

Corporate Responsibility in Different  
Varieties of Capitalism:  
Exploring the Role of National Institutions



# Corporate Responsibility in Different Varieties of Capitalism: Exploring the Role of National Institutions

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# Content

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Vorwort	6
Zusammenfassung	7
Executive summary	10
1. Introduction	13
2. Understanding corporate responsibility in different varieties of capitalism	15
Defining corporate responsibility	15
How is corporate responsibility shaped by different varieties of capitalism?	18
Research agenda: a differentiated view of institutions and corporate responsibility	19
3. Methodology	21
Sample	21
Measurement: the Corporate Responsibility Social Index	22
Analysis: cross-country institutional influences on the CR Social Index	22
4. Corporate responsibility in different countries: degrees and kinds	24
Corporate Responsibility Social Index	24
Corporate responsibility sub-indices: community, diversity and human rights	27
Corporate irresponsibility	29
5. Role of institutions for corporate responsibility	31
Corporate Responsibility Social Index	31
Corporate responsibility sub-indices: community, diversity and human rights	34
Corporate irresponsibility	41
Limitations of empirical analysis	42
6. Conclusion: institutions for effective corporate responsibility	44
Appendix: technical notes	48
References	51
Figures and tables	56
Imprint	58

# Vorwort



Die Debatte um die gesellschaftliche Verantwortung von Unternehmen hat sich in den letzten Jahren neu ausgerichtet. Sich mit ökologischen, ökonomischen und sozialen Fragen auseinanderzusetzen gilt in der Wirtschaftswelt inzwischen nicht mehr als „nice to have“, sondern als Pflichtaufgabe. Unternehmen stellen sich nicht mehr die Frage, ob sie Verantwortung für gesellschaftliche Belange übernehmen sollen. Im Mittelpunkt steht vielmehr die Frage, wie sie diese Verantwortung in konkretes Handeln umsetzen.

Ein wichtiger Treiber für diese Entwicklung ist sicherlich eine inzwischen hohe Sensibilität der Öffentlichkeit und der Verbraucher im speziellen. Internet und soziale Medien ermöglichen einen Grad an Transparenz, der Fehlverhalten, ob nun tatsächliches oder auch vermeintliches, umgehend sanktioniert. Die Erwartungen an ethisch orientiertes Unternehmensverhalten sind enorm gestiegen.

Viele Unternehmen stehen jedoch vor der Herausforderung, für sich selbst festlegen zu müssen, was denn ihre Verantwortung gegenüber der Gesellschaft ist und wie sie den Erwartungen der unterschiedlichen Stakeholder am besten gerecht werden können. Denn die eine Definition, was denn unter Corporate Responsibility zu verstehen ist, gibt es nicht. Zwar hat sich inzwischen ein breit geteiltes Verständnis der Grundlagen herausgebildet, auf denen Corporate Responsibility basiert. Dies sind internationale Vereinbarungen wie die OECD Leitsätze für Multinationale Unternehmen, die UN-Leitprinzipien für Wirtschaft und Menschenrechte, die ILO Kernarbeitsnormen und die Prinzipien des UN Global Compact. Auf dieser Basis haben sich eine Vielzahl von Leitfäden, Standards zur Berichterstattung oder anderen Instrumenten herausgebildet, die Unternehmen dabei unterstützen, ihre gesellschaftliche Verantwortung wahrzunehmen.

Dennoch gibt es große länderspezifische Unterschiede, wie Unternehmensverantwortung verstanden und umgesetzt wird. Sind diese „nur“ auf ein unterschiedliches Verständnis von Marktwirtschaft zurückzuführen? Ist die soziale Marktwirtschaft per se besser geeignet, Unternehmen in die Gesellschaft einzubetten oder greift dieser Erklärungsansatz zu kurz?

Diesen Fragen geht die vorliegende Studie nach. Sie untersucht im Vergleich von 24 OECD Ländern, wie und in welchem Umfang die institutionellen Rahmenbedingungen eines Landes Corporate Responsibility Aktivitäten beeinflussen. Sie nimmt damit nicht nur das Regulierungsniveau eines Landes in den Blick, sondern darüber hinaus auch solche gesellschaftlichen Faktoren, die bestimmend sein können für verantwortliches Unternehmenshandeln. Damit ist es zum einen möglich, Unterschiede in der Ausgestaltung von Corporate Responsibility zwischen verschiedenen Ländern besser zu erklären. Zum anderen können die Faktoren identifiziert werden, die geeignet sind, Corporate Responsibility Aktivitäten zu fördern.

Birgit Riess  
Programmdirektorin  
Unternehmen in der Gesellschaft

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# Zusammenfassung

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## Hintergrund

Der Bericht untersucht Corporate Responsibility (Unternehmensverantwortung) im internationalen Vergleich. Das Ziel ist herauszustellen, wie zentrale institutionelle Differenzen unterschiedlicher Kapitalismusmodelle (bekannt als “Varieties of Capitalism”) Corporate Responsibility prägen. Der Ländervergleich wird hierbei bestimmt durch die Frage, inwiefern Corporate Responsibility verschiedene institutionelle Formen der Koordination substituiert oder widerspiegelt. Damit wird beleuchtet, weshalb verschiedene Länder unterschiedliche Arten von Corporate Responsibility entwickeln und welche politischen Implikationen daraus gezogen werden können.

Der Bericht untersucht zwei Kernfragen:

- 1. Welche Unterschiede von Corporate-Responsibility-Aktivitäten bestehen in OECD-Ländern?**
- 2. Welche institutionellen Faktoren erklären die Unterschiede der Corporate-Responsibility-Aktivitäten zwischen den betrachteten Industrienationen?**

Der Bericht beantwortet diese Frage mittels einer statistischen Analyse aktienmarktgelisteter Unternehmen in 24 OECD-Ländern in den Jahren 2008–2014. Wir bilden einen Corporate Responsibility Social Index, basierend auf Indikatoren aus den Themenfeldern Community, Diversity, Arbeitsplatzqualität, Arbeits- und Gesundheitsschutz, Menschenrechte, Produktsicherheit sowie Aus- und Weiterbildung. Außerdem bilden wir einen Corporate Irresponsibility Social Index, welcher negative Aktivitäten in den genannten Themenfeldern umfasst. Diese Daten der Corporate-Responsibility-Aktivitäten auf Unternehmensebene entstammen dem ASSET4-Datensatz. Dies wird ergänzt durch Daten zu institutionellen Indikatoren auf Länderebene zu den Bereichen Corporate Governance

(Unternehmensverfassung), zwischenbetrieblicher Beziehungen, Bildung und Ausbildung, Arbeits- und Industrieller Beziehungen, Zivilgesellschaft und staatlicher Aktivitäten. Die gewählte Forschungsmethodologie verfolgt damit einen disaggregierten Ansatz, jeweils sowohl in Bezug auf die verschiedenen institutionellen Bereiche als auch in Bezug auf die verschiedenen Dimensionen von Corporate Responsibility. Des Weiteren wird der Bericht erweitert durch die Analyse des Zusammenhanges von Corporate Responsibility und Corporate Irresponsibility.

## Empirische Ergebnisse

Die Ergebnisse des Berichtes zeigen substantielle Unterschiede zwischen den untersuchten OECD-Ländern auf, sowohl in Bezug auf das Ausmaß als auch in Bezug auf die Art der Corporate-Responsibility-Aktivitäten. Dennoch gemein haben dabei alle untersuchten Länder, dass der Corporate Responsibility Social Index in den Jahren 2008 bis 2014 angestiegen ist. Bei einem Vergleich von Corporate Responsibility zwischen verschiedenen Ländern ist es notwendig, ähnliche Firmen in Bezug auf deren Größe, finanzielle Leistung und Sektor miteinander zu vergleichen. Bei einem solchen Vergleich belaufen sich die substanziellen Unterschiede zwischen den Ländern auf etwa 15 bis 16 Prozent der gesamten Variation der zu beobachteten Corporate-Responsibility-Werte. Hinsichtlich des Rankings der einzelnen Länder gehören in 2013 Frankreich, Großbritannien, Spanien und Schweden zu den Vorreitern in Corporate Responsibility. Deutschland gehört zu einer großen Gruppe von Ländern mit einem mittleren Ausmaß von Corporate Responsibility und liegt damit auf Platz 14 von 24 Ländern. Andere Länder weisen deutlich niedrigere Werte als Deutschland auf, wie u.a. Mexiko, Neuseeland, die Türkei, Japan und die USA.

Des Weiteren zeigt der Bericht Ergebnisse zu ausgewählten Sub-Dimensionen von Corporate Responsibility, nament-

lich Community, Diversity und Menschenrechte. Hier zeigt sich, dass Länder verschiedene Rangplätze je nach Sub-Dimension einnehmen, was auf starke Unterschiede in deren jeweiligen Corporate-Responsibility-Aktivitäten hinweist. Zum Beispiel zeigt Großbritannien sehr hohe Werte für die Sub-Dimension Community auf, wohingegen deutlich niedrigere Werte für die Sub-Dimensionen Diversity und Menschenrechte zu beobachten sind. Auch für Deutschland zeigen sich unterschiedliche Werte je nach Sub-Dimension, im Gegensatz zu Großbritannien sind es hier jedoch sehr hohe Werte für Diversity und niedrige für die Sub-Dimension Community. Neben diesen Unterschieden in den Sub-Dimensionen zeigt der Bericht ebenfalls ein gängiges Muster, welches in fast allen Ländern beobachtet werden kann: Unternehmen mit hohen Werten von Corporate Responsibility haben zugleich hohe Werte von Corporate Irresponsibility. In unseren Daten liegt die Korrelation zwischen Corporate Responsibility und Irresponsibility über die Jahre 2008–2014 bei  $0.36^{***}$  ( $p < 0.01$ ).

Anschließend untersucht der Bericht, inwiefern die beobachteten Länderunterschiede mit verschiedenen institutionellen Faktoren in Zusammenhang stehen. Die Ergebnisse zeigen hierzu, dass die Unterschiede in der Corporate Responsibility in den untersuchten Ländern einerseits Institutionen widerspiegeln (mirroring effects) als auch andererseits vorhandene Institutionen ersetzen (substitution effects). Das Widerspiegeln bestehender Institutionen ist besonders stark mit Institutionen der Koordination im Bereich der Arbeits- und Industriellen Beziehungen sowie mit staatlichen Aktivitäten verbunden. Dies gilt insbesondere für die Sub-Dimensionen Diversity und Menschenrechte. Effekte der Substitution treten besonders deutlich bei liberal gestalteten Institutionen der zwischenbetrieblichen Beziehungen und der Corporate Governance hervor. Dieser Effekt zeigt sich besonders deutlich für die Sub-Dimension Community.

Die zentralen empirischen Ergebnisse unserer Studie lassen sich wie folgt zusammenfassen:

- Länderunterschiede in Corporate Responsibility sind substantiell, fallen jedoch nicht eindeutig in die bekannten Kategorien liberaler versus koordinierter Marktwirtschaften („Varieties of Capitalism“)
- Einerseits spiegelt Corporate Responsibility Formen der Unternehmenskoordination wider, andererseits substituiert Corporate Responsibility an anderer Stelle die Abwesenheit solcher Koordination. Variation besteht hier zwischen den verschiedenen institutionellen Bereichen.

- Der Einfluss der Institutionen variiert zwischen den unterschiedlichen Sub-Dimensionen der Corporate Responsibility.
- Sowohl der Staat als auch verschiedene institutionalisierte Koordinationsformen spielen eine entscheidende Rolle in der Entwicklung von Corporate Responsibility.
- Institutionen wie Betriebsräte, Arbeitnehmerschutz und staatliche Wohlfahrtsausgaben führen zu höheren Werten von Corporate Responsibility sowie zu niedrigeren Werten von Corporate Irresponsibility. Im Gegensatz dazu geht geringe Produktmarktregulierung sowohl mit hohen Werten der Corporate Responsibility als auch mit hohen Werten der Corporate Irresponsibility einher.

## Zentrale politische Implikationen

Die empirischen Ergebnisse des vorliegenden Berichtes lassen folgende politische Implikationen zu:

**Erstens:** Die öffentliche Debatte über Corporate Responsibility sollte deutlich stärker die Rolle von Institutionen hervorheben. Die bisherige Debatte hat sich stark auf den so genannten Business Case for Corporate Responsibility fokussiert. Unsere Ergebnisse zeigen jedoch, dass die Aktivitäten von Unternehmen in hohem Maße in den jeweiligen institutionellen Kontext eingebettet sind. Dies führt zu Unterschieden sowohl im Ausmaß als auch in der Art der Aktivitäten, wobei Institutionen hier sowohl als ermöglichend als auch als einschränkend verstanden werden können. Ein besseres Verständnis der institutionellen Faktoren liefert damit einen wichtigen Beitrag zur Verbesserung von politischen Initiativen rund um das Thema Corporate Responsibility, da weder „one size fits all“-Maßnahmen noch das alleinige Vertrauen auf freiwillige Maßnahmen Länder zum Aufholen an „Vorreiter“ befähigen können.

**Zweitens:** Politische Maßnahmen zur Erhöhung der Corporate Responsibility können nicht alleine auf Liberalisierung und Deregulierung setzen. So übersehen Argumente für eine höhere „Unternehmensautonomie“ oder für „mehr Markt“, oftmals verbunden mit dem so genannten Business Case for Corporate Responsibility, leicht die koordinierende und ermöglichende Rolle des Staates in zahlreichen Ländern. Zwar zeigen einige empirische Ergebnisse, dass Corporate Responsibility als ein marktbasierendes Substitut für staatliche und anderweitige institutionalisierte Koordination der Unternehmensführung verstanden werden kann. Unsere Ergebnisse zeigen jedoch klar, dass im Allgemeinen

Länder in Bezug auf Corporate Responsibility besser dastehen, wenn sie ein gewisses Maß an institutionalisierter Koordination aufweisen. Selbstregulierung in Form von Corporate Responsibility sollte damit nicht fälschlicherweise als Substitut für traditionelle staatliche Regulierung oder korporatistische Organisationen verstanden werden. Vielmehr sollte Corporate Responsibility als Erweiterung staatlicher Regulierung oder korporatistischer Organisationen betrachtet werden.

**Drittens** sollten politische Maßnahmen die unterschiedlichen Sub-Dimensionen von Corporate Responsibility in den Blick nehmen. Die politische Diskussion sollte mit einer Analyse der Stärken und Schwächen in den einzelnen Sub-Dimensionen beginnen. Hiervon ausgehend können anschließend „Lücken“ im jeweiligen institutionellen Rahmen identifiziert werden. Hierbei ist es jedoch wichtig zu beachten, dass einige institutionelle Faktoren entgegengesetzte Folgen auf die unterschiedlichen Sub-Dimensionen haben können. Allgemein Empfehlungen sind daher mit Vorsicht zu betrachten, anstelle dessen sollten politische Akteure stärker nach kontextspezifischen Lösungen schauen.

**Viertens:** Welche Form staatlicher Regelungen vermag Corporate Responsibility am besten zu unterstützen? Die empirischen Ergebnisse des Berichtes zeigen, dass verpflichtende öffentliche Berichterstattung von Corporate-Responsibility-Aktivitäten starke positive Effekte vorweist. Länder, die solche Berichterstattungspflichten eingeführt haben, weisen einheitlich deutlich höhere Werte von Corporate Responsibility auf. Eine Berichterstattungspflicht könnte damit ein zentraler Katalysator zur Zunahme von Corporate-Responsibility-Aktivitäten sein: indem es zu einer weiten Verbreitung von Corporate-Responsibility-Strategien kommt, stärkere Anstrengungen in der Implementierung dieser Strategien unternommen werden und damit vielleicht auch bessere soziale Ergebnisse erzielt werden.

**Fünftens** lässt sich festhalten, dass zukünftige Betrachtungen der Effektivität von Corporate Responsibility stets auch den Zusammenhang mit Corporate Irresponsibility in den Blick nehmen sollten. Die Ergebnisse dieses Berichtes zeigen, dass Institutionen wie etwa Betriebsräte, Arbeitnehmerschutz und staatliche Wohlfahrtsausgaben sowohl mit höheren Werten von Corporate Responsibility als auch mit niedrigerer Corporate Irresponsibility verbunden sind. Andere Institutionen wie geringe Produktmarktregulierung fördern zugleich „gute“ als auch „schlechte“ Unternehmensaktivitäten.

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# Executive summary

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## Background

This report compares cross-country patterns of corporate responsibility. The aim is to explore how key institutional differences in distinct “varieties of capitalism” shape corporate responsibility, and how corporate responsibility mirrors or substitutes for institutionalized forms of coordination. In particular, we seek to understand why firms in different countries develop significantly different patterns of corporate responsibility activities, and identify implications for public policy.

The report explores two key questions:

1. **How do corporate responsibility activities in OECD countries differ?**
2. **What institutional factors explain the differences in corporate responsibility activities across these advanced industrialized countries?**

The report answers these questions by undertaking a statistical analysis of listed corporations in 24 OECD countries during the years 2008 – 2014. We construct a Corporate Responsibility Social Index (CR Social Index) based on indicators of community, diversity, employment quality, health and safety, human rights, product safety, and training. Moreover, we construct a second Corporate Irresponsibility Social Index (CiR Social Index) to capture concerns regarding negative social actions. These company-level measures of social responsibility activities from the ASSET4 dataset were matched with various data on country-level institutional characteristics. Institutional indicators were selected for the domains of corporate governance, interfirm relations, education, employment relations, civil society and state activities. The research methodology relies on a disaggregated and fine-grained approach to analyze how different institutional domains shape different dimensions of corporate responsibility. Furthermore, the

report extends the scope of analysis to include corporate irresponsibility and its relationship to responsible business practices.

## Empirical results

The main findings show that substantial differences exist with regard both to the level and kind of corporate responsibility practices observed in different OECD countries. For all countries, the overall CR Social Index scores increased during the years 2008 and 2013. When comparing corporate responsibility across countries, it is important to compare firms that are similar in size, financial performance and sectoral characteristics. After controlling for such factors, very substantial differences exist across countries, comprising roughly 15 percent to 16 percent of the total variation in corporate responsibility scores. In 2013, France, the United Kingdom, Spain and Sweden clearly are among the leaders with respect to corporate responsibility activities. Germany belongs to a broad group of countries with intermediate levels of corporate responsibility, ranking 14th among 24 countries. Meanwhile, several countries show significantly lower scores than Germany, including Mexico, New Zealand, Turkey, Ireland, Japan and the United States.

