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Corporate Social Responsibility as Economic Intervention: Welfare Effects, Incentives and Market Distortions

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Abstract: This paper investigated the welfare impact and corporate incentives & market distortions from CSR on 4 multinational companies across 4 countries from 2012 to 2024. In particular, the study examines the moderation effects of institutional quality and regulatory environment between the CSR and welfare and market distortions. Using a Panel Threshold Regression (PTR) approach, the study analyses secondary data obtained from corporate sustainability reports, annual financial statements, the World Bank's World Development Indicators and Worldwide Governance Indicators. The results indicated that there is a positive and significant effect of CSR incentives on CSR engagement, suggesting that the CSR engagement can be stimulated by corporate incentives in a weak institutional regime. The power of the corporate incentive, however, is reduced with higher institutional quality. Further, the welfare threshold results revealed that CSR has ainsignificant positive impact on welfare when it involves severely weak institutional settings and a strong positive effect on welfare under stronger institutional settings, suggesting that good institutional governance improves the developmental effectiveness of CSR interventions. On the other hand, even though the institutional framework is relatively weak, CSR had a significant impact on market distortions, suggesting that CSR can strengthen the corporate influence and regulatory power in a comparatively weak institutional setting. The study concludes that CSR can only provide a sustainable development outcome if it is backed by effective governance systems, regulatory accountability and effective institutional coordination.

Keywords: Corporate social responsibility, Welfare effects, Corporate incentives, Market distortions, Institutional quality

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1. Introduction

The rise of corporate social responsibility (CSR) in the modern political economy has changed the perception of a corporation as an institution with a single goal of generating profit to that of a player that plays a key role in social governance and economic development. In both developed and developing countries, companies are increasingly investing in welfare, education, environment, infrastructure, community and poverty eradication. In this sense, CSR has grown beyond the scope of philanthropic engagement to become a more comprehensive instrument of economic intervention for which firms have an impact on welfare distribution, institutional governance and market relationships. This shift has fuelled debates within the academic community on the role of CSR as a complementary developmental tool to solve market failure and governance gaps or as a strategic corporate tool that creates inequalities, market distortion, and reduced public accountability (Kitzmueller & Shimshack, 2012; Johnston, Amaeshi, Adegbite, & Osuji, 2021).

The existing research on CSR has mostly focused on ethical responsibility, stakeholder involvement, sustainability reporting and reputation management. The initial conceptualisations of CSR were mainly focused on the voluntary aspect of businesses integrating social and environmental issues into their work, in addition to the legal obligations. A recent strand of research, however, has begun to acknowledge CSR as a type of institutional and economic phenomenon, part of a wider web of governance, regulation and welfare production (Brammer, Jackson & Matten, 2012). This trend is especially marked in developing countries with a weak institutional capacity, a less than adequate provision of social welfare, inefficient government regulation and continuing problems in development, which forced multinational corporations to take on quasi-governmental functions in providing public goods and social services. In these contexts, CSR often becomes a substitute for government, taking the place of a direct role in socio-economic development.

The economic understanding of CSR can be briefly summarised as the basics of welfare economics and the theory of externalities. A CSR approach is then interpreted as a corporate answer to market failures based on negative externalities, asymmetric information, imperfect contracts and public goods' deficiencies (Heal, 2005; Crifo& Forget, 2012). More and more, companies are implementing CSR programmes as strategies rather than as acts of philanthropy, as ways to make the social costs of their activities internal, as means to buffer against reputational risks, as ways to help manage their working environments, and as ways to guarantee long-term profitability. Johnston et al. (2021) propose a reconceptualisation of CSR as a responsibility, an internalisation of social costs, and not a managerial decision. This rethinking puts CSR into the context of other issues such as governance and economic efficiency, as well as distributive justice, to widen the debate on CSR beyond normative ethics to the realm of political economy.

Despite the growing institutionalisation of CSR practices around the world, there are still several theoretical and empirical debates that need to be resolved. A fundamental debate is related to the welfare impacts of the CSR interventions. Advocates say that CSR has a positive impact on economic growth through job creation, poverty alleviation, environmental sustainability, boosting local businesses and boosting community resilience. Empirical evidence suggests that positive spillover effects in the form of technology transfer, human capital development, infrastructural investment and trust in the firm by stakeholders can be achieved by CSR (Fortanier&Kolk, 2007). Moreover, welfare-focused understandings of CSR highlight the ways in which it can be used to augment state capacity, including in developing countries where institutional strength is low and governance is weak.

Critical views warn about the potential for CSR to create, at the same time, unexpected economic and institutional effects. But critics argue that CSR is often used as a tactic to boost legitimacy, to influence the political process, to prevent strict regulation, and/or to ensure access to natural resources and consumer markets. In those scenarios, CSR could be more of a tool to reinforce corporate power and market dominance than to be a developmental tool. Likewise, there is also a concern as to who will be held accountable, what will be made transparent and how will there be distributive justice, especially if corporations are seen as replacing the state's welfare provision without accountability in the form of democracy (Brammer et al., 2012). In fact, the increasing role of the private sector in social governance has raised issues about regulatory capture, dependency, exclusion of local businesses and politicisation of development activities.

Resolving welfare improvement and market distortion is particularly salient in extractive and multinational industries in developing nations. In many cases, companies make significant investments in CSR in areas of social tension, environmental pollution and deprivation. Such interventions can create temporary benefits for the people but can also result in a permanent imbalance of power between corporations, communities, and governments. The governance arrangements that emerge are frequently not very clear about the difference between public control and the private economy, thus posing pertinent questions regarding the legitimacy of democracy, accountability of institutions and sustainable development. Therefore, there is a need to develop a more sophisticated analytical approach in order to understand CSR as a mode of economic intervention that can address the developmental benefits, incentives and distortionary effects of CSR simultaneously.Another drawback in existing literature is the lack of integration of empirical studies. Previous literature mainly addresses the determinants of CSR adoption or the socio-economic outcomes of CSR, while only little research takes an integrated approach. Similarly, although the link between CSR and firm performance is explored in several studies, there is a paucity of research that takes a look at CSR as a welfare governance mechanism in different institutional and national settings. The dynamics of corporate incentives, welfare outcomes and distortions in the market, however, are still not well understood, especially when compared across countries with different institutional frameworks of multinational corporations.

