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A tale of two forms of CSR:

A multi-level approach to compare the impact of implicit and explicit CSR on social performance

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Abstract

During the last few decades, scholars noticed a discrepancy in how firms approach and communicate their corporate social responsibility (CSR) efforts in different countries. Grounded in comparative institutional theory, firms are observed to adopt distinct CSR practices in response to demands from the national business systems they operate in. Two forms of CSR have been distinguished: implicit and explicit CSR. Based on the implicit-explicit framework, this study aims to find evidence for which of the two forms of CSR has a stronger positive effect on social performance. In addition, this study aims to provide more insights into the role of managers in this framework by testing whether CSR targets in executive remuneration have a moderating effect on the relationship between implicit and explicit CSR and social performance. Based data of 456 firms included in the ASSET4 database, the hypotheses are being tested using multiple regression analysis. The results indicate that explicit CSR has a stronger positive effect on social performance than implicit CSR. As explicit CSR is often pursued in countries where informal institutions are the most powerful stakeholders of a firm, this may have major implications for the role that governments take in stimulating social performance. Contradictory to earlier research, the results show no empirical support for a moderating effect of CSR targets in executive remuneration. Alternative explanations for this outcome are proposed based on existing literature.

Keywords: Social performance, implicit-explicit CSR, CSR targets in executive remuneration, comparative institutional theory, stakeholder theory, agency theory.

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1. Introduction

Whether you watch TV, surf the internet, or even spectate a local sports game, chances are that you see large firms communicating their role in social initiatives. Practices as such are quite common these days (Du, Bhattacharya & Sen, 2010), however, this has not always been the case. The role of business in social and environmental issues was only introduced in the second half of the 20th century (Carroll, 1991; Carroll, 1999; Hackston & Milne, 1996). During the 50's and 60's, the general public became more aware of corporate scandals, and pressure groups were formed to protest against irresponsible business practices (Carroll, 1991). It was reasoned that as firms used a lot of natural resources, they should make up for this by becoming more involved with social and environmental issues, and more transparent in how they used their resources (Quazi & O'brien, 2000). Demand for firms to be more socially involved and transparent placed responsible practices on the corporate agenda, as well as on the political agenda (Ellerup Nielsen & Thomsen, 2007; Porter & Kramer, 2006). In the early 70's, regulations were introduced by the United States (U.S.) government that would set standards for social and environmental behavior of firms (Carroll, 1991). As a reaction to these pressures, companies have started initiating social initiatives, and reported on those publically (Porter & Kramer, 2006). The phenomenon of participating in, and initiating social activities became known as corporate social responsibility (CSR).

The origins of CSR can be found in the U.S., after which the phenomenon started spreading to other parts of the world (Brønn & Vrioni, 2001; Matten & Moon, 2008; Spector, 2008). In the beginning, CSR activities were far from voluntary (Porter & Kramer, 2006). As mentioned before, regulations have been implemented in order to assure a minimum level of CSR efforts (Banerjee, 2008; Carroll, 1991). This made participation in CSR to some extend mandatory for firms. Some scholars agree with the idea of mandatory CSR, and insist that the government should be more involved by setting guidelines through policies and regulations (Cowan & Gardenne, 2005; Crawford & Williams, 2010; Gond, Kang & Moon, 2011). One argument that supports this view, is that voluntary reporting is subjective and can make the company look better than it actually is, while regulations provide objective reports (Cowan & Gardenne, 2005). Others are in favor of voluntary CSR. Whether it is to prevent stricter regulations, because it is the firm's social obligation, or because it improves the quality of CSR efforts (Jain, Keneley & Thomson, 2015; Quazi & O'brien, 2000; Rodriguez & LeMaster, 2007). Steurer (2010) is in favor of voluntary CSR too, although he proposes that firms pursuing voluntary CSR are more ambitious and proactive when mandatory guidelines are in place that act as a foundation. Research on what works better in terms of performance provides us with mixed results.

Some scholars found evidence of country-level differences in the mandatory or voluntary nature of CSR (Crawford & Williams, 2010; Garcia-Sanchez, et al. 2016), while others found country-level differences in terms of the endeavor of firms to claim or communicate their CSR activities (Maignan & Ralston, 2002). Matten and Moon (2008) observed a similar phenomenon. They noticed that a large part of the firms operating in the United States (U.S.) voluntarily, as well as strategically, claimed responsibility for societal issues and communicated these extensively, while only few European firms did the same. European firms mainly incorporated CSR efforts in order to comply with regulatory and societal standards, and barely communicated them. In addition, Matten and Moon (2008) noticed that European firms were increasingly adopting practices similar to U.S. based firms. Matten and Moon (2008) explain this phenomenon following the national business system (NBS) approach. They argue that the firm-level implementation and communication of CSR activities depends on the historical development of institutions in the country they operate in. They further note that institutional configurations differ between countries. Two distinct forms of CSR are proposed as firm-level responses to different country-level demands: implicit and explicit CSR. Matten & Moon (2008) consider European firms to be implicit in their CSR efforts, while U.S. based firms are predominantly explicit. The concept of implicit-explicit CSR will be elaborated on in later chapters. While the phenomenon is confirmed by multiple authors (Carson, Hagen & Sethi, 2015; Hiss, 2009; Thorne, et al., 2014), no author has yet captured the effects of implicit and explicit CSR on social performance (Gjølberg, 2009). Matten and Moon (2008) left the question whether implicit or explicit CSR leads to better social performance open for further research.

With the phenomenon of explicit CSR spreading to Europe, it is important to consider how effective this form of CSR is compared to implicit CSR. To provide more clarity on the topic, and add to the existing literature, this research has the aim to find out which of the two forms of CSR, as formulated by Matten and Moon (2008), has a stronger effect on social performance. As corporate social performance (CSP) is argued to be the measurable outcome of CSR efforts (Wood, 1991), the use of social performance (the social component of CSP) should provide a more accurate insight into the matter.

Blindheim (2015) agrees with the framework put forth by Matten and Moon (2008), however, he proposes a refinement. He argues that managers have a strong influence on the CSR efforts of a firm, and should be considered in the framework. In order to test this assumption, the concept of CSR targets in executive remuneration is introduced in this study. This relatively new stream of literature argues that firms increasingly introduce financial incentives for achieving CSR targets in executive compensation packages (Flammer, et al., 2018; Maas & Rosendaal, 2016). These incentives are introduced in order to increase the focus of managers on long-term CSR initiatives. However, as empirical work in this field is limited (Flammer, et al. 2018), and leads to mixed results, no clear answers are provided to whether this is an effective approach or not. By finding evidence to whether CSR targets in executive remuneration have a moderating effect on the relationship between implicit/explicit CSR and social performance, this research aims to provide more insight into the issue. The reason for using this variable as a moderator, is that explicit and implicit CSR are both argued to lead to corporate social performance, however, CSR targets in executive remuneration are introduced to increase managerial efforts. Based on this, the research aims to answer the following research question:

Which of the two forms of CSR, implicit or explicit CSR, has a stronger impact on social performance, and is there a moderating effect of CSR targets in executive remuneration on this relationship?