The report also shows results for selected sub-dimensions of corporate responsibility, respectively community, diversity and human rights. Here, countries have different rank orders across the different sub-dimensions, suggesting important differences in the kind of corporate responsibility activities carried out. For example, the United Kingdom is particularly strong on the community dimension, but scores lower on diversity and human rights. Germany also achieves very different positions across the sub-dimensions: low scores in community contrast with high scores in diversity. Furthermore, the report highlights a pattern exhibited by almost all countries:

namely, that firms with high scores for responsibility also have high scores on the index of irresponsibility (indicating a substantial degree of irresponsibility). In our data, the correlation between the corporate responsibility and irresponsibility indices over the years 2008 – 2014 is 0.36\*\*\* ( $p < 0.01$ ).

The report additionally explores whether these country differences are associated with different institutional factors. The results show that country differences with regard to corporate responsibility both mirror some institutional factors and serve as a substitute for others. In particular, the diversity and human rights activities of firms mirror high levels of institutional coordination in the domain of employment relations and state activity. By contrast, substitution effects are evident in relation to community issues, where high levels of corporate engagement with community are associated with liberal institutions in the domain of interfirm relations and corporate governance.

The key empirical findings of the study may be summarized as follows:

- Cross-national differences in corporate responsibility are substantial, but do not fall neatly into well-known typologies of liberal versus coordinated countries.
- Corporate responsibility both mirrors institutionalized forms of business coordination and substitutes for the absence of such coordination. This variation depends on both the sub-dimension of corporate responsibility, as well as the institutional domain.
- Both the state and institutionalized coordination play an important role in enabling corporate responsibility.
- Several institutions such as works councils, employment protection and government social spending are associated with higher scores for corporate responsibility, as well as with lower scores for irresponsible actions. By contrast, lower levels of product market regulation are associated with high scores for both responsible and irresponsible actions.

## Key public-policy implications

**First**, public debates over corporate responsibility need to focus more specifically on the role of the institutional context. Most discourse focuses on the business case for corporate responsibility. By contrast, our results show that company activities are deeply embedded within institutions, a fact which leads to differences in the extent and kind of activities. Institutions can be both enabling and constraining. Thus, a better understanding of institutional factors is very important for improving corporate responsibility policy initiatives, since neither “one-size-fits-all” policy measures nor reliance on voluntary initiatives alone are likely to enable trailing countries to catch up to the leaders.

**Second**, public policy aimed at encouraging corporate responsibility cannot rely on liberalization or deregulation alone. Arguments for “greater firm autonomy” or “more market” related to the business case for corporate responsibility may easily overlook the role of coordination and the enabling roles played by the state in many countries. Despite some evidence that corporate responsibility may be a market-led substitute for more state-regulated or institutionally coordinated forms of business governance, countries with a substantial degree of institutional coordination generally do better with respect to corporate responsibility scores. Mirroring effects related to high levels of coordination have greater magnitude with respect to their ability to explain corporate responsibility. Here, private-sector governance in the form of corporate responsibility should not be seen as a substitute for traditional state regulation or corporatist-style arrangements, but can operate more effectively as an extension of the latter.

**Third**, policy measures must take into account the various sub-dimensions of corporate responsibility. Any policy discussion should begin with an analysis of specific strengths and weaknesses related to each corporate responsibility sub-dimension. From this point, specific “gaps” may be identified in the institutional framework. Importantly, some institutional characteristics may have contradictory implications for different dimensions of corporate responsibility. General policy recommendations should therefore be handled with care. Rather than a single set of best practices, policymakers should look for more contextualized approaches to policymaking.

**Fourth**, given the complexities discussed above, what sort of direct state policies may best support corporate responsibility? Here, the empirical results in this report show that mandatory public disclosure of corporate responsibility may have strong positive effects. Countries adopting disclosure requirements had substantially higher scores for corporate responsibility. Disclosure requirements may be an important catalyst in sparking corporate responsibility activities – leading to greater diffusion of policies, deeper implementation efforts, and perhaps even better social outcomes.

**Finally**, some institutions support “good” social actions, but some also simultaneously encourage “bad” ones. The results show that institutions such as works councils, employment protection and government social spending are associated both with greater responsibility and lesser irresponsibility. Nevertheless, more liberal forms of product market regulation increase average levels of responsibility while also being associated with greater levels of irresponsibility. Future assessments about the effectiveness of corporate responsibility should take into account the role of irresponsible actions and their dynamic relationship over time.

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# 1. Introduction

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Understanding the nature and drivers of corporate responsibility (CR) is a crucial issue for corporate management and policymakers alike. Corporate responsibility has emerged as a new form of private governance and is discussed as a potential complement to – or more controversially as an alternative to – traditional forms of state regulation and social partnership. This debate is especially interesting from a cross-nationally comparative perspective. Drawing on this perspective, this report explores how corporate responsibility is shaped by diverse economic, social and political institutions. Developing an understanding informed by rigorous cross-national research will help support more effective interfaces between the government and the private sector for numerous societal challenges.

A cross-national comparison of corporate responsibility remains fairly limited to date. Some excellent studies compare very particular aspects, such as the adoption of the Global Compact (Lim and Tsutsui 2012). Other studies tend to focus on the historical development of corporate responsibility in single countries (e.g., Fifka 2014) or detailed comparisons of meanings across two or three countries (e.g., Blasco and Zolner 2010).

The aim of this report is two-fold: First, to map and compare cross-country patterns of corporate responsibility across a number of different issue areas, and second, to explore whether and how key institutional differences in distinct varieties of capitalism shape patterns of corporate responsibility adoption and implementation. In particular, we seek to understand why firms in certain countries develop significantly different patterns of corporate responsibility activities, and how different institutional factors influence these patterns. To address the question of the influence of the broader institutional context on the adoption of corporate responsibility measures, the report will focus on the following overarching two research questions:

- 1. How do corporate responsibility activities in OECD countries differ?**
- 2. What institutional factors explain differences in corporate responsibility activities across these advanced industrialized countries?**

The report answers these questions by undertaking a statistical analysis of listed corporations in 24 OECD countries during the years 2008 – 2014.

Section 2 reviews past comparative studies of corporate responsibility, and discusses whether it mirrors or substitutes for institutionalized forms of coordination in different varieties of capitalism. The main argument here is that a more disaggregated analysis is needed to better differentiate between substitution and mirroring effects across different institutional domains and dimensions of corporate responsibility. Section 3 provides details on the quantitative methodology and the selection of institutional indicators for the domains of corporate governance, interfirm relations, education, employment relations, civil society and state activities. Section 4 presents descriptive results of cross-country differences in corporate responsibility, as well as within the three sub-dimensions of diversity, community and human rights. Furthermore, the report provides a comparative analysis with regard to the issue of corporate irresponsibility and its relationship to responsible business practices. Section 5 explores the institutional drivers of corporate responsibility and irresponsibility. Section 6 concludes by making five summary observations and draws out related implications for public policy.

The main findings show that substantial differences exist in both the level and kind of corporate responsibility practices observed in different OECD countries. These differences can be explained by institutional factors that simultaneously support both the mirroring and substitution hypotheses. In

particular, mirroring effects are more strongly associated with high levels of coordination in the domain of employment relations and state activity, particularly in relation to diversity and human rights. Substitution effects are more evident in the domain of interfirm relations and corporate governance, particularly in relation to community issues.

In terms of promoting greater effectiveness of corporate responsibility, it is important to compare the differing effects of institutions on corporate responsibility and irresponsibility. Some institutions may promote “good” social actions, whereas others encourage “bad” ones. The results show that institutions such as works councils, employment protection and government social spending are associated with both greater responsibility and lesser irresponsibility. By contrast, more liberal forms of product market regulation increase average levels of responsibility but are also associated with greater levels of irresponsibility.

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## 2. Understanding corporate responsibility in different varieties of capitalism

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Most discussion of corporate responsibility has stressed the business case as a key driver for firms to adopt more responsible business practices. However, research has increasingly cast doubt on whether more socially responsible businesses generally show stronger financial performances (Orlitzky 2011). This link is only strong for firms with very specific strategies or which occupy particular market niches (Vogel 2006). Profit maximization and competitive pressures may also lead companies to choose controversial or even irresponsible business practices. Existing studies show that reputational sanctions for bad behavior remain surprisingly weak (Jackson et al. 2014). The business case thus has significant limits in explaining the rapid development of corporate responsibility practices around the world.

To supplement the business-driven perspective, research is currently focusing on the wider set of institutional drivers promoting corporate responsibility. Institutions shape the “rules of the game” in the economy, and range from formal legal frameworks to informal norms and taken-for-granted business practices. Institutions may influence business actors by constraining some forms of business organization, while also enabling others by solving collective action problems. Despite the emergence of a growing international institutional infrastructure for corporate responsibility (Waddock 2008), institutions differ across countries due to varying legal regulations, state traditions and historical patterns of business development.

Institutional approaches suggest seeing corporate responsibility in relation to the social and political context. Institutions shape the legitimacy of different stakeholders, thus influencing who has a voice in corporate decision-making. Moreover, institutions shape stakeholder expectations about what constitutes legitimate corporate behavior. Differences in state regulation and institutionalized stakeholder roles have created distinct pathways of development for corporate responsibility in individual countries.

This section provides an overview of the existing literature on how and why corporate responsibility differs across advanced industrialized countries. In addressing this aim, the section focuses on institutional differences associated with different varieties of capitalism, particularly the degree of market orientation or coordination in corporate governance, employment relations, education and interfirm relations. To set the scene, the next section defines corporate responsibility as it is understood in this report.

### Defining corporate responsibility

Corporate responsibility refers to corporate policies, practices and outcomes related to social issues. The phenomenon of corporate responsibility is linked to situations in which responsibility is claimed by a company or demanded by company stakeholders. Since different stakeholders place different expectations on companies, the nature of corporate responsibility remains “essentially contested” (Okoye 2009). The societal expectations around those issues emerge and change over time (Griffin and Prakash 2014; Hiss 2009). Thus, the public salience of issues may vary. Companies also respond to these expectations in different ways. Whether or not these corporate responses are considered legitimate depends, in turn, strongly on the social and political context.

Viewing corporate responsibility as a contested political construction has several advantages, particularly for conducting international comparisons.

First, corporate responsibility is defined in a descriptive and empirical manner. The definition does not seek to resolve important normative debates regarding whether or not corporate actions meet particular ethical criteria for responsibility. Corporations may have a variety of instrumental, moral or relational motives for adopting corporate responsibility policies (Aguilera et al. 2007), but

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The term corporate social responsibility (CSR) is a highly contested concept in Germany. Historically, the social responsibilities of corporations were defined during the 1970s as relating to a social, often moral, obligation held by a corporation vis-à-vis its employees, the natural environment, and society as a whole. Embedded in the concept of the social market economy, corporate engagement in public tasks, such as the dual system of vocational training, was formally and informally institutionalized within the corporatist system, and covered by tripartite conflict-resolution procedures (Antal et al. 2009; Hiss 2009). Often these responsibilities were enshrined in law.

As CSR began to develop internationally, Germany was often seen as a “laggard” in terms of (explicit) CSR (see e.g., Habisch and Wegner 2005; Kinderman 2008). State actors were reluctant to engage with CSR due to the perception that Germany already had high levels of regulation and CSR would mean additional burdens. Unions and NGOs instead opposed the concept, fearing that a voluntarist approach could weaken existing regulations.

A new discourse on “CSR” began slowly after German unification and gained momentum as German businesses supported the European Commission definition of CSR “as a concept whereby companies integrate social and environmental concerns in their

business operations and in their interaction with their stakeholders on a voluntary basis” (European Commission 2001: 6). Despite skepticism on the part of unions and NGOs (see e.g., Kerkow et al. 2003), the voluntaristic approach was agreed to by members of the national CSR forum in 2009 (Nationales CSR-Forum 2009) and later codified in the national CSR strategy of the German Federal Government (Federal Ministry of Labour and Social Affairs 2010): “Corporate social responsibility stands for responsible business conduct in the core business. CSR refers to an integrated corporate concept that includes all social, environmental and economic contributions of a company to voluntarily adopt social responsibilities that go beyond compliance to legal requirements and involve the interaction with their stakeholders.”

Nonetheless, much disagreement remains regarding the definition and role of CSR within Germany’s highly coordinated “social market economy.” Whereas business actors and state actors describe voluntarism as the “basic principle of CSR” and a necessary condition for their engagement (e.g., BDA 2014), NGOs argue for a more regulative approach to CSR. For example, CorA (a CSR association founded by various German NGOs and unions) refers to the term “corporate accountability” instead of CSR, and defines the former as “binding instruments with which companies are obliged to respect human rights and internationally recognized social and environmental standards.”

these motives are not themselves a criteria for defining whether an action is responsible or not.

Second, corporate responsibility is not limited to positive corporate social performance. The relationship between policies and practices, on one hand, and the outcomes of social performance, on the other, is an empirical question. For some companies, policies targeting social issues may be very effective and bring measurable improvement in outcomes. However, for other companies, such policies may be well-meaning but ineffective. For example, corporate responsibility may sometimes manifest as “greenwashing” when policies remain largely symbolic and do little to improve outcomes (Delmas and Burbano 2011). Research that ignores irresponsible actions and negative social performance outcomes leads to an incomplete

understanding of corporate responsibility. In fact, past research shows that corporate responsibility itself has a strong positive correlation with irresponsible business practices (Jackson et al. 2014; Kotchen and Moon 2012). Indeed, exploring this link is very important for a social scientific understanding of corporate responsibility as a whole.

Third, corporate responsibility is not limited to policies and practices adopted voluntarily by corporations or which go “beyond legal requirements.” Since the legal context differs from one country to another, the same action may be considered voluntary in one context, but not so in another. Corporations also respond to such legal rules, as well as codes or standards, in different ways: some through comparatively minimal levels of compliance and others

**France:** Emma Avetisyan (Audencia Business School)

The definition of corporate social responsibility (and what it implies) presents confusing linguistic and cultural barriers in France. First, there seems to be no distinction between the notion of responsibility and the legal concept of liability, which explains why the questions around the legal implications of CSR and its voluntary character are more prevalent in discussions in France than in other countries (Antal and Sobczak 2007). Second, the term *Responsabilité Sociale des Entreprises* – the direct translation of CSR from English – creates misperceptions, as in French the word social has a particular sense and narrows the scope to internal labor-related issues (e.g., trade unions, employees' councils). This fact can probably explain why in France, the CSR discourse and company practices have usually focused more on labor-related issues than on external stakeholders (Antal and Sobczak 2007).

**United States:** Daniel Kinderman (University of Delaware)

There is no consensus on the definition or meaning of corporate responsibility in the United States, and U.S. firms have considerable discretion to define it in their own preferred ways. The large size of the country, its decentralized, federal structure, and its eschewal of one-size-fits-all solutions to societal or

political challenges contribute to this state of affairs. Furthermore, the United States has no overarching national corporate responsibility policy. In the mid-2000s, the United States Government Accountability Office (2006: 2) stressed the business-led nature of corporate responsibility as follows: "Businesses play a central role in determining if and how to address social and environmental issues they face in their operations. Civil society, investor groups, multilateral organizations, and governments play key roles in identifying issues of concern and in encouraging businesses to adopt CSR efforts to address these issues." In the United States, "the economic system builds more on individual and voluntary than mandatory solutions" (Morelli and Harms 2014).

In the liberal institutional environment of the United States, "CSR can represent an alternative to government action at the national level" (Vogel 2006: 9). For example, American firms engage in CSR by providing health insurance for their employees. By contrast, "health care insurance is not an issue for a European company due to national health care plans" (Danko et al. 2008: 46). Levels of government social spending are comparatively low in the United States, and as a result, considerable space is left for companies to engage in voluntary, explicit corporate responsibility.

in more proactive ways. Thus, corporate responsibility is sometimes more explicit vis-à-vis the institutional context, whereas it remains more implicit and linked to legal compliance and institutionalized stakeholder participation in others (Matten and Moon 2008). Understanding how corporate responses are embedded in and shaped by the regulatory context is very important when studying corporate responsibility, and even more so in comparative research.

In sum, corporate responsibility may take on different meanings in relation to different stakeholders, as well as between different regulatory contexts and across different time periods. Consequently, cross-national differences exist in both the level and the forms of corporate responsibility. These qualitative differences can be observed in terms of

the understanding reflected in government policy (Freeman and Hasnaoui 2011), as well as in the views of corporate executives (Witt and Redding 2012). For example, German firms have tended to introduce more extensive corporate responsibility policies than have U.S. firms. Nonetheless, these differences relate to different aspects of corporate responsibility. Whereas U.S. firms make higher levels of corporate donations, German firms have higher rates of adopting policies related to work-life balance. Many such differences have been documented in existing comparative studies.

## How is corporate responsibility shaped by different varieties of capitalism?

What factors help explain such cross-national differences in corporate responsibility? Cross-national differences in corporate responsibility reflect the characteristics of institutions in different national business systems (Whitley 1999, 2007). In particular, this section reviews the literature on how institutional differences in diverse varieties of capitalism, as described in the examples above, have shaped the development of corporate responsibility.

Hall and Soskice (2001) proposed that the advanced industrialized societies fall into two main types: liberal market economies (LMEs) and coordinated market economies (CMEs). Firms in LMEs tend to rely more on market mechanisms, while firms in CMEs tend to coordinate business transactions through non-market relationships. These differences exist across several key institutional domains of the economy, including corporate governance, employment relations, interfirm relations and education. These institutional differences encourage firms in LMEs to invest to a greater extent in short-term and transferable assets, whereas firms in CMEs invest in long-term and relationship-based assets connected with company stakeholders.

If one follows this literature, the result is a rough two-fold classification of countries. Typical of LME countries, the United States features a market-driven financial system; flexible use of external labor markets; generalist education and training systems; low levels of networks and alliances among firms; and management-driven, top-down decision-making structures inside firms. By contrast, CMEs such as Germany or Japan have historically had bank-led financial systems providing patient capital, stronger internal labor markets based on employment protection, skills-formation systems conducive to the development of specialized skills, dense networks of cooperative alliances among firms, and consensual decision-making patterns inside firms. Accordingly, corporate responsibility practices are often seen as differing across these two groups of countries (Kang and Moon 2012; Matten and Moon 2008).

