Integrating Corporate Social Responsibility into Corporate Governance:

A Comparative Institutional Study of UK and Japan

William il-kuk Kang (Corresponding author)

Alliance Manchester Business School

Booth Street West, Manchester. M15 6PB

williamil-kuk.kang@manchster.ac.uk

Asmund Rygh

Alliance Manchester Business School

Booth Street West, Manchester. M15 6PB

asmund.rygh@manchester.ac.uk

EIBA 2019 Leeds Conference

Abstract

The field of comparative corporate governance (CG) demonstrates the variety of CG models across nations. Yet, the comparative CG field still has a relatively narrow and undercontextualised view of CG institutions leading to such differences. This also implies a lack of attention to the role of informal institutions. In this paper, we seek to provide a more in-depth understanding of the role of informal institutions and their complementarity with formal institutions to explain CG outcomes. To do so, we explore the recent trend of increasing integration of corporate social responsibility (CSR) aspects into CG, where informal institutions take on particular importance. Our comparative case study of companies from the UK and Japan examines how both formal and informal institutional configurations affect internal stakeholders' (managers and employees) interactions. Such configurations explain differences between the two nations in outcomes such as board involvement in CSR, employee participation and types of CSR training.

Keywords: institutional configurations, Corporate Social Responsibility, Corporate Governance, informal institutions,

INTRODUCTION

Institutional theory argues that societal actors behave in certain ways because both formal and informal institutions constrain (North, 1991) or legitimise their choices (Scott, 1995). Based on this notion, there have been increasing numbers of studies from an institutional perspective seeking to understand organisations' practices or behaviours within and across nations, as shown by Jackson and Deeg (2019). Particularly in the field of comparative business and management, it is argued that different national institutional configurations emerge from political economies (Hall & Soskice, 2001), patterns of coordination based on trust and authority (Whitley, 2007) or history (Redding, 2005), creating divergent firm practices across national contexts.

Based on this notion, the field of comparative Corporate Governance (CG) studies variations of CG models across nations (see Haxhi & Aguilera, 2017; Jackson & Moerke, 2005). CG has a direct connection to firms' policies, practices, and performance, while being intertwined with institutions and various firm-level actors (Aguilera & Jackson, 2003; Filatotchev, Jackson, & Nakajima, 2013). However, as Aguilera and Jackson (2010) point out, studies in comparative CG have a tendency to isolate institutions from their context, and to focus on a narrow set of institutions to explain differences between nations.

Institutional configurations are formed by complex web of formal and informal institutions, each of which does not act in isolation (Haxhi & Aguilera, 2017; Jackson & Deeg, 2019). This is even more so under a new phenomenon emerged in CG: Corporate Social Responsibility (CSR). 'Ethical responsibility' of CSR indicates possible salience of informal institutions and cannot simply be explained by formal institutions alone (Brammer, Jackson, & Matten, 2012). This is also made clear by Jamali and Karam (2015), who show different interpretations of CSR exist between Western and Non-Western contexts due to diverse

formal and informal institutions. A number of recent studies have explored the integration of CG and CSR (Elkington, 2006; Harjoto & Jo, 2011; Jamali, Safieddine, & Rabbath, 2008; Mason & Simmons, 2014), emphasising aspects such as ethical engagement with stakeholders (Noland & Phillips, 2010; Sacconi, 2006, 2007) and boards' commitment to CSR (Mackenzie, 2007). However, so far few studies have considered this phenomenon from an institutional perspective (see Kang & Moon 2012), and the role of informal institutions has been particularly neglected (Jain & Jamali, 2015).

This paper investigates why and how different institutional configurations may cause diverse patterns of CSR integration in CG across contexts. We conduct a comparative case study of six companies from the UK and Japan. These two countries are suitable for our analysis as they are known to have contrasting CG and institutional configurations, while also considered 'CSR leaders' (Wang & Juslin, 2009). To structure the analysis, we build on the actor-centred institutional approaches of Aguilera and Jackson (2003) with a focus on internal stakeholders' (management and employees') interactions with macro-level institutions and with their respective firms. Our analysis identifies distinct institutional configurations that explain differences between the two nations in outcomes such as board involvement in CSR, employee participation and types of CSR training. We therefore argue that different interpretations of CSR exist between countries, which are further facilitated by the complementarity between formal and informal institutions that influences the pattern of firm-level actors' interactions with firms' governance mechanisms. As a result, diversity in terms of the integration CSR and CG between different nations continues.

The next section introduces our comparative institutional perspective on CSR-CG models, paying particular attention to formal and informal institutional role in causing possible diversity of integration. We then present our empirical context and inductive, theory building methods based on comparative case study. A presentation and discussion of the results is

followed by a brief concluding section outlining implications as well as limitations and issues for future research.

A COMPARATIVE INSTITUTIONAL PERSPECTIVE ON THE INTEGRATION OF CORPORATE GOVERNANCE AND CSR

Institutions have been conceptualised as cognitive, normative and regulative systems within a society (Scott 1995), which set the formal and informal rules that influence '*forms, outcomes, and dynamics of economic organisations*' (Morgan, Whitley & Moen 2005: 3) through constraining or enabling certain patterns of individual and organisational behaviour (Jackson, 2010). However, while formal institutions are clearly defined as formalised structures, such as financial systems, labour market systems, legislation and regulation, union organisations, and education and training systems (Aguilera & Jackson, 2003; Whitley, 2007), it is not yet clear what constitutes informal rules. Definition of informal institution varies and not clearly established, causing any factors or influence that is not formal to be labelled as informal institution (Sartor & Beamish, 2014). Such ambiguities have caused informal institutions to be difficult to measure, causing the differences between contexts to be taken for granted or considered a residual category (Helmke & Levitsky 2004; Sartor & Beamish 2014). This is also apparent in existing comparative institutional perspectives. Both Varieties of Capitalism (Hall & Soskice, 2001) and National Business System (Whitley, 2007) note the significance of informal institutions and their embeddedness in societal contexts and business systems. However, the former does not focus on informal institutions, while the latter's analysis is limited to informal institutions of trust and authority.

We thereby employ Helmke and Levisky's definition of informal institution that provides more structured frame, considering '*socially shared rules, usually unwritten, that are created, communicated, and enforced outside of officially sanctioned channels*' (2004: 727). They

further argue that it is a set of socially established rules based upon expectations and that only when a certain pattern of behaviour is widely expected within a society can it be regarded as an informal institution (Helmke & Levitsky, 2004). Based on this notion, informal institutions are embedded in both firms' operations as well as stakeholders' expectations of firms' normalised behaviour, and may differ across contexts. Therefore, both formal and informal institutions act together to influence societal actors' choices, resulting in formal and informal institutions being interdependent and complementary (Alesina & Giuliano 2015; Jackson & Deeg, 2008). Accordingly, Kang and Moon (2012) apply a comparative institutional perspective to discuss the relationship between CG and CSR in *three* varieties of capitalisms from the perspective of institutional complementarity: liberal market economies, coordinated market economies and state-led market economies. However, their study is also limited to the complementarity within formal institutions and distinguishes CG from CSR rather than considering how they are differently integrated.