This research has both theoretical and practical relevance. The theoretical relevance comes four-fold. First, this study aims to fill a gap in the literature regarding the outcomes of implicit and explicit CSR. Although the concept of implicit-explicit CSR has been studied frequently, no author so far attempted to study the phenomenon by considering such a large set of countries (Gjølberg, 2009), or with the intention to compare the effectiveness of both forms of CSR (Gjølberg, 2009; Matten & Moon, 2008). Second, this study aims to add to the field of CSR targets in executive remuneration by providing more insight into the usefulness of these incentives, and whether they work best for firms pursuing implicit CSR or firms pursuing explicit CSR. Third, this study incorporates social performance as an outcome, which has often been underrepresented in existing literature (Delmas, Etzion & Nairn-Birch, 2013; Pullman, Maloni & Carter, 2009). Fourth, this study follows a multi-level approach. Analysing CSR on two levels has not been attempted frequently, but argued to provide significant insights (Frynas & Stephens, 2015). The practical relevance of this study is two-fold. First, by finding an answer to which form of CSR leads to better social performance, this study adds new insights into the role that governments should adopt when it comes to CSR. Second, by finding evidence of a moderating effect of CSR targets in executive remuneration, firms and their shareholders receive new insights into the usefulness of these targets for achieving social performance.

The rest of the thesis will be structured as follows. Chapter 2 will contain a literature review, in which all the relevant theories and concepts will be elaborated upon. Chapter 3 will go into the methodological approach followed in this research, as well as the operationalization of the variables. Chapter 4 will contain a analysis of the data and the results to this analysis. In chapter 5 the results of the analysis will be discussed thoroughly. Lastly, in chapter 6 the study will be concluded, implications of the results will be discussed, limitations to the study will be explained, and suggestions for further research will be provided.

2. Literature review

In this chapter, relevant literature will be reviewed to provide a theoretical lens for the study. A number of concepts will be elaborated on. First, the chapter dives deeper into the concept of CSR, as most of the theoretical framework is built around this concept. Next, CSR will be linked to social performance. Then, an integrated framework consisting of comparative institutional theory and stakeholder theory will be developed and linked to the implicit-explicit framework. Lastly, agency theory will be elaborated upon to provide more insight into the individual level of CSR, and the theory will be connected to the implicit-explicit framework by introducing the concept of CSR targets in executive remuneration. The chapter ends with the conceptual model that will be tested in this study.

The choice for a multi-level framework is intentional. After having conducted a thorough literature review, Frynas and Stephens (2015) discovered that CSR literature is dominated by multiple theories on different levels. They find that institutional theory is dominant on the macro level, stakeholder theory on the meso level, and agency theory on the micro level (Frynas & Stephens, 2015). Wood (1991), Swanson (1995) and Blindheim (2015) support a similar distinction in levels to describe CSR. Multi-level approaches are not common, but are argued to provide rich insides (Frynas & Stephens, 2015). As this study follows a multi-level approach, the integration of these theories is appropriate. In addition, Fernando & Lawrence (2014) find that stakeholder theory and institutional theory are not competing, but instead are complementary to each other.

Corporate Social Responsibility

As introduced earlier, CSR is at the core of this study. Originating from the 50's and 60's in the U.S. (Brønn & Vrioni, 2001; Carroll, 1991; Carroll, 1999), the concept has developed continuously over time (Carroll, 1999). CSR has become well known in the scholarly world, and has a vast body of literature describing it (Carroll & Shabana, 2010). Many authors attempted to define CSR in their work, however, there is no consensus on what CSR is exactly (McWilliams, Siegel & Wright, 2006). This is mainly due to the numerous different interpretations of the concept (Garriga & Melé, 2004). From a stakeholder perspective, Carroll (1991) introduced the CSR pyramid. This contains the economic, legal, ethical and philanthropic responsibilities that the firm has towards its stakeholders. McWilliams & Siegel (2001, p.117) define CSR as ".. actions that appear to further some social good, beyond the interests of the firm and that which is required by law". Kolk (2016) suggests CSR to include the ethical, environmental and social dimensions of business. Kolk (2016) further argues CSR comes in two forms: either firms pursue CSR in order to advance a social cause beyond compliance (voluntary CSR), or firms pursue CSR for its economic and legal benefits (law abiding).

CSR is frequently used by firms to gain legitimacy, and is often a strategic reaction to pressures in a firm's stakeholder environment (Arya & Zhang, 2009). There are numerous CSR activities that a firm can pursue, like recycling, reducing pollution and waste, improving working conditions, advancing communities, progressing economic and social conditions in developing countries, and more (McWilliams, et al., 2006). When CSR is demanded by consumers or other stakeholders, pursuing CSR is argued to provide a firm with a competitive advantage, as their brand reputation might increase (McWilliams & Siegel, 2001; Porter & Kramer, 2006). CSR is also relevant when doing business abroad. By engaging with, and improving local communities, companies can gain more support from local governments, which can increase their likelihood of survival (Rottig, 2016).

The first ever CSR reports have been issued in the 80's, as a result of external pressures towards transparency (Crawford & Williams, 2010). CSR reports are used to communicate a firm's CSR practices, and satisfy stakeholders (Golob & Bartlett, 2007). While many of these early reports were of mandatory nature, this period also witnessed a rise of voluntary reporting (Crawford & Williams, 2010). Voluntary reporting is a popular approach as it is argued to send a signal to stakeholders that a firm has the best intentions regarding its social responsibility (Reynolds & Yuthas, 2008). However, with firms distributing both mandatory and voluntary reports, a problem arose. Mandatory reporting standards had the aim to create an objective view of the business practices, while voluntary reports gave firms the opportunity to report subjective information. The latter can make the company look better than it actually is (Cowan & Gardenne, 2005). Furthermore, it became unclear what exactly to report, or how to report activities (e.g. quantitative or not) which makes it more difficult to control firms (Gray, Kouhy & Lavers, 1995). This opened the floor to skepticism on CSR, and discussion on what approach should be followed (Matten & Moon, 2008). The theories that follow will help to put things into perspective, by offering a framework that explains antecedents of CSR. This will add to the analysis of the outcomes.

Corporate Social Performance

Despite the fact that CSR is a highly regarded concept within the management literature, difficulties have been encountered when measuring its actual impact. For this reason, the concept of corporate social performance (CSP) has been introduced (Clarkson, 1995; Windsor, 2006). Just like CSR, CSP on a firm-level can be explained through stakeholder theory (Davenport, 2000). CSP is argued to be the response of firms towards social demands (Ullmann, 1985). Wood (1991, p.693) defines CSP to be “a business organization's configuration of principles of social responsibility, processes of social responsiveness, and policies, programs, and observable outcomes as they relate to the firm's societal relationships”. This conceptualization would make CSP the outcome-oriented extension of CSR. It measures the impact of CSR efforts on welfare (Windsor, 2006; Wood, 1991). As CSP is measurable and outcome-oriented, it will be used as the dependent variable in this study as the outcome of a firm's CSR efforts.