In LMEs, corporate responsibility emerged as an explicit practice in a largely business-driven fashion. Here, the United Kingdom is often regarded as a pioneer. During the 1980s, the British economy experienced deregulation, a weakening of labor unions and welfare-state retrenchment. As shareholder value emerged as a key ideology of corporate

governance, firms faced problems in legitimating their social activities.

These developments proved historically significant for corporate responsibility in the United Kingdom. Corporations responded by vastly increasing their level of charitable contributions (Brammer and Millington 2003). By the mid-1980s, the newly founded Business in the Community association promoted voluntary corporate responsibility more broadly within industry (Kinderman 2012). Finally, the reform of corporate law in 2006 institutionalized this development through an “enlightened shareholder-value” perspective, allowing directors to consider stakeholder interests as a means of increasing competitiveness and long-term value to shareholders. Roughly similar dynamics linking business-led initiatives for corporate responsibility to the expansion of liberal markets can be observed in other LME countries such as the United States (Kaplan 2015).

Corporate responsibility in LME contexts thus gives rise to a substitution hypothesis, whereby firms are likely to adopt more extensive corporate responsibility practices in comparatively less-regulated countries (Jackson and Apostolakou 2010). According to this hypothesis, companies take on greater responsibilities that substitute for formal state regulation or more institutionally coordinated forms of stakeholder involvement. Here, corporate responsibility is largely seen as a voluntary measure aimed at reducing demands for regulated forms of responsibility through public policy or formalized agreements with stakeholders (Matten and Moon 2008). The related argument is that stronger regulation may “squeeze out” corporate initiatives, while weaker regulation leaves scope for choosing appropriate forms of corporate responsibility, thereby facilitating its overall development.

In CMEs, the development of corporate responsibility followed a different path. For example, Germany was slower than the United Kingdom to develop explicit corporate responsibility practices. Strong state regulation and institutionalized stakeholder participation meant corporate responsibility remained a largely “implicit” part of Germany’s social market economy (Matten and Moon 2008). Business-driven initiatives emerging later in Germany were initially perceived by stakeholders such as unions and NGOs to be an element of political deregulation (Lohmeyer 2016). By contrast, in other CME countries, stakeholders were more broadly proactively supportive. For example, Denmark became a leader in adopting global responsibility standards, such as the Global Compact, and thus in developing international guidelines for issues such as human rights.

Corporate responsibility in CME contexts thus gives rise to what may be termed the mirror hypothesis, whereby firms are likely to adopt more extensive corporate responsibility practices in countries characterized by stronger state regulation and institutionalized forms of stakeholder rights. The argument here is that responsible business practices are more extensive and effective when complemented by greater degrees of regulation (Aguilera et al. 2007; Campbell 2007).

More robust institutional coordination among business, stakeholders and the state can facilitate corporate responsibility in at least two ways. First, institutions may empower stakeholders to demand the adoption of more socially responsible corporate practices. For example, employee codetermination may facilitate employee involvement in the development and implementation of social standards. Second, institutionalized coordination among businesses may foster greater capacity for collective responses to stakeholder demands, such as the adoption of common standards or certification. Firms face global pressures to address responsibilities emanating from global policy fields, such as those related to climate change or labor standards. However, their responses are shaped by the role of various stakeholders within national institutions. For example, French state actors played a central role in proactively shaping the introduction of French corporate responsibility initiatives relative to their U.S. counterparts (Avetisyan and Ferrary 2013).

The substitution and mirroring hypotheses make opposite predictions about the overall development of corporate responsibility in LME and CME countries. Several studies have attempted to test these ideas using comparative evidence, but with conflicting results (Brammer et al. 2012). While some studies have supported the mirror hypothesis (Midttun et al. 2006; Midttun et al. 2015), others support the substitution hypothesis (Koos 2012). For example, Gjolberg (2009b) found that Scandinavian firms have high levels of corporate responsibility adoption, and therefore mirror existing regulatory and corporatist institutions. Young and Makhija (2014) found empirical support for the proposition that more stringent labor regulations positively influence firms toward corporate responsibility. By contrast, Jackson and Apostolakou's (2010) study of Western Europe found that corporate responsibility practices were more extensively adopted by U.K. firms than by those based in CME countries. An El Ghoul et al. (2016) investigation found that corporate responsibility compensated for institutional voids or comparatively weak market institutions (cf. Baldini et al. Forthcoming).

However, further studies observe evidence consistent with both hypotheses simultaneously. Ioannou and Serafeim (2012) explore a wide range of institutional factors during the 2002 – 2008 period, showing that corporate responsibility mirrors some institutions (e.g., high trade-union density) and substitutes for others (e.g., the supply of skilled labor) in their sample. Jackson and Rathert (2016 forthcoming) examine multinational corporations, showing that corporate responsibility is positively associated with a greater number of subsidiaries operating in host countries with poorly developed social protections or limited statehood, and thus acts as a potential substitute. However, the response to foreign-country institutions differs between CMEs and LMEs, whereby corporate responsibility mirrors high levels of institutional coordination in the home country. Studies of the implementation of corporate responsibility measures have also shown that private and public regulation can interact in different ways – sometimes as complements, and sometimes as substitutes for one another (Locke et al. 2013).

What can be learned from the current state of research? The logics of the substitution and mirroring hypotheses both yield powerful arguments for why cross-national differences exist and how institutions matter. However, a key puzzle remains in that the overall cross-national differences in corporate responsibility do not fall neatly into the categories of LME versus CME countries. Most studies agree that the United Kingdom is a leader, but this observation contrasts with the weaker development of corporate responsibility in other LME countries such as the United States (Aguilera et al. 2006). Likewise, we can find contrasting developments between CME countries like Denmark and Germany, as discussed earlier.

## Research agenda: a differentiated view of institutions and corporate responsibility

Following from the discussion above, a better understanding of the role of institutions suggests that a more disaggregated approach is required in order to specify what elements of corporate responsibility mirror or substitute for what institutions (Fransen 2013). The resulting research agenda is two-fold – first requiring that dimensions of corporate responsibility be distinguished, and second requiring the institutional features of various national business systems to be similarly distinguished.

The first is particularly relevant because institutions may have different effects on different aspects of corporate responsibility such as diversity, community, health and safety, human rights, etc. While some institutions have very broad effects on corporate responsibility, the impact of other institutions may be narrower (e.g., education influencing training). Some institutions may even influence corporate responsibility in opposite ways – for example, strong regulation may positively influence dimensions such as employment quality, but may restrict corporate philanthropic engagement. To consider these important differences, this study deconstructs the different aspects of corporate responsibility and investigates them separately.

For the second point, a fine-grained approach is needed to differentiate the roles played by various institutional domains such as corporate governance or employment relations. Few countries fall into stereotypical LME or CME patterns, instead featuring a mix of liberal and coordinated institutions. Corporate responsibility practices' role as a substitute for or a complement of institutions may differ across various institutional domains. For example, corporate responsibility may substitute for public spending on education, and may complement high regulatory requirements for disclosure. In this study, the emphasis lies on the institutional domains discussed in the varieties of capitalism approach, complemented by civil society institutions and state activities (Fransen 2013; Knudsen et al. 2015).

Corporate governance institutions refer to the rights and responsibilities held by those with a stake in the firm. The structure of share ownership may influence corporate responsibility, since different groups of shareholders may have different time horizons and exert different levels of influence on corporate management. Likewise, the structure of the board of directors, such as its degree of independence or the representation of different stakeholder groups, is likely to be very important. Finally, corporations may face different requirements for public disclosure of non-financial information, which in turn shape interactions with stakeholders and the corporations' patterns of adopting corporate responsibility practices.

Institutions of employment relations refer to the degree and forms of employee participation within managerial decision-making with regard to employment, wages and working conditions. Employment relations in the firm are regulated by legal protection against dismissal or wage-setting through collective bargaining, for example. Likewise, managerial decision-making is shaped by the formal and informal representation of employee interests

through trade unions, as well as works councils. These institutions influence corporate responsibility by giving employees a greater or lesser role in the formulation and implementation of such measures. These factors are likely to have a particularly large impact regarding responsibility issues such as diversity, training or employment quality (Young and Makhija 2014).

State activity refers to the degree and form of institutionalized state involvement in the economy. Levels of taxation and welfare spending shape corporate responsibility, both in terms of the corporate resources available and the demand for social welfare such as pensions or health care. Government procurement of goods and services may also directly impact corporate behaviors, leading firms to adopt equal opportunity policies or responsible product standards. More generally, governments can exert decisive influence on the diffusion of corporate responsibility practices, as they have the power to install and control legal regulation, as well as to promote voluntary self-regulation by firms. Governments' stances on self-regulation in the field of corporate responsibility vary widely between different countries, starting with general endorsement, extending to facilitation through tax incentives or partnership-based collaborations between the public and private sectors, and finally manifesting in mandatory requirements for corporate responsibility (Knudsen et al. 2015).

Many other sets of institutions also matter for corporate responsibility. Interfirm relations play a role in promoting product market standards and in shaping the degree of competition or cooperation in the marketplace. Corporate responsibility is closely linked with firms' efforts to manage social issues arising along their supply chains (Lane and Probert 2009; Locke et al. 2013). Here, the degree of cooperation and long-term commitment to suppliers is a critical variable. Education institutions shape the degree to which general, occupational or firm-specific skills are available to firms, thus affecting firms' investments in training. These institutions may directly shape firms' responsibilities in relation to training. But more generally, education may also influence societal expectations regarding corporate behavior and commitment to global corporate responsibility standards (Lim and Tsutsui 2012). Civil society institutions, such as NGOs, play an important role in mobilizing and articulating social expectations about corporate behavior, particularly toward local communities or on global issues such as human rights or the environment (Knudsen et al. 2015).

## 3. Methodology

The project compares corporate responsibility activities of large corporations in 24 OECD countries, focusing on these activities' social dimension. The research design involves two steps. First, we document the similarity or differences in corporate responsibility across countries, both overall and in relation to particular corporate responsibility activities. Second, we explore how cross-country differences in corporate responsibility relate to institutional features associated with different varieties of capitalism. In particular, we examine whether or not corporate responsibility has positive or negative links with institutions of corporate governance, employment relations, interfirm relations, and education, as well as with state economic activities and activism by civil society.

### Sample

We construct a CR Social Index using the ASSET4 database from Thomson Reuters, which provides information on the corporate responsibility activities of individual companies. Our sample consists of stock-exchange-listed corporations from OECD countries during the period 2008 to 2014. We report our results for 24 OECD countries with samples of 10 firms or greater per year during the period 2008 to 2014; these countries are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, Mexico, Netherlands, New Zealand, Norway, Portugal, South Korea, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States. The sample contains 12,556 firm-year observations and is strongly balanced with the data on the average firm in 6.2 out of the seven panel years. Table 1 shows the average number of companies observed in each country.<sup>1</sup>

**Table 1: Number of companies per year per country**

Country	Number of companies per year
Australia	98
Austria	20
Belgium	30
Canada	144
Denmark	28
Finland	28
France	106
Germany	101
Greece	25
Ireland	18
Italy	59
Japan	247
Mexico	36
Netherlands	50
New Zealand	18
Norway	26
Portugal	12
South Korea	113
Spain	61
Sweden	60
Switzerland	76
Turkey	26
United Kingdom	122
United States	561

Source: Asset4, own calculation. The number of companies per year used in the analysis varies slightly between the different years due to missing values.

<sup>1</sup> To correct for differences in the sample size between countries, we restricted our sample to the companies responsible for 90% of total market capitalization in countries with more than 100 companies per year, namely Australia, Canada, Japan, the UK and the US.

## Measurement: the Corporate Responsibility Social Index

In this study, we focus only on the social dimension of corporate responsibility rather than on environmental or governance indicators. The social dimension is comprised of seven different sub-dimensions: product responsibility, human rights, community, employment quality, health and safety, training and development, and diversity and opportunity.

In constructing an index of corporate responsibility activities from the ASSET4 data, we use indicators of company policies, practices and related outcomes. Some data items are assigned a binary value of either 0 or 1, depending on whether or not a company has adopted a policy with regard to a specific social issue. Other data items provide metric information about practices such as spending on corporate donations, or about outcomes such as employee turnover.

For the purposes of this study, we created a separate index of corporate responsibility activities for each of the seven sub-dimensions of corporate responsibility, and also afterwards aggregated this information into a single overall Corporate Responsibility Social Index (see Appendix 1). We repeated the calculations separately both for positive corporate responsibility activities as well as for concerns over negative actions associated with potential corporate irresponsibility.

Table 2 shows how the CR Social Index and CiR Social Index relate to each dimension and the number of data items in ASSET4. All indices vary between 0 and 100, and roughly express the measured corporate responsibility activities as a percentage of the possible maximum of activities or best outcomes for a particular firm. While the calculation of the CR Social Index and CiR Social Index follow the same approach, the resulting scores are not directly comparable due to the different nature of the underlying data. Corporate responsibility data are largely based on self-reporting by companies and tend to be fairly complete. By contrast, irresponsible actions are only measured where these appear in the public realm, such as in newspaper or NGO reports. Consequently, nearly 50 percent of firms receive a CiR Social Index score of zero, reflecting a downward or underreporting bias as compared to the CR Social Index.

**Table 2: Composition of the CR and CiR Social Indices**

Overall index/sub-index	CR Social Index Average of 7 sub-indices (66 items)	CiR Social Index Average of 7 sub-indices (22 items)
Product Responsibility Index	12 items	7 items
Human Rights Index	5 items	3 items
Community Index	10 items	5 items
Employment Quality Index	16 items	1 item
Health and Safety Index	5 items	4 items
Training and Development Index	10 items	None
Diversity and Opportunity Index	8 items	2 items

Source: Own calculations from Asset4

To compare cross-national differences in the CR Social Index and CiR Social Index, it is necessary to compare similar firms in each country. Differences in cross-country averages may simply reflect the different characteristics of firms, such as size, performance or industry sector in each country, rather than being produced by institutional characteristics. Consequently, we make a controlled comparison by estimating country averages for the CR Social Index and its subcomponents for each year in our sample. We are thus able to introduce a number of key statistical controls for characteristics of companies that are known to influence their CR activities. The resulting country average within the CR Social Index is thus corrected for firm and sector-specific influences: specifically firm size, financial performance, indebtedness, R&D activities and industry sector (see Appendix 1).

### Analysis: cross-country institutional influences on the CR Social Index

To examine the influence of cross-country institutional factors, we examine the relationship between the country averages of the CR Social Index in the years 2008 – 2014 as estimated in the previous analysis (Section 3.1) and country-level institutional indicators that are drawn from a variety of existing secondary data sources (see detailed list, Table A1 in the Appendix).

As discussed in Section 2, we selected institutional factors based on four key institutional domains described in the varieties of capitalism approach: corporate governance,

interfirm relations, employment relations, and education. In addition, we extended this framework to include two additional sets of factors. First, the economic activities of the state are important for CR, since firms may seek to substitute for or complement the public provision of social welfare. Second, corporate responsibility is widely considered to be a response from wider stakeholders, particularly civil society organizations. Thus, we include indicators examining the intensity of civil society activities in a country.

**Table 3: Institutional domains and indicators**

Dimension	Variable
Corporate governance	Minority shareholder protection
	Stock market development
	Codetermination on boards
	Disclosure requirements
Interfirm relations	Regulation of competition
	Intensity of competition
	Anti-monopoly policies
Employment relations	Union density
	Employment protection
	Works councils rights
	Collective bargaining coverage
Education	Tertiary attainment
	Quality of education
	State spending on education
Civil society	NGOs per capita
	Civil society strength
	Public trust in politicians
State activity	Corporate taxation rate
	Social spending
	Size of procurement

Source: Selected institutional indicators, various sources

The data analysis utilizes information for 24 countries and seven years, resulting in a cross-country panel of 168 country-year observations. The final analysis is based on a panel regression analysis showing the impact of standardized (z-score) institutional characteristics on the CR Social Index for each country year in the dataset. An identical analysis was also done for the CiR Social Index. Finally, analyses were conducted for all seven sub-indices, and results are reported here for the diversity, human rights and community sub-indices.

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## 4. Corporate responsibility in different countries: degrees and kinds

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This section explores the distinct cross-country pathways of corporate responsibility. First, countries differ in the degree to which corporations introduce corporate responsibility activities. Second, countries also vary in their particular form of responsible activities, and display different emphases on different sub-dimensions. In this report, results will be presented for three selected sub-indices: diversity, community, and human rights activities. These three are illustrative since they display different dynamics, and cover a broad range of internal, external and international activities. Finally, countries show different degrees of linkage between responsible and irresponsible corporate activities.

### Corporate Responsibility Social Index

Figure 1 shows the average corporate responsibility activities by country for the years 2008 and 2013. For all countries, the overall CR Social Index score increased during this time period. The average grew from 41 points in 2008 to 49 points in 2013 based on a 100-point scale. While all countries show increases, some countries do so more than others. The largest increases occurred in Denmark (15 points), Austria (13 points) and Finland (12 points), whereas the smallest increases occurred in New Zealand (3 points) and South Korea (3 points).

When comparing corporate responsibility across countries in 2013, very substantial differences exist across countries. France, the United Kingdom and Spain clearly belong among the leaders with regard to corporate responsibility activities. With 61 points, the top country, France, scores 12 points higher than the country average and 25 points higher than the lowest country, New Zealand. In Figure 1, Germany is ranked sixth out of 24 countries, and with 55 points is relatively close to the group of leading countries. Germany has maintained its relative position since 2008.