This study aims at filling these gaps by defining CSR as an economic intervention and by empirically analysing the welfare impacts, strategic motivations and market distortions of this economic intervention in four countries among selected multinational corporations. Specifically, the study examines the effect of the institutional environment, the regulatory environment and corporate incentives on CSR intensity and developmental outcome. The study includes welfare economics, institutional, stakeholder, and political economy angles, thereby contributing to a multi-faceted approach that encompasses the productive and distortionary aspects of CSR in the current context of capitalism. Also, the study employs a panel threshold methodology involving a panel of firm-country-year observations from selected multinational corporations and national contexts over time. Thus, this approach allows the study to examine the factors that drive CSR involvement, to examine the welfare effects of CSR actions, and to understand the potential for market distortion and governance relationships that can result from CSR. The study has not only been useful for filling the gaps in research on CSR, but it also joins the growing body of work that identifies CSR not just as a voluntary act of corporate philanthropy but as an important tool of private governance and economic regulation in the global political economy.

The paper has significant contributions to literature in three ways. The paper is an expansion of the economic understanding of CSR by viewing CSR initiatives as quasi-public welfare governments. It also erects a unified empirical structure that is connected with an integrated analytical framework involving corporate incentives, welfare outcomes and market distortions. The cross-national evidence presented in this study is compelling, given its use of a comparative panel methodology across multiple countries and firms to support conclusions about whether and how CSR contributes to better welfare or to perpetuating developmental inequities. The general point this article makes is that CSR is an alternative way of economic governance that has the potential of significant welfare benefits, provided it is implemented in a context of good institutions, regulation and an appropriate rationale for engagement.

2. Literature Review

2.1 Conceptualising Corporate Social Responsibility as Economic Intervention

Over the last 20 years, there has been a great shift in the theoretical understanding of corporate social responsibility (CSR). Previously, CSR was mainly viewed as a voluntary moral responsibility which enabled businesses to meet the wider societal expectations while also maintaining profitability. From a classical point of view, especially from the shareholder primacy point of view, the main business objective was to maximise profits within the legal limits (Friedman 1970). However, the role of the corporation has been greatly increased in socio-economic governance due to the increasing complexity of global capitalism, institutional weaknesses in the developing economies, environmental crises and growth in societal expectations. Thus, CSR is now viewed beyond its traditional philanthropic and reputational management definitions as a ‘mechanism of economic intervention' that can shape welfare distribution, governance practices and market results (Kitzmueller & Shimshack, 2012).

The rethinking of CSR as economic intervention has taken a major inspiration from the theory of welfare economics and institutional political economy. In terms of welfare, corporations' involvement in CSR is in part an attempt to solve the problems related to environmental externalities, public goods, social inequalities and information asymmetries in the market. Adopting CSR as a corrective mechanism would lead firms to internalise social costs and so reduce the negative external effects that conventional economic systems might not be able to correct, as argued by Heal (2005). In a similar vein, Schaltegger and Burritt (2010) argued that there is a close relationship between CSR and CS and a wider welfare purpose, especially in situations where economic development is linked to environmental degradation and social exclusion. This model sees CSR as more of a regulatory tool, rather than simply a managerial choice, and to an extent, as a way of creating social welfare.

Recent scholars have taken this line of thought further, considering CSR as part of wider systems of private governance. Brammer, Jackson and Matten (2012) noted that in recent years, corporations are also taking upon themselves some of the responsibilities of government, especially regarding environmental regulation, labour standards and community development. This is particularly true of the developing and resource-based countries where the state often does not have the capacity to provide adequate public goods and welfare services. In these settings, the multinational firms can take the place of providers of infrastructure, health care, education and jobs. As a result, CSR interventions are becoming more like parallel systems of welfare governance, in addition to the formal public welfare system.

The concept of CSR as economic intervention is especially pertinent in fragile and governance-deficient developing economies. In Nigeria, for instance, there has been a significant involvement of many companies in community development projects, especially in the extractive industry. The CSR framework in Nigeria, as reviewed by Nwoke (2025) noting that, it is an expression of general institutional failings in Nigeria and the state's inability to effectively mediate the relationship between the multinationals and host communities in Nigeria. The study also argues that the concept of CSR in developing economies cannot be analysed solely with the help of neoliberal shareholder theories as social, cultural and institutional factors are integral to the corporate–community relationship in these economies. This has further argumentation for the shift of CSR from being a parallel or alternative development intervention to serving as an additional or alternative intervention to state-led development.

2.2 Welfare Effects of Corporate Social Responsibility

One of the most important areas of CSR literature relates to the welfare aspects of CSR. The overall concept for welfare-orientated CSR scholarship is whether the interventions of companies result in an improvement in the socio-economic situation of the host community and society in general. There are some established studies that show that there are several positive ways that CSR can impact welfare, such as employment creation, environmental sustainability, infrastructure development, human capital development and poverty alleviation.

Empirical evidence is growing increasingly to show that CSR investments can have positive developmental spillovers. Studies of multinational companies by Fortanier and Kolk (2007) revealed that CSR activities help in the process of economic development at the local level, knowledge transfer, and provision of infrastructure as well as engagement with stakeholders. Likewise, a recent study of the performance of multinational corporations (MNCs) reveals that CSR projects can contribute to increased social trust, community resilience and longer-term institutional stability, especially in developing countries with a weak public service delivery system (Leonidou et al., 2024).

Recent quantitative research also highlights the CSR's welfare-enhancing effects when the economy and the institutions are in crisis. According to Huang, Hu and Wang (2025), for instance, in the case of China, they studied the buffers that CSR investments provided in the context of the Covid-19 crisis and concluded that CSR investments were associated with better economic performance and resilience during shocks. The study has concluded that CSR increases trust of the stakeholders, social legitimacy of the company and adaptability of the company when facing uncertainty. This study strengthens the general thesis that CSR can have both direct and indirect welfare effects, as it can help to reduce socio-economic tensions in times of crisis.

Theories related to welfare economics and industrial organisation have also been developed to accommodate the welfare aspects of CSR. In a duopolistic market context, Breton, Crettez and Hayek (2021) showed that socially responsible corporate actions can enhance consumers' willingness to pay and their welfare outcomes, as long as they are not detrimental to the other firm. The study also revealed that the welfare effects are context-dependent and can generate ambiguous welfare effects when socially responsible behaviour affects productive efficiency. The results indicate that welfare effects of CSR cannot be taken for granted and vary with market structures, institutional arrangements and regulatory environments.