Even though CSP is a compound of both environmental and social performance, the focus of most studies is often on the environmental performance of a firm (Al-Tuwaijri, Christensen & Hughes, 2004; Delmas, et al., 2013; Russo & Fouts, 1997; Stanwick & Stanwick, 1998), or a combination of both (Orlitzky, Schmidt & Rynes, 2003; Waddock & Graves, 1997), while social performance as an individual outcome is often neglected (Pullman, et al., 2009). Social performance is usually not included due to the lack of data available, or due to the difficulties of quantifying this data, relative to environmental performance (Delmas, et al., 2013). Furthermore, studies often focus only on one or two aspects of CSP, as a result of measurement issues (Waddock & Graves, 1997). This measurement issue is caused by the wide-range of topics that CSP covers. In order to provide more insight into the social aspect of CSP, and provide more focus to the study, CSP will be measured as the social performance of a firm. Following Wang & Sarkins (2017), social performance is focused on the social aspects of CSR, like working conditions and fair labor rights, but can be extended to include human rights, diversity, community impact, and more social issues. (Keeble, Topiol & Berkeley, 2003)

As it is interesting to find out whether there is a relationship between social and environmental performance, environmental performance will be included as a control variable.

Comparative Institutional Theory

In their work, Matten & Moon (2008) base their conceptualization of implicit and explicit CSR on a specific stream of literature within institutional theory, namely comparative institutional theory. This stream of literature is argued to be more adequate to capture cross-national differences in terms of CSR, as it assumes that demands for CSR efforts are based on the institutional configuration of a country (Jackson & Rathert, 2016). Differences in terms of institutional configurations could explain country-level preferences for different forms of CSR (Aguilera & Jackson, 2003; Jackson & Deeg, 2008; Jackson & Rathert, 2016; Matten & Moon, 2008).

Comparative institutional theory finds its starting point in new institutional theory literature (Jackson & Rathert, 2016). New institutional theory is built on the assumption that firms do not necessarily have the right to exist. Society is able to grant this right to legitimate firms by buying their products, and can boycott firms that they consider illegitimate (Deegan, Ranking & Tobin, 1997; Porter & Kramer, 2006). Furthermore, regulatory bodies can sanction firms that do not comply with legislation. Scholars speak of a so-called "social contract" that the firm has with external stakeholders, and that firms fulfill their end of the contract by pursuing responsible business practices. When they do so, firms are rewarded with legitimacy, which enhances their chances of survival (Brown & Deegan, 1998; Deegan, et al., 1997; DiMaggio & Powell, 1983; Meyer & Rowan, 1977). When a firm does not behave accordingly to its institutional environment, its legitimacy can decrease, which can be detrimental to a firm (Deegan, et al., 1997; O'Donovan, 2002). Thus, firms constantly have to respond to, engage with, and are shaped by their institutional environment. New institutional theory makes a distinction between formal and informal institutions (North, 1991; Pejovic, 1999; Zenger, Lazzarini & Poppo, 2000). Formal institutions are constraints in the form of laws, regulations and policies, enforced by the government. Informal institutions on the other hand, are constraints based on norms and values, and are enforced by society. Institutional theory is focused on how formal and informal institutions shape a firm's behavior and define its environment (Hoskisson, et al., 2000; Rottig, 2016). A more inclusive definition is provided by Scott (2004), who argues that institutional theory "considers the processes by which structures, including schemas, rules, norms and routines, become established as authoritative guidelines for social behavior" (Scott, 2004, p.2). North (1990) is frequently quoted for his definition of institutions to be "the rules of the game".

Although new institutional theory and comparative institutional theory have some overlap, they both have a rather distinct focus. New institutional theory has its focus on how firms adapt their strategy to the existing institutions of a country. Scholars in the field often consider a homogeneous set of institutions over countries, and institutions might simply lack in one country, while they are present in others (Jackson & Deeg, 2008). Comparative institutional theorists on the other hand focus on how countries can develop unique configurations of institutions that are deeply embedded in their national history (Hall & Soskice, 2001). They are particularly interested in how institutions determine the playing field for firms in a country, and how they constrain and influence strategies (Jackson & Deeg, 2008).

Hall & Soskice (2001) have proposed a "varieties in capitalism" typology, which argues that there are two main forms of capitalist economies. A distinction has been made between liberal market economies and coordinated market economies (Hiss, 2009; Jackson & Deeg, 2008; Jackson & Rathert, 2016; Matten & Moon, 2008). The former is market oriented, while the latter is nonmarket oriented. Within these main categories, each country can employ a sub-variation, which is often deeply rooted in its national history (Hall & Soskice, 2001; Jackson & Deeg, 2008). The two varieties of capitalism are also referred to as national business systems (NBSs). Differences between NBSs can be found in four areas, namely: (1) the political system, (2) the financial system, (3) education and labor systems, and (4) the cultural system (Matten & Moon, 2008; Whitley, 1999). Extending on the varieties in capitalism approach, Hall and Soskice (2001) argue for comparative institutional advantages. They propose that due to the differences in institutional configurations, countries have distinct demands towards firms. This means a strategy can be advantageous in one country, while being disadvantageous in another. When formulating strategies, firms should be wary of national preferences. While comparative institutional theory provides good insights into the country-level antecedents that cause variations in capitalisms, Jackson & Rathert (2008) argue that stakeholder theory can provide more insight into why firms decide to adapt their strategy to a certain NBS.

Stakeholder Theory

In order to capture the firm-level of CSR, this study turns to stakeholder theory. Stakeholder theory is most adequate to the firm-level phenomenon of how firms engage with stakeholders (Fernando & Lawrence, 2014; Frynas & Stephens, 2015).

Stakeholder theory is conceptualized in different ways by various different authors (Argandoña, 1998; Donaldson & Preston, 1995; Miles, 2017). This research follows the conceptualization as provided by Freeman, one of the leading authors in the field of stakeholder theory (Donaldson & Preston, 1995; Stieb, 2008). Freeman (2001, p.39) defines stakeholders to be "... those groups who have a stake or claim on the firm. Specifically I include suppliers, customers, employees, stockholders, and the local community, as well as management in its role as agent for these groups". This conceptualization of stakeholder theory is built on two notions: (1) a firm needs to define its purpose, and (2) a firm needs to find out what responsibilities it has towards its stakeholders (Freeman, 2001; Freeman, Wicks & Parmar, 2004). Stakeholder theory opposes stockholder theory, which is grounded in the assumption that the only relevant stakeholders that the firm has a moral obligation towards are the shareholders, and that the firm's sole responsibility is to maximize profit for them (Friedman, 2007).