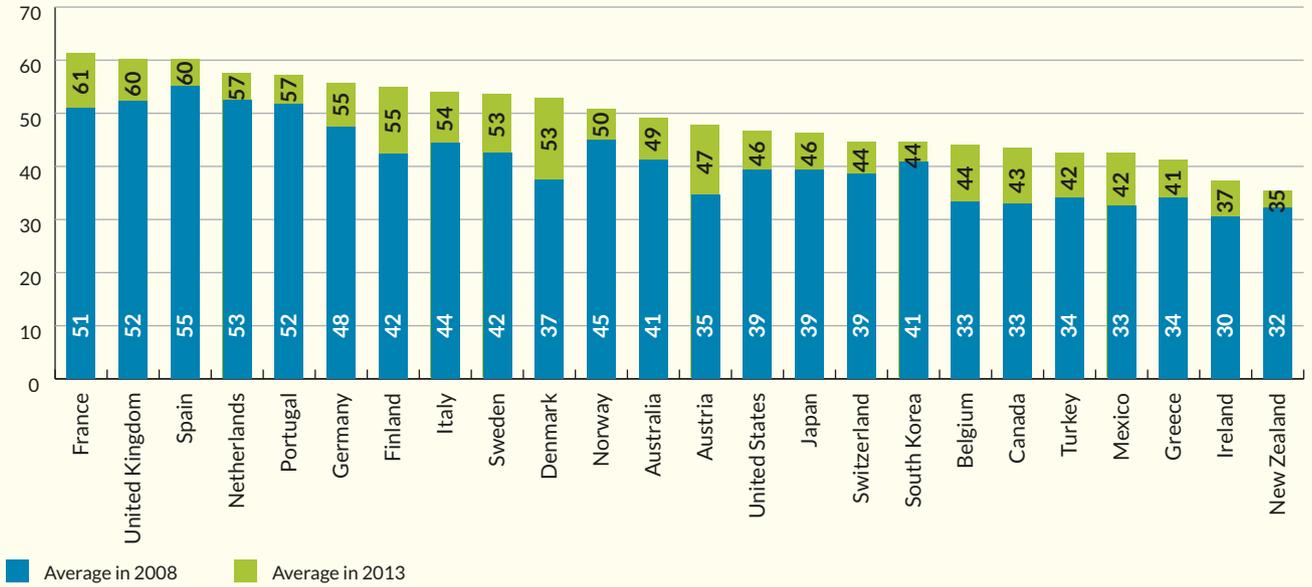
Country-level differences comprise roughly 15 percent to 16 percent of the total variation in corporate responsibility scores, even after taking account of firm and sector characteristics. As a benchmark, the magnitudes of these differences are similar to those of differences between industry sectors, and are slightly smaller than those of differences in firm-level characteristics in this estimation model. The country-level influence is thus quite strong, particularly considering that corporate responsibility is primarily considered to reflect firms' own strategic decisions and is generally not subject to direct regulation by law. Thus, while firms vary substantially in their corporate responsibility practices within countries, very important differences also exist between countries. The strength of national patterns is also greater in some countries than in others. Corporate responsibility tends to be very uniformly institutionalized with relatively low variation across different firms in some countries, especially the United Kingdom, Finland, France, Netherlands, Sweden and Denmark. In other countries, corporate responsibility patterns are highly variable within the country, with less of a clear national pattern existing – for example, in Japan, Switzerland, Belgium, South Korea, Mexico and Greece.

Cross-country differences in the average extent of corporate responsibility may be misleading due to the different number and characteristics of companies in each country.

Figure 2 shows the country averages corrected for various firm and sectoral characteristics in comparison to Germany (see Appendix, Step 1). Negative values indicate that firms in a country perform less well than firms in Germany with similar characteristics, whereas positive values indicate better performance. Spain, the United Kingdom, Sweden and France all show higher scores on the CR Social Index than do German firms in our sample. While the results are similar to Figure 1, Sweden has joined the group of leading countries when comparing firms with similar characteristics. Meanwhile, several

**Figure 1: Corporate Responsibility Social Index, average scores, 2008 and 2013**

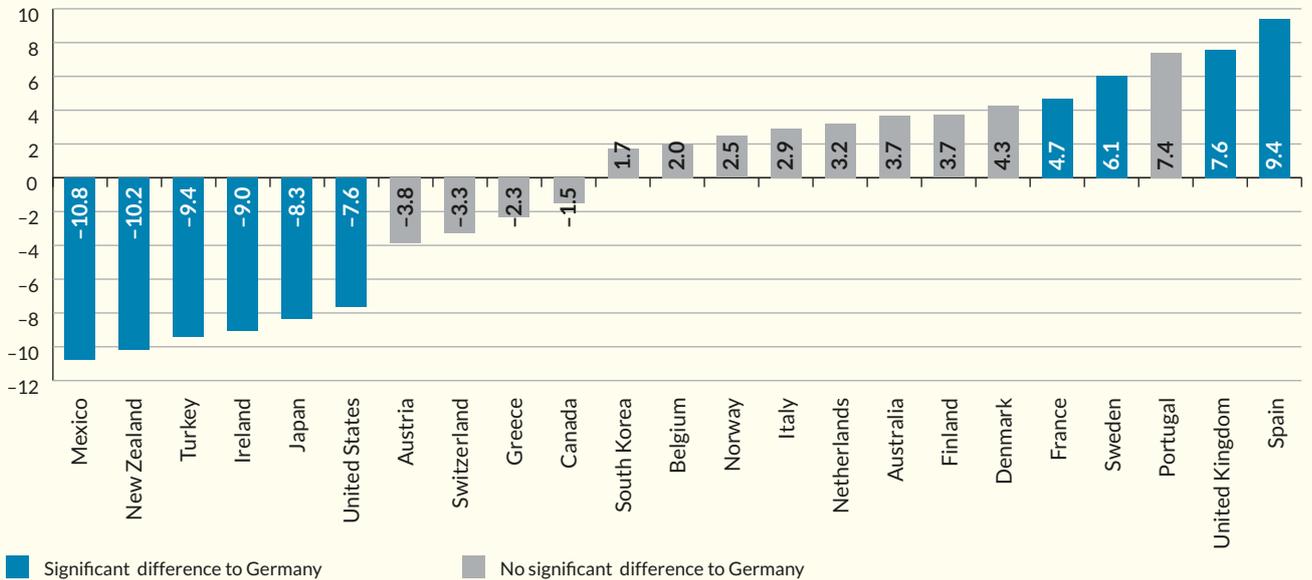
Minimum value is 0, maximum is 100.



Source: Asset4, own calculation. Simple average of the whole sample without controls or weights.

**Figure 2: Corporate Responsibility Social Index, compared to Germany in 2013**

Difference in the average score



Source: Asset4, own calculation. Figure shows average scores for each country relative to Germany after controlling for firm size, financial performance, R&D activities and sector. N = 1.685. Blue columns indicate that the average differs significantly from Germany's score at the level of  $p = 0.05$  or greater. The average score for German firms after controls is 52 points.

countries show significantly lower scores than Germany, namely Mexico, New Zealand, Turkey, Ireland, Japan, and the United States. Interestingly, firms in several major economies such as Japan and the United States have lower corporate responsibility scores even when controlling for firm characteristics, so that these differences clearly reflect genuine country differences. Finally, a large group of countries have broadly similar scores on the CR Social Index relative to Germany. While Figure 2 shows some small differences in the CR Social Index scores, such as Austria (four points below Germany) or Denmark (four points above Germany), these differences are not statistically significant. Hence, these results may thus represent other differences in the characteristics of the sample, but do not reliably indicate clear differences in corporate responsibility between countries. This observation holds for Portugal, which has an average score seven points above Germany, but due to the very small number of the listed companies in Portugal, this score is based on data for only 12 firms.

In sum, while Germany is among the top third of countries with regard to CR Social Index score, a closer look shows that part of this difference is related to the large size and R&D focus of German firms, as well as the sectoral composition of the sample. When comparing firms in Germany with similar firms in the rest of the sample, Germany ranks 14th among the 24 countries, thus belonging to a larger group of countries with intermediate levels of corporate responsibility.

Figure 3 shows how the most significant country differences in the overall CR Social Index relate to the underlying seven sub-dimensions. To understand why some countries are higher or lower than Germany, it is useful to examine the underlying aspects of corporate responsibility that account for these differences. Notably, these differences are not uniform across all sub-dimensions.

Looking at the group of four leading countries, this group generally scores higher than Germany in the dimensions of community, human rights, health and safety and training and development. However, few or no differences exist in the dimensions of diversity, employment quality and product responsibility. Spain differs from Germany on all dimensions with the notable exception of diversity. Meanwhile, the United Kingdom and France both differ from Germany on only four of seven dimensions. Sweden is among the leaders based on its very high scores in the areas of human rights and health and safety, while actually scoring lower than Germany on diversity. Hence, the leading countries differ in their particular profiles or “styles” of conducting corporate responsibility.

Looking at the group of six lagging countries, this group generally scores lower than Germany in the dimensions of human rights, diversity and employment quality. Meanwhile, training contributes to cross-country differences in only three of these six countries, while only two countries are lower in the health and safety or product responsibility dimensions. Notably, even the countries with low overall scores have values equal to or better than Germany’s score on the community dimension.

**Figure 3: Composition of country differences in Corporate Responsibility Social Index, 2013**

	Index	Product responsibility	Community	Human rights	Diversity	Employment quality	Health and safety	Training and development
-	Mexico				-	-		-
	Turkey			-	-	-	-	
	Ireland			-	-			
	United States	-		-	-	-		-
	Japan		+	-	-	-	-	-
	New Zealand	-		-				
+	France		+			+	+	+
	Sweden			+	-		+	
	UK		+	+			+	+
	Spain	+	+	+		+	+	+

Source: Asset4, own calculation. Figure shows results per country relative to Germany after controlling for firm size, financial performance, R&D activities and sector. N = 1.685. + or - indicate that the score is significantly higher or lower relative to Germany at the level of p = 0.05 or greater.

As above, this pattern suggests that countries may follow different pathways to low overall values on the CR Social Index. Japan and the United States show gaps relative to Germany across a wide range of dimensions. Nonetheless, these differences are generally small in each area, resulting in relatively small but consistent overall negative differences with Germany. By contrast, the deficits in corporate responsibility in Ireland and New Zealand reflect very large differences concentrated on very few sub-dimensions. Ireland shows very big gaps in the human rights and diversity dimensions, while New Zealand shows gaps in the areas of human rights and product responsibility.

## Corporate responsibility sub-indices: community, diversity and human rights

Following from the above breakdown of the CR Social Index, it is apparent that countries have different rank orders across the different sub-dimensions. Figure 4 shows the relative position of countries on three selected sub-dimensions: community, diversity, and human rights. The figure shows the score of each country relative to Germany for 2013, again highlighting the significant differences between them. For the community sub-dimension, scores largely fall into two groups of higher-scoring and lower-scoring countries. The United Kingdom leads a relatively large group of nine countries with above-average scores, all of which are also significantly higher than Germany's score. Interestingly, several countries such as South Korea, Canada and Australia are among these leaders on the community sub-dimension, despite having rather lower overall scores on the overall index. The remaining countries fall into a broad group with scores similar to Germany's. Interestingly, Germany scores slightly below average, but ranks much lower for community than it does in the overall index. Despite these small positive or negative differences relative to firms in Germany, our data cannot detect any statistically significant differences. Only Austria stands out for having a significantly lower score than Germany.

For the human rights sub-dimension, Germany falls into an intermediate group with a group of countries respectively scoring both higher and lower. The high-scoring group is led by the three Nordic economies of Denmark, Sweden and Finland, followed by Spain, the Netherlands and the United Kingdom. Clear laggards with regard to human rights are New Zealand and Ireland, both of which show extremely low scores. Turkey, the United States and Japan also score significantly lower than Germany, but to a lesser extent.

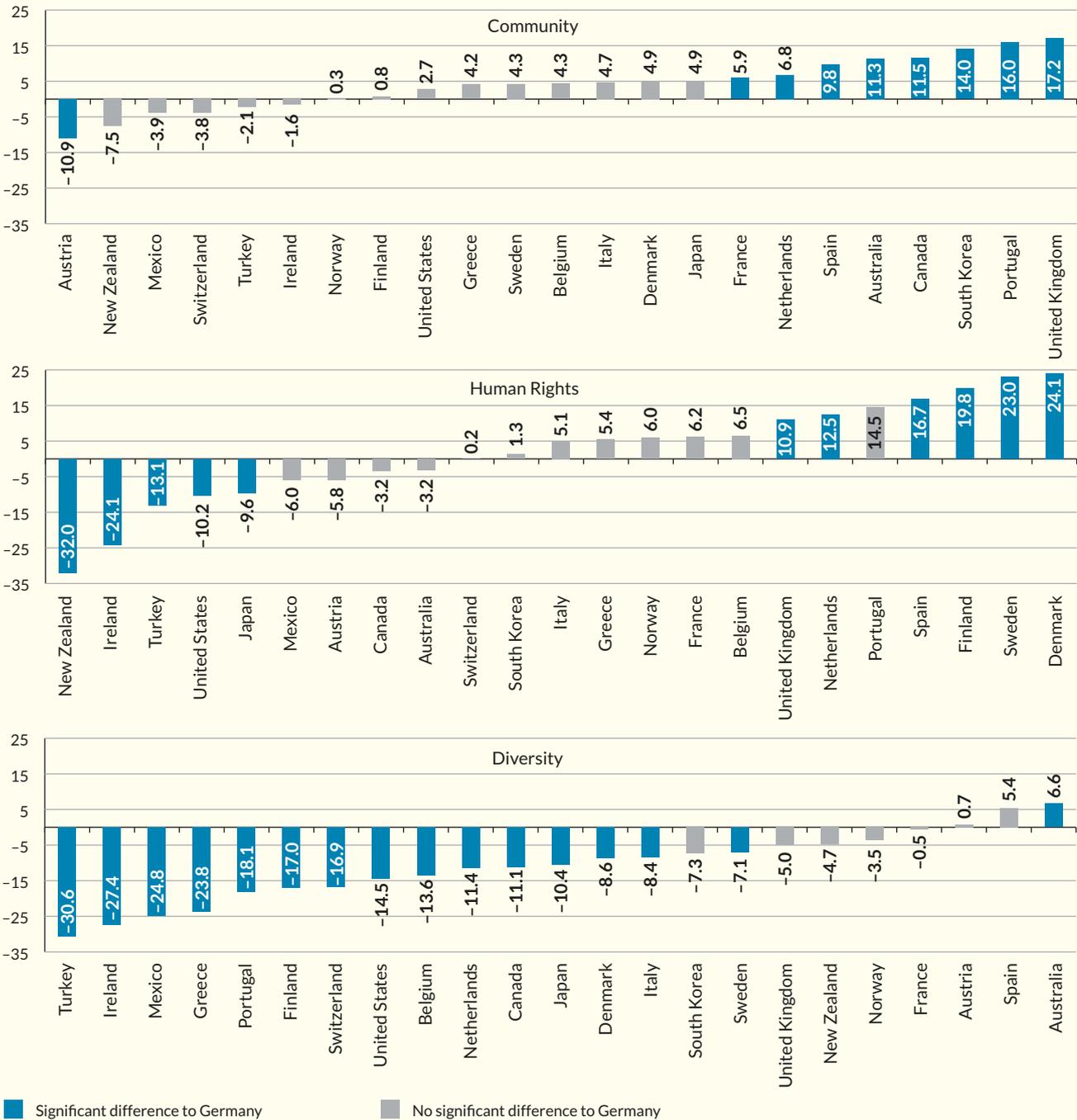
For the diversity sub-dimension, Australia is a clear leader. Germany too belongs among the leaders here, ranked 4th among the countries overall, and showing above-average levels similar to those in Spain, Austria, France, the United Kingdom, New Zealand and Norway. Meanwhile, several countries score very low with regard to diversity, including Turkey, Ireland, Mexico and Greece. These countries are all more than 30 points below the leading country, Australia. Interestingly, the diversity scores are derived from policies related to diversity, work-life balance and family-friendly workplaces. But these dimensions do not necessarily imply high shares of women at the management level – for example, U.S. firms have higher percentages of women

managers, but an absence of widespread supporting policies and thus a relatively low overall diversity ranking, whereas Germany scores high on policies despite low levels of female managers.

In sum, the different positions of individual countries across these sub-dimensions suggest the need for some caution in interpreting aggregated measures of corporate responsibility. Looking at some of the overall leaders such as Spain or the United Kingdom, it becomes evident that countries are not consistently among the leading countries across all aspects of corporate responsibility. The United Kingdom is particularly strong on the community dimension, but scores lower with regard to diversity and human rights. By contrast, Spain is not the leader in any of these sub-categories, but achieves consistently high scores across them, and does not have any major areas of weakness. Germany is again a different case, having a very different position across the various sub-dimensions, with low scores in community, but very high scores in diversity. As will be discussed in the next chapter, these patterns suggest that institutional factors influencing corporate responsibility may have different effects across these sub-dimensions. Consequently, comparisons should examine not only the extent of corporate responsibility activities across countries, but also the different kinds of corporate responsibility measures between countries.

**Figure 4: Corporate Responsibility Index for community, diversity and human rights sub-indices, compared to Germany in 2013**

Difference in average score



Source: Asset4, own calculations. Figure shows average scores per country relative to Germany after controlling for firm size, financial performance, R&D activities and sector. N = 1.685. Blue columns indicate that the average differs significantly from Germany's score at the level of p = 0.05 or greater. The average scores for German firms after controls are 58 for diversity, 54 for community, and 43 for human rights.

## Corporate irresponsibility

While most research focuses exclusively on the positive elements of corporate responsibility, Figure 5 presents data on the irresponsible actions by firms in different countries as measured by the aggregate CiR Social Index during 2013. In terms of controversial actions, the country comparisons show that U.S. firms have the highest levels, directly followed by those in Germany and the United Kingdom. Correcting these data for firm and sector characteristics show these countries belong to a large group of countries with high irresponsibility scores, which also includes some smaller countries such as New Zealand, Belgium and Switzerland. Notably, two leaders in the CR Social Index, the United Kingdom and Spain, are also among the countries with high irresponsibility scores.

By contrast, lower scores are evident in Greece, Portugal, Sweden and Japan. Again correcting for firm and sector characteristics, France also has significantly lower scores for irresponsible behaviors than Germany. Among these countries, Japan is interesting in that firms do not score very high for responsible behaviors, but also do not show high levels of irresponsible behavior according to our measures. France and Sweden are stand-out cases with very high scores for responsible behavior, and very low scores for irresponsibility.