Though evidence of the positive impact of CSR on social welfare is increasing, there are still some criticisms. There are many CSR programmes that have only a minimal impact either symbolically or with a lack of synergy. Moreover, welfare benefits from CSR can be short-lived, localised or linked to the profitability of the company and not to a policy. CSR interventions are often also seen in developing countries in areas where corporations are conducting resource extraction operations and where there is a risk that they may be more interested in 'compensatory legitimacy' than in 'real commitment'. Thus, CSR can be a positive influence on welfare results, but whether it can be sustainable development remains a subject of debate.

2.3 Corporate Incentives and the Political Economy of CSR

CSR is the motivation that drive corporate involvement in CSR. There is growing doubt that CSR is entirely altruistic, and literature focuses on the strategic motivation of CSR as behaviour influenced by economic, political, institutional and reputational incentives.There is one predominant strand in this literature based on legitimacy theory. According to legitimacy theory, companies engage in CSR to gain social acceptance, ensure their operations and lower political and regulatory risks or threats. Velte (2023) takes on the determinants and consequences of CSR decoupling and states that CSR disclosures are often done strategically for the purpose of attracting the attention of stakeholders and improving corporate legitimacy even if there is little real substantive action. This mismatch between symbol and substance, which is usually known as CSR decoupling, has been a major issue in current CSR research.

These are also shown in recent studies, which indicate that there is a clear relationship between managerial and financial incentives and CSR behaviour. Sheng et al. (2022) discovered that global investment strategies and equity incentives have a significant impact on the sustainability performance of Chinese listed companies. Likewise, He et al. (2024) found that the compensation incentives for managers have a positive impact on the social and environmental accountability of China's energy companies. The results indicate that CSR engagement is often part and parcel of other compensation, investment and governance frameworks of the executive. However, labour market incentives do have an effect on CSR behaviour. A study by Hossain and Kryzanowski (2022) showed that the competitive executive labour markets have an adverse impact on CSR involvement because executives tend to focus on investing in a core business and immediate results rather than on social spending. This finding supports the agency theoretical claims that the incentives facing managers could encourage or discourage CSR as a function of their institutional environments and their performance targets.

Furthermore, political incentives also determine CSR behaviour. The researchers, Hartwell and Devinney (2024), who analysed 13 countries, discovered that populist political environments had a negative impact on CSR engagement: firms are focused on redirecting funds to politically preferred priorities and risk aversion measures. The research reveals the degree of influence political regimes and institutional environments have on corporate incentives for social responsibility. In the same way, multinationals in fragile countries often have CSR as a tool for gaining legitimacy, defusing social tensions and ensuring access to natural resources and markets.There are also some factors like taxation and reputation, which are important to influence the CSR behaviour. Using a sample of multinational companies across Europe and the United States, Overesch and Willkomm (2024) revealed that there is a negative correlation between CSR performance and aggressive profit shifting. Their results indicate that the greater one's CSR orientation, the less likely the firm is to be involved in aggressive tax avoidance and the more likely the firm is to be in favour of corporate governance requirements more generally. This is further proof that CSR is evolving from philanthropy to a wider legitimacy and governance agenda rather than just philanthropy.

2.4 Market Distortions and the Critique of CSR

Despite the prevailing positive developmental association with CSR, critical scholarship is increasingly highlighting the market-distorting and governance issues of CSR. First, there is a concern that corporations may make symbolic gestures of commitment to CSR, without taking actual steps to support it. First there is a concern about CSR decoupling, i.e., making symbolic gestures of commitment to CSR without taking corresponding action. According to Luan (2024), there are three negative effects of CSR decoupling on financial performance, organisational risk and stakeholder trust. Luan (2024) states that there are three negative impacts of CSR decoupling on financial performance, organisational risk and stakeholder trust. Likewise, Liu, Wang, and Hu (2025) reported that CSR decoupling has an adverse impact on investment efficiency and leads to overinvestment in the Chinese listed companies. The results indicate that CSR can create superficial or symbolic CSR, which can affect the allocation of capital and the efficient market behaviour.

One other objection has to do with the ability of CSR to boost company dominance and undermine democratic accountability. Welfare responsibilities normally taken up by the state can be shifted to private economic agents, spurring a new trend in critics questioning the role of public institutions in the new welfare state. This dependency can undermine state accountability, skew policy agendas and enable corporations to have a disproportionate influence over local development agendas. In resource-dependent economies, CSR activities often focus on the extractive areas in which companies try to defuse social tensions and gain their operations' legitimacy. Thus, CSR can indeed create unequal power dynamics among companies, governments and communities.

CSR can also jeopardise competing in the market. Multinational companies can invest more in CSR than their small local counterparts due to the fact that they generally have much more financial resources at their disposal. An imbalance that can create “charitable dominance", as some scholars put it, as large companies pile up reputational and market benefits from their wide-ranging social investment programmes, which are too difficult for smaller enterprises to match. The dynamics can be indirect and push out local businesses and further enhance market concentration.

In addition, CSR activities can foster a dependency of host communities on the institution in a form. In areas where the state has limited presence, such as in the provision of education, healthcare, water supply or employment, communities may depend on corporate activities for basic welfare services and thus lose their sovereignty when the companies decide to withdraw. In regions that are weak in state presence, communities might be depending on ongoing corporate activities for basic welfare provisions and lose their sovereignty when the corporations choose to withdraw. This dependency is a serious issue of concern for sustainability, accountability and distributive justice, specifically when a corporate focus changes or when extractive activities diminish.

The underlying criticism that has arisen from the political economy literature is that CSR is a paradoxical phenomenon. On the other hand, CSR can have negative effects on welfare, sustainable development and institutional shortcomings. However, CSR has the potential to produce the same inequalities in governance, to strengthen corporate power, to shade markets and to diminish democratic accountability. The theoretical frameworks needed to analyze these mutually exclusive aspects of CSR must be able to analyze both the incentives and the welfare effects, as well as the distortionary effects, under the various institutional settings.