The integration of CSR into CG is consistent with a broader view that defines CG as the '*structure of rights and responsibilities among the parties with a stake in the firm*' (Aoki, 2000: 11), moving beyond a focus on shareholder value maximisation (Hansmann & Kraakman, 2001) to alignment with stakeholders' interests to promote good governance (Elkington, 2006; Jamali et al., 2008). Existing literature has argued that CSR and CG are inter-related, due to: 1) overlap in agenda (Elkington, 2006); 2) overlap in the broader concepts of CG and the stakeholder conception of CSR (Jamali et al. 2008); and 3) overlap in key principles such as accountability, transparency and responsibility (Aras & Crowther, 2008; Van den Berghe & Louche, 2005). Such links between CG and CSR are further emphasised in more recent literature, arguing that these concepts are highly complementary and that synergies arising from their integration result in better governance (Devinney, Schwalbach & Williams 2013, Harjoto & Jo, 2011, Jain & Jamali, 2015, Rahim & Alam, 2014), assisting

stakeholder value creation (Bhimani & Soonawalla, 2005), increasing competitiveness (Ho, 2005), and furthering sustainability (Aras & Crowther, 2008).

However, there are three important reasons to expect integration to take different forms across contexts. Firstly, ideas of ethics or moral norms are socially bounded in nature (Donaldson & Dunfee, 1994; Brammer et al., 2012). Although some hypernorms may exist across contexts, many norms are system- or culture-specific, and therefore stakeholders' and organisations' understanding of ethics can vary between nations. Secondly, stakeholder interactions or engagements, which are emphasised in current CSR-CG literature (Noland & Phillips, 2010), are largely grounded in informal rules (Diefenbach & Sillince, 2011). Although some communications or interactions may be established through formal institutions, most are conducted through unofficial mechanisms (Diefenbach & Sillince, 2011). Finally as a result of aforementioned reasons, different interpretations of CSR exist in different contexts as in the case of Lebanon (Jamali & Karam, 2018) or China (Wang & Juslin, 2009). Thus, diverse CSR-CG integration is not an outcome of formal institution nor a single institutional domain alone. However, as Jain and Jamali (2015) point out, it is still not clear how formal and informal institutions interact to influence integrations and cause diversities across contexts.

Aguilera and Jackson (2003) explain the underlying mechanism as stakeholders' interaction with marco-level institutions. While institutions are interdependent and complementary, there are different sets of institutions that are more relevant to each stakeholder (Aguilera & Jackson, 2003) and influence them to establish certain pattern of interactions with firms. As institutions are socially embedded, the pattern of interactions therefore differs depending on society, resulting in different patterns of choices and therefore variations in CG across national contexts. For example, the UK's market-based finance system, loose inter-firm network, and anti-trust regulation jointly lead capital-related stakeholders to pursue financial interests and control via liquidity, resulting in firms being short-term and value-maximisation

oriented (Aguilera & Jackson, 2003). In Japan, due to mutually supporting formal institutions such as anti-monopoly laws, a bank-based finance system and multiple interfirm networks with cross-shareholding, capital-related stakeholders emphasise strategic interests and commitment to firms, which results in firms being long-term and stakeholder oriented (Aguilera & Jackson, 2003). Although this approach is largely formal institution-oriented, it also has a significant implication for better understanding of how both formal and informal institutions matter in causing diversities. It shows how actors' interactions with institutions can lead to different outcomes at firm level. Firms are humanly-devised constructs, which are preserved, maintained, and potentially changed by people. They interact with their external environment, including institutions, and choose the best possible course of action, which also leads to different patterns of behaviour. A CSR-integrated CG model is also an organisational outcome in response to interactions between institutions, firm-level actors, and firms. While such a model is expected to differ across contexts due to different interpretations of CSR, its integration is likely to be affected by formal and informal institutions and their complementarities. By bringing stakeholders' interaction into the centre of analysis, it becomes possible to capture how relevant fomal and informal institutions influence interactions, resulting in different organisational practices across nations.

To truly understand the overall mechanism of varieties of CSR-CG would involve exploring the complex interactions of both internal and external stakeholders with macro-level institutions, and this is not possible in a single paper. Therefore, in this paper, we focus on the internal stakeholders, defined as those that are fully engaged with organisations' productive activities and mutually dependent on each other (Konzelmann, Conway, Trenberth, & Wilkinson, 2006). Both management and employees are directly hired by firms with the expectation of full commitment to the organisation. Their well-being is highly associated with the organisation's success, causing their well-being to be reciprocal to their commitment

(Konzelmann et al., 2006). Thus, the two internal stakeholders and firms are mutually depdendent, with significant impact on CSR-CG of firms.

DATA AND METHODOLOGY

A key objective of this paper is to identify and understand how formal and informal institutions matter in a CSR-CG context by assessing internal stakeholders' interactions with firms. However, the a priori 'relevancy' of specific institutions to a particular stakeholder constituency may be unclear and debated (Aguilera & Jackson, 2010). Therefore, we take an inductive stance for our qualitative multiple case study approach, during which we capture relevant formal and informal institutions within the managers' and employees' interactions. It is argued that there is a need for more qualitative research that can provide thicker description of institutional difference and their interaction (Doz, 2011; Jackson & Deeg, 2019). This is further supported by Williams and Aguilera (2008), who argue that the complexity of institutions and complementarities are difficult to measure quantitatively, as is typical in CSR research. Furthermore, as informal institutions are not codified or clearly visible, they are not easily accessible via quantitative approaches, which further justifies the qualitative approach of this paper.

Sample selection and profile

For these purposes, two nations are selected to compare for interpretative multiple-case study: the UK and Japan. While the two countries are considered 'CSR leaders' (Wang & Juslin, 2009), they are also known for their contrasting cultural and institutional contexts. The UK is an individualistic society with a shareholder-oriented CG model based on liberal market institutions, whereas Japan is a collectivistic culture with a stakeholder-oriented CG model based on coordinated market institutions. Such contrasts provide an ideal context in which to assess how different patterns of interactions are established and lead to different CSR-CG

models. Company cases that were theoretically salient were chosen, based on their history of origin and significance for the national economy, measured by turnover (listed in the Global Fortune 500 in 2012) and clear evidence of CSR practices (based on the presence of company CSR reports and CSR leaders in their respective nations and sectors). While this allowed the paper to control extraneous variations, as argued by Eisenhardt and Graebner (2007), the following selection criteria are also considered to further promote external validity: different sectors, each of which is significant to the relevant national economy to minimise industry effect (Jo & Na, 2012); different ranges of revenue to control for revenue effect (Ziek, 2009); and ownership structures i.e. public-listed and privately owned to control for ownership effect (Oh, Chang, & Martynov, 2011). A summary of case profiles can be found in Table 1.

[Insert Table 1 Case Profile]

Data collection and analysis

We collected qualitative data through in-depth interviews with experts, senior managers from CSR committees of the case companies, and employees. Furthermore, archival research was undertaken using publicly-available documents, reports and data. In the preliminary phase, background data collection and archival research were conducted to identify existing formal and informal institutions in the two countries. Furthermore, acquisition and analysis of data regarding the cases' existing CSR-CG models and practices were integrated into the interview process. Interviews were conducted by the first author in a semi-structured format with senior managers and employees with focus on two broad themes: 1) board-level engagement in CSR; and 2) interactions between management and employees. Every interview was recorded with a voice recorder, with the participants' permission. Interviews were conducted in English; however, in Japan, due to the language barrier, interviews for one case company were carried out in Japanese with the first author leading the sessions, due to fluency in

Japanese language. However, to minimise any potential misinterpretations of the information, the sessions were conducted in the presence of an interpreter. In the last phase, a validity check on data collected from the interviews was performed i.e. the transcribed data were double-checked with the participants and interpreter. Further, to reduce bias and enhance the validity of data, the interview outcomes were cross-checked with documentary evidence provided by the interviewees as well as publicly available documents. In addition, the first author discussed the findings from company interviews with an organisation that advises Japanese companies that wish to operate in the UK on their CSR management and policies, accessed via the Japanese Chamber of Commerce in the UK, which confirmed the plausibility of our findings.