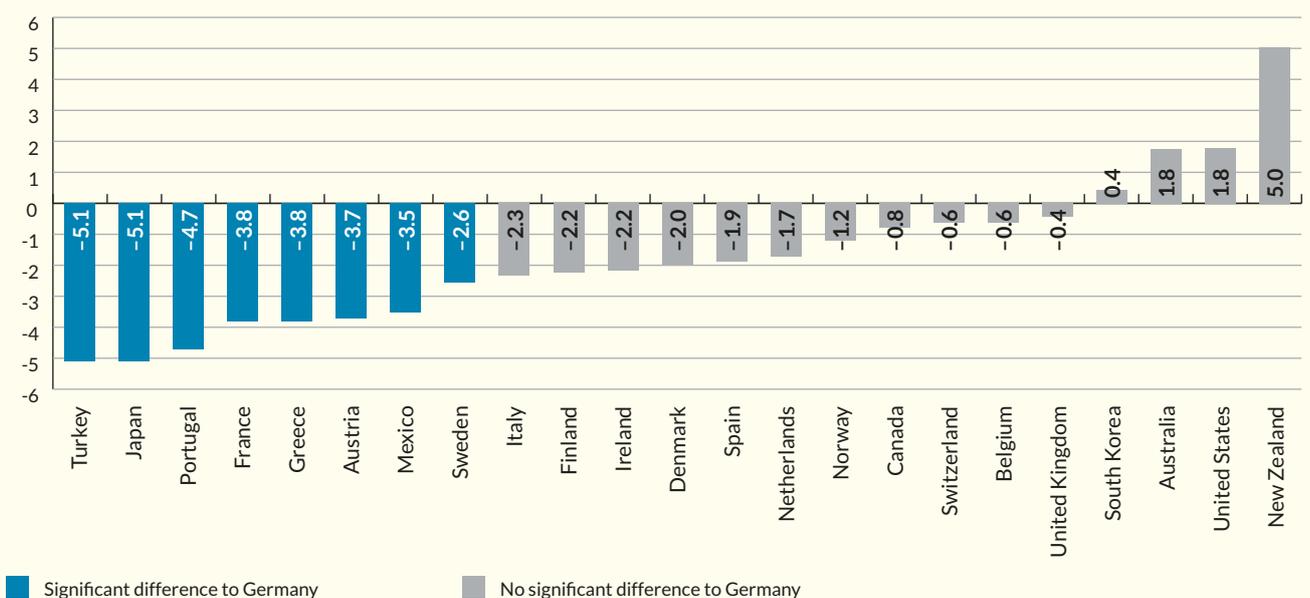
These patterns are quite stable over time. Hence, paralleling the gradual increase in responsible behavior discussed in the context of Figure 1, the average score for the CiR Social Index increased from 3.6 points in 2008 to 5.2 points in 2013, while in Germany, the increase was from 4.2 to 6.9 points.

Sadly, a common pattern shared by all countries is that firms with high scores for responsibility also have high scores for irresponsibility. In our data, the correlation between the corporate responsibility and irresponsibility indices over the years 2008 – 2014 is 0.36\*\*\* ( $p < 0.01$ ). This strong positive correlation holds true within almost all countries, with the exception of Ireland, Portugal and Turkey. This finding is consistent with past studies on U.S. firms, which have shown that for issues such as community relations, employment quality, human rights, product safety or the environment, companies adopting policies aimed at responsible business practices tend also to be involved in higher levels of controversial or irresponsible behavior (Clement 2006; Jackson et al. 2014; Kotchen and Moon 2012).

Figure 6 shows the country averages for both indices during 2013. The figure shows whether countries are above average or below average on each indicator, thus suggesting four distinct patterns. One group of countries

**Figure 5: Corporate Irresponsibility Social Index, compared to Germany in 2013**

Difference in average score



Source: Asset4, own calculation. Figure shows average scores per country relative to Germany after controlling for firm size, financial performance, R&D activities and sector. N = 1,685. Blue columns indicate that the average differs significantly from Germany's score at the level of  $p = 0.05$  or greater.

(bottom left) shows below-average scores for both responsibility and irresponsibility, suggesting that these firms do not actively engage in responsibility measures, but do not necessarily provoke active concerns about explicitly bad behaviors. Another group of countries that includes Germany, the United Kingdom and the United States scores high on both dimensions, demonstrating “good” and “bad” activities simultaneously. A third group of countries that includes several Nordic cases including Denmark shows above-average scores for responsible activities as well as low scores for irresponsible activities. Finally, no countries clearly exhibit a pattern of having high levels of irresponsible behavior without a compensating pattern of responsible activities. This latter observation is consistent with arguments in institutional theory that suggest corporations need to maintain a minimum level of legitimacy.

they are exposed to controversial issues. For example, firms in sectors with strongly negative environmental impacts are more likely to adopt corresponding responsible business practices related to the environment. An alternative possibility is that greater claims by firms about responsible behavior in combination with rising levels of transparency may simply make such controversy more visible. While this issue will require future research to resolve, this positive association is cause for some concern and gives credence to debates over corporate greenwashing. While some firms may engage in corporate responsibility activities as part of a strategy of occupying highly ethical market niches, many firms appear to adopt these practices while continuing to pursue business as usual – that is, without halting their controversial activities.

This link between responsible and irresponsible actions is puzzling, and warrants further interpretation. One possibility is that irresponsible firms may adopt corporate responsibility policies as a defensive response to scandals or public controversies. A related argument is that firms may adopt corporate responsibility policies as “insurance” when

Figure 6: Corporate responsibility and irresponsibility, 2013



Source: Asset4, own calculation. Simple average of the entire sample without controls or weights. Figures are shown as z-standardized country averages.

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## 5. Role of institutions for corporate responsibility

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The previous section compared patterns of corporate responsibility across countries. As mentioned in Section 2, many different institutional features of countries may shape corporate responsibility. However, the comparison in Section 4 showed clearly that cross-national differences in corporate responsibility do not correspond neatly to well-known groupings of countries such as LMEs and CMEs. For example, the two key examples of LMEs, the United Kingdom and the United States, differ greatly in terms of corporate responsibility. Similarly, several leading countries such as Spain and France are not considered to be typical CMEs, although they are sometimes grouped together as more state-coordinated or “Mediterranean” cases. Hence, it seems unlikely that classifying countries along a single dimension, such as the degree of institutional coordination, will be sufficient to explain country-level differences in corporate responsibility.

To better understand the role of institutional factors, this section will explore the effects of various institutions in a more disaggregated fashion. This report investigates the effects of individual institutions in an exploratory way. The aim is to go beyond past studies by providing a detailed mapping of how different institutional domains and specific elements within them relate to corporate responsibility. Grounded on the basic insights of the varieties of capitalism approach, this investigation starts with four major institutional domains: corporate governance, interfirm relations, education, and employment relations. Based on other existing literature, this approach is extended to additionally explore the role of civil society and the state’s economic activities. The detailed selection of institutional indicators in each domain is explained in Appendix 1.

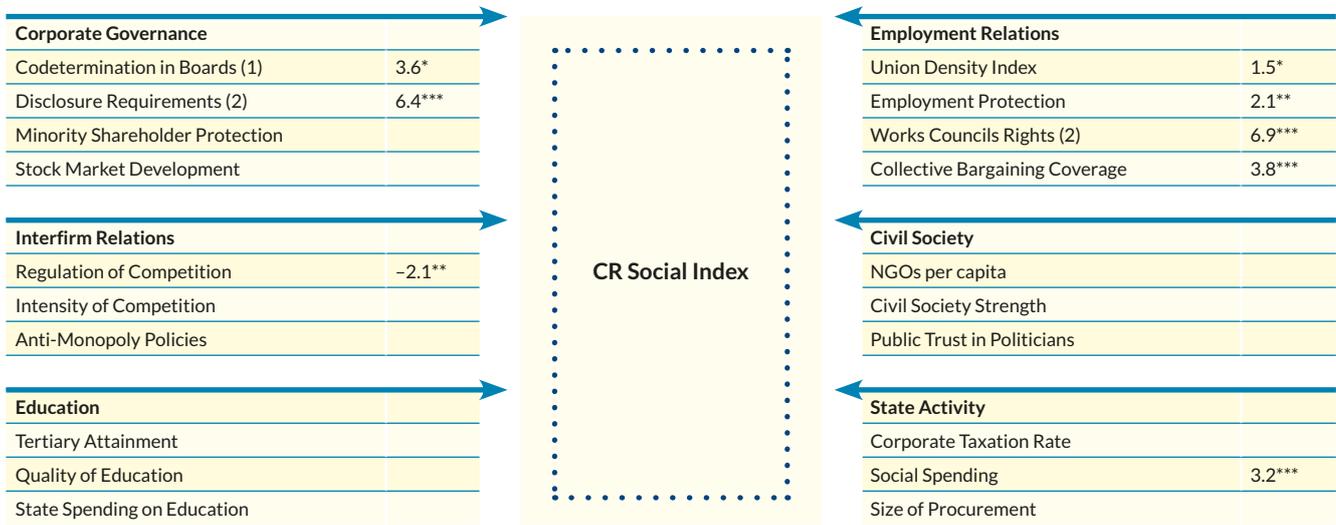
### Corporate Responsibility Social Index

Figure 7 reports the regression results that examine the influence of single institutional indicators on the country averages of the CR Social Index during the 2008 – 2014 period (see step 2 analysis in the Appendix for details). The dataset consists of 168 country-year observations made up of the average corporate responsibility scores for each country on the one hand, and various country-level indicators of institutional characteristics on the other. The coefficients express the average change in the CR Social Index within each country based on one unit change in the institutional characteristic. For the purposes of comparison, the scales of the institutional characteristics are standardized.

With regard to corporate governance, the results show two significant effects. Countries with mandatory disclosure requirements related to corporate responsibility score 6.4 points higher than countries without such rules. Countries with legal rights for employee codetermination on corporate boards score 3.6 points higher than do countries without such codetermination. Meanwhile, minority shareholder protection and stock market development were not consistently associated with different levels of corporate responsibility.

Interestingly, corporate governance institutions thus display both mirroring and substitution effects in the following sense. Codetermination rights provide employees with an institutionalized stake in the firm, and thus coordinate their interaction with company management. Corporate Responsibility here seems to mirror stakeholders’ formal legal rights, with stronger rights associated with more corporate responsibility activity. By contrast, mandatory disclosure gives companies legal obligations to disclose their activities. However, disclosure does not institutionalize particular company actions, nor create specific stakeholder rights within the firm. In this

**Figure 7: Institutional influences on Corporate Responsibility Social Index**



Source: Asset4, own calculation. Effects are significant at \*p <= 0.10, \*\*p <= 0.05 or \*\*\*p <= 0.01. Dependent variable is the country average, corrected for firm-level and sectoral characteristics (see Appendix 1).

sense, state requirements should be seen here as market-enabling – that is, public disclosure provides information that is intended to increase the effectiveness of market processes, for investors or even for other stakeholders such as employees. Thus, as disclosure increases levels of corporate responsibility activities by firms, these actions can be seen as substituting for more coordinated types of institutions.

In aggregate, interfirm relations have a slightly weaker influence on corporate responsibility. In general, countries with greater regulatory restrictions on product market competition score 2.1 points lower with regard to corporate responsibility than do countries with fewer restrictions. Other measures of the intensity of competition itself or the effectiveness of anti-monopoly policies in promoting competition had no significant effects on overall corporate responsibility scores. This result can be interpreted as a substitution effect, since corporate responsibility scores increase as the role of markets becomes more institutionalized, and decreases where the state plays a more direct role in regulating market outcomes. In contexts with weaker state regulation, corporate responsibility has emerged as a potential substitute for stronger regulation, as firms seek to address the concerns of consumers as stakeholders through more self-regulated activities.

For employment relations, the results show very consistent effects across different indicators. The largest effect comes

from the institutional rights of works councils. In countries where works councils have rights to both information and consultation, countries score 6.9 points higher on the overall CR Social Index as compared to countries without these characteristics. A similar effect exists for countries with works councils that possess legal rights of workplace codetermination. Similarly, increasing collective bargaining coverage is associated with a 3.8 point increase in corporate responsibility. A smaller effect comes from employment protection legislation. Increasing levels of legal restrictions on dismissals results in an increase of 2.1 points on the index as compared to countries with less stringent restrictions. Finally, increasing union density is associated with a 1.5 point increase in average corporate responsibility scores.

Corporate Responsibility thus tends to mirror institutionalized forms of coordination, as well as strong employee rights in the domain of employment relations. In the case of works councils or employment protection, legal rights given to employees are mirrored by increases in corporate responsibility activities. Furthermore, higher levels of coordination, such as through union density or collective bargaining coverage, similarly reflect the institutionalized power of stakeholders, and are likewise mirrored by higher scores on corporate responsibility.

In relation to state economic activities, the results show an association with government social spending. In

### France: Emma Avetisyan (Audencia Business School) on disclosure requirements

With the launch of Bilan Social (Law on Social Reporting, 1977, Article L. 438-1), France became a pioneer in corporate responsibility policy and practice, being the first country to introduce mandatory corporate social reporting of several indicators related to employment, salaries, health and safety, training, working conditions, and labor relations (Antal and Sobczak 2007). Although the scope of reporting covered only employment-related matters, it was a first step toward establishing a standardized set of indicators, which are now common in the international field of corporate responsibility (Sobczak and Martins 2010).

In 2001, the French government adapted its accounting legislation to require companies to include non-financial information in their annual reports. Article 116 of the French Law on New Economic Regulations (NER) (Loi Nouvelle Régulation Economique) introduced the obligation for all publicly listed French companies to disclose information regarding a series of social and environmental impacts associated with their activities. The adoption of NER has also been regarded as a highly innovative model of European policymaking, and has led the French government to establish a new style of consultation with various stakeholders, including companies, NGOs, trade unions and expert groups. The policy process pushed these actors to invest in acquiring knowledge in new areas and to develop clear policy statements. The NER law thus stimulated a stark and positive lasting change in the way French companies accounted for and disclosed their environmental impacts, and resulted in a significant and enduring improvement in the quality and quantity of both social and environmental disclosure between 2001 and 2011 (Chelli et al. 2014).

### Spain: Tanusree Jain (University of Victoria) on the role of the state and employment relations

By 2011, corporate responsibility became widespread among Spanish firms, particularly in the areas of working conditions, workplace safety, the promotion of workers' rights and liberties, and the reduction of environmental impacts in key sectors (Forética 2011). CSR reporting was practiced by 65 of the top 100 Spanish companies (Forética 2011), and is recognized as being of very high quality internationally (KPMG 2013).

The Socialist PSOE government in power during the 2004–2011 period coincided with the expansion of corporate responsibility in Spain. In 2007, laws were enacted addressing the issues of equal opportunity and environmental damage. In 2008, a State Council of Corporate Social Responsibility (SCCSR) was set up with a focus on issues such as diversity, development cooperation, promotion of equal treatment, and the protection of immigrants (Prado-Lorenzo et al. 2008). A government code seeks to establish best practices for listed Spanish companies (Mullerat 2013). Spain adopted a national CSR strategy in 2014.

Meanwhile, government and business initiatives promoting corporate responsibility have been supported by institutions of employment relations in Spain, which have helped to diffuse and embed these initiatives in firms. In Spain, collective bargaining negotiations take place at the national, industry, and company levels, and cover a range of issues including employment-quality issues such as increasing the number of permanent workers and reducing the number of temporary workers, improvements in training, changes in social security arrangements, equality of treatment and opportunities for men and women, and health and safety issues. Works councils are also prevalent in most large companies, and tend to be dominated by trade union members (Molina et al. 2015).

particular, increased levels of state spending lead to a 3.2 point increase in average scores on the CR Social Index. One exception here is Mexico, which appears to be an outlier in the analysis. Perhaps surprisingly, rates of corporate taxation and the size of government procurement programs did not show any significant influence on overall corporate responsibility. Thus, corporate responsibility appears to mirror greater direct state involvement in the social-welfare realm. This finding suggests that state spending may complement or even induce an intensification of corporate activity, rather than merely substituting for it.

Surprisingly, education and civil society institutions had no significant effects on overall corporate responsibility. However, the following analyses will show that these institutions do significantly influence some sub-dimensions of corporate responsibility, thereby shaping the particular kind of corporate responsibility exhibited in a given location.

In sum, corporate responsibility both mirrors and substitutes for institutionalized coordination between stakeholders depending on the particular domain. Mirroring effects are associated with employee roles such as collective bargaining coverage, work councils and employee codetermination in corporate governance, but also relate directly to levels of government social spending. Meanwhile, substitution effects are associated with more liberal forms of product market regulation and mandatory disclosure as an element of corporate governance.

### Corporate responsibility sub-indices: community, diversity and human rights

Turning to the dimension of community, the pattern of institutional effects here is quite different than the overall pattern. Figure 8 shows how significant institutions effects the community dimension of the index.

When looking at corporate governance, a clear link is evident between more liberal institutions and the community dimension of corporate responsibility. In countries with board-level codetermination, firms averaged 5.1 points lower on their community scores. This negative influence stands in strong contrast to the strong positive influence on overall corporate responsibility scores discussed previously. Countries with comparatively strong minority shareholder protection also average two points higher on their community scores. Both of these results can be interpreted as substitution effects, since corporate

### United Kingdom: Stephen Brammer (University of Birmingham) on philanthropy

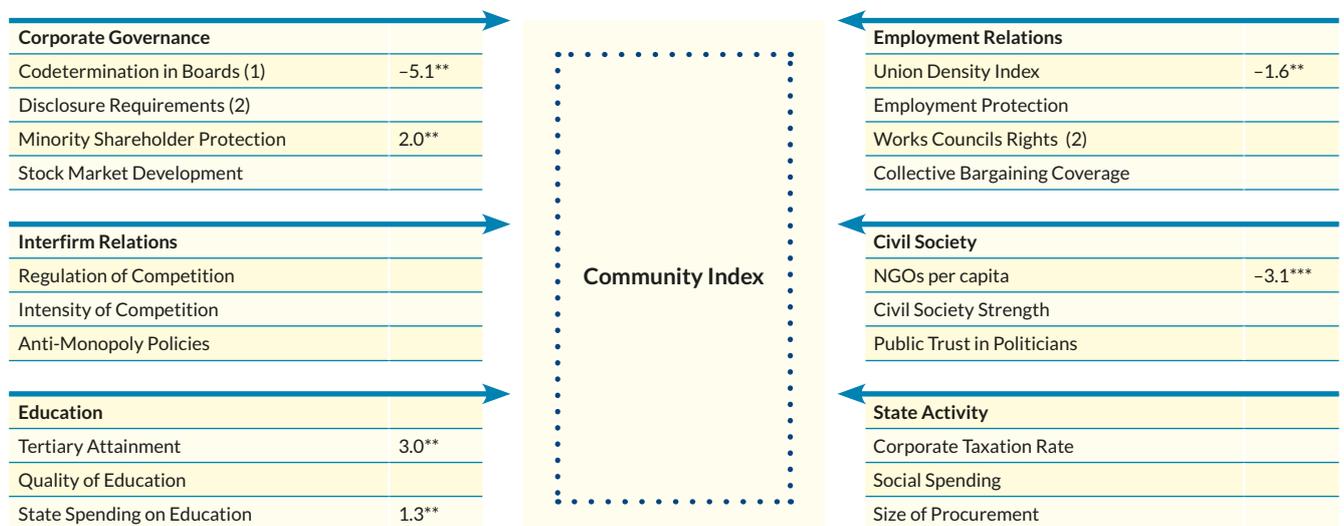
Corporate responsibility in the United Kingdom has three central features: it is conceptualized as voluntary, its focus is to a substantial extent confined to the community/charitable domain, and it is consequently to a significant extent business-led.