2.5 Theoretical and Empirical Gap

Although the volume of research investigating CSR scholarship has expanded significantly, it is apparent that there are a number of gaps within the research. First, there is much existing empirical research that focuses on either the determinants of CSR engagement or the socio-economic outcomes of CSR. There exist few studies that combine corporate incentives, welfare effects and market distortions in a single analysis. Most CSR empirical studies are either limited to firm performance, to financial returns or to considering CSR as a welfare governance and economic intervention tool. The cross-country panel studies between countries are still relatively scarce in the field of comparative studies and have been conducted in various institutional settings, especially in developing countries. Previous research has tended to focus on country-specific settings and/or particular sectoral analysis and therefore has not afforded a comprehensive comparison of the role of institutional quality in improving CSR effectiveness. While literature in recent years has been growing in attention to the risks of CSR decoupling and symbolic legitimacy management, there has been a lack of research that investigates the interaction between strategic corporate incentives and welfare gains along with market distortion at the same time.This study fills these gaps by building an integrated political economy framework which conceptualises CSR as a type of economic intervention that can be strategically motivated by corporate incentives and drive welfare benefits as well as market distortions in various institutional settings.

3. Methodology

3.1 Research Design

The study employs a quantitative research design that utilises the comparative panel data framework for analysing the welfare impact of corporate social responsibility (CSR) as a type of economic intervention and the strategic incentives and market distortions in selected multinational corporations that are subject to different institutional environments. The decision to use a panel-data design is motivated by the fact that CSR is multidimensional and that all the multidimensional aspects of CSR must be taken into account, together with the cross-sectional dimension and the temporal dimension of the firms and countries being analysed. There are important methodological benefits of panel data that include the ability to estimate them more efficiently than in cross-sectional or time-series designs, the ability to control for unobserved heterogeneity more effectively than in cross-sectional or time-series designs, and the ability to make causal inferences that are more powerful than the cross-sectional or time-series designs, as panel data bring together both the cross-sectional and time-series dimensions (Ahn, Lee, & Schmidt, 2001).

The study takes advantage of a multi-country-year panel of selected multinational companies (MNCs) from four countries over the sample period 2012–2024. The chosen time frame is warranted, both empirically and institutionally. First, there was significant growth in sustainability reporting, environmental, social and governance (ESG) disclosure rules and the institutionalisation of CSR around the world since the year 2010. Second, large-scale events in the global socio-economic field, such as recovery from the financial crisis and the transition to sustainability, as well as the COVID-19 pandemic, had a profound impact on the behaviour of companies and welfare governance institutions.The study is grounded in the political economy stream of thought, which views CSR as a governance mechanism that can generate developmental outcomes or market-distortionary outcomes. The methodological framework, therefore, aims at capturing three dimensions of CSR that are interrelated: (i) incentives that motivate corporate involvement in CSR, (ii) welfare consequences of CSR interventions and (iii) distortionary effects of CSR on markets and governance structures.

3.2 Samples and Sampling

The sample study consists of multinational corporations that work in industries with high levels of CSR activity and developmental impact. A comparative and institutional approach is used in this study, and purposive sampling is employed to select the firms from four countries where diverse economic and governance environments exist. Nigeria, Brazil, India and Kenya are among the countries. The companies that have been chosen are Shell operating in Nigeria, Tata Group in India, Nestlé in Brazil and Microsoft in Kenya. These corporations are chosen due to their high CSR involvement and publicly available sustainability reports, as well as their developmental impact from the sectors they belong to. In addition, there are substantial differences between the selected countries in institutional quality, the capacity of the regulatory system, the effectiveness of governance, and socio-economic development, allowing for strong comparisons.The study also broadens the sample by adding more multinational companies that operate in a comparable institutional and industry context to make the analysis more robust and to gain more panel observations. The last panel is thus a combination of several firms that were observed over the course of the study.

3.3 Data Collection Tools

The study relied exlusively on secondary data, which are taken from secondary sources that are internationally recognised and publicly available. The data was obtained using document review schedule developed by the researcher. This was prepared in a way that it allows for identification, extraction and information organization relating to the variables. The data regarding CSR expenditure, sustainability performance, ESG indicators and characteristics of corporate governance is collected from annual reports, sustainability reports, ESG reports and integrated corporate disclosures. The main sources of primary data for the company are Shell Sustainability Reports, Tata Sustainability Reports, Microsoft Sustainability Reports, and Nestlé Sustainability Reports. Other sources of data are derived from, World Bank Data Bank, IMF Data Portal and International Labour Organisation Statistics Database. The quality indicators for institutions came from Worldwide Governance Indicators and Transparency International Corruption Perceptions Index. Using internationally recognised datasets increases the reliability, comparability and external validity of data.

3.4 Data Collection Procedure

The data were collected systematically. The researchers first identified the firms, countries, variables and time period needed for the research objectives and model specifications. Secondly, relevant annual reports, sustainability reports, ESG disclosures, and financial statements from the selected corporations and other sources that are authorised were acquired from the official websites of the concerned corporations. Thirdly, country-level economic, institutional and regulatory indicators were retrieved from World Bank, International Monetary Fund, International Labour Organization and Worldwide Governance Indicators and Transparency International. The data from these sources were captured in a structured data template with the firm, country, year, variable name, value, unit of measurement and source reference. The researchers subjected the data to verification process by comparing overlapping information from annual reports, sustainability reports and financial statements to identify inconsistencies, omissions or changes in the report conventions. Where any discrepancies existed, the recent disclosure that had been corrected was used. The data were cleaned and prepared for statistical analysis. This included identification of duplicate observations, consistency of firm identifiers and country identifiers, consistency in chronological ordering of the panel, examining the distribution of the variables, and harmonising the measurement scales. The final data set was then imported into STATA for descriptive analyses, diagnosis and threshold regression analyses

3.5 Data Analysis

Considering the political economy approach of this research, the use of Panel Threshold Regression (PTR) is suitable because the relationship between CSR measurement and socio-economic outcomes is not likely to be linear in all institutional environments. Developmental effects of CSR vary and are influenced by institutional quality, regulatory effectiveness, governance capacity, and market structures. Hence, the linear estimators of the panel design cannot capture the nonlinear and regime-dependent relationship of CSR. The model developed by Hansen (1999) is called 'Panel Threshold Regression', which enables the effect of an explanatory variable to shift between different threshold regimes endogenously identified in the data. The PTR framework is therefore appropriate for this study, as it enables identification of the following: institutional thresholds, non-linear welfare effects, regime-dependent market distortions, and differing levels of effectiveness in different governance settings.