Each response was analysed and coded, and systematically put into corresponding themes and categorised to allow new information and theoretical propositions to arise. This involved recursive iteration between theoretical conceptions and the data (Doz, 2011; Klein & Myers, 1999), the key in conducting interpretive case study and theory-building (Langley, 1999). Given that our objective is to explore and understand how formal and informal institutions influence interactions of internal stakeholders with firms, our second-order themes were based on iterations between theoretical abstractions of existing institution literature to identify formal and informal institutions. This led to the identification of formal institutions, such as CSR-CG regulations, board systems, labour market systems, union organisations and skill formation systems (Aguilera & Jackson, 2003, 2010; Haxhi & Aguilera, 2017; Hermalin & Weisbach, 2003; Jain & Jamali, 2015; La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 1998); and trust, the role of business in society, and informal hierarchies as informal institutions (Diefenbach & Sillince, 2011; Matten & Moon, 2008; Sauerwald & Peng, 2013). The data were first analysed within each case, then further tested in cross-case analysis, with the different national contexts providing ideal conditions in which to measure the extent of

diversity in their CSR-CG and underlying mechanisms. As a result, patterns or relations between particular sets of informal institutions and formal institutions were identified. These influence internal stakeholders to establish interactions with firms and other stakeholders in different patterns depending on their institutional configurations. Thus, different nation-specific CSR-CG models emerge.

RESULTS AND DISCUSSION

The comparative case study demonstrates that while firms are paying attention to the integration of CG and CSR in both contexts, the form this integration takes varies. Our analysis in the following will show that this is to a large extent related to complementarity of formal and informal institutions that further facilitates different interpretations of CSR. While UK companies perceive CSR as part of management that should be integrated into organisational functions with direct control at board level, in Japan companies see CSR as business activities that contribute to society and the environment, and entrust executives with CSR-related decisions in a more discretionary manner. Such different interpretations can be traced to unique traditional value of *sanpo yoshi* in Japan. Historically, travelling merchants (*omi shonin*) were not regarded as 'noble citizen' in Japan due to the dominance of *samurai* and military government. Moreover, they were required to travel different communities, even though the regions might be in conflict with each other. Thus, building trust and being accepted by each local community was key for their success, which resulted in the belief of *sanpo yoshi*, which translates as 'good for three parties' i.e. seller, buyer and society (see Tanimoto, 2013). As a result, the essence of CSR is embedded implicitly in Japan and the introduction of Western concept of CSR is differently interpreted. A summary of the data analysis can be found in Table 2.

[Insert Table 2 Overview of the UK and Japan CSR-CG Dimensions]

The UK CSR-CG: Formal Institutions

Our archival research showed the presence of a dualist approach towards CSR-CG regulations in the UK, co-existence of hard law (UK Companies Act 2006) and soft law (UK Corporate Governance Code). While the former puts coercive pressure on firms in the form of legislation with emphasis on boards' responsibility to ensure firms' ethical behaviour in terms of the environment, community, suppliers, and employees, the latter is largely focused on protecting shareholders' rights and ensuring boards align management with shareholders' interests. It takes a 'comply or explain' nature, which firms can voluntarily choose to follow. All the UK case companies show evidence of following both hard and soft laws, but limited to the board or regulations associated with their industry.

> *We have adopted a number of aspects of the revised UK Corporate Governance Code a year earlier than required. These include the Board's confirmation that the report presents a fair, balanced and understandable assessment ...* (UK-1)

> *This means that the products we sell are rigorously analysed for compliance with all applicable laws and regulations and our own high standards.* (UK-3)

Such emphasis on board's responsibility is also reflected in their governance of CSR management. Our initial archival research shows that all UK Global Fortune 500 listed companies (26 in 2012) have CSR committees under direct supervision of boards. 14 companies have CSR committees run by outside directors and 12 at executive level, but directly reporting to the outside directors of the board. Amongst the three case companies, UK-2 and UK-3 fall into the first category and UK-1 into the second. While this indicates an increase in boards' interest and commitment to CSR within firms, as the following response suggests, it also suggests an increase in outside directors' taking responsibility for CSR governance.

before, the [...] area [covered by] the group sustainability team was more narrow, whereas now, [it] is much more broad ... previously, the committee would have been given less prominence, whereas now the status of the committee is elevated.

(UK-2)

The UK's skill formation system is often categorised as role-specific in contrast to Japanese firm-specific practices (Stavrou, Brewster & Charalambous, 2010; Whitley, 2007). Evidence suggests that such formal institutional features are also extended to the companies' CSR training. Indeed, mandatory training is provided on key issues, such as ethical behaviour, integrity and business principles in the UK companies. However, they do not introduce what is meant by CSR and how firms should apply the concept. The training is instead role-specific, as evident from the following responses:

There is no sustainability training per se, but there are aspects of sustainability and sustainable ideas or enquiry kind of built into a lot of training. (UK-1)

[I]s it important to us that everybody knows the definition of sustainability? No. Is it important to us that people are thinking long-term, making [the] right decisions, putting the customers higher than what they do? Yes. (UK-2)

The role-specific skill formation system of the UK is argued to be complemented by the external labour market system of the UK (Hall & Soskice, 2001; Whitley 2007). Within an external labour market, employees have high mobility, while firms take a 'hire and fire approach', which justifies transferrable role-specific training. The evidence from British companies suggests that employer-employee relationships are affected by this reliance on a more flexible external labour market in the UK. Simultaneously, however, all cases show that there is a certain degree of rotation within the group of companies. Opportunities are granted to all employees, but they are restricted by their roles or in some cases redeployment.

We do encourage movement between companies to gain experience. We have lots of senior people from other operating companies. So that's something we encourage. (UK-1)

When people are redundant in the group, they can take voluntary redundancy payments or they can go into something known as [a] redeployment pool and 30% have found alternative roles within the group. (UK-2)

Similarly, the UK continues to maintain a decentralised union organisation system with no evidence of union involvement in firms' interactions with employees. However, a major change has been made as a result of CSR integration, which is employee representatives. All three UK companies had employee representative bodies, elected by their peers and operating at national, regional, and global levels, with regular discussions amongst themselves regarding organisational policies, practices and concerns. They have open discourse with executive levels (at least annually), including the CEO, creating opportunities for employees to participate in company management and increasing the influence of employees in the decision-making process.

There are no qualifications set. The only qualification is that you are an employee. And that's it. If you put yourself forward, and you are supported by the colleagues, that's fine, you are on the consultative council. But there is no set of qualifications. It can be anybody from top grade to the bottom grade ... managers and the CEO both attend the council. They need to be discussing it at senior levels. (UK-1)

The UK CSR-CG: Informal Institutions

Such formal institutions' influence on internal stakeholders' interactions with the firms are also affected by informal institutions. For example, while much emphasis is placed on boards rather than management in terms of CSR governance, this is maintained by a high level of

reliance on self-regulation mechanisms, such as codes of conduct and internal monitoring of behaviour. This was abundantly clear from our archival research of the case companies' sustainability/CSR reports. The reports do not emphasise existing national or international codes, though they mention these broadly as 'international codes' or 'laws/regulations'. Greater emphasis is placed on 'our codes of conduct' to ensure ethical behaviour of employees and managers, which acts as self-regulating mechanisms.