Historically, the dominant form of corporate responsibility in the United Kingdom has been described as “general philanthropy” (Moon 2005). Building on this tradition, the development of modern corporate responsibility in the United Kingdom has its roots in the significant economic, political and social change in the late 1970s and 1980s, in which a crisis in societal governance emerged. Privatization of many utilities in the 1980s, perceived deficiencies in the public provision of many social goods, deregulation, and liberalization in many sectors of the economy have been highlighted as playing a significant role in stimulating the development of CSR (see e.g., Kinderman 2012).

One symptom of the persistent emphasis on the community or philanthropic aspects of corporate responsibility in the United Kingdom is that there has been a relative neglect of the employee-oriented aspects of corporate responsibility. As Ward and Smith (2008) note, “Incorporating employment relationships within the corporate responsibility agenda has been slow. The voluntary concept of corporate responsibility has made it easier for corporations to be picky on which issues they focus on in corporate responsibility. Employment issues are often seen as an issue only for human resources and nothing to do with corporate responsibility.”

responsibility is associated with more liberal or market-oriented corporate governance institutions. In these contexts, firms use corporate responsibility to address stakeholder expectations in the absence of formal rights.

Substitution effects are also somewhat evident in two other areas. In the domain of employment relations, countries with high union density average 1.6 points lower on the community sub-index. For the civil society measure, countries with higher numbers of NGOs per

**Figure 8: Institutional influences on community sub-index**


Source: Asset4, own calculation. Effects are significant at \* $p < 0.10$ , \*\* $p < 0.05$  or \*\*\* $p < 0.01$ . Dependent variable is the country average, corrected for firm-level and sectoral characteristics (see Appendix 1).

capita averaged 3.1 points lower for community. In this regard, firms have more explicit policies for engagement with local communities and participate in more extensive philanthropic activities in countries where trade unions and NGOs are weak. One speculative interpretation may be that unions and NGOs actively discourage these efforts. But more generally, since community-related corporate responsibility develops more strong where these types of actors are absent, this result suggests that firms seek to use corporate responsibility as a substitute form to engage with issues and concerns that are elsewhere institutionalized through dialogue with unions or NGOs. Interestingly, no other employment relations or civil society indicators had significant effects.

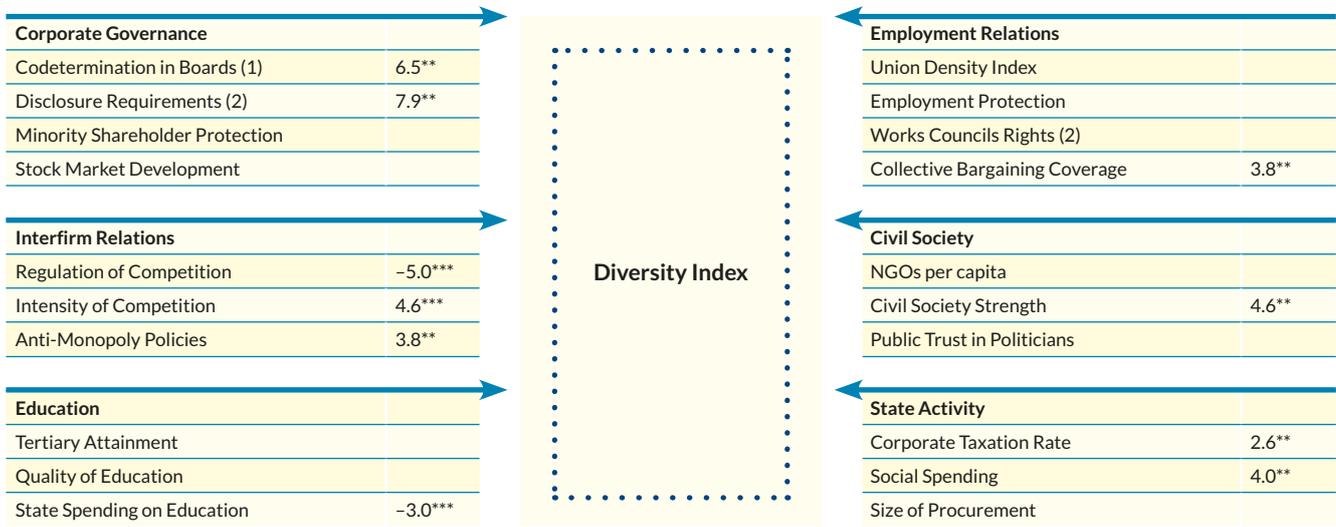
Turning to other institutional domains, mirroring effects were evident in the sphere of education. Countries with strong levels of tertiary attainment averaged 3 points higher on the community dimension. Community engagement seems to mirror higher levels of educational attainment in the population. While this effect is not documented in previous literature, it might be speculated that more educated populations have comparatively higher expectations with regard to firms' corporate responsibility, in forms such as philanthropic giving. Similarly, countries with comparatively higher state spending on education averaged 1.3 points higher on the community index. However, state spending activity and interfirm relations had no significant influence on community scores. It is

particularly surprising that no clear relationship exists between rates of corporate taxation or government social spending and scores on the community index.

Corporate Responsibility related to diversity also shows a complex mix of mirroring and substitution effects. The patterns in the diversity sub-dimension resemble those in the CR Social Index more strongly than is the case for the community sub-dimension.

With regard to corporate governance, the results in Figure 9 again show two significant effects. Countries with mandatory disclosure requirements related to corporate responsibility score 7.9 points higher on diversity than do countries without such rules. Countries with legal rights for employee codetermination on corporate boards score 6.5 points higher than do countries without codetermination. Meanwhile, minority shareholder protection and stock market development were not consistently associated with diversity scores. These effects suggest that the diversity sub-dimension may mirror employee participation on boards, since employee representatives are likely to encourage corporate-wide efforts to promote greater equality of opportunity. Meanwhile, legally mandated disclosure requirements may encourage diversity through a substitutive logic, since a firm's disclosure of equal-opportunity policies may lead to the further diffusion of these policies through market mechanisms. Under conditions of mandatory disclosure, firms are likely to have

**Figure 9: Institutional influences on diversity sub-index**



Source: Asset4, own calculation. Effects are significant at \*p <= 0.10, \*\*p <= 0.05 or \*\*\*p <= 0.01. Dependent variable is the country average, corrected for firm-level and sectoral characteristics (see Appendix 1).

greater concerns about the reputational consequences of having comparatively less extensive policies in this area.

Interfirm relations have a strong and consistent impact on diversity scores. These effects are consistent with the substitution hypotheses, whereby diversity is associated with more liberal and market-oriented institutions. Countries with comparatively strong regulatory restrictions governing product market competition thus averaged 5 points lower with regard to diversity scores than countries with less-restrictive rules. Similarly, countries showing high intensity of competition averaged 4.6 points higher, and countries with competition-enhancing anti-monopoly policies averaged 3.8 points higher. One interpretation may be that higher levels of market competition may result in a premium being placed on the recruitment and retention of employees, with these actions supported by extensive diversity-related policies. A substitution type of effect is also evident for countries with comparatively high educational spending, which showed average diversity sub-index scores that were 3 points lower than countries with lower educational spending.

Other institutional effects are consistent with the mirroring hypothesis. Countries with broader collective bargaining coverage averaged 3.8 points higher on the diversity sub-index. Surprisingly, other employment relations institutions showed no significant effects. Collective bargaining may be important because it encourages

coordination among employers, thus promoting diversity-related provisions (e.g., work-life balance policies) and neutralizing potential labor-cost disadvantages related to diversity measures. In this sense, diversity may mirror institutionalized forms of stakeholder coordination. With regard to civil society institutions, countries with stronger levels of civil society participation scored 4.6 points higher on diversity in 2013, suggesting that corporations mirror the demands of societal stakeholders. Finally, diversity appears to mirror a comparatively strong state with regard to economic activity. Countries with higher rates of corporate taxation scored an average of 2.6 points higher on the diversity sub-index, and countries with high rates of social spending averaged four points higher. These results suggest that company efforts to engage with diversity issues may be supported by stronger public infrastructure for social welfare (e.g., spending on child care facilities or generous welfare provisions for parents).

**Human rights** represent an area of corporate responsibility that is often associated with the international activities of multinational firms, and reflects more strongly international efforts to promote global standards of corporate contact. Figure 10 shows the significant institutional influences on our human rights index measure.

Starting with the area of corporate governance, countries with mandatory disclosure requirements averaged a full 13.6 points higher with regard to their human rights scores.

### Germany: Nora Lohmeyer (Freie Universität Berlin) on diversity in Germany

Diversity has emerged as a corporate responsibility issue in the context of its “male bread-winner” model of the welfare state. Legal acts have a strong focus on equal opportunity by granting rights to minority groups rather than following a diversity-management approach that focuses on individuals. Statutory holiday entitlement in Germany is 20 days and comes with an additional 10 days of public holidays, for a total that is more than most other countries. Firms have extensive policies related to diversity, work-life balance, and family-friendly workplaces. This mirrors the particular patterns of high levels of government social spending and policies that support a particular “male breadwinner” model of the family (Gottschall and Bird 2003). Nonetheless (or perhaps consequently), Germany scores low in terms of the overall percentage of female managers. As a result, in 2015, the Bundestag passed the “law for the equal participation of women and men in leadership positions.” The so-called women’s quota requires that women hold a 30 percent share of positions on supervisory boards within the roughly 100 listed companies subject to codetermination.

The focus on gender diversity at Volkswagen is typical for German companies. In contrast to the United States, the starting point for diversity management in Germany lies in the discussion of equal opportunities for men and women (Vedder 2006). In 1989, VW was the first big German company to adopt a policy for the advancement of women and a specific representative for women. VW signed the “Charter for Diversity” in 2007, and defined specific targets for increasing the proportion of women in the company. Some programs, such as Girl’s Day or advancement awards for female engineers, focus on the recruitment of female talent. Other programs, such as mentoring programs or development and qualification programs, instead focus on development. As an apt illustration of the broader German case, VW puts a special focus on the reconciliation of family and working life, providing a significant degree of working-hour flexibility, a variety of part-time and shift models, qualified reintegration after parental leave, and onsite and inhouse childcare. The “Freche Daxe” child care service provided by VW Financial Services AG is one of the largest company kindergartens in Germany. To maintain contact with employees on parental leave, VW offers meetings

and information sessions for those on parental leave, including the “Managing Family and Professional Issues” (Familienmanagement und Beruf) seminar at the Wolfsburg plant. Nonetheless, according to VW’s latest sustainability report (2014), only 15.7 percent of VW employees are women. Interestingly, despite the fact that 30.9 percent of university graduates recruited are female, only 5.7 percent of top managers are women.

### Japan: Eunmi Mun (Amherst College) on diversity in Japanese corporations

Japan has long been notorious for its highly sex-segregating labor market. In Japan’s internal labor market, employees have a high level of employment protection, fringe benefits, and the power to participate in setting wages. However, women have been largely excluded from the core workforce that participates in these social protections. In these internal labor markets, employers prefer men who can be long-term employees, thereby accumulating firm-specific skills. Since employers value skills relevant specifically to their firms and which cannot be nurtured in other firms, and thus find it difficult to hire skilled labor from external labor markets, it is critical that they retain internally trained employees. Hence, women, who as a group leave positions at a higher rate than men, have been marginalized in the workplace (Brinton 1993; Estévez-Abe 2005). As a result, Japan’s employment relations, which draw on internal labor markets, have generated a highly sex-segregated workforce. In addition to labor-market effects, the Japanese government has not seriously enforced policies to promote diversity. Specifically, government policies have been unsuccessful in pushing companies to incorporate women into the core workforce.

The unfavorable labor-market institution, the low level of state capacity, and the absence of pressure from civil society (i.e., a strong women’s movement) have negatively influenced the level of diversity in Japanese firms. But knowing that diversity is one of the sub-dimensions of corporate responsibility reporting, Japanese firms have lately devoted considerable effort to increasing gender diversity, with the aim of catching up with European and American counterparts that tend to perform better in the diversity dimension. Due to considerable resistance from corporate insiders, the business case for corporate responsibility has

been actively promoted. Nonetheless, Japanese firms often see these measures as a “signal” to foreign socially responsible investors, who rate firms according to these criteria.

For example, Hitachi is a leading company that is well-known for adopting changes to promote gender diversity as a corporate responsibility goal. Hitachi sees the need to respond to international investors as a key motivation, noting that, “An increasing number of investment funds are adopting socially responsible investment (SRI) approaches, in which they evaluate companies based on corporate social responsibility (CSR) criteria” (Hitachi CSR report 2005, p. 29). Hitachi successfully met the government’s criteria for diversity-related certification by implementing measures such as networking and mentoring programs for women, diversity training for managers, diversity workshops, and various work-family policies. However, as of 2012, Hitachi had only two female directors out of a total of 14, and women held only 3.5 percent of managerial positions and 16 percent of full-time regular jobs.

#### **United States: Daniel Kinderman (University of Delaware) on the impact of civil society**

Due to the peculiarities of American history and the legacy effects of slavery on African-Americans, diversity is a high-salience issue in the United States. Civil society activism and legislation have led diversity and opportunity policies to be institutionalized in American companies. In recent years, board diversity

has been a “hot topic,” but goes beyond just gender diversity to include other dimensions such as race and ethnicity.

Xerox is one of the American companies that has been highly engaged in the area of diversity. Xerox’s commitment to diversity can be traced back to May 1968 when “its first chairman, Joseph C. Wilson, ... took proactive steps to create a more diverse workforce in response to race riots in Rochester, NY, in the 1960s ...He and President C. Peter McColough [wrote] a letter to all Xerox managers calling for increased hiring of African-Americans.” In 1973, Xerox’s management “turned its attention to women” (Sessa 1992: 42). While affirmative action for African Americans had been “supported by the galvanizing events of the civil-rights movement,” according to Sessa, “the company voluntarily took the first step in recognizing women’s issues” (Sessa 1992: 47). Affirmative action was soon introduced into managers’ performance appraisals. By 1977, the firm had established an “internal affirmative-action office” as well as “corporate-wide management training” to ensure equal opportunity. By the mid-1980s, the firm had established caucus groups for blacks and women and placed an increasing “emphasis on minority and female advancement.” In 2001 and 2002, Anne M. Mulcahy became the company’s first female CEO and female chairman, and in 2007 Ursula Burns became the first African-American woman to serve as president of the Xerox Corporation. In 2009 Burns became CEO of the company, and the first African American to serve as CEO of a company the size of Xerox. She currently serves as CEO and chair of the board.

Likewise, countries with board-level codetermination rights for employees scored an average of 11.6 points higher. Interestingly, minority shareholder protection had a significant negative effect, in contrast to its effect within the community sub-dimension. Countries with strong legal protection for minority shareholders averaged 3.8 points lower on the human rights index than did countries with weaker protection. Once again, corporate responsibility in the human rights domain both mirrors certain elements of more institutionalized forms of coordination in corporate governance (e.g., codetermination, minority protection), but substitutes for stronger coordination in other aspects (e.g., mandatory disclosure).

Institutions of employment relations have consistently positive effects on human rights activities, suggesting that corporate responsibility here largely mirrors institutionalized coordination with employees. The largest effect is associated with works councils; here, countries with rights to information and consultation scored an average of 20 points higher on the human rights index than did other countries. Works councils may be likely to push their firms to implement fair labor standards abroad in order to prevent “race-to-the-bottom” competition with regard to labor standards at different production sites, and limit outsourcing to countries with poor human rights records. In addition, positive effects were also seen in

Figure 10: Institutional influences on human rights sub-index

Corporate Governance		Human Rights Index	Employment Relations	
Codetermination in Boards	11.6***		Union Density Index	5.7***
Disclosure Requirements (2)	13.6**		Employment Protection	5.6***
Minority Shareholder Protection	-3.8**		Works Councils Rights (2)	20.0***
Stock Market Development			Collective Bargaining Coverage	8.2***
Interfirm Relations			Civil Society	
Regulation of Competition			NGOs per capita	
Intensity of Competition			Civil Society Strength	
Anti-Monopoly Policies			Public Trust in Politicians	
Education			State Activity	
Tertiary Attainment			Corporate Taxation Rate	
Quality of Education			Social Spending	6.1***
State Spending on Education			Size of Procurement	4.3*

Source: Asset4, own calculation. Effects are significant at \* $p < 0.10$ , \*\* $p < 0.05$  or \*\*\* $p < 0.01$ . Dependent variable is the country average, corrected for firm-level and sectoral characteristics (see Appendix 1).

relation to broad collective bargaining coverage (8.2 points higher), union density (5.7 points higher), and employment protection law (5.6 points higher).

Other mirroring effects can be seen related to state economic activity. Countries with higher levels of social spending averaged 6.1 points higher on the index, and countries with higher levels of government procurement scored 4.3 points higher. Meanwhile, interfirm relations and civil society institutions showed no significant effect on the human rights index. Supplementary analysis also suggests that human rights index scores are higher in countries with high incomes but small population sizes. However, the volume of exports has no significant impact on human rights scores.