Based on a theoretical basis, the study is assumed as: CSR can have greater welfare effects in low-institutional settings in which corporations replace the missing public institutions. But once the level of CSR exceeds a certain institutional limit, its marginal welfare effect could go down, or it could be distortionary.

$$CSR_{it} = \mu_i + \beta_1 CINC_{it} I(INST_{it} \leq \gamma) + \beta_2 CINC_{it} I(INST_{it} > \gamma) + \theta X_{it} + \varepsilon_{it} ----(1)$$

$$WEL_{it} = \mu_i + a_1 CSR_{it} I(INST_{it} \leq \gamma) + a_2 CSR_{it} I(INST_{it} > \gamma) + \phi Z_{it} + \varepsilon_{it} ----(2)$$

$$DIST_{it} = \mu_i + \lambda_1 CSR_{it} I(REGQ_{it} \leq \gamma) + \lambda_2 CSR_{it} I(REGQ_{it} > \gamma) + \phi K_{it} + \varepsilon_{it} ----(2)$$

Where: CSRit is CSR expenditure/intensity; PROFit represents Firm profitability; TAXit denotes Tax incentives (Index 0=low, 1=high); ESGit depicts ESG pressure and sustainability compliance; REGQit captures Regulatory quality; POLCONit denotes Political connections/political stability; REPit captures Reputational incentives (CSR/ESG Index 0-100); with μi representing Firm-specific effects; λt captures the Time effects and εit represents the Error term. This model investigates whether CSR engagement is primarily motivated by developmental concerns or by strategic economic and political incentives.

3.6 Ethical Considerations

The study was conducted in accordance with ethical standards applied to research that relies solely on publicly available secondary data. All data were obtained from publicly accessible and recognised sources. There was no disclosure of private, confidential or personally identifiable information in the study. The data from companies and institutions were utilised exclusively for academic purpose with no conscious or deliberate effort to misrepresent the operations or performance of firm, country or institution. Sources of data published studies, corporate reports, institutional databases were cited correctly. Data were not fabricated, manipulated or selectively presented to show predetermined results. The procedures followed to define, extract, standardise and analyse the parameters used were explicitly mentioned to ensure transparency.

4. Results and Discussion

The outcomes of the study analysis are presented and discussed therein.

Table 1: Descriptive Summary

Variable	Mean	Std. Dev.	Min	Max
CSR	.5530769	.1824725	.27	.85
CINC	30.88323	8.339352	17.966	42.772
INST	-.2838462	.3490444	-.92	.12
WEL	.6398654	.0931895	.51	.793
GDPPC	3928.365	3531.398	1202	12522
DIST	.4175	.084247	.28	.55
REGQ	-.4544231	.3731551	-1.16	-.09

Source: Authors Compilation using STATA (2026)

The results of CSR intensity show a moderate level of engagement (0.553, SD = 0.182); the welfare index shows a moderate level of engagement (0.640, SD = 0.093), ranging from 0.510 to 0.793, reflecting the various socio-economic outcomes. The means are negative for institutional quality (−0.284) and regulatory quality (−0.454), suggesting that the sampled firms are governed in very different ways, and it is therefore not likely to be possible to assume a single linear relationship between the CSR and its antecedents or consequences. GDP per capita shows very wide variation (mean $3,928; range $1,202–$12,522), which is a result of the combination of lower-middle income and emerging economies. The distortion index is also spread out and affords the needed empirical leverage to estimate their relations with CSR under varying market conditions. In threshold regression, the heterogeneity is explicitly taken advantage of by identifying structural breaks in important conditioning variables endogenously, so that the marginal effects of CSR incentives and the welfare returns are different for subsamples created by the structural breaks. The considerable differences in the welfare index, GDP per capita and distortion index further argue that there is no linear estimate of welfare that will reveal the dynamics of the different regimes, which is what the Hansen style threshold estimator is intended to do.

Table 2: Normality Results

Variable	Obs	Pr(Skewness)	Pr(Kurtosis)	adj chi2(2)	Prob>chi2
CSR	52	0.6201	0.0052	7.20	0.0273
CINC	52	0.9136	0.0000	17.72	0.0001
INST	52	0.0082	0.0931	8.47	0.0145
WEL	52	0.1708	0.0003	11.92	0.0026
GDPPC	52	0.0004	0.5384	10.73	0.0047
DIST	52	0.5374	0.0000	30.56	0.0000
REGQ	52	0.0034	0.2156	8.68	0.0131

Source: Authors Compilation using STATA (2026)

Normality tests based on the adjusted chi-squared test are clearly significant ($p < 0.05$) for all series, rejecting the assumption of normally distributed errors. The sharp kurtosis, especially, is indicative of the presence of heavy-tailed distributions, a typical characteristic of cross-country panel data with institutional outliers and structural breaks. Threshold estimators are based on least-squares principles in each regime and depend only on the regularity conditions for distributional assumptions, which are standard for least-squares-based estimators for consistency and asymptotic normality of the estimators. The distinct blocks of institutional activity present in this data – which are explicitly identified by the threshold model – are presumably the reason for the heavy tails.

Table 3: Correlation Analysis Results

	CSR	CINC	INST	WEL	GDPPC	DIST	REGQ
CSR	1.0000						
CINC	0.3316*	1.0000					
INST	0.7617*	0.6500*	1.0000				
WEL	0.8713*	0.0805	0.7770*	1.0000			
GDPPC	0.7615*	-0.2897*	0.3598*	0.8200*	1.0000		
DIST	-0.3500*	-0.0866	-0.6881*	-0.6801*	-0.2980*	1.0000	
REGQ	0.8088*	0.6919*	0.9735*	0.7486*	0.3855*	-0.5424*	1.0000

Source: Authors Compilation using STATA (2026)

Table 3 indicates that the intensity of CSR is highly and positively related to welfare (0.871), institutional quality (0.762), regulatory quality (0.809) and GDP per capita (0.762) and negatively related to market distortion (−0.350) and concentration (−0.632). The patterns found are largely in line with the idea that CSR is more likely to thrive in higher-performing institutional settings and that it can align with better development outcomes, although the relationships between the governance variables were marked – most pronouncedly the almost perfect correlation between institutional quality and regulatory quality (0.974) and their inverse relationship with market concentration (−0.957 and −0.915). In addition, it is notable that the corporate incentive index (CINC) is positively related to institutional and regulatory quality, but not strongly (0.081) related to welfare development, suggesting that governance architectures can play a more important role in influencing the strategic motivations of firms than immediate development needs. The correlation matrix addresses correlation but not causation but does confirm the integrated concept of the relationships between CSR, welfare and distortion and highlights the importance of the appropriate specification of the models to separate these complex relationships.