> *[T]he codes of conduct [outline] our expectations to our employees and managers across the company and breach of this should be reported immediately.* (UK-3)

> *There is always a room for improvement and certainly there is a room for monitoring to make sure nothing flips.* (UK-1)

This is further facilitated by the historic nature of CG, which places monitoring at the centre due to the institutionalised role of business in society. Matten and Moon (2008) argue that in liberal market economies like the UK, firms are not expected to concern themselves with a wide range of stakeholders, but rather shareholders. This results in them undertaking more explicit CSR to show the stakeholders that they are performing beyond what the regulations require. In practice, the role of business in the UK continues to be shareholder-oriented, with the addition of narrowly-defined stakeholders, as the following response from UK-3 shows: CSR "*defines a consistent way of working to help us strengthen our position as an admired company in the eyes of our customers, shareholders, and employees.*" However, they also admit increasing societal expectations of ethical behaviour, leading them to conceptualise CSR as 'ethical decision-making'.

[CSR] is part of management. It is embedded in every function. So any business decisions from any functions, the CSR aspects of it is always, always considered. (UK-1)

[T]o us, it's not really [about] people knowing what sustainability is or what sustainability stands for. It's more about how can we influence the organisation and make sure that kind of responsible behaviour and [those] actions are taking place. (UK-2)

Evidence provided earlier shows that there is a certain form of hierarchy between boards and management in CSR governance. However, at an informal level, there seems to be a flatter hierarchy between employees and management. While the evidence from employee representative bodies indicates there is no hierarchical division of employees by status or rank, all the UK case companies present high level of gender diversity. This is also reflected in our archival research, which showed balanced labour participation rate between genders. Although the proportion of women decreases as rank ascends (with the exception of UK-3, which claims it is due to their 'industry'), there is a lack of evidence to support the notion that this is due to institutionalised division of gender roles. It is important to note that all female senior manager participants believed this was due to changes in women's values.

I think those women's priorit[ies] change and their priority is their family and having that time in their life to pursue looking after their family as oppose[d] to pursuing getting on to the next scale or level of management ... I don't see any impediments to me progressing within [the organisation] just because I am a woman, but I do feel a lot of women prioritise family over career progression. (UK-2)

Japan CSR-CG: Formal Institutions

Japan has had a stronger reliance on government regulation than the UK, such as the Japan Companies Act 2005. However, the Act is more focused on re-defining types of companies and the internal structure of management than CSR governance. Moreover, the reformed Act 2005 mainly aims to provide flexibility in CG structure for Japanese firms, allowing them to choose between the traditional form of CG with statutory auditors and the Anglo-American form of CG with outside directors and committees. However, after various corporate scandals like Olympus, a government-led Stewardship Code was introduced in 2014, leading to the co-existence of hard law and soft law. The code was based on the UK's code, and emphasises active engagement by institutional investors and their responsibility to monitor managerial behaviour, which had been largely neglected previously. However, it does not include boards' responsibility to ensure ethical behaviour nor CSR-related elements. It ambiguously makes investors responsible for ensuring the 'sustainable growth of companies' without a clear definition of what is meant by 'sustainable growth'. Nonetheless, such changes in the regulatory approach do not seem to have affected Japanese firms to a large extent, with all cases continuing to emphasise their compliance with the Companies Act.

> *We are engaged in businesses in all industries through our many offices around the world. These activities subject to us to a wide variety of laws and regulations. Specifically, we must comply with the Companies Act.* (JP-1 Annual report 2013 and 2015)

Lack of emphasis on boards' responsibility for CSR governance as well as ambiguities in regulation with regards to CSR have also influenced the board system. Amongst the 40 listed on the Global Fortune 500, only eight companies state that CSR committees are at board level and the rest are at executive level with exception of seven (five companies show no

committees and two do not specify). JP-1 falls into the case of CSR committee at the board level. The senior manager participant from their CSR committee stated that they are supervised by an international advisory committee within the board, formed of international academics, ex-politicians and CEOs of foreign partner organisations. However, for the majority of Japanese companies, including JP-2 and JP-3, their CSR committees are at executive level under the direct supervision of the president. In these cases, boards do not exercise any influence over the firms' CSR operations and decisions and meetings are only held at management level.

> *[Y]ou can see the CSR promotion committee, and risk control and compliance committee, and the upper one, we are this division, at the management [level]. We hold this committee twice a year, and the president and other top management participate.* (JP-2)

While limited participation in CSR governance at board level exists, it appears their skill formation system is also different to that of the UK. This is characterised as long-term non-transferrable firm-specific training (Sako, 2006), which involves job-rotation that is not specific to a certain role, and firm-specific general training. The objective is to create generalists who will be experts in the overall operation of their respective firms as a senior manager or board member later in their careers (Aguilera & Jackson, 2003). The same idea is applied to their CSR training. Japanese companies provide training in either a classroom setting (JP-1 and JP-2) or online (JP-1 and JP-3), for which employees are required to pass tests upon completion of the training. They are highly firm-specific, focused on introducing a general concept of CSR within their companies' context.

There is [CSR] training conducted upon the point of entry at the company. Well,

[within] five [to] ten-year points of becoming a manager, there is department

governance conduct training (JP-1)

The long-term non-transferable skill systems limit employees' mobility, but this is

compensated for the internal labour market structure. The concept of lifetime employment and

insider promotion are deeply-rooted institutionalised practices in Japanese companies, which

grants employees security and greater commitment to the firms. This is also evident from the

three Japanese companies: the average time at the organisation for employees at JP-1 is 18.9

years and at JP-3 15.4 years.

Once you are a regular employee, it means you no longer worry about future and

you stick with the company for the rest [of] your career. [I]t is extremely difficult

to change your job in Japan, because you will be considered as disloyal. (JP-2

employee)

Japanese companies continue to rely on enterprise unions for their engagement with

employees. All cases used surveys through enterprise unions to measure employee

satisfaction and expectations as well as views on organisations' CSR policies, with the

exception of JP-3 which uses quarterly supervisor-subordinate interviews. Any issues or

concerns arising from the survey are discussed at regular enterprise union-senior management

meetings (biannual for JP-1, three times a year for JP-2, and once or twice a year for JP-3), in

which the CEOs participate.

We do have [a] union survey every year with about 200 questions (JP-2)

You might think you are not being treated well by the company, then they would

go to the enterprise union and talk about these issues (JP-3)

Japan CSR-CG: Informal Institutions

Similar to the UK, Japan is significantly influenced by both formal and informal institutions. However, unlike the UK, much less emphasis has been placed on self-regulating mechanisms. Archival research revealed that very limited attention has been paid to their codes of conduct or monitoring in their reports. Instead, much greater emphasis is given to their compliance with international standards, typically UN Global Compact, ISO26000 and the Global Reporting Initiative (GRI).

> *For sustainability considerations, we are members of a number of organisations, such as Global Compact Network, and that's how we follow similar larger trends of expectations of companies, for example US.* (JP-1)

> *We are deemed as an active player in the Global Compact, there is also Global Compact Network, called Japan Network, we are also involved in that… we have been included in four big SRIs, SAM, and FTSE4GOOD, Ethibel.* (JP-2)

The lack of self-regulating mechanisms can be explained by the high level of trust that prevails in Japanese society, which JP-3 stated "*defines Japanese business*", and historically transcended value of *sanpo yoshi*. The concept has passed down the generations and has become *"a foundation for every Japanese business organisation"* (JP-3), establishing wider concern for society and stakeholders as part of the role of business. This is also abundantly clear from the case firms, which incorporate *sanpo yoshi* into their philosophies and principles. However, it also led to them finding it difficult to understand the liberal market-based idea of CSR and establish a different interpretation of CSR as 'business activities' that contribute to environmental and social issues.