"Stakeholder theory suggests that the management of an organization is expected to perform its accountability towards its stakeholders by undertaking activities deemed important by its stakeholders, and by reporting information." (Fernando & Lawrence, 2014, p.157-158). The starting point of stakeholder theory is the analysis phase, in which a firm identifies its relevant stakeholders (Donaldson & Preston, 1995; Goodpaster, 1991; Mitchell, Agle & Wood, 1997). Next, a firm substantiates this analysis, by identifying needs and expectations from these stakeholders, and how to manage them (Oliver, 1991; Rowley, 1997). This is called the stakeholder synthesis (Goodpaster, 1991; Simmons, 2003). This synthesis is often grounded either on the ethical intentions of a firm (Carroll, 1991; Goodpaster, 1991; Jones, 1995), or strategic intentions of a firm, in which stakeholders are sometimes used instrumentally

(Argandoña, 1998; Freeman, 1984; Goodpaster, 1991). Argandoña (1998) argues that stakeholders are willing to work together to achieve a "common good", which is a condition (or state) that is desired by more than one individual. A company can identify its duties towards stakeholders, and their duties towards the firm, based on the common goods that are expected from the firm. After discovering stakeholder expectations, it is important for firms to communicate the right information to their stakeholders (Fernando & Lawrence, 2014; Maignan, Ferrell & Hult, 1999; Morsing & Schultz, 2006). Two channels that firm's frequently use to communicate information to their stakeholders are annual reports or specific CSR reports, but firms can also communicate through advertisements, websites, social media, and more (Du, et al., 2010).

The above mentioned stakeholder management process means that firms are expected to engage with their stakeholders and together create value (Donaldson & Preston, 1995; Freeman, 2004; Morsing & Schultz, 2006). In the long run, engagement with stakeholders is often mentioned to have a positive impact on firm performance (Donaldson & Preston, 1995; Freeman, et al., 2004; Jones, 1995). It is even argued that proper stakeholder management can lead to a competitive advantage (Jones, 1995; Morsing & Schultz, 2006). Freeman, et al. (2004) mention large companies like Google, eBay and Lincoln Electric to be prime examples of firms that proactively include stakeholder management in their day to day business.

Stakeholder theory is often linked to CSR (Jones, 1995; Miles, 2017; Rowley, 1997). Carroll (1991) was one of the pioneers in connecting the two concepts (Rowley, 1997). In the last few decades, firms were expected to do more than just focus on doing business. Stakeholders demand firms to be more involved in social or environmental issues, (Freeman & Velamuri, 2006). In accordance with the theory, firms pursue CSR activities and reporting to satisfy their stakeholders. Fernando & Lawrence (2014) further noted that a firm can gain considerable benefits through its CSR efforts, like enhanced reputation, employee retention and attraction, and improved relationships with their stakeholders. Stakeholder theory is deemed to be crucial in the field of CSR, as it explains why firms pursue CSR activities (Branco & Rodrigues). In a case study on Babyfood, a multinational in the food industry, Lamberti & Lettieri (2008) found that CSR had a significant role in the strategy formulation of the firm.

Some scholars suggest that all stakeholders have the same right for proper attention from firms (Fernando & Lawrence, 2014). However, contrasting with the ethical side of stakeholder theory, the response of firms is often biased towards stakeholders with power (Fernando & Lawrence, 2014; Mitchell, et al., 1997) . Mitchell, et al. (1997) have formulated a stakeholder salience model that can be used for firms to identify which stakeholders are most important to a firm. Stakeholders can be attributed power, urgency and legitimacy. The amount of attributes a stakeholder has, as well as specific combinations of them, are argued to indicate the importance of each stakeholder to the firm. The attribute power is considered to be the strongest determinant (Mitchell, et al. 1997). In accordance with this stakeholder salience model, Russo & Perrini (2010) argue that CSR approaches by large firms can be explained through a dynamic stakeholder model, in which firms have to respond to constantly changing pressures coming from important stakeholders. Furthermore, in empirical research conducted by Roberts (1992), evidence was found of the relationship between stakeholder theory and CSR activities in a sample of 130 'Fortune 500' companies operating in diverse industries. It was discovered that stakeholder power, strategic posture towards social responsibility, and economic performance (which are considered variables related to stakeholder theory) positively correlated with corporate social responsibility disclosure (which is considered a CSR activity).

In their empirical study, Jackson and Rathert (2016) find evidence that unique institutional configurations lead to distinct stakeholder salience. Based on the work of Mitchell, Agle and Wood (1997) they argue that firms adjust their CSR efforts to the demands of the most important stakeholders in their external environment. However, Jackson and Rathert (2016) further observed that there is a relation between the NBS of a country, and which stakeholders are considered to be most important. According to Jackson and Rathert (2016), formal institutions like regulatory or government bodies are the most powerful stakeholders in coordinated market systems, which would lead to firms pursuing compliance-based CSR. In liberal market systems, where informal institutions like NGOs or communities are the most powerful stakeholders, CSR is often pursued strategically as a response to societal demands.

An alternative approach to stakeholder prioritization can be found in the stakeholder-agent relationship between the management of a firm and its stakeholders, which is similar to the relationship described in agency theory (Donaldson & Preston, 1995; Freeman, 2004; Goodpaster, 1991; Hill & Jones, 1992; Miles, 2017). Some authors speak of contracts between top managers and stakeholders that ensure good corporate behavior (Herman, 1981; Eisenhardt, 1989; Jones, 1995; Mitchell, et al., 1997). This is similar to the earlier discussed social contract proposed by authors in the field of institutional theory. These contracts can be relational, such as contracts with informal stakeholders (e.g. the local community), or specific, such as contracts with formal stakeholders (like shareholders). As managers are the ones that have these contracts with the stakeholders, they are the ones who determine which stakeholder is granted more priority (Herman, 1981; Mitchell, et al., 1997). This is in accordance with the proposed refinement of Windheim (2014), who argues for the role of management in deciding how to approach CSR. Jones (1995) already makes the link between ethical behavior of managers and incentives provided by the firm. This will be elaborated on later in the chapter.

Implicit and Explicit CSR

As discussed in the previous chapter, this research follows an approach proposed by Matten and Moon (2008) that received quite some attention. In their paper, Matten and Moon (2008) built on the varieties of capitalism approach (Hall & Soskice, 2001). They argue that as countries have distinct NBSs, expectations towards firms differ as well. Firms need to adapt their CSR practices to the expectations of the country they operate in. They observed that U.S. firms pro-actively claimed and communicated their CSR practices significantly more than European firms. Similar evidence was found by Maignan and Ralston (2002). Matten & Moon (2008) explain their conceptual framework by using the U.S. as an example for liberal market economies, and continental Europe as an example for coordinated market economies. They argue that in the U.S., governments are less involved in business, which burdens firms with more responsibilities. The firm is expected to give back to society, and expectations regarding firm's CSR practices usually come from the general population (Blindheim, 2015; Hiss, 2009). In Europe, the government is often more involved in business. In many European countries the government feels more responsible for social issues, and sets rules and regulations to assure minimum efforts. In addition, parts of Europe are often characterized by a strong, collective welfare culture, which can result in societal standards or minimums as well (Blindheim, 2015;

Hiss, 2009). European firms often respond to pressures from the government or social standards. The NBS of a country impacts the way firms behave, organize, coordinate, and control, as explained by the process of isomorphism (Matten & Moon, 2008; Jackson & Rathert, 2016).