Table 4 Threshold Results for Incentives

Variable	Coefficient	Std. Error	t-Statistic	Prob.
INST < -0.10000001 – 29 obs				
CINC	0.009587	0.001196	8.015033	0.0000
INST	0.089340	0.039412	2.266824	0.0289
GDPPC	-1.10E-05	1.32E-05	-0.828133	0.4125
C	0.227142	0.059094	3.843727	0.0004
-0.10000001 <= INST < -0.010000001 – 12 obs				
CINC	-0.025774	0.005064	-5.089739	0.0000
INST	1.739308	0.287138	6.057396	0.0000
GDPPC	1.18E-05	4.32E-06	2.737322	0.0092
C	1.475338	0.180404	8.177971	0.0000
-0.010000001 <= INST – 11 obs				
CINC	-0.013437	0.011419	-1.176722	0.2463
INST	0.269279	0.486840	0.553115	0.5833
GDPPC	3.33E-05	9.46E-06	3.514050	0.0011
C	0.893445	0.410582	2.176044	0.0355
R-squared	0.984481	F-statistic		230.6771
Adjusted R-squared	0.980213	Prob(F-statistic)		0.000000

Source: Authors Compilation using STATA (2026)

Table 4 showed that within the lowest institutional regime (INST < −0.10000001), the coefficient (coef.) of the corporate incentives variable is positive and very significant (coef.). The results show that the impact of stronger corporate incentives on CSR engagement is more positive in weak institutions (0.009587, p = 0.000), meaning that it is higher in weak institutions. The result is in line with the political economy and legitimacy-theory view, which posits that companies in fragile governance environments are inclined to increase their CSR efforts as a strategy to ensure legitimacy, diminish social resistance and address institutional gaps. This is consistent with the study by He, Li and Chen (2024), which attributed a positive influence of managerial incentives on the level of CSR engagement in Chinese energy companies, and Sheng (2022), who identified a positive impact of investment incentives on the sustainability performance of listed companies. This is in line with legitimacy theory that suggests corporations use CSR strategically to ensure social acceptance and mitigate institutional uncertainty and political risk. The outcome, however, is contrary to the classical shareholder-orientated view of CSR that argues that CSR spending is mostly inconsistent with the profit 2393tabilizatio objective (Friedman, 1970). The discovery indicates that CSR is more of a strategic governance tool than philanthropy, especially in weak institutional contexts, where corporations use CSR to achieve operational stability and socio-political legitimacy.

The coefficient of institutional quality (INST) has a positive value and is statistically significant (coef. The marginal effects of institutional quality on CSR engagement by firms are positive and significant for the sample as a whole: 0.089340, p = 0.0289. This result corroborates the institutional theory, specifically the view of Brammer, Jackson and Matten (2012) that a better institution gives rise to normative and regulatory forces that positively influence the social responsibility of companies. The discovery is also in line with the assertion of Nwoke (2025) that quality of regulation is crucial for enhancing the accountability and governance of CSR in developing economies. But the positive role of institutional quality in weak governance institutions runs against other more negative formulations of the literature that refer to the fragility of institutions as fundamentally incapable of instigating meaningful corporate accountability. Therefore, any stepping stones to institutional change can make towards CSR responsiveness will benefit the corporations and motivate them to take on a wider social responsibility.

The coefficient of GDP per capita in the lowest institutional regime is negative and not statistically significant (coef. = -1.10, p = 0.4125), indicating that economic prosperity does not have an obvious impact on CSR intensity in the weak institutional environment. This is generally in line with institutional political economy perspectives that argue that the quality of governance is more important than macroeconomic wealth for CSR involvement. The finding partially challenges Fortanier and Kolk's (2007) positive developmental stance that suggests that the developmental investments of companies grow as the economy grows and gets integrated into the international market. The conclusion, therefore, is that an increase in the national income does not necessarily lead to an increase in the corporate social commitment unless there are supporting institutional mechanisms.

The coefficient of corporate incentives turns negative and highly significant in the intermediate institutional regime (−0.10000001<INST<−0.010000001): the higher the corporate incentives, the lower the CSR intensity, ceteris paribus, in the intermediate institutional regime. These results indicate that in the initial stage of 2393tabilization2393zation, when institutional systems are reaching a state of 2393tabilization, firms may decrease strategic CSR spending, perhaps because of diminished demands for compensatory legitimacy when institutional governance mechanisms improve. This finding was in line with Velte's (2023) view that the strategic approach of changing CSR disclosure and engagement is driven by firms' reputational and institutional concerns rather than developmental commitment, which is also supported by the literature on CSR decoupling. It also contributes to the argument put forward by Hartwell and Devinney (2024), who showed that CSR incentives of companies do change with the changing political and institutional environment. Thus, the finding suggests that CSR participation might be a temporary one and contingent on the institutional context rather than always for the benefit of the consumer.

The coefficient of GDP per capita in the intermediate regime is positive and significant (coefficient. A significant negative correlation between the economic growth and the CSR engagement was established in the case of moderate institutional improvements, r = -0.18E^{-05}, p = 0.0092, suggesting that CSR engagement is stimulated by moderate institutional improvements along with the economic growth. This is consistent with the welfare-capital theory, especially the argument of Schaltegger and Burritt (2010), which highlights the joint contribution of economic growth and sustainability governance to the enhancement of CSR. The idea is that as economies grow, institutions could provide greater incentives for firms to undertake "developmental activities" which can be observed. The coefficient of corporate incentives is still negative, though small, in the most extreme institutional setting (−0.010000001 ≤ INST) (coef. -0.013437, p = 0.2463), indicating that, in this case, corporate incentives do not have a statistically significant effect on CSR engagement when institutional systems are relatively stable. This discovery confirms the institutional substitution argument, where the demand for corporations to engage in extensive legitimacy-driven CSR is diminishing due to the increasing burden on formal governance systems to take care of welfare and regulatory duties. The overall argument of the paper that CSR intensity is rooted in the institutional context and strategic governance incentives is thus further supported.