[I]t was actually our boss [that] went to every division and [said] "CSR is like this" many, many times to start this [CSR]... CSR is deemed as 'social contribution', still many people think, still some of our directors think. (JP-2)

[CSR] is to contribute to solving social issues through business activities. (JP-3)

I have been insisting [on] push[ing] our CSR commitment to the board level, but they just don't see that it is important. And their reaction, in general, is 'why do we have to do that?' (JP Expert)

However, despite the wider role of business in society, Japanese cases show high levels of informal hierarchy. This is reflected in the contrasting responses to a question regarding their freedom to express ideas: from the British *"we feel free to say anything"* to Japanese *"[I] feel scared to ask [. . .] supervisors"*. The notion of informal hierarchies in Japanese organisations is further supported by class divisions between regular (*sogo shoku*) and non-regular employees (*ippan shoku*), distinguished from each other with coloured staff cards and different roles. *Sogo shoku* employees are granted lifetime employment, receive job rotation training, and raise their voices through enterprise unions; while *ippan shoku* employees have far less job security and little role in decision-making. As shown by the following employee participant's response, it is normal in Japan for regular employees to be male, whilst the majority of females have irregular status: "*In Japan, companies prefer to hire or promote men [over women], because women are more likely to leave when they get married, and it will bring [a] halt to [their] work. But men are not.*" While such a gender division is present in all three Japanese organisations (proportion of female employees: 25% for JP-1, 18% for JP-2, and less than 15% for JP-3), it is also reinforced by prevailing perceptions of different gender roles in this society. An expert participant, who is also a head of a women's association in

Japan, argued that *"Japanese women do not have the concept of working for their career, but their main objective is to find a good husband and settle down"*.

Discussion

We initially explored the level of CSR committees in British and Japanese companies listed on the Global Fortune 500 and then analysed three case companies from each country in more depth to explore the underlying mechanisms that differentiate the CSR-CG models of organisations from two different contexts. It has been widely affirmed that the UK and Japan feature contrasting CG mechanisms and institutional contexts (Whitley, 2007). Our data analysis shows such diversity persists, in spite of the increasingly global CSR infrastructure (Voegtlin & Pless, 2014). As shown in Table 2, the only elements that appear to converge are the use of CSR reports, dualistic approach in national regulations, and employee participations in decision-making.

This is largely due to different interpretations of CSR between the contexts with institutional configurations that further promote such differences. CSR is an Anglo-American concept, conceived against a background of highly liberal institutions and the individualistic norms of liberal market economies (Jackson & Apostolakou, 2010; Richter, 2010). As a result, some argue that British firms' CSR interpretation is predominantly instrumental (Jackson & Apostolakou, 2010) or strategic (Bondy, Moon, & Matten, 2012), while CSR takes a more implicit form in Japan (Kang & Moon, 2012; Matten & Moon, 2008). Therefore, different interpretations exist in different contexts (Jamali & Karam, 2018). Our data analysis reveals that British firms regard CSR as a concept that should be integrated into firms' decision-making processes and active engagement (formalised CSR interpretation), while Japanese firms interpret CSR as business activities that contribute to social and environmental issues (ad hoc CSR interpretation).

The multi-level analysis of this paper identifies mechanisms related to institutional complementarity and different patterns of stakeholder interaction whereby formal and informal institutions jointly lead to further variations in the interpretations, resulting in different models for linking CG and CSR (Figure 1).

[Insert Figure 1 Illustration of mechanism]

Institutional Complementarities in the Management: On the surface, both nations show signs of convergence towards the Anglo-American CG system, reflecting Hansmann and Kraakman's argument (2001) relating to the co-existence of hard law and soft law. In practice, however, they still show diversity in their approach to CSR-CG regulations: with the UK emphasising the voluntary nature of codes that highlight board responsibility to protect shareholders' interests and Japan relying on the Companies Act, from which board responsibility for CSR governance is absent. This provides less reason for Japanese boards to take a direct role and actively engage in CSR, facilitated by their lack of self-regulating mechanisms. In the UK, self-regulation is conducted through codes of conduct and other self-monitoring tools. Self-regulation is argued to be increasingly important instrument in CG (Aguilera & Cuervo-Cazurra, 2004) as an informal institution that firms choose to adopt due to societal expectations, providing informal coercive pressure (King & Lenox, 2000). This complements formal regulation, which can be inefficient and intrusive (Haxhi & Aguilera, 2017). Thus, while formal regulations emphasise boards' responsibility for firms' ethical behaviour, increasing informal pressure from self-regulation may motivate boards to be more aware of ethical behaviour and become more directly and actively engaged. However, such mechanisms seem to be limited in Japan, with a lack of emphasis on self-regulation. In Japan, actors prefer to act within formal frameworks that reduce uncertainty and ambiguity (Li and Harrison 2008; Vitell, Nwachukwu, & Barnes, 1993). However, the lack of clarity of board responsibility for CSR governance in the absence of self-regulation creates ambiguity and

uncertainty for Japanese boards, providing less reason for them to participate in organisational CSR. Therefore, it is natural to rely more heavily on executives who have more discretion over firm activities.

Results further indicate that such differences are also due to the differently institutionalised role of business in society. The role of business in the UK is narrow, consisting of maximising value or satisfying customers, shareholders, and employees, while CSR refers to "voluntary" activities in response to societal expectations. This is in part the result of the historical trend for value maximisation and shareholder protection of the liberal market system (Richter, 2010), which is also reflected in both regulation and self-regulation. As a result, an outsider board system has been employed in the UK to enhance the auditing and supervisory role of boards to align managers' interests with those of owners (Letza, Sun & Kirkbride, 2004), which was further enhanced by the introduction of CSR (Mackenzie, 2007). In contrast, in Japan, the role of business is differently institutionalised to consider a wider group of stakeholders and society, resulting from the historically transcended value of *sanpo yoshi.* Fukukawa and Teramoto (2009) and Tanimoto (2013) argue that because of *sanpo yoshi*, the essence of CSR is already embedded (implicitly, but undetected) in Japanese management practices, resulting in high levels of trust in management. This is further enhanced by insider promotion and generalist skills training, which creates insider boards. As a result, managers become committed and loyal to firms (Aguilera & Jackson, 2003), leading to higher levels of trust in management. This was abundantly clear from an expert interview, who reacted to the Olympus scandal, saying *"this would [have] never happened if it was a Japanese manager"*. Ironically, a point further supported by the recent case of Carlos Ghosn and Nissan.

Institutional Complementarities in Labour: Similar complex relations were also apparent in labour interactions. While the findings affirm Aguilera and Jackson's argument (2003) regarding variations in employees' commitment and their interactions with and management,

it also confirms potential convergence between the countries in two major areas of labour relations: 1) formalised means of management interacting with labour; and 2) labour's participation in decision-making. However, possible convergence in CSR-CG is impeded by skill formation regarding CSR and informal hierarchies. As pointed out, the Japanese training system is firm-specific, while the UK training system is role-specific (Ramirez & Mabey, 2005). These systems are also applied in CSR training, with Japanese companies featuring general CSR training, in contrast to the UK's role-specific CSR training. While these patterns are consistent with national institutions regarding skill formation, they are also further affected by their CSR interpretations. For example, the UK's formalised CSR interpretation complements role-specific CSR training, enabling CSR to be integrated into decision-making throughout the organisation. In Japan, however, ad-hoc CSR interpretation complements the non-role-specific training of employees with a focus on a general introduction of CSR. Coupled with the insider board system and internal promotion, this maintains an ad-hoc approach to CSR at an organisational level.