Taken as a whole, the human rights index again largely mirrors institutionalized coordination. The most powerful explanatory factors appear to be the employment-relations factors. Similarly, government social spending had a strong influence, as did several other factors such as public procurement, board-level codetermination and shareholder protection. The only substitution-type effect detected here relates to mandatory disclosure. Despite its very large marginal impact, mandatory disclosure explains differences for only a small set of countries, since few countries have such disclosure requirements.

### Denmark: Jette Steen Knudsen (Tufts University) on human rights

The Danish government introduced corporate responsibility policies in 1993 as part of the “It Concerns Us All” campaign. Corporate Responsibility programs focused on improving domestic social inclusion. Later, corporate responsibility made a slow but radical transition from social and labor-market policies to economic and industrial policies, whereby the international competitiveness of Danish firms became the new mantra in the government’s approach to CSR. In 2008, the Danish parliament officially endorsed international CSR and adopted a new Action Plan for Corporate Social Responsibility. The key purpose was to strengthen the international competitiveness of Danish firms (Danish Ministry of Economic and Business Affairs 2008). The political process that led to the adoption of the Action Plan involved a wide range of social partners, but also reflected what leading companies (such as Novo Nordisk) were already doing in terms of ensuring social responsibility.

The Action Plan included a non-financial reporting requirement for Denmark’s largest 1,100 companies. Large firms must report on the following issues: 1) their social responsibility policies, including any standards,

guidelines or principles for social responsibility employed by the firms; 2) how they translate their social responsibility policies into action, including any systems or procedures used; and 3) their evaluation of what has been achieved through social responsibility initiatives during the financial year, and any expectations they have regarding future initiatives. If companies have not formulated any social responsibility policies, then this too must be reported.

A specific example of the role of the state and its relationship with social partners that is relevant for human rights concerns is provided by the OECD Guidelines for Multinational Enterprises. Specifically, the Danish government supports enforcement of these guidelines in a non-judicial manner. The Danish government has established a Mediation and Complaints-Handling Institution as a framework for mediation, dialogue and conflict resolution. It is set up as a multi-stakeholder initiative representing labor, business and civil society organizations as well as academia. The multi-stakeholder approach to problem solving is a common way for social partners and civil society actors to interact in Denmark. The multi-stakeholder approach reflects an institutional context with high union density and collective bargaining, and labor and employers have a long tradition for voicing differences and working them out (Hassel et al. forthcoming).

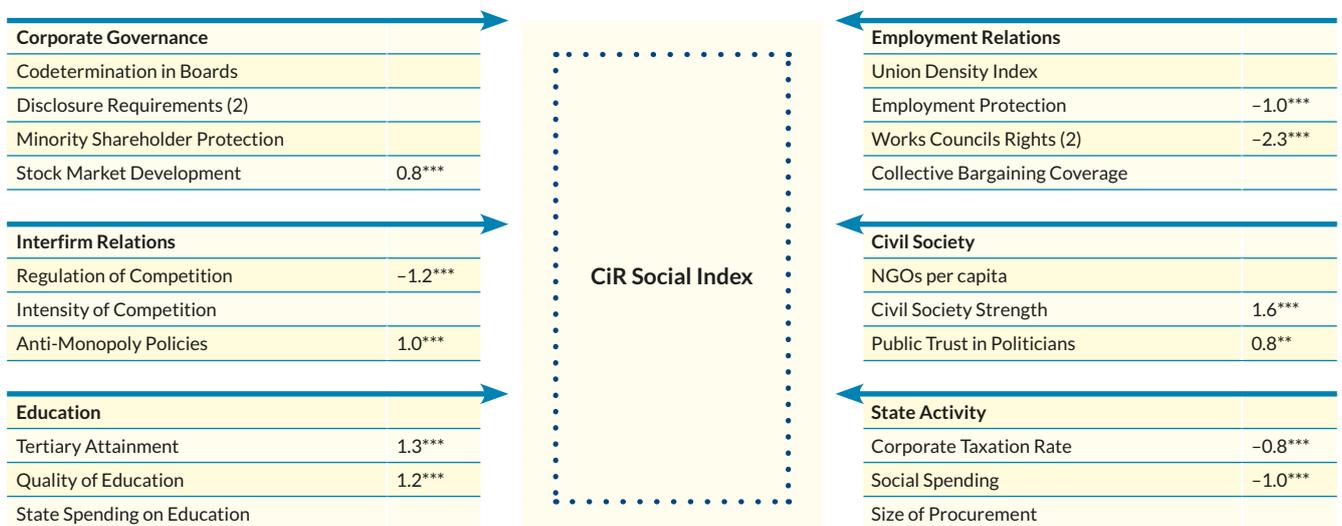
A specific case brought before the Mediation and Complaints-Handling Institution in the area of human rights concerned the Danish NGO ActionAid (Mellemfolkeligt Samvirke), who brought a complaint against Arla, one of Europe's largest dairy companies. Arla received EU subsidies that enabled the company to export cheap milk powder to the Global South. According to ActionAid, this undermined the milk industry in the Global South. ActionAid alleged that Arla did not have adequate due-diligence processes in place to ensure that adverse impacts on local stakeholders in the Global South were minimized. Such due-diligence processes are required according to the OECD Guidelines. Arla subsequently agreed to adopt due-diligence processes when selling milk powder in order to minimize negative human rights effects for small-scale producers and farmers. Arla also agreed to comply with the OECD Guidelines for Multinational Enterprises and the U.N. Guiding Principles on Human Rights and Business throughout its global business operations.

### Netherlands: Luc Fransen (University of Amsterdam) on the impact of social partnership

Corporate responsibility in the Netherlands has developed in the context of strong institutions of social partnership in various ways. For example, the Dutch Socio-Economic Council (SER, Sociaal-Economische Raad) is the main advisory body to the Dutch government on social and economic policy. The membership involves trade unions, employer organizations and socioeconomic experts. Historically, the SER has had a significant influence on corporate responsibility in terms of the general approach and understanding that has informed government policies as well as business practices.

In the context of this broad framework, the company Philips provides a good illustration of how corporate responsibility mirrors Dutch traditions of social partnership. Philips has consistently been ranked among the leading firms in this area (Cramer 2005), perhaps reflecting the company's "paternalist" legacies. As the company internationalized, Philips became a regular target for NGO and trade union campaigns (FNV 2006; SOMO 2012). In response, Philips has often chosen the path of multi-stakeholder approaches to human rights, supported by the Dutch government. It has joined the Dutch Sustainable Trade Initiative with the aim of lessening structural overwork at its Chinese electronics manufacturing suppliers. Philips contributed to the multi-stakeholder constitution of this program by inviting one of its most vocal societal critics to join – the Dutch NGO SOMO, which has significant ties with Chinese (informal) labor rights organizations in the area where Philips sources.

From the perspective of Dutch NGOs and ministry officials, Philips offers one of the country's few leverage points on international human rights within the industry. Interestingly, Philips also acted as a broker to pull some of the larger foreign electronics multinationals into the orbit of Dutch multi-stakeholder policymaking on human rights (Fransen and de Winter 2015). As a result, Apple, Dell and HP now also collaborate with SOMO and other Dutch NGOs in the Sustainable Trade Initiative program. In the Conflict Free Tin Initiative, Philips is accompanied by Nokia and Apple. Of course, the participation of NGOs in these initiatives has not stopped all criticism of Philips regarding irresponsible practices in the company's international operations.

**Figure 11: Institutional influences on Corporate Irresponsibility Social Index**

Source: Asset4, own calculation. Effects are significant at \* $p < 0.10$ , \*\* $p < 0.05$  or \*\*\* $p < 0.01$ . Dependent variable is the country average, corrected for firm-level and sectoral characteristics (see Appendix 1).

## Corporate irresponsibility

The final analysis focuses on the issue of corporate irresponsibility. The key question here is to see whether particular institutional arrangements are associated with the extent of irresponsible actions by corporations in different countries. To this point, we have examined whether or not corporate responsibility mirrors institutional forms of coordination or substitutes for them where institutions are more liberal and market-oriented. A key assumption of this framework is that corporations require some degree of pro-social orientation, which is achieved either through corporate responsibility or through institutions that coordinate relationships with key stakeholders.

Since irresponsibility represents the normative opposite of responsible actions, it is difficult to apply the concepts of institutional mirroring or substitution in the same way. Reversing the logic of the arguments above, corporate irresponsibility can be expected to mirror the liberal, market-based institutions within LME countries on the grounds that irresponsible actions may be an outgrowth of unregulated corporate action or the greater financial pressures arising from market competition. An alternative hypothesis would be that irresponsible actions result from highly coordinated institutions. The logic here is that overregulation could increase the likelihood of corrupt actions, or that strong institutional support for corporate

insiders could lead corporations to impose negative externalities on the general public. While plausible, it nonetheless makes little sense to refer to this argument as a substitution hypothesis.

Figure 11 shows several significant institutional effects associated with irresponsibility. In particular, greater irresponsibility is associated with more liberal, market-enhancing institutions. Likewise, a high degree of institutional coordination is often associated with lower levels of irresponsibility.

In the domain of corporate governance, higher stock market development is associated with increases in irresponsible actions by corporations, as measured in our index. Increasing stock market capitalization was associated with a 0.8 point increase in the Corporate Irresponsibility Social Index. With regard to interfirm relations, countries with stronger pro-competitive anti-monopoly policies averaged 1 point higher on the Corporate Irresponsibility Social Index, and conversely, countries with greater regulatory restrictions of market competition averaged 1.2 fewer points.

For state economic activity, irresponsibility is again associated with more liberal patterns of low spending or taxation. Figure 11 shows that countries with higher social spending averaged 1 point lower on this index. Here high levels of spending seem to impede corporate

irresponsibility, whereas irresponsibility is greater in countries with low spending. Likewise, higher levels of corporate taxation have small but highly significant negative effects on the CiR Social Index with an average of 0.8 points lower on the index. In the domain of employment relations, two indicators suggest that strong institutional coordination is consistently associated with lower levels of irresponsible behavior. Countries with strong works council rights averaged 2.3 points lower on the corporate irresponsibility scores. Likewise, stricter employment protection laws are associated with a one point decrease.

Perhaps unexpectedly, Figure 11 also shows that greater corporate irresponsibility is associated with higher levels of civil society strength and public trust in politicians. This result is interesting, but also suggests the need for further research. For example, the statistical relationship may express conditions in which an active civil society means that corporate irresponsibility is more likely to be detected, or it may suggest a reverse causation, where bad behavior in the corporate sector prompts greater civil society mobilization. Likewise, corporate irresponsibility is also associated with higher levels of educational attainment and higher quality of the education system. This association may again reflect higher rates of detection by a comparatively more educated public or more stringent normative expectations regarding corporate behavior. In this regard, it is very important to remember that the measurement of corporate irresponsibility is fundamentally different than that of responsible behavior. Whereas the latter relies heavily on self-reporting by corporations, the former is rarely reported voluntarily. Meanwhile, irresponsible actions tend to be detected and consequently measured only through the actions of third parties, for instance through the enforcement actions of government regulatory agencies, investigative journalism, or NGOs acting in their watchdog role.

In general, corporate irresponsibility scores tend to be higher in comparatively more liberal countries with developed stock markets, lower levels of regulation over product market competition, less state involvement in the economy, and a lower degree of coordinated employment relations institutions. At the same time, measured levels of irresponsible actions are also higher in countries with strong civil societies, high levels of public trust in politicians and high levels of education.

Comparing the results in Figure 11 with the earlier results on corporate responsibility reported in Figure 7 enables two interesting observations to be made. First, less-regulated

product markets are associated with high scores for both responsible and irresponsible actions. This suggests that in countries with more liberal economic institutions, corporate responsibility may be evolving more strongly as a response to the problems of irresponsible behavior. While this pattern clearly follows a logic of substitution, the data suggest that it would be misleading to assume that corporate responsibility is equally effective as state regulation in protecting stakeholder interests. Rather, the persistent coexistence of responsible and irresponsible business practices is cause for concern, and may lend credence to concerns over corporate greenwashing. Second, works councils, employment protection and government spending are associated with higher scores for corporate responsibility, as well as lower scores for irresponsible actions. This finding suggests that corporate responsibility in these contexts may simultaneously promote the social good and prevent social harm, thus contributing to the higher effectiveness of corporate responsibility as an emerging form of private governance.

### Limitations of empirical analysis

Beyond the general limitations of the sample and the statistical approach used, two limitations of this study should be noted in relation to interpreting the empirical results.

First, the CR Social Index incorporates indicators both for corporate policies and related outcomes. However, relatively little is known about their exact relationship. Do policies necessarily lead to better outcomes? For instance, Germany has very high levels of policy adoption in relation to diversity, yet has significantly lower levels of women in management positions. Such potential gaps between policies and outcomes are important, since existing studies suggest that corporate responsibility is an area where formal policies may be highly decoupled from actual practices (Crilly et al. 2012) or be characterized by “greenwashing” (Delmas and Burbano 2011; Haack et al. 2012). Such gaps might imply a lower degree of effectiveness of corporate responsibility that is not fully captured in our analysis.

Second, little is known about whether or not higher scores necessarily imply that these actions meet stakeholder expectations. Diversity in the United States is an interesting case, since firms have very “good” outcomes in terms of high levels of women managers, but companies nonetheless score relatively low with regard to work-life balance or

family-friendly policies. The question of whether diversity policies are in fact meeting stakeholder expectations remains unclear, despite a seemingly positive outcome. Like almost all academic analyses of corporate responsibility, this study relies on data collected by specialized rating agencies, which are primarily designed to serve the needs of investors and financial institutions (Avetisyan and Ferrary 2013). Hence, stakeholders give little direct input into standard measures of corporate responsibility.

The analysis in this report has largely assumed that more corporate responsibility is better. However, going back to the definition of corporate responsibility as being a politically contested concept, it is ultimately difficult to assess the effectiveness of corporate responsibility activities. The CR Social Index does not fully measure whether stakeholder expectations are being fulfilled. Normative versions of stakeholder theory argue that effectiveness can be considered greater in situations where stakeholders' expectations are met without harming those of others (Freeman 1984; Garriga and Melé 2004; Parmar et al. 2010; Scherer and Palazzo 2007). Following from this, the effectiveness of corporate responsibility must therefore be a function of the degree to which legitimate stakeholder expectations are met by corporations (see also Aguilera et al. 2008).

To partially overcome the two limitations noted above, this report included an examination of the relationship between corporate responsibility and corporate irresponsibility. As discussed below, addressing the topic of stakeholder concerns over irresponsible actions has important implications for the issue of effectiveness. The measure of irresponsible actions is a good proxy indicator of negative outcomes, as well as capturing situations in which stakeholder expectations are not being met. Moreover, it helps in overcoming the reliance on corporations' self-disclosure in constructing measures of corporate responsibility, since measures of irresponsibility rely more strongly on information taken from the media and NGOs.

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## 6. Conclusion: institutions for effective corporate responsibility

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The aim of this report was to compare cross-country patterns of corporate responsibility and explore how key institutional differences in distinct varieties of capitalism shape corporate responsibility. In particular, we compared patterns of corporate responsibility activities using a statistical analysis of listed corporations in 24 OECD countries during the years 2008 – 2014.

The analysis and empirical results presented in this report can be summarized in five key findings, each with important implications for understanding corporate responsibility.

**#1. Cross-national differences in corporate responsibility are substantial, but do not fall neatly into well-known typologies of liberal versus coordinated countries.**

The report documents substantial differences in the average CR Social Index of firms in different countries. After taking account of firm and sector characteristics on which most existing research focuses, country-level differences comprise an additional 15 percent to 16 percent of the total variation in corporate responsibility scores. Furthermore, this report documents country-level variation in particular kinds of corporate responsibility. Even among leading countries, substantial differences exist in the particular focus of corporate responsibility activities across different sub-dimensions, such as community or human rights.

At rank 14 among 24 countries, Germany numbers among a broad group of countries with medium-level scores or corporate responsibility. Several countries score significantly higher than Germany, constituting a rather heterogeneous group of leading countries. These leading countries include the United Kingdom as a very liberal economy, Sweden as a highly coordinated economy, and also France and Spain. These latter two countries

are generally considered to be CME countries, but are sometimes also grouped differently than Germany since the state has historically played a more direct role in their economies (Amable 2003). Likewise, countries with significantly lower scores than Germany include LME countries such as the United States and CME countries such as Japan.

It is therefore apparent that cross-country differences do not neatly match the well-known typologies of LME and CME countries. However, even if these patterns seem complex at first glance, this should not detract from the basic observation that “institutions matter” for corporate responsibility. The disaggregated approach to understanding the role of institutions confirms the importance of institutions, even if more than one institutional “pathway” may lead to high levels of corporate responsibility.

Thus, a first key implication is that public debates over corporate responsibility need to pay greater attention to the role of the institutional context. Most scholarship focuses very exclusively on the business case for corporate responsibility and interprets company behaviors purely as a result of strategic decision-making. This report suggests the importance of understanding the embeddedness of such strategies within broader institutional contexts. Company activities are deeply embedded in institutions that lead to differences in the extent and kind of activities. Institutions can enable these strategies by creating more congenial environments for making commitments to stakeholders. Similarly, institutions may also hinder corporate responsibility activities. Developing a better understanding of institutional factors is very important for improving policy initiatives around corporate responsibility, since neither one-size-fits-all policy measures nor a reliance on voluntary business-led initiatives alone are likely to enable trailing countries to catch up to the leaders in this area.

## #2. Corporate responsibility both mirrors institutionalized forms of business coordination and substitutes for their absence.

The findings in this report suggest that corporate responsibility has developed as both a mirror of and a substitute for institutional coordination. Untangling this claim requires taking a differentiated view that allows for different sorts of effects across different institutional domains. Whereas corporate responsibility may be positively associated with coordination in the domain of employment relations, for example, it may be negatively associated with coordination in interfirm relations. Thus, both mirror and substitution logics may be simultaneously at play, even in the same country. Germany is a good example of this, since employment relations have retained a largely coordinated CME-like character even as product markets and corporate governance have slowly become more liberal (Jackson and Sorge 2012; Jackson and Thelen 2014).