Table 5 Threshold Results for Welfare

Variable	Coefficient	Std. Error	t-Statistic	Prob.
INST < -0.35000001 -- 13 obs				
CSR	0.021906	0.068250	0.320962	0.7500
GDPPC	-2.24E-05	4.45E-06	-5.023073	0.0000
POLCON	-0.014929	0.022532	-0.662590	0.5117
INST	0.252263	0.042201	5.977669	0.0000
C	0.767708	0.036758	20.88552	0.0000
-0.35000001 <= INST < -0.10000001 -- 16 obs				
CSR	-0.095392	0.079805	-1.195312	0.2396
GDPPC	1.38E-06	1.60E-05	0.086325	0.9317
POLCON	-0.020500	0.054666	-0.374997	0.7098
INST	0.268829	0.036103	7.446258	0.0000
C	0.678830	0.122291	5.550928	0.0000
-0.10000001 <= INST -- 23 obs				
CSR	0.299676	0.025982	11.53393	0.0000
GDPPC	-3.77E-06	1.22E-06	-3.078340	0.0039
POLCON	0.059602	0.013847	4.304279	0.0001
INST	0.130097	0.021768	5.976611	0.0000
C	0.579255	0.023797	24.34200	0.0000
R-squared	0.997557	F-statistic		1078.988
Adjusted R-squared	0.996632	Prob(F-statistic)		0.000000

Source: Authors Compilation using STATA (2026)

The coefficient of CSR in the weakest institutional regime (INST<−0.35000001) is positive as noted in Table 5, but statistically insignificant. Under the extremely weak institutions of CSR, it is found that there is little welfare benefit generated from CSR interventions (0.021906, p = 0.7500). The discovery implies that while corporations can offer social interventions in settings where governance is fragile, the effectiveness of such interventions for development is limited by institutional inefficiencies, weak state capacity and weak governance. The finding partly supports Heal's (2005) welfare-economics view of CSR which holds that CSR can remedy market failures and that it can internalise social costs. The fact that the insignificant effect reinforces the sceptical political economy literature that argues that CSR programmes in weak states tend to be descriptive, compensatory, or symbolic in nature, however, does not imply that they are ineffective.

In this regime the coefficient of GDP per capita is negative and highly significant (coef. = -2.24E-05, p = 0.0000), suggesting that the growth process in fragile institutional environments is associated with reductions in welfare levels. This finding is related to the structuralist premise that distributive welfare impacts and inequality can get worse if growth is not accompanied by institutional integration. It raises the question of whether the modernisation assumption of automatic improvement in welfare from economic growth is true. On the contrary, the findings indicate that weak institutions could have differential impacts with advantages for the elites at the expense of vulnerable groups. The coefficient for political connections (POLCON) is also negative and not statistically significant (coef. = -0.014929, p = 0.5117), suggesting that in inherently weak institutional settings, political connections are not likely to have a significant impact on welfare. This is an observation that is consistent with the political economy critique, which suggests that politically connected CSR could be more orientated towards corporate legitimacy and the access to resources than towards real developmental change.

In the weakest regime, the coefficient of institutional quality is positive, and it is very significant (coef.). The coefficients of each variable are statistically significant such that an improvement in the governance variable is found to have a positive significant effect on the welfare outcome, with the coefficient being 0.252263 and the p-value being 0.0000. This result has been found to be a strong support to the institutional theory which matches with Brammer et al. (2012), who claimed that better governance institutions will lead to more effective and accountable private governance mechanisms, including CSR. Within the intermediate institutional regime (−0.35000001 ≤ INST < −0.10000001), CSR exhibits a negative but insignificant coefficient (coef. -0.095392, p = 0.2396). This is an indication that transitional institutional settings could create uncertainty and inefficiencies that have negative welfare impacts on CSR interventions. This result confirms the literature on CSR decoupling, such as Luan (2024), who claimed that firms may have weak symbolic CSR commitments that are not linked to CSR developmental outcomes.

When INST is small and negative (−0.10000001≤INST), CSR turns positive and highly significant (coef.). The cornerstone of the reforms is to substantially enhance welfare outcomes after a relatively stable governance system (0.299676, p = 0.0000). The results are highly relevant to the core issue of the study, which is that the quality of the institutions affects the effectiveness of CSR in fostering development. This outcome is consistent with that of Fortanier and Kolk (2007), who found that multinationals' CSR interventions can have positive developmental spillovers in the ways of infrastructure and employment/human capital investment. It is also compatible with Schaltegger and Burritt (2010), who highlighted the welfare-enhancing aspect of corporate governance with a sustainability focus. Thus, the finding points to the importance of having relatively strong governance institutions to hold people to account, coordinate and sustain development when implementing CSR. The coefficient of political connections in the strongest institutional regime turns positive and is significant (coef.). Under higher governance conditions, the results suggest that political coordination can enhance welfare outcomes (0.059602, p = 0.0001), indicating that those with higher governance do better under political coordination. It is this finding that indicates that institutional maturity can change political connections from potentially extractive to developmental coordination.

Table 6 Threshold Results for Welfare

Variable	Coefficient	Std. Error	t-Statistic	Prob.
	REGQ < -0.33000001 -- 17 obs			
CSR	-0.410959	0.353406	-1.162852	0.2518
REGQ	-0.113275	0.097180	-1.165616	0.2507
C	0.496040	0.212432	2.335052	0.0246
	-0.33000001 <= REGQ < -0.29000001 -- 9 obs			
CSR	0.922163	0.351531	2.623276	0.0123
REGQ	0.794794	1.442444	0.551005	0.5847
C	0.212603	0.571204	0.372202	0.7117
	-0.29000001 <= REGQ < -0.25000001 -- 7 obs			
CSR	-0.206069	0.174888	-1.178288	0.2456
REGQ	5.540552	2.149065	2.578123	0.0137
C	2.146854	0.612597	3.504513	0.0011
	-0.25000001 <= REGQ -- 19 obs			
CSR	0.229132	0.062166	3.685825	0.0007
REGQ	0.340531	0.209801	1.623116	0.1124
C	0.242698	0.057741	4.203250	0.0001
R-squared	0.811506	F-statistic		15.65528
Adjusted R-squared	0.759670	Prob(F-statistic)		0.000000

Source: Authors Compilation using STATA (2026)

The coefficient of CSR for the weakest regulatory regime (REGQ<−0.33000001) is negative as reported in Table 6, but statistically insignificant (coef. = -0.410959, p = 0.2518), meaning that the effect of CSR on reducing market distortions is not significant under extremely weak regulation conditions. This discovery corroborates the significance of political economy approaches that state that the regulatory system is weak, reducing the power of CSR to tackle structural inequalities and governance deficiencies. In the middle regulatory regime (−0.33000001≤REGQ<−0.29000001), the coefficient of CSR turns positive and statistically significant. The results show that CSR increases market distortions in moderately weak regulatory environments (0.922163, p = 0.0123). The results of this finding provide some confirmation to the critical CSR literature that sees corporations as having the potential to strategically use CSR to boost their market positions and power to shape political processes and consolidate their legitimacy. This is in line with Velte (2023), who pointed out the dangers of CSR decoupling and symbolic legitimacy management. It is also compatible with the Brammer et al. (2012) argument that private governance mechanisms can lead to a further intensification of the power of companies and a loss of democratic control. It is, therefore, suggested that in the partially improved regulatory systems, CSR can be a tool for reputation building and market consolidation instead of developmental change.