Informal hierarchies are distinctive in a Japanese context. Diefenbach and Sillince (2011) argue that all organisations have formal hierarchies; however, there is also an informal hierarchy determined by societal contexts and organisational form. The existence of informal hierarchies, as our data showed, has a significant impact on employees' representation rights. The UK cases had formal hierarchies with little evidence of informal hierarchies, featuring employee representatives selected by employees regardless of rank and increasingly involved in decision-making through interaction with management, with employees unafraid to express their views. On the other hand, despite their paternalistic approach and enterprise unions, the Japanese cases confirm the existence of a clear informal hierarchy based on employee status and gender. This difference can be traced back to Japanese values of collectivism, which emphasises harmony and cooperation, but also respect for seniority and authority (Dedoussis,

2004). Hierarchies have various impacts on the implementation of CSR. Baumann-Pauly, Wickert, Spence, & Scherer (2013) show that a flatter hierarchy can allow CSR-related ideas to spread more easily among employees, lower coordination costs and be advantageous in the internal implementation of CSR. A strong informal hierarchy, therefore, is likely to have an adverse effect on the diffusion of CSR-related ideas, while limiting employee representation rights, which further contributes to different CSR interpretations and self-regulation between contexts.

CONCLUDING REMARKS

The voluminous literature shows that formal and informal institutional differences result in different forms of organisational practices across contexts. However, how the mechanisms of both formal and informal institutions together promote such diversity has been under-explored (Aguinis & Glavas, 2012; Jain & Jamali, 2015). This comparative study presents a complex mechanism that explains how a particular set of institutional configurations can result in divergent behaviours in the context of CSR-CG in the UK and Japan.

 We argue that complementarities not only exist between formal and informal institutions, but also among informal institutions, collectively resulting in different pattern of interactions depending on institutional configurations. They further facilitate different interpretations of CSR, and thus organisations' CSR-CG integrations vary between the UK and Japan. While our comparative study contributes to the ongoing debate on how institutions matter (Jackson & Deeg, 2019; Aguilera & Grøgaard, 2019), we further contribute to CSR-CG research by identifying the relevant dimensions of CSR-CG and present mechanisms whereby formal and informal institutions may interact to influence the integration and lead to particular CSR-CG models. We therefore argue that there is limited international convergence and that successful

integration of CG and CSR requires an understanding of the institutional configurations and patterns of interactions within the context in which companies operate.

Limitations and Future research agenda

While we focused on internal stakeholders, future research should investigate the role of additional external stakeholders such as non-governmental organisations (NGOs) in the integration of CSR and CG. Our data also included some limited reference to such stakeholders with evidence of NGOs forming partnerships or reviewer-reviewee relationships (UK) or solicitation and guidance relationships (Japan). This suggests that they may soon be playing an increasingly important role in CG.

Our study was developed within the contexts of CSR and CG in the UK and Japan with a focus on large multinational corporations, which may limit the generalisability of the presented mechanisms. It is argued that small and medium-sized enterprises (SMEs) face different pressures to large corporations (Lynch-Wood & Williamson, 2014) or are better at integrating organisational CSR practices than large corporations (Baumann-Pauly et al., 2013). Therefore, the presented mechanisms might be tested and refined in other contexts as well as other theoretical domains with consideration of SMEs in future research, to arrive at a more generalizable theory on how formal and informal institutions interact and cause configurational differences across national contexts.

REFERENCES

Aguilera, R. V., & Cuervo-Cazurra, A. 2004. Codes of Good Governance Worldwide: What is the Trigger?. *Organization Studies*, 25(3): 415-443.

Aguilera, R. V., & Grøgaard, B. 2019. The dubious role of institutions in international business: A road forward. *Journal of International Business Studies*, 50(1): 20-35.

Aguilera, R.V., & Jackson, G. 2003. The cross-national diversity of corporate governance: dimensions and determinants. *Academy of Management Review*, 28(3): 447-465

Aguilera, R. V., & Jackson, G. 2010. Comparative and international corporate governance. *The Academy of Management Annals*, 4(1): 485-556.

Aguinis, H., & Glavas, A. 2012. What we know and don't know about corporate social responsibility: a review and research agenda. *Journal of Management*, 38(4): 932-968.

Alesina, A., & Giuliano, P. 2015. Culture and institutions. *Journal of Economic Literature*, 53(4): 898-944.

Aoki, M. 2000. *Information, corporate governance, and institutional diversity: Competitiveness in Japan, the USA, and the transnational economies*. Oxford: Oxford University Press.

Aras, G., & Crowther, D. 2008. Governance and sustainability: An investigation into the relationship between corporate governance and corporate sustainability. *Management Decision*, 46(3): 433-448.

Baumann-Pauly, D., Wickert, C., Spence, L. J., & Scherer, A. G. 2013. Organising corporate social responsibility in small and large firms: size matters. *Journal of Business Ethics*, 115(4): 693-705.

Bhimani, A., & Soonawalla, K. 2005. From conformance to performance: The corporate responsibilities continuum. *Journal of Accounting and Public Policy*, 24(3): 165-174.

Bondy, K., Moon, J., & Matten, D. 2012. An institution of corporate social responsibility (CSR) in multi-national corporations (MNCs): Form and implications. *Journal of Business Ethics*, 111(2): 281-299.

Brammer, S. J., Jackson, G., & Matten, D. 2012. Corporate Social Responsibility and Institutional Theory: New Perspectives on Private Governance. *Socio-Economic Review*, 10(1): 3-28.

Dedoussis, E. 2004. A cross-cultural comparison of organisational culture: evidence from universities in Arab world and Japan. *Cross Cultural Management: An International Journal*, 11(1): 15-34.

Devinney, T. M., Schwalbach, J., & Williams, C. A. 2013. Corporate social responsibility and corporate governance: comparative perspectives. *Corporate Governance: An International Review*, 21(5): 413-419.

Diefenbach, T., & Sillince, J. A. A. 2011. Formal and informal hierarchy in different types of organisation. *Organisation Studies*, 32(11): 1515-1537.

Donaldson, T., & Dunfee, T. W. 1994. Toward a unified conception of business ethics: integrative social contracts theory. *Academy of Management Review*, 19(2): 252-284.

Doz, Y. 2011. Qualitative research for international business. *Journal of International Business Studies*, 42(5): 582-590.

Elkington, J. 2006. Governance for sustainability. *Corporate Governance: An International Review*, 14(6): 522-529.

Eisenhardt, K. M., & Graebner, M. E. 2007. Theory building from cases: Opportunities and Challenges. *Academy of Management Journal*, 50(1): 25-32.

Filatotchev, I., Jackson, G., & Nakajima, C. 2013. Corporate governance and national institutions: A review and emerging research agenda. *Asia Pacific Journal of Management*, 30(4): 965-986.

Fukukawa, K., & Teramoto, Y. 2009. Understanding Japanese CSR: The reflections of managers in the field of global operations. *Journal of Business Ethics*, 85(1): 133-146.

Hall, P.A., & Soskice, D. (eds.). 2001. *Varieties of capitalism: The Institutional Foundations of Comparative Advantage*. Oxford: Oxford University Press.

Hansmann, H., & Kraakman, R. 2001. The end of history for corporate law. *Georgetown Law Journal*, 89: 439-468.

Harjoto, M. A., & Jo, H. 2011. Corporate governance and CSR nexus. *Journal of Business Ethics*, 100(1): 45-67.

Haxhi, I., & Aguilera, R. V. 2017. An Institutional Configurational Approach to Cross-National Diversity in Corporate Governance. *Journal of Management Studies*, 54(3): 261-303.

Helmke, G., & Levitsky, S. 2004. Informal institutions and comparative politics: A research agenda. *Perspectives on Politics*, 2(4): 725-740.

Hermalin, B. E., & Weisbach, M. S. 2003. Board of directors as an endogenously determined institution: a survey of the economic literature. *Economic Policy Review*, 9: 7-26.

Ho, C. K. 2005. Corporate governance and corporate competitiveness: an international analysis. *Corporate Governance: An International Review*, 13(2): 211-253.