Matten and Moon (2008) conceptualized two "forms" of CSR pursued by firms: implicit and explicit CSR. Implicit and explicit CSR are argued to differ in terms of intention and communication. The forms of CSR are defined as follows. *Implicit CSR* is not perceived to be voluntary, but rather as compliance to regulatory or societal standards in a country. Implicit CSR practices are usually not communicated explicitly, as these are often expected from all companies in the same industry or country. Companies pursuing implicit CSR usually are part of an initiative, rather than taking ownership over it. A firm is argued to pursue *explicit CSR* when it incorporates societal issues in its business voluntary, often with a strategic intent. Explicit firms often take responsibility for social issues that are not addressed by formal institutions. As the most important stakeholders are non-governmental, firms extensively and explicitly communicate their CSR efforts (often through CSR reports or advertisements) in order to be granted legitimacy.

In the case of coordinated market economies, formal institutions are the most powerful stakeholder (Jackson & Rathert, 2016), which is why firms in this context often pursue implicit CSR. In liberal market systems, where informal institutions are the most powerful stakeholder to firms (Jackson & Rathert, 2016), explicit CSR is preferred by firms. Matten & Moon (2008) further argue that due to institutional changes in NBSs, explicit CSR is spreading and becoming more popular in Europe. This change in NBSs has been investigated and confirmed by several scholars (Carson, Hagen & Sethi, 2015; Hiss, 2009; Thorne, Mahoney & Manetti, 2014).

As elaborated on in earlier sections, several scholars have provided arguments and evidence for why there are two distinct forms of CSR, and how preferences regarding these forms of CSR differ per country (Hall & Soskice, 2001; Jackson & Rathert, 2016; Matten & Moon, 2008). Based on the "varieties in capitalism" typology of Hall & Soskice (2001) and the stakeholder salience model of Mitchell, et al. (1997), Jackson and Rathert (2016) find evidence that firms adjust their CSR efforts to the demands of the most powerful stakeholders in the country they operate in. This supports the concept proposed by Matten & Moon (2008).

However, despite earlier work on implicit and explicit CSR, the relationships between the styles of CSR and social performance have not been captured yet. Gjølberg (2009) has made a first attempt of categorizing countries in terms of how implicit or explicit they were, and how well these countries performed in terms of CSR, but the individual effects of implicit and explicit CSR have not yet been taken into account. More insights into these individual relations can add significantly to the discussion of whether CSR reporting should be regulated by governments or not. Both Carroll (1979) and Matten and Moon (2008) argue that whether CSR efforts are compliance based or voluntary, firms make a positive impact by acting responsible. Furthermore, both implicit and explicit CSR are a initiated to satisfy stakeholder demands for responsible behavior (Jackson & Rathert, 2016), so a positive effect on social performance can be expected. As CSR is not necessarily an outcome-oriented concept (Wood, 1991), this positive relationship can be tested by incorporating social performance as a dependent variable. Based on assumptions of Carroll (1979) and Matten and Moon (2008), the following hypotheses are formulated:

Hypothesis 1a: Explicit CSR has a positive impact on social performance.
Hypothesis 1b: Implicit CSR has a positive impact on social performance.

As far as the author is concerned, no previous research has compared the effect of implicit and explicit CSR on social performance. However, scholars are enthusiastic about voluntary CSR reporting (Jain, et al., 2015; Steurer, 2010), and some even argue that it should be preferred over mandatory CSR reporting (Chan, Watson & Woodliff, 2014). In addition, considering the work of Carroll (1991), firms that pursue CSR voluntarily, often take it a step further through ethical or philanthropic behavior, where firms that follow mandatory CSR probably take it up until the point that they fulfill their legal responsibilities. Although mandatory and voluntary CSR are no perfect proxies for implicit and explicit CSR, they have some touchpoints and can provide the study with some direction. Therefore it could be argued that firms pursuing explicit CSR would achieve higher social performance. This leads to the following hypothesis:

Hypothesis 2: Explicit CSR has a stronger positive impact on social performance than implicit CSR.

Agency Theory

Based on a proposed refinement of the implicit-explicit model by Blindheim (2015), this study incorporates the individual level of CSR under the assumption that not only institutions, but also managers have a significant influence on the CSR efforts of a firm. The individual level of CSR is argued to be neglected in CSR literature, however it can add significant value to research when included in the analysis (Frynas & Stephens, 2015). The field of study that is most closely related to CSR at the individual level is agency theory (Frynas & Stephens. 2015; McWilliams & Siegel, 2001). Agency theory is appropriate to explain how managers decide on the direction of a firm. In order to link the role of management to the implicit-explicit framework, the concept of CSR targets in executive remuneration will be introduced next.

Agency theory is based on the so-called "principal-agent" relationship (Donaldson & Davis, 1991; Eisenhardt, 1989; Jensen, 1983; Ross, 1973). In this relationship, one party (the agent) works for the other party (the principal). The principal can influence the behaviors and actions of the agent through contractualized incentives and governance structures. The relationship is based on a contract (Eisenhardt, 1989; Herman, 1981; Jones, 1995; Mitchell, et al., 1997; Ross, 1973), and occurs when ownership is separated from control (Fama & Jensen, 1983b). The theory concerns two common problems encountered in this relationship: (1) it might occur that the goals of both parties are conflicting, and (2) difficulties might arise for the principal in controlling the work of the agent (Eisenhardt, 1989; Fama & Jensen, 1983a; Jensen, 1983). The latter implies that the principal has a hard time verifying whether the agent behaves responsibly or accordingly, as supervising is also costly and requires resources committed to this activity (Harris & Raviv, 1978). Agency problems tend to occur due to faulty or incomplete contracts (Fama & Jensen, 1983a), or due to information asymmetry (Harris & Raviv, 1978). The principal-agent relationship can be applied to describe a range of relationships, including: employer-employee, buyer-supplier, shareholder-management, and more (Eisenhardt, 1989; Harris & Raviv, 1978). This study focuses on the shareholder-management relation. Fama & Jensen (1983a) argue that the characteristics of the contract between the shareholders and management is what makes firms distinctive, as different incentives can lead to different behaviors and priorities of the management team.