The coefficient of regulatory quality in the regime (between -0.29000001 and -0.25000001) is positive and significant (coef. For transitional regulatory reforms, the results indicated that there was no impact on DFI, as well as on the market share of the state-owned firm before and after the change (5.540552, p = 0.0137). This result is consistent with the institutional transition theory that suggests that governance reforms may start to trigger market adjustment and regulatory uncertainty, followed by temporary capture of the elites, and eventually leads to long-term stability gains. In the most effective regulation (≤ -0.25000001 REGQ), CSR has a positive coefficient with high significance (coef.). The authors found CSR to be significantly correlated with market distortion even in a relatively tougher regulatory environment, 0.229132, p = 0.0007. The discovery is consistent with the general critical literature that sees CSR as a paradoxical governance tool, which can create welfare gains and also contribute to the reinforcement of the power of the corporations. The finding is consistent with Liu, Wang and Hu (2025), which showed that CSR decoupling can have a negative impact on investment efficiency and drive strategic corporate behaviour. It also agrees with Overesch and Willkomm (2024), who stated that CSR behaviour ought to be closely connected to the more extensive corporate strategic interests.

5. Conclusion and Recommendations

5.1 Conclusion

This paper examines the complex relationship between corporate social responsibility (CSR) and welfare outcomes, as well as the different institutional and regulatory environments, and important insights on the developmental and distortionary consequences of CSR as an alternative economic intervention. The empirical study demonstrates that the overall impact of CSR can be either beneficial or detrimental to welfare, contingent upon the quality of governance and regulatory regimes in place, and may also have beneficial or adverse impacts on markets. Specifically, the corporate incentive is positively correlated with CSR engagement in weak institutional contexts, as evinced in the theory of legitimacy and institutional theories that argue that companies actively engage in CSR to obtain social legitimacy, mitigate socio-political risks and offset governance failures. Similarly, the welfare threshold results show that only when institutional quality exceeds a certain threshold does CSR start to have a significant welfare impact, consistent with the institutional political economy argument that meaningful socio-economic development outcomes are linked to effective governance structures, which requires institutional quality to be above a certain threshold for the impact of CSR to be welfare-enhancing. The results of this study support the argument that with better governance systems and institutional accountability, CSR can play a major role in enhancing welfare and fostering developmental stability in fragile and developing economies.

The results, however, also reveal some of the limitations and consequences of CSR interventions in weak or transitional institutional contexts. The market distortion threshold results suggest that CSR has a potentially strong market distortion effect, particularly if the regulatory environment is moderately weak. This has implications for the potential for reputational manipulation, capture by the elite, regulatory influence and corporate dominance in institutionally fragile contexts – supporting the important political economy argument that CSR can be a developmental mechanism as well as a tool for corporate power. Moreover, the results suggest that some transitional conflict, some costs of adjustment, and some distributional effects may be created in the short term by changes in institutional quality and regulatory change but may lead to developmental benefits in the long term. Also, the lack of significant and consistent results of the GDP per capita growth in some threshold regimes argues that there must be additional institutional reforms, coordination and accountability mechanisms to achieve effective welfare outcomes if the economy is growing. Based on this, it is concluded that the developmental effectiveness of CSR is basically dependent on the surrounding institutional and regulatory environment in which corporate activities are set.

5.2 Recommendations

Based on these results, this study recommends the following:

1. It is important for governments in developing and fragile-institution countries to build governance and regulation to make CSR actions produce welfare gains and not only symbolic or reputational gains. This needs to be done by setting up clear monitoring institutions, enforceable CSR disclosure requirements and independent monitoring bodies which are able to

assess the developmental effect of corporate interventions.

2. Policymakers should include CSR activities in the larger national development plans, notably in the health, education, employment creation, environment and sustainability sectors. Synchronised government collaboration, government/corporation collaboration, and government/development agency collaboration would improve the congruence of CSR spending with national development needs and minimise duplication of efforts or inefficiency in social programmes.

3. Complimentary measures such as more stringent competition and anti-monopoly measures should be adopted by regulatory bodies to reduce the possibility of market distortions arising from the implementation of CSR. The results indicate that in weak regulations, CSR can create internal reinforcement of corporate power and strategic influence, which requires procedures of institutional protection to avoid the risk of CSR being a tool of market consolidation and/or regulatory capture.

4. Transition tensions and regulatory uncertainty should be reduced by implementing institutional reforms in a step-by-step and systematic manner. The importance of enhancing judicial independence, anti-corruption bodies and institutions, corporate accountability and public sector administrative capacity to increase the developmental effectiveness of CSR interventions should be emphasised.

5. Governments should incentivise CSR investments that have a direct impact on productive and inclusive economic activities, especially in vulnerable groups, small and medium businesses, informal economy actors and rural communities. Incentive measures, like tax rebates, sustainability finance and targeted regulatory measures, can be used to shift CSR spending from short-term 'good works' to long-term 'good investment'.

6. The development of strong impact-evaluation systems that can track the welfare and market impacts of CSR activities at different levels of institutionalisation is a policy and agency priority to be established. For CSR to help reduce inequalities and corporate power asymmetries as well as for the imperative of inclusive development to be realised, the policy frameworks must be adaptive, recognising emerging distortionary risks as well as the risk of capture of the elite or manipulation of the regulatory environment.

7. International development organisations and multilateral institutions should assist developing countries in a technical assistance and institutional development and governance reform programme to support the development of the regulatory foundations of effective CSR governance. Intergovernmental and inter-sectoral collaboration between governments, international organisations and corporations can complement the development co-ordination and accountability of CSR activities in institutionally weak countries.

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