Jackson, G. 2010. Actors and Institutions. In G. Morgan, J. Campbell, C. Crouch, O. Pedersen, P. H. Christensen, & R. Whitley (eds.), *Oxford Handbook of Comparative Institutional Analysis:* 63-86. Oxford: Oxford University Press.

Jackson, G., & Apostolakou, A. 2010. Corporate social responsibility in Western Europe: An institutional mirror or substitute? *Journal of Business Ethics*, 94(3): 371-394.

Jackson, G., & Deeg, R. 2008. Comparing capitalisms: understanding institutional diversity and its implications for international business. *Journal of International Business Studies*, 39(4): 540-561.

Jackson, G., & Deeg, R. 2019. Comparing capitalisms and taking institutional context seriously. *Journal of International Business Studies*, 50(1): 4-19.

Jackson, G., & Moerke, A. 2005. Continuity and change in corporate governance: Comparing Germany and Japan. *Corporate Governance: An International Review*, *13*(3): 351-361.

Jain, T., & Jamali, D. 2015. Looking inside the black box: The effect of corporate governance on corporate social responsibility. *Corporate Governance: An International Review*, 24(3): 253-273.

Jamali, D., & Karam, C. 2018. Corporate social responsibility in developing countries as an emerging field of study. *International Journal of Management Reviews*, 20(1): 32-61.

Jamali, D., Safieddine, A.M., & Rabbath, M. 2008. Corporate governance and corporate social responsibility synergies and interrelationships. *Corporate Governance: An International Review*, 16(5): 443-459.

Jo, H., & Na, H. 2012. Does CSR Reduce Firm Risk? Evidence from Controversial Industry Sections. *Journal of Business Ethics*, 110(4): 441-456.

Kang, N., & Moon, J. 2012. Institutional complementarity between corporate governance and Corporate Social Responsibility: a comparative institutional analysis of three capitalisms. *Socio-Economic Review*, 10(1): 85-108.

King, A. A., & Lenox, M. J. 2000. Industry Self-Regulation without Sanctions: The Chemical Industry's Responsible Care Program. *The Academy of Management Journal*, 43(4): 698-716.

Klein, H. K., & Myers, M. D. 1999. A Set of Principles for Conducting and Evaluating Interpretive Field Studies in Information Systems. *MIS Quarterly*, 23(1): 67-94.

Konzelmann, S., Conway, N., Trenberth, L., & Wilkinson, F. 2006. Corporate Governance and Human Resource Management. *British Journal of Industrial Relations*, 44(3): 541-567.

La Porta, R., Lopez-de-Silanes, F., Shleifer, A., & Vishny, R. W. 1998. Law and Finance. *Journal of Political Economy*, 106(6): 1113-1155.

Langley, A. 1999. Strategies for Theorizing from Process Data. *The Academy of Management Review*, 24(4): 691-710.

Letza, S., Sun, X., & Kirkbride, J. 2004. Shareholding versus stakeholding: a critical review of corporate governance. *Corporate Governance: An International Review*, 12(3): 242-262.

Li, J., & Harrison, J.R. 2008. Corporate governance and national culture: a multi-country study. *Corporate Governance: The International Journal of Business in Society*, 8(5): 607-621

Lynch-Wood, G., & Williamson, D. 2014. Civil regulation, the environment and the compliance orientations of SMEs. *Journal of Business Ethics*, 125(3): 467-480.

Mackenzie, C. 2007. Boards, incentives and corporate social responsibility: the case for a change of emphasis. *Corporate Governance: An International Review*, 15(5): 935-943

Mason, C. & Simmons, J. (2014). Embedding corporate social responsibility in corporate governance: A stakeholder systems approach. *Journal of Business Ethics,* 119(1), 77-86.

Matten, D., & Moon, J. 2008. 'Implicit' and 'Explicit' CSR: a conceptual framework for a comparative understanding of corporate social responsibility. *Academy of Management Review*, 33(2): 404-424.

Morgan, G., Whitley, R., & Moen, E. 2005. *Changing Capitalisms? Internationalisation, Institutional Change, and Systems of Economic organisation.* New York: Oxford University Press.

Noland, J., & Phillips, R. 2010. Stakeholder engagement, discourse ethics and strategic management. *International Journal of Management Reviews*, 12(1): 39-49.

North, D. C. 1991. Institutions. *The Journal of Economic Perspectives*, 5(1): 97-112.

Oh, W., Chang, Y., & Martynov, A. 2011. The Effect of Ownership Structure on Corporate Social Responsibility: Empirical Evidence from Korea. *Journal of Business Ethics*, 104(2): 283-297.

Rahim, M. M., & Alam, S. 2014. Convergence of corporate social responsibility and corporate governance in weak economies: The case of Bangladesh. *Journal of Business Ethics*, 121(4): 607-620.

Ramirez, M., & Mabey, C. 2005. A labour market perspective on management training and development in Europe. *The International Journal of Human Resource Management*, 16(3): 291-310.

Redding, G. 2005. The Thick Description and Comparison of Societal Systems of Capitalism. *Journal of International Business Studies*, 36(2): 123-155.

Richter, U. H. 2010. Liberal thought in reasoning on CSR. *Journal of Business Ethics*, 97(4): 625-649.

Sacconi, L. 2006. A social contract account for CSR as an extended model of corporate governance (I): Rational bargaining and justification. *Journal of Business Ethics*, 68(3): 259-81.

Sacconi, L. 2007. A social contract account for CSR as an extended model of corporate governance (II): Compliance, reputation and reciprocity. *Journal of Business Ethics*, 75(1): 77-96.

Sako, M. 2006. *Shifting Boundaries of the Firm*. Oxford: Oxford University Press

Sartor, M.A., & Beamish, P.W. 2014. Offshoring innovation to emerging markets: Organisational control and informal institutional distance. *Journal of International Business Studies*, 45(9): 1072-1095.

Sauerwald, S., & Peng, M. W. 2013. Informal institutions, shareholder coalitions, and principal-principal conflicts. *Asia Pacific Journal of Management*, 30(3): 853-870.

Scott, W. R. 1995. *Institutions and Organisations: Ideas and Interests*. Thousand Oaks: Sage Publications.

Stavrou, E. T., Brewster, C., & Charalambous, C. 2010. Human resource management and firm performance in Europe through the lens of business systems: best fit, best practice or both? *The International Journal of Human Resource Management*, 21(7): 933-962.

Tanimoto, K. 2013. Sanpo-yoshi and CSR. In S. O. Idowu, N. Capaldi, L. Zu, & Gupta, A.D. (eds.), *Encyclopaedia of Corporate Social Responsibility:* 2107-2113. Berlin: Springer.

Van den Berghe, L., & Louche, C. 2005. The link between corporate governance and corporate social responsibility in insurance. *The Geneva Papers on Risk and Insurance – Issues and Practice*, 30(3): 425-442.

Vitell, S. J., Nwachukwu, S. L., & Barnes, J. H. 1993. The effects of culture on ethical decision making: An application of Hofstede's typology. *Journal of Business Ethics*, 12(10): 753-760.

Voegtlin, C., & Pless, N. M. 2014. Global governance: CSR and the role of the UN Global Compact. *Journal of Business Ethics*, 122(2): 171-191.

Wang, L., & Juslin, H. 2009. The impact of Chinese culture on corporate social responsibility: The harmony approach. *Journal of Business Ethics*, 88(3): 433-451.