Incentives are among the most common features in contracts between principals and agents in order to minimize agency problems (Fama & Jensen, 1983b). Jensen (1994) strongly advocates the role of incentives in managing agents, as people have the tendency to choose the alternative in their best interest when making a decision. Contractual incentives are not necessarily monetary. Incentives are often used to make sure the management has the same interests as the shareholders (Donaldson & Davis, 1991). Evidence on the relation between the use of incentives and the alignment of interests between the principal and agent has been found by Tosi, Katz & Gomez-Mejia (1997). In a laboratory experiment, they found that the use of incentives was more effective than monitoring in solving this agency problem. Agrawal & Mandelker (1987) found similar evidence of the ability of incentives to solve the conflict of interest problem in their research. They found a positive relationship between common stock and option holdings of managers, and the reduction of agency problems in a study conducted on a sample of 209 firms.

However, there is also some critique in the field of agency theory towards the composition of the board, or compensation committee (O'Reilly, Main & Crystal, 1988; Tosi, et al., 1997). In some cases, CEO's are also chairman of the board, or executives are part of the compensation committee. This makes the effectiveness of incentives to align interests questionable, because these executives can act in their own interests when composing the compensation structure. This will be controlled for in this research.

CSR Targets in Executive Remuneration

Agency theory argues that the priorities of managers can be influenced through governance structures and incentives (Eisenhardt, 1989). A relatively new stream of work within agency theory is focused on CSR targets in executive remuneration (Callan & Thomas, 2011; Flammer, et al., 2018). The increased attention to the issue is triggered by corporate scandals in the last few decades, which made society more skeptical towards performance targets in executive remuneration (Callan & Thomas, 2011). This led to growing demand for clarity on the topic. As a response, more firms have started incorporating CSR targets in executive remuneration, in order to incentivize the management towards firm-level outcomes like CSP (Flammer, et al., 2018; Maas & Rosendaal, 2016). As the stream of literature is new, empirical evidence on the matter is limited (Flammer, et al. 2018).

The little empirical evidence on the relationship between CSR targets in executive remuneration and CSP has led to mixed results. In an empirical study on all S&P 500 firms over a 10-year period, Flammer, et al. (2018) have found evidence that CSR targets in executive remuneration positively impacted a firm's long-term orientation, increased CSR initiatives, decreased emissions, and increased green initiatives. Hong, Li and Minor (2016) find similar evidence, which suggests that CSR targets lead to an increase of a firm's CSR activities. Furthermore, both Flammer, et al. (2018) and Maas and Rosendaal (2016) find most of these CSR targets in the more polluting industries. Maas (2018) however, finds no significant relationship between CSR targets and CSP in her study on a sample of 400 firms.

Despite the mixed results, most evidence found is in favor of a positive effect of CSR targets in executive remuneration on CSP. This assumption will be followed in this study. As most previous empirical work has focused on the direct relationship between CSR targets and CSP, this research aims to take a different approach. The aim is to find out whether CSR targets in executive remuneration have a moderating effect on the relationship between implicit and explicit CSR, and CSP. Even though firms pursuing implicit and explicit CSR have different motivations, both kind of firms often have goals when it comes to CSR (Thorne, et al. 2017). Whether the motivation is to comply to social or regulatory standards, or to use CSR strategically, CSR targets in executive remuneration can potentially provide an incentive for managers to reach firm-level goals. It is currently not known whether these targets are effective in both implicit and explicit CSR, therefore the following hypotheses have been formulated:

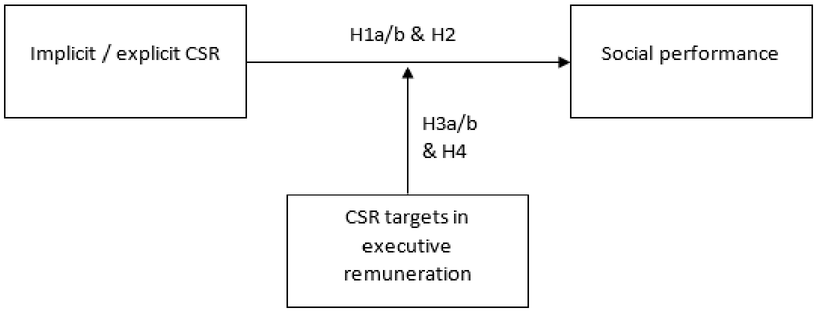
Hypothesis 3a: CSR targets in executive remuneration have a positive moderating effect on the relationship between Implicit CSR and Social Performance.
Hypothesis 3b: CSR targets in executive remuneration have a positive moderating effect on the relationship between Explicit CSR and Social Performance.

However, even though CSR targets in executive remuneration might be relevant both for firms that pursue implicit CSR and explicit CSR, the concept is most often linked to firms that use CSR strategically to respond to societal demands (Brown-Liburd & Zamora, 2015; Lepoutre, Dentchev & Heene, 2006). This makes sense considering the different underlying motivation for the two forms of CSR. Implicit CSR is often compliance based, which means that firms maintain a certain level of CSR in order to meet regulations or standards and avoid being sanctioned (Matten & Moon, 2008). These standards already provide clear CSR goals and incentives. Compensation for executives based on CSR targets that are set by a compensation committee might enhance the individual financial motivation of executives to meet standards, but can also be considered redundant. This is different for firms that pursue explicit CSR. These firms often use CSR strategically to gain a competitive advantage, however as they go beyond standards it is difficult for managers to envision a clear goal for their CSR efforts. It is also increasingly difficult to make a trade-off between CSP and performance goals. For these managers, CSR targets in executive remuneration could be a motivation to increase CSR investments (Brown-Liburd & Zamora, 2015). Furthermore, Cordeiro & Sarkis (2005) find evidence that CSR targets work best for firms that explicitly communicate that they make use of such targets. Following this line of reasoning, the following hypothesis is formulated:

Hypothesis 4: The positive moderating effect of CSR targets in executive remuneration is stronger for the relationship between explicit CSR and social performance.

Conceptual model

Having formulated the hypotheses, the variables can be included in a conceptual model. The model that will be tested in this research will look as follows.



3. Methodology

In this chapter, the methodological approach of the research will be elaborated upon. First, the database that is used to obtain relevant data will be introduced. Second, the variables included in the conceptual model will be operationalized based on existing literature and linked to the database. Third, the data analysis method will be explained and justified. Fourth, the sample will be discussed, as well as the reasoning behind selecting this sample. And lastly, this chapter addresses research ethics.

3.1 The ASSET4 Database

This study makes use of the ASSET4 database, which is produced by Thomson Reuters. The ASSET4 database provides information of around 7000 listed companies originating from all over the world. The companies included in the database are scored based on their performance in four categories: economic performance, environmental performance, social performance and corporate governance performance. Data on the firms included in the database is collected from annual reports, websites, stock exchange filings, CSR reports, NGO websites, and news sources. The database is updated on a yearly basis. Over 750 data points form the basis for the over 250 mutually exclusive indicators that are used to score the companies included in the database. The database consists of yearly data, which for some firms goes back all the way to 2002. The ASSET4 database is particularly relevant for the scope of this study, as firms included in the database will be objectively compared and benchmarked towards every other firm included in the database. This allows for cross-country and industry comparison.

