Do Gains from Corporate Social Responsibility Vary by Context? A Comparative Study of the Moderating Effects of Corporate Governance Systems

A search on popular media for companies with the best social performance would suggest a disproportionate number come from the US and other English-speaking countries. In four recent annual rankings by Reputation Institute, a leading research and advisory firm, at least half of the world's Top 10 reputable companies were based in the US or the UK (Prado, 2016). Of course, both nations have enormous economic power to lead a worldwide ranking, but so do many other developed countries. Such unbalanced distribution makes us wonder whether there exist any systematic reasons for firms from these countries to outperform others.

In academic literature, the division between Anglo-American countries and other developed countries is often seen in institutional theories. As a classical example, varieties of capitalism theory groups capitalist economies, especially the OECD ones, into liberal market economies (e.g., US and UK) and coordinated market economies (e.g., Germany and Japan) (Hall & Soskice, 2001). The systems differ in a wide range of themes such as social policies, legal systems, corporate governance, etc. (Hall & Soskice, 2001). Specific to corporate governance (CG), the two groups are also described as those with relational-insider systems, such as Japan and Germany, and those with market-outsider systems, such as the US and the UK (Gospel & Pendleton, 2003).

While such frameworks are valuable references for comparative studies, they have rarely been utilized to investigate the observed differences in corporate social responsibility (CSR) activities and corporate social performance (CSP). Existing comparative work mostly compared the antecedents of CSR, such as consumer attitudes (e.g. Maignan, 2001) and director attitudes (e.g. Waldman et al., 2006). Regarding outcomes of CSR, not much comparative work has been done. Decades of CSR research has been flooded with replications of the relationship between CSP and corporate financial performance (CFP) without reaching consensus (Barnett, 2007; Orlitzky et al., 2003). Some scholars contend that a better understanding of the CSP-CFP relationship should include boundary conditions specifying where and when business can financially benefit from CSR (Barnett, 2007). To expand knowledge on such contingencies, comparative studies that use existing institutional frameworks (e.g., Gospel & Pendleton, 2003) can yield insights into whether and how institutional backgrounds, in particular corporate governance (CG) systems, act as boundary conditions to the outcomes of CSR.

Although a growing body of existing literature links CG with CSR, it mostly focused on individual CG arrangements, such as ownership structure (e.g. Jo & Harjoto, 2012) and boards of directors (e.g. Rao, Tilt, & Lester, 2007), and lacks insights into how CG and its surrounding institutions *as an integral system* are related to CSR. It is not clear whether and how institutions as a background influences interactions between CG and CSR, or whether and how institutional diversity across countries contributes to possible variation in CSR motivations and results. This shortcoming of the literature may stem from the "under-contextualization" of the traditional CG literature that is based on agency theory (Wright, Siegel, Keasey, & Filatotchev, 2013). Existing studies often take sample from one or a few countries, insufficiently addressing the impact of contexts. Comparative observations and explanations of national differences in CSR in relation to CG and institutional backgrounds is underdeveloped.

In fact, systematic variations in CSR across different CG systems have already been identified. In their study, Matten and Moon (2008) added an implicit-explicit dimension to CSR conceptualization. They found that explicit CSR, voluntary corporate activities for the benefit of society, is prevalent among US firms. The motivation is largely competitive, and

CSR has become an integral part of competitive strategies. In comparison, implicit CSR, whereby a firm seeks to meet society's interests (values, norms, rules, etc.) within the wider institutional systems, is more common in non-Anglo countries such as Germany and Japan. For implicit CSR, the motivation is predominantly to promote social cohesion rather than to create a competitive edge. Further applying institutional theory can be useful in extending knowledge of the diversity and dynamics of CSR (Brammer, Jackson, & Matten, 2012).

To explore the boundary conditions on financial and other outcomes of CSR, this study uses Gospel and Pendleton's (2003) conceptual framework of CG systems and Matten and Moon's (2008) framework for differentiating implicit and explicit CSR. After comparing typical financial structures and CG arrangements, we predict that companies in market-outsider systems benefit more financially from better CSP than their counterparts in relational-insider systems. We also hypothesize that in market-outsider systems (UK, US), stock markets are more responsive to CSP than in relational-insider systems (Japan, Germany). Regarding the relative strength of relationship between CSP and sales revenue, due to the existence of contradicting reasons, a set of opposing hypotheses were stated.

Using a panel dataset with CSP ratings and financial data of publicly listed firms in two typical market-outsider system countries (UK and US) and relational-insider system countries (Japan and Germany), the study empirically investigates whether CG contexts affects how business can benefit from CSR. We used both OLS regression, and GLS regressions with firm and time fixed effects taken into consideration to examine whether the CG system where a firm locates in is a moderator on the CSR outcomes. The results indicate that the CG environments do have an influence on the outcomes of CSP. Specifically, stock prices and sales revenues are more responsive to CSP in market-outsider systems than in relational-insider systems. However, opposite to what we expect, being in a market-outsider system is not associated with higher financial returns on CSP. The failure to detect a difference in the relationship between CSP and CFP might be due to a selection bias in our dataset.

This study is the first to investigate how CG as a system impacts outcomes of CSR and illuminates on institutional contingencies affecting the returns on CSR. After repeated research on financial returns on CSR in the last few decades, Barnett (2007) criticized that this body of research has not clarified the "murkiness" of the CSR business case regarding when and how businesses can benefit from CSR. This study has in some way answered Barnett's call by providing knowledge on boundary conditions of CSR returns. In practice, on the one hand, knowledge of the contingencies of CSR outcomes can help businesses make wiser investments and managerial decisions when reaping financial benefits from CSR is their ultimate goal. On the other hand, such knowledge can guide social partners, particularly policy makers, in creating facilitating environments to incentivize business' social engagement in order to achieve social benefits.

This study suffers from a few limitations, for example, downplaying the heterogeneity of countries within a system and firms within a country. Future research should seek to verify the results with some conceptual replications, and establish causation between CG arrangements and differentiation in CSR outcomes.

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