Williams, C. A., & Aguilera, R. V. 2008. Corporate Social Responsibility in a Comparative Perspective. In A. Crane, D. Matten, A. McWilliams, J. Moon, & D. S. Siegel (eds.), *The Oxford Handbook of Corporate Social Responsibility:* 452-472. Oxford: Oxford University Press

Whitley R. 2007. *Business systems and organizational capabilities*. Oxford: Oxford University Press.

Ziek, P. 2009. Making sense of CSR communication. *Corporate Social Responsibility and Environmental Management*, 16(3): 137-145.

	UK		
	UK-1	**UK-2**	**UK-3**
Revenue (US$ mil)	Over 70,000	30,000-70,000	Less than 30,000
No. of Employees	80,000+	100,000+	100,000+
Type	Publicly listed	Publicly listed	Privately owned
History	1982	1727	M&A in 2006 1849
	Japan		
	JP-1	**JP-2**	**JP-3**
Revenue (US$ mil)	Over 70,000	30,000-70,000	Less than 30,000
No. of Employees	60,000+	100,000+	20,000+
Type	Publicly listed	Publicly listed	Privately owned
History	1954 Group 1870	1899	1899

Table 1 Case Profile

Level	Dimension	UK	Japan
Institutional	**Board System**	Outsider board system CSR committee direct under supervision of board	Insider board system No evidence of CSR committee (presence at executive level)
	CSR-CG regulation	**Co-existence of hard law (UK Companies Act 2006) and soft law (UK Corporate Governance Code)*** **International Codes*** Emphasis on boards' responsibility to ensure firms act responsibly towards stakeholders, communities and the environment (Companies Act)	**Co-existence of hard law (Japan Companies Act 2005) and soft law (Japan Stewardship Code 2014)*** **International Codes*** Ambiguously referred to as 'sustainable growth' in Stewardship Code Flexible approach to firms' choices in terms of governance structure (Companies Act)
	Labour market	External labour market	Internal labour market
	Union organisation	Multiple	Enterprise Union
	Skill formation	Generalist (role-specific)	Specialist (firm-specific)
	Self-regulation	Codes of conduct and monitoring	No emphasis on code of conduct nor monitoring
	Role of business	Individual and value-oriented	Wider concerns for society and stakeholders
	Informal hierarchies	Low, based on individuality and equality	High, based on social status and gender
Individual	**Board interpretation of**	Sees CSR as part of management and decision-making	Sees CSR as business activities that contribute to social and

	CSR		environmental issues
	Management	Emphasis on alignment with shareholder interests and less autonomy in organisational CSR decision-making	Emphasis on alignment with wider stakeholder interests and greater autonomy in organisational CSR decision-making
	Labour	Pro-active in representing their voice Short-term career based on performance	Reluctance in raising their voice, but also depending on social status and gender Reliance on their enterprise unions Long-term employment based on insider promotion
Organisational	**CSR Report**	**Yes***	**Yes***
	Board CSR interpretation	Direct and active engagement	Less direct and executive reliance
	Level of CSR decision making	Board	Executive
	CSR approach	Formalised and explicit	Ad-hoc initiative and implicit
	Employee participation	**Employee representatives*** voted for by employees	Paternalistic approach through **enterprise unions***
	Skill formation regarding CSR	Role-specific	Non-role-specific CSR training with assessment

**Table 4 Overview of the UK and Japan CSR-CG Dimensions (*Bold* indicates similarities between the two models)*

Management

Formal Institution

CSR-CG regulations

Informal Institution

Self-regulations

Formal Institution

Board System

Informal Institution

Role of business in Society

CSR-CG Features

CSR Committee
(CSR Governance)

CSR Interpretation

Labour

Formal Institution

Labour market system

Formal Institution

Skill formation system

Formal Institution

Union Organisation

Informal Institution

Informal hierarchy

Formal Institution

Board system

CSR-CG Features

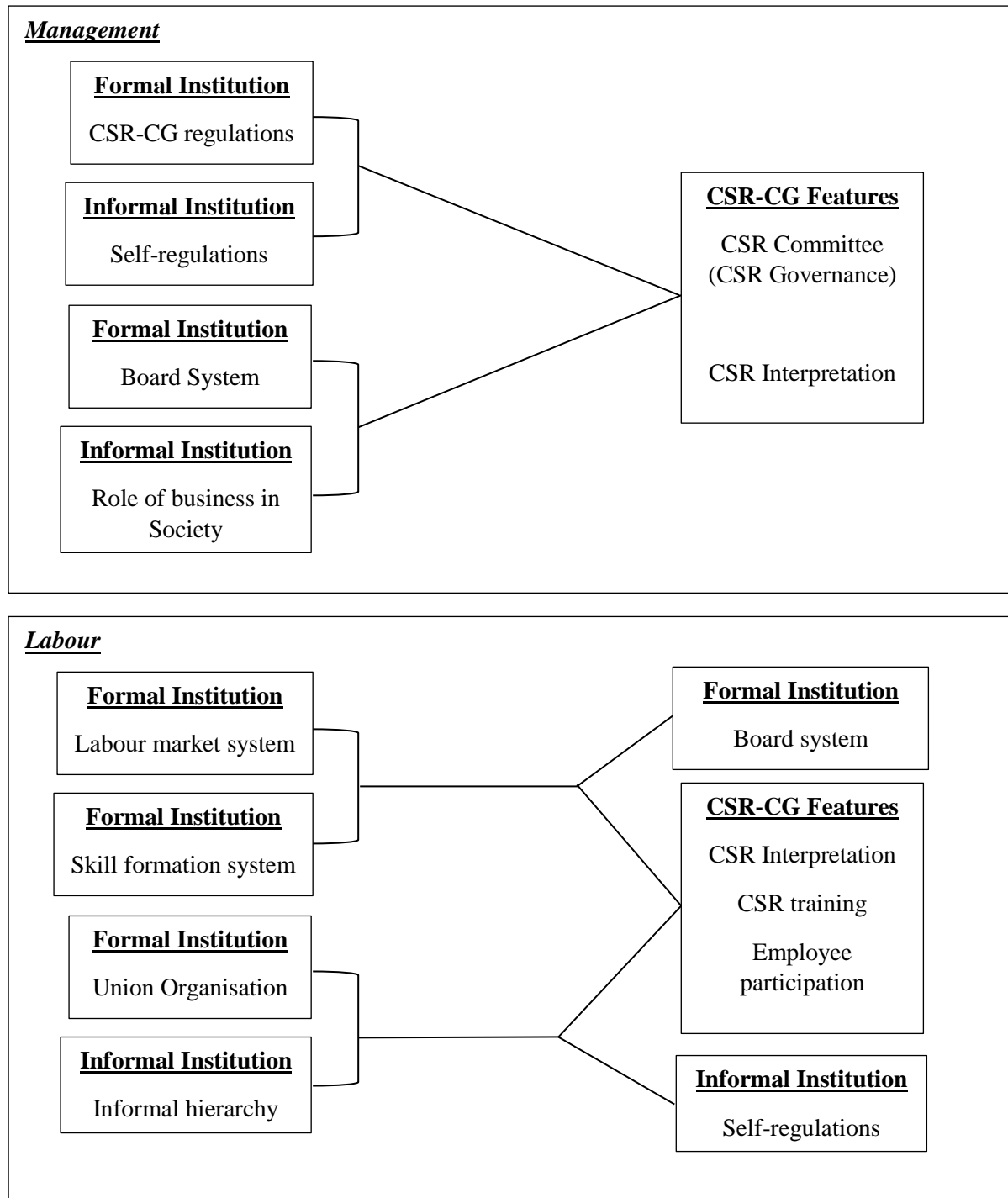CSR Interpretation

CSR training

Employee participation

Informal Institution

Self-regulations

Figure 1 Illustration of mechanism