Mitigating the Sin Discount: Social Responsibility, Risk Governance, and Firm Valuation in Controversial Industries

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ABSTRACT

Firms operating in controversial industries—such as tobacco, alcohol, gambling, and weapons—often face persistent valuation discounts driven by social norms, ESG exclusion, regulatory scrutiny, and institutional investor avoidance. Prior sin stock research suggests these penalties are structural, yet it remains unclear whether firms can regain partial market recognition through credible improvements in social contribution, reduced toxic business exposure, and stronger governance. This study examines whether controversial firms, particularly tobacco and nicotine companies, can weaken valuation discounts by adopting sustainable transformation strategies and enhanced risk governance aligned with public health and regulatory expectations.

JEL Codes:

Keywords: Controversial industries, corporate valuation, risk premium, sustainability governance, sustainable transformation, risk management, corporate social responsibility.