The database works with some rather specific metrics. For every indicator measured, the firm receives a score between 0 and 100%, where 50% is the mean score for that indicator of all firms included in the database. Scores are equally weighted, z-scored, and normalized for better interpretation. The z-scoring guarantees relativity of the scores, as it measures a firm's deviation from the mean. This allows for benchmarking and makes it easier to notice differences between firms. In case of questions that are answered with yes/no, firms answering yes receive a score >50%, and firms answering no receive a score <50%. A particularly high or low score (e.g. 90% or 10%) is granted when not a lot of other firms have provided the same answer. If the yes/no responses are equally distributed, the score will be somewhere around 50%.

3.2.1 Dependent variable: Social Performance

The dependent variable in this study is social performance, the social dimension of CSP. CSP is argued to be the outcome of CSR efforts (Windsor, 2006; Wood, 1991). In an earlier study, Thorne, et al. (2017) link implicit and explicit CSR to CSP, however they considered CSP as a mediating effect between the form of CSR and strategic CSR alliances. As CSP is outcome-oriented, social performance as the dependent variable is well-suited to measure whether implicit or explicit CSR leads to better results. CSP is also used as an outcome variable in earlier research relating to CSR targets in executive remuneration (Flammer, et al., 2018; Hong, et al., 2016; Maas, 2018).

In a similar study, Wang & Sarkins (2017) include indicators like working conditions and labor rights to describe social performance. However, indicators of social performance can also include the development of local communities and the production of responsible products (Keeble, Topiol & Berkeley, 2003). Social performance will be measured by the social performance dimension of the ASSET4 database. This dimension consists of seven categories: employment quality, health and safety, training and development, diversity, human rights, community, and product responsibility. The social dimension is measured by over 50 indicators, describing the CSR policies, programs, and efforts of a firm. This fits the conceptualization of social performance as provided by Wood (1991).

3.2.2 Independent variable: The use of explicit or implicit CSR

Matten and Moon (2008) have proposed the concept of implicit and explicit CSR in their work. As explained earlier, implicit CSR is an involuntary response to regulations and standards in a country. Implicit CSR is compliance-based, and usually does not incorporate CSR into firm strategy or external communication. Explicit CSR on the other hand, is of voluntary nature, and is often a response to societal issues. Explicit CSR integrates CSR with the strategic intentions of a firm, and substitutes when formal institutions are not covering an issue. Firms pursuing explicit CSR are argued to publish voluntary CSR reports and communicate about this explicitly. The explicitness of a firm is measured based on the "integration vision and strategy" category included in the governance dimension of the ESG database. The category consists out of twelve indicators, and measures not only whether or not a firm issues voluntary CSR reports, but also the degree to which they communicate integration of their CSR efforts and their strategy. This approach is similar to, but more extensive than the approach of Thorne, et al. (2017), who use the number of years that firm's issue stand-alone CSR reports as a proxy for explicit CSR. The variable is included as the main effect, as it is argued to result in CSP.

The variable used in the analysis will measure the explicitness of a firm relative to other firms included in the database on a scale of 0 to 100. Companies scoring low in this category (<50) are assumed to pursue implicit CSR, while companies scoring high in this category (>50) are assumed to pursue explicit CSR. As both forms of CSR are incorporated in one variable, a split regression will be used to capture the individual effects.

3.2.3 Moderating effect: CSR targets in executive remuneration

According to Flammer, et al. (2018), an increasing amount of companies is providing executives with incentives in order for them to achieve CSR targets. The use of CSR targets in executive remuneration is relatively new in management literature, but is found to increase a firm's CSP (Flammer, et al., 2018; Hong, et al., 2016). As such, CSR targets in executive remuneration are argued to have a moderating effect on the relationship between both implicit and explicit CSR, and social performance. The operationalization of this variable is based on an indicator included in the governance dimension of the ASSET4 database, that answers the question: "Is the senior executive's compensation linked to CSR/H&S/Sustainability targets?".

3.2.4 Control variables

This research incorporates a couple of control variables. First of all, firms are controlled for firm size (number of employees) and profitability (return on investment) as these are frequently used in this line of research in order to reduce bias towards bigger firms when comparing for firm-level outcomes (Chan, et al., 2014; Thorne, et al., 2017). This study further controls for industry (SIC industry codes). Hong, et al. (2016) find differences in environmental performance between industries. As a similar phenomenon might also occur for social performance, this will be controlled for. There are also a few specific control variables relevant to this research. First of all, environmental performance will be controlled for, in order to find out whether both social and environmental issues receive equal attention of firms, or whether firms prioritize one over the other. This variable is based on the environmental dimension of the ASSET4 database, and includes the categories resource reduction, emission reduction, and product innovation. Second, firms are controlled for whether the CEO is also the chairman of the board. When a CEO covers both positions, there is a risk that executive remuneration becomes biased towards the goals of the management team (O'Reilly, et al., 1988; Tosi, et al., 1997). This variable will be based on the question "Does the CEO simultaneously chair the board? AND has the chairman of the board been the CEO of the company?", which is included in the governance dimension of the ASSET 4 database.

3.3 Method of Analysis

As the aim of the research is to predict the effect of multiple independent variables (a main effect and a moderating effect) on a single dependent variable, a multiple regression analysis is selected as the method of analysis (Field, 2013; Hair, et al., 2014). Multiple regression is a popular method of analysis, and is frequently used to predict or explain relationships between variables (Hair, et al., 2014). Not only is the model able to predict direct effects, it can also predict moderating and mediating effects. In a multiple regression analysis, the effects of the independent variables together form a regression variate (Hair, et al., 2014). This regression variate is a linear function that best explains the relationship between the predictor variables and the dependent variable. Multiple regression is also suitable for predicting relationships while comparing sub-samples (Hair, et al., 2014). This is relevant when comparing the effects of implicit and explicit CSR to each other. With the main goal of the research in mind, which is to predict the relations between the two styles of CSR on social performance while testing for a moderating effect of CSR targets in executive remuneration, the use of multiple regression is considered appropriate.

3.4 Sample selection

In order to ensure statistical power and generalizability, the sample size should fit with the employed method of analysis (Hair, et al., 2014). When using multiple regression analysis, a ratio of 15 to 20 observations per independent variable is suggested in order for the sample to be representative. The total model includes 14 independent variables (including control variables after transformation). Considering the ratio proposed by Hair, et al. (2014), the sample should contain at least 280 (20 x 14) observations. In addition, a large sample (between 250 and 1000 observations) would grant the model higher statistical power.

Country-level differences in CSR were also considered in the sampling process. As mentioned earlier, the preferred form of CSR (implicit or explicit) is argued to differ between countries. In order to account for this variation, firms from several countries are being sampled. The countries included in the sample are based on the work of Gjølberg (2009). Gjølberg (2009) aimed to categorize countries based on whether implicit or explicit CSR was preferred. The outcomes of the research showed clear variation between the countries. Including both implicit and explicit oriented countries in the sample can increase the validity of the study. As not every country is represented equally in the ASSET4 database, some had to be excluded from the sample. A random sample of 24 to 30 firms per country (depending on how well the country was represented in the database) has been extracted from the database to form a total sample of 456 firms. The countries included in the analysis are: Switzerland, Finland, Sweden, Norway, Denmark, the Netherlands, the United Kingdom, Australia, Canada, Spain, France, Japan, Belgium, Germany, Italy, and the United States.