Looking at the countries that lead with regard to corporate responsibility, it is evident that they have followed rather different pathways. The United Kingdom is an interesting case, since it does not score highly on many of the institutions characterized by a strong mirroring logic. The United Kingdom has followed a comparatively liberal pathway, but ultimately looks less liberal as a whole relative to other LMEs such as the United States. For instance, employment relations are not as fully liberalized as in the United States (Jackson and Kirsch 2014), and the state plays a still-significant role through comparatively high levels of social spending and its encouragement of company disclosure regarding corporate responsibility. In the Netherlands, another leading country, several domains such as employment relations are highly coordinated, while the regulation of competition is far more liberal. In a similar vein, countries that clearly have low corporate responsibility scores include those that both lack strong coordination and have few supports for markets. In sum, there is no overall single pathway for either the leading or lagging countries, and thus no clear set of “best practices” can be determined.

A second key implication for public policy is thus that liberalization or additional deregulation is not a magic recipe for encouraging corporate responsibility. Despite some evidence that corporate responsibility may be a marketled substitute for more state-regulated or institutionally coordinated forms of business governance, countries in general do better with regard to corporate

responsibility scores when a substantial degree of institutional coordination is present. Mirroring effects related to high levels of coordination have greater magnitude and ultimately offer more powerful explanations for cross-country differences in corporate responsibility.

## #3. The influence of institutions differs across different dimensions of corporate responsibility.

Beyond the idea that “institutions matter,” this report found that institutions had very different effects within each sub-dimension of corporate responsibility. Two patterns are evident. First, institutions may have opposite effects in relation to different sub-dimensions of corporate responsibility. For instance, employee representation on boards (codetermination) is positively linked to higher human rights scores, while it negatively influences corporate responsibility related to community. Second, institutions may be significant for some sub-dimensions, but largely irrelevant for others. For instance, the institutionalized protection of minority shareholders matters only in the area of community.

Third, policy measures must take into account the different sub-dimensions of Corporate Responsibility. Corporate responsibility is a private form of governance, but one with a complex relationship to many different institutions. A policy discussion should begin with an analysis of specific strengths and weaknesses related to each corporate responsibility sub-dimension. From this point, specific “gaps” may be identified in the institutional framework. Importantly, some institutional characteristics may have contradictory implications for different dimensions of corporate responsibility. General policy recommendation should therefore be handled with care. Rather than a single set of best practices, policymakers should seek to develop contextualized approaches to policymaking.

## #4. Both the state and institutionalized coordination play an important role in enabling corporate responsibility.

While many studies focus on business-led initiatives and the role of market competition, international comparisons suggest that states have played significant roles in fostering corporate responsibility activities. For example, disclosure requirements create market incentives for responsible business practices. Stakeholders must be informed enough to evaluate, reward and sanction corporate responsibility.

State policies that either enable or mandate disclosure, have played important roles in increasing the flow of information that is reliable, valid, and allows trustworthy comparisons across companies.

A rich institutional infrastructure that includes state policies is a necessary condition, even for business-led corporate responsibility activities. In Spain, the government has acted as an influential catalyst for business initiatives. In France and Denmark, the state has acted through the imposition of mandatory disclosure requirements. In the Netherlands, state-sponsored corporatist institutions have proven to be an enabling environment for the development of corporate responsibility. Often these governments acted precisely in the context of growing liberalization, promoting corporate responsibility as a partial substitute for state regulation. But even in such liberalizing societies, strong state capacity, institutionalized forms of coordination and social solidarity have retained an important role in facilitating corporate responsibility initiatives. The United Kingdom, where corporate responsibility is more developed than in the United States, is clearly representative of this phenomenon. While both countries are exemplars of LME systems, government policy on corporate responsibility is far more developed in the United Kingdom.

Beyond the role of state policymaking, many studies focus on the voluntary nature of corporate responsibility. However, international comparisons suggest that corporate responsibility is often supported by institutionalized rights held by key stakeholders. For example, legal rights accorded to shareholders or employees amplify their voices in the context of corporate decision-making, thereby enabling their involvement in shaping corporate responsibility. In some CME countries such as Denmark, which is among the leaders in corporate responsibility, corporations adopt a wider range of policies and extensively monitor their implementation. It remains an important conjecture that involvement by salient stakeholders has played a significant role in this process. In particular, stakeholder involvement is likely to be important not only in promoting responsible business practices, but in preventing irresponsible ones.

The important role played by the state even in liberal settings suggests a fourth key policy implication. The empirical results in this report show that mandatory public disclosure of corporate responsibility may have strong positive effects. Countries adopting disclosure requirements had substantially higher scores for corporate responsibility. In terms of explicit policy measures, disclosure requirements may thus be an important catalyst

in sparking corporate responsibility activities – leading to greater diffusion of policies, deeper implementation efforts, and perhaps even better social outcomes.

At the same time, such “new” policies that enable privately initiated governance mechanisms are operating in the context of “old” institutions related to social partnership, which remain very important. Public policy should go beyond measures that explicitly target corporate responsibility, but also adopt a more holistic perspective in seeking to understand how existing political-economy institutions can be improved to better support corporate responsibility. Here, private governance in the form of corporate responsibility should not be seen as a substitute for traditional state regulation or corporatist-style arrangements, but can operate more effectively as an extension of the latter.

**#5. Several institutions such as works councils, employment protection and government social spending are associated with higher scores for corporate responsibility, as well as lower scores for irresponsible actions. By contrast, lower levels of product market regulation are associated with high scores for both responsible and irresponsible actions.**

Most studies of corporate responsibility have neglected the important distinction between responsible and irresponsible actions. This report found that concerns over irresponsible behavior are prevalent among listed firms in OECD countries. Indeed, corporate irresponsibility was remarkably prevalent in the United States, the United Kingdom and Germany. Notably, irresponsible actions are highly correlated with corporate responsibility in most countries examined.

While the notion of firms being simultaneously responsible and irresponsible may seem surprising at first, this pattern reflects two important facts. First, many firms pursue corporate responsibility in response to criticism and public concern over irresponsible actions. Corporate responsibility reflects both symbolic and substantive efforts to alleviate such concerns. Where firms are associated with highly scrutinized industries or operate in countries that have been subject to international criticism, corporate responsibility policies may act as a kind of “insurance” against negative social outcomes and thus reputational losses (Brammer and Pavelin 2005; Godfrey et al. 2010). Second, even where corporations intensify responsibility activities in

efforts to combat concerns over irresponsible behavior, the findings in this report suggest that responsibility and irresponsibility tend to persist together over time. This observation has important normative implications. At best, this fact may suggest that corporate responsibility has quite limited effectiveness in fully addressing stakeholder expectations. At worst, this observation lends credence to the idea that corporate responsibility may be associated with “greenwashing” or purely symbolic forms of impression management in a significant subset of cases.

Our results suggest a final key implication regarding the institutional framework of corporate responsibility. The main empirical findings suggest that irresponsible actions are associated with several types of more liberal institutions. In LMEs or LME-like countries, corporate responsibility may be driven by pressures arising from concerns over irresponsible actions. For example, comparatively weak product market regulation is associated with higher levels of corporate responsibility, but also higher levels of irresponsibility. While corporate responsibility is here associated with the logic of substitution, these data suggest it would be misleading to assume that corporate responsibility is actually effective as a substitute for state regulation or other institutions in protecting stakeholder interests. Indeed, the persistent co-existence of responsible and irresponsible business practices gives cause for concern, and may lend credence to concerns over corporate greenwashing. This pattern differs from CMEs or countries with institutional features such as works councils, employment protection or relatively high levels of government social spending. These institutions are associated with corporate responsibility, but also associated with fewer irresponsible actions.

These institutional effects bear closely on the question of effectiveness. To the degree that effectiveness constitutes a pattern of “doing good and doing no harm,” the findings of this report suggest that corporate responsibility may take on more effective forms when mirroring certain forms of institutionalized social solidarity. Whether or not different national patterns of corporate responsibility are ultimately more effective remains an important area for future research. This report has argued that any such assessment should take into account the role of irresponsible actions and their dynamic relationship to corporate responsibility over time.

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# Appendix: technical notes

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## Calculating the CR Social Index

Our CR Social Index measures the relative intensity of CR policies, practices and outcomes across firms in our sample. The index was created by first combining discrete and continuous data items in each sub-dimension, and then calculating a simple average of “yes” activities and the standardized rank order of each continuous measure. Next, a separate average was calculated for each of the seven different sub-dimensions: product responsibility, human rights, community, employment quality, health and safety, training and development, and diversity and opportunity. Finally, CR Social Index scores are derived from the averages calculated across each of the sub-dimensions. Although each sub-dimension has a different number of indicators, our approach gives each dimension equal weight in relation to the aggregate score. Missing data items were excluded from the analysis.

The same procedure was used to create a CiR Social Index. While the calculation of the CR Social Index and CiR Social Index follow the same approach, the resulting scores are not directly comparable due to the different nature of the underlying data. Corporate responsibility data are largely based on self-reporting by companies and tend to be fairly complete. By contrast, irresponsible actions are only measured where these appear in the public realm, such as newspaper or NGO reports. Consequently, nearly 50 percent of firms achieve a zero score on the CiR Social Index, inevitably reflecting an underreporting bias relative to the CR Social Index.

All indices vary between 0 and 100, and roughly express the percentage of measured CR activities in relation to the possible maximum for each firm.

## Estimation methods

The analysis adopts a two-step multi-level modelling approach that is widely used in cross-national comparative research. Our dataset measures the CR Social Index at the level of individual firms in each year, but these observations are nested within countries that serve as higher-level units. We are interested in the contextual effects of country-level institutional factors, but need to account for firm-level characteristics and also isolate the impact of institutional factors from other country-level fixed effects.

A two-step multi-level approach allows us to account for the fact that firms are nested within countries in the first step, and then disaggregate the higher-level differences in the country averages into variances associated with other country-level characteristics (Bryan and Jenkins 2015; Dämmrich et al. 2016). The results are highly consistent with a random intercept multi-level model calculated in a single step.

### Step 1: Estimation of annual country averages

Separately for each year 2008 – 2014, we estimate the coefficients for each country based on the average of the CR Social Index. The estimations were carried out using STATA 12.1 through a regression analysis with robust standard errors.

CR Social Index =

$$\beta_1(\text{logemp})_{i,t} + \beta_2(\text{roa})_{i,t-1} + \beta_3(\text{r\&d\_assets})_{i,t-1} +$$

$$\beta_4(\text{debt\_assets})_{i,t-1} + \beta_5(\text{sector})_{i,t} + \beta_6(\text{country})_{i,t} + \alpha_t$$

Where:

- **logemp**: firm size measured by (ln) number of employees
- **roa**: pre-tax income as a percentage of total assets, winsorized values (1st, 99th per-centile)
- **r&d\_assets**: spending on research and development as a percentage of total assets
- **debt\_assets**: total debt as a percentage of total assets
- **sector**: 15 industry-sector dummies for Basic Resources, Chemicals, Construction, Industrial Goods Services, Automobiles Parts, Food Beverage, Personal Household Goods, Health Care, Retail, Media, Travel Leisure, Telecommunications, Utilities, Finance, Technology
- **country**: 24 country dummies

We selected these control variables based on the following expectations. First, we expect that CR activities are known to increase with firm size. Second, financial performance may positively influence CR activities through the greater availability of resources. We measure financial performance by examining the return on assets in the previous year. For similar reasons, we include a simple ratio of total debt to equity to capture the impact of indebtedness. Third, CR may also be influenced by the degree of innovation at a company, due to greater future business opportunities or the need to legitimate new products in the eyes of customers. To capture this effect, we include the level of R&D spending in the previous year measured as a percentage of total assets. To account for the possibility of a reverse causality associated with firm financial performance and R&D performance, the regression contains these variables lagged by one year. In general, the coefficients of the control variables are consistent with former empirical studies. Finally, CR adoption is likely to differ across different industrial sectors.

The main variable of interest in this model is the coefficient of each country indicator. In our estimation, Germany is set as the reference category. The beta values of each country dummy thus estimate the average CR Social Index for companies in that country relative to Germany, after controlling for other firm characteristics.

The same procedure was used to derive estimates of country averages for an overall CiR Social Index, as well as the seven separate CR sub-indices, such as the CR Diversity Index, CR Community Index and the CR Human Rights Index.

## Step 2: Estimation of institutional influences on CR Social Index country averages

Using a panel regression in STATA 12.1 (xtreg) and clustered standard errors by country, we carried out the following estimations:

CR Index Country Average =

$$\beta_1(\text{INSTITUTION})_{i,t} + \beta_2(\text{INSTITUTION\_within})_{i,t} + \alpha_t$$

Where:

- **CR Index country average**: represents the country-year average of the CR Social Index, relevant sub-index (such as CR Human Rights) or CiR Social Index relative to Germany
- **INSTITUTION**: z-standardized indicators of institutional characteristics between countries
- **INSTITUTION\_within**: value of institutional characteristics in each year minus the average value for each single country

Our panel regression includes an indicator of the changes in institutional characteristics in each year. The latter is intended to distinguish the effects of institutional changes within countries (e.g., increases in shareholder rights) from differences in the levels between countries by including a separate estimation term for the former. Since our dependent variable is based on country averages relative to Germany in each year, the time trend of the panel is incorporated into step 1 of the analysis.

For all the reported effects, we examined the robustness of our results by using Breusch-Pagan Test to test for heteroskedacity, the Shapiro-Wilk normality test, and tests for influential points (DFBETA) affecting the results.

**Table A1: Country-level institutional indicators: Source and description**

Indicator	Source	Description
<b>Corporate governance</b>		
Minority shareholder protection	Guillén and Capron 2015	Values are on a 0 (minority shareholders are not protected at all) to 10 (minority shareholders are fully protected) scale.
Stock market development	World Bank	Market capitalization (also known as market value) as % of GDP.
Codetermination on boards	Jackson 2005	Indicates the presence of regulation regarding the representation of employees in the board room: 0 (no regulation at all) or 1 (any regulation).
Disclosure requirements	The Hauser Institute for Civil Society	Values are on a 0 to 2 scale. 0 = no requirements; 1 = voluntary disclosure requirements; 2 = mandatory disclosure requirements.
<b>Interfirm relations</b>		
Regulation of competition	OECD	Indicates the degree to which policies promote or inhibit competition in areas of the product market where competition is viable. Values are on a 0 (least restrictive) to 6 (most restrictive) scale.
Intensity of competition	World Economic Forum	Indicates how executives evaluate the level of intensity of competition in their local markets. Values are on a 0 (not intense at all) to 7 (extremely intense) scale.
Anti-monopoly policies	World Economic Forum	Indicates how executives evaluate the effectiveness of anti-monopoly policy in their country. Values are on a 0 (lax and not effective at promoting competition) to 7 (effective at promoting competition) scale.
<b>Employment relations</b>		
Union density	Visser 2015	Net union membership as % of wage and salary earners in employment.
Employment protection	OECD	Strictness of protection against individual and collective dismissals (regular contracts). Values are on a 0 (least protective) to 6 (most protective) scale.
Works councils rights	Visser 2015	Rights of works councils. Values are on a 0 to 3 scale. 3 = economic and social rights, including codetermination on some issues (e.g., mergers, take-overs, restructuring, etc.); 2 = economic and social rights, consultation (advice, with possibility of judicial redress); 1 = informational and consultation rights (without judicial redress); 0 = works council or similarly (union or non-union) based institutions of employee representation vis-à-vis management do not exist or are exceptional.
Collective bargaining coverage	Visser 2015	Employees covered by collective (wage) bargaining agreements and statutory regulations as % of all wage and salary earners in employment.
<b>Education</b>		
Tertiary attainment	OECD	Index of tertiary attainment as % of 25–64 year olds with tertiary-level education. Tertiary level of education includes theoretical programs leading to advanced research or high-skill professions such as medicine as well as vocational programs leading to the labor market.
Quality of education	World Economic Forum	Indicates whether executives believe the educational system in their country meets the needs of a competitive economy. Values are on a 0 (educational system does not meet the needs) to 7 (educational system meets the needs) scale.
State spending on education	UNESCO Institute for Statistics	Total general (local, regional and central) government expenditure on education (current, capital and transfers) as % of GDP.
<b>Civil society</b>		
NGOs per capita	Union of International Associations 2015	Number of NGOs in that country or territory per 100,000 inhabitants, limited to active organizations (dead, inactive, unconfirmed are excluded).
Civil society strength	Civic Enabling Environment Index	Values are on a 0 to 1 scale. 0 = no citizen capacity to engage in civil society; 0 < EEI < 1 = some citizen capacity to engage in civil society; 1 = maximum level of citizen capacity to engage in civil society.
Public trust in politicians	World Economic Forum	Indicates how executives evaluate the level of public trust in the financial honesty of politicians in their country. Values are on a 1 (very low) to 7 (very high) scale.
<b>State activity</b>		
Corporate taxation rate	World Economic Forum	Combination of profit tax (% of profits), labor tax and contribution (% of profits), and other taxes (% of profits).
Social spending	OECD	Total spending for social expenditure as % of GDP.
Size of procurement	OECD	General government procurement is defined as the sum of intermediate consumption (goods and services purchased by governments for their own use, such as accounting or information-technology services), gross fixed-capital fixed assets (such as the construction of new roads) and social transfers in kind via market producers (purchases by general government of goods and services produced by market producers and supplied to households). Government procurement here includes the values of procurement for central, state and local governments.

Source: selected institutional indicators, various sources

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# Figures and tables

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Figure 1:	Corporate Responsibility Social Index, average scores, 2008 and 2013	25
Figure 2:	Corporate Responsibility Social Index, compared to Germany in 2013	25
Figure 3:	Composition of country differences in Corporate Responsibility Social Index, 2013	26
Figure 4:	Corporate Responsibility Index for community, diversity and human rights sub-indexes, compared to Germany in 2013	28
Figure 5:	Corporate Irresponsibility Social Index, compared to Germany in 2013	29
Figure 6:	Corporate responsibility and irresponsibility, 2013	30
Figure 7:	Institutional influences on Corporate Responsibility Social Index	32
Figure 8:	Institutional influences on community sub-index	35
Figure 9:	Institutional Influences on diversity sub-index	36
Figure 10:	Institutional influences on human rights sub-index	39
Figure 11:	Institutional influences on Corporate Irresponsibility Social Index	41
Table 1:	Number of companies per year per country	21
Table 2:	Composition of the CR and CiR Social Indices	22
Table 3:	Institutional domains and indicators	23
Table A1:	Country-level institutional indicators: Source and description	50



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