crucial than overall metrics. Additional factors, such as the community, the environment, and the products, have minimal impact on risk. By including these parts into the signal, the overall size is slightly diminished. Research indicates that both the favourable and unfavourable aspects of corporate social responsibility contribute to an escalation in shareholder risk. The findings suggest that the advantages and disadvantages of CSR should be evaluated separately. Having a precise CSR statistic is sometimes crucial. When

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evaluating exceptional performance, it is crucial to categorise businesses into portfolios according to a specific criterion. We suggest that these dimensions be segregated in the majority of investigations. Research has discovered that the regression coefficients for these components are generally similar, suggesting that the presence of these factors may obscure the individual impacts of strengths and fears on a company's risk. An excessive or inadequate emphasis on corporate social responsibility (CSR) might heighten the risk for shareholders. Notwithstanding the elevated level of risk, avant-garde corporate social responsibility initiatives yield advantages for shareholders. Enhanced employee well-being and contentment result in increased productivity and financial gains. Employee disengagement can lead to a decrease in their profit share, which in turn can result in an increase in cash flow for shareholders. Due to dissatisfied staff and ineffective operations, this strategy has the capacity to increase shareholder risk. Shareholders may not see gains or suffer losses due to corporate social responsibility activities.

Conclusion

The objective of this study was to determine the extent to which corporate social responsibility (CSR) initiatives impact the risk exposure of a company. In addition, the organisation employs a more advanced methodology for assessing risks, which factors in anticipated fluctuations in a company's performance instead of consolidating all the data into a singular overview. It distinguishes itself from prior methods by providing a distinct and original contribution. Due to these discrepancies, our research has the capacity to uncover previously overlooked ramifications in the existing body of literature that is presently inaccessible. The analysis supports Hypothesis 3, which posits that corporate social responsibility (CSR) is a multidimensional concept, by demonstrating that not all aspects of CSR have an equal influence on risk. Most of the challenges seem to be connected to matters of diversity and employment relations. In addition, the connections do not exhibit a linear trend. Considering the company's deficiency in ethical resources, it is logical to expect that any adverse consequences will be more pronounced. Consequently, the organization's existence may be in risk due to concerns around diversity and personnel. Moreover, the limited number of concerns in these two sectors indicates that the organisation may depend on increased stakeholder loyalty, resulting in a decrease in the seriousness and probability of a crisis (Godfrey, 2005). Simultaneously, the company's advantages in terms of diversity and employee relations also make it vulnerable to risk. Barnea and Rubin (2010) argue that the increase in social responsibility within these companies is linked to significant expenses. The current state of affairs is as follows. Specifically, the task of guaranteeing greater work stability, extensive healthcare coverage, and substantial retirement perks ultimately carries a potential hazard. The reallocation of business resources might adversely impact the company's competitive standing, hence heightening the probability of failure. Typically, a dedication to staff can be likened to a predetermined cost that transfers the business risk of the company to the shareholders. Prior research (Botosan, 1997; Botosan and Plumlee, 2002) has established a robust correlation between apprehensions regarding governance and the magnitude of risk encountered by a corporation. A wide range of risk indicators have been employed to offer

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a thorough understanding of the possible risk linked to inadequate corporate social responsibility (CSR) measures (Luo and Bhattacharya, 2009; Oikonomou et al., 2010; Salama et al., 2011; El Ghoul et al., 2011; Attig et al., 2013). The aforementioned documents were disseminated in many academic journals worldwide. Our submitted information for this study indicated that a plethora of corporate social responsibility programmes can potentially jeopardise shareholders. The findings from Hypotheses 1 and 2 indicate that both positive and negative aspects of Corporate Social Responsibility (CSR) contribute to an increase in risk. Furthermore, both hypothesis 1 and 2 demonstrate this connection. Their impact on the company's risk is equal, suggesting that an index that takes into account both positive and negative aspects of corporate social responsibility would have a negligible effect on the company's risk. This is due to the fact that their magnitudes of impact are comparable. In addition, in contrast to Hypothesis 4, this suggests that the company's absence of corporate social responsibility does not pose a significant threat to its operations. Undoubtedly, the utilisation of disaggregated data for analysis is believed to have a substantial impact. Businesses must have a thorough understanding of this content. Their current performance is unlikely to be influenced by their lack of engagement in CSR, and it may even be advantageous for them. Nevertheless, this could potentially have a significant adverse effect on their future performance.

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