A sample size of 456 is large enough to ensure statistical power and generalizability. Furthermore, as the sample takes country-level differences in CSR styles into account, the total sample extracted from the ASSET4 database is argued to be appropriate for the multiple regression analysis as well as for the goals of this study.

3.5 Research ethics

This section is based on the ethics code as provided by the American Psychological Association (APA) (2017). Even though not all general principles provided by the APA fit within the quantitative nature of this study, the integrity principle is especially relevant. The author understands the importance of being honest and truthful in the analysis and interpretation of the answers, especially with an eye on both theoretical and practical implications of the study, and shall remain integer. Data will not be manipulated in order to alter the outcomes of the study. Furthermore, this study includes an extensive reference list, and numerous references throughout in order to credit scholars for their work. There is no intention for the author to claim any ideas or work as his own.

4. Results

This chapter elaborates on the analysis process and the results of the analysis. The first section presents and discusses the descriptive statistics of the variables and transformations. In the second section, the assumptions of multiple regression will be tested. The third section tests the hypotheses, and reports the results of the analysis.

4.1 The variables

4.1.1 Descriptive statistics

Table 1 presents the descriptive statistics of the original variables included in the analysis. A few noteworthy conclusions can be drawn from the table. First, most of the firms in the sample are pursuing explicit CSR (□>50). Also, the social performance of the firms in the sample is rather high on average (□= 71 on a scale of 0 to 100). Most firms in the sample have a seperation of the CEO and chairman role (□> 50), while relatively few firms have CSR targets for executive remuneration in place, only 43 out of 456. Furthermore, a few variables show high levels of skewness or kurtosis. As ROI and Size are continuous variables, skewness and kurtosis might bias the outcomes of the analysis. These variables should be treated in order to ensure normal distribution. The other variables suffering from skewness or kurtosis (ExRem, and industry variables agriculture up until services) are categorical dummies, and don't require normal distribution. The reference category of the industry dummies is manufacturing as this category contains the largest group (Field, 2013). None of the variables contains missing data.

4.1.2 Transforming variables

Based on the descriptive statistics, a few variables require transformation. The variable "Size" shows signs of skewness and kurtosis, and "ROI" shows signs of kurtosis. In order reduce bias, these variables can be log transformed (Field, 2013). The descriptive statistics for the transformed variables can be found in table 2. The variable Size reacts well to the transformation, as the skewness and kurtosis now fall between the critical values of -3 and 3 (Hair, et al., 2014). ROI remains biased after the transformation, and will therefore be excluded from the analysis. This should not be problematic for the interpretation, as Size (in terms of employees) also provides an insight into the resources of a company.

Table 1: Descriptive statistics

	Valid N	Mean	Std. Deviation	Skewness	Kurtosis
CSRstyle	456	71.3660526	27.4547206	-1.014	-.428
SOCSCORE	456	71.8181579	25.6480682	-.948	-.369
ROI	456	11.5537061	24.0843108	-.296	12.373
Size	456	34044.34	65245.764	3.933	20.438
ENVSCORE	456	71.3075877	27.6387390	-.936	-.572
CEO_Chair	456	.76	.427	-1.228	-.495
ExRem	456	.09	. 293	2.786	5.785
Agriculture	456	.0022	.04683	21.354	456.000
Mining	456	.0570	.23213	3.833	12.751
Construction	456	.0175	.13143	7.374	52.606
Infrastructure	456	.1579	.36504	1.883	1.551
Wholesale_trade	456	.0285	.16660	5.685	30,452
Retail_Trade	456	.0592	.23628	3.748	12.097
Finance	456	.1645	.37111	1.816	1.304
Services	456	.1031	.30438	2.620	4.884

Table 2: Descriptives after transformation

	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
LOG_ROI	2.1269	.14410	-9.503	.114	123.732	.228
LOG_SIZE	3.9039	.87053	-.616	.114	.785	.228

4.1.3 Interaction effect

As the model is testing for a moderating effect of CSR targets for executive remuneration on the relationship between the style of CSR and social performance, an interaction effect has to be created. Appendix 1 describes how the interaction effect, CSR_ExRem, is created.

4.2 Testing the assumptions of multiple regression

In order to successfully run an unbiased multiple linear regression analysis, the data should meet five assumptions (Field, 2013; Hair, et al., 2014). The assumptions are:

1. *Additivity and linearity:* the relationship between the dependent and independent variables should be linear.
2. *Independent errors:* the residual terms of all observations included in the sample should be uncorrelated.
3. *Normally distributed errors:* the residuals of the model should be normally distributed.
4. *There is no sign of multicollinearity:* independent variables are not highly correlated with each other.
5. *Homoscedasticity:* variance of the error terms are similar across the values of the independent variables.

Linearity

The assumption for linearity should be met by each independent variable separately. In order to test this, partial plots can be produced and assessed. The partial plots are described in appendix 2. There is no sign of a curve or pattern in the scatterplot and partial plots, and all relationships seem to be rather linear. The assumption of linearity is met.

Independent errors

The assumption of independent errors can be tested with the Durbin-Watson test. Values of the statistic can vary from 0 to 4, but values between 1.5 and 2.5 would assume independent errors (Field, 2013). Considering the model summary in table 3, the assumption of independent errors is met.

Table 3: Durbin-Watson test

Model	R	R Square	Adjusted R square	Durbin Watson
1	.891	.794	.787	2.115

Normally distributed errors

The assumption of normality can be checked by assessing both the histogram and the normal p-p plot of regression (appendix 3). Although not far off, the data is not completely normally distributed. Non-normal distributions can be a cause of bias, and should be dealt with accordingly (Field, 2013). In order to reduce bias, the dependent variable can be transformed in a few ways. The transformation that fitted the data best was a log transformation. The process of the transformation is described in appendix 5. The log transformed data shows a normal distribution of errors (appendix 4). The earlier assumptions are still met for the transformed variable.

Multicollinearity

The assumption of multicollinearity can be tested by assessing the tolerance values, the VIF values and the correlation matrix. According to Field (2013), tolerance values below 0.1 and VIF values greater than 10 are considered problematic. Appendix 6 describes these statistics. None of the variables incorporated in the model surpass these critical values. The assumption is met.

Homoscedasticity

In order to check for homoscedasticity, the scatterplot can be assessed. The scatterplot clearly shows that the variance of regression errors is not constant (appendix 7). This would be a sign of heteroscedasticity (Field, 2013; Hayes & Cai, 2007). To be certain, the Breusch-Pagan and Koenker tests can be conducted. In case that the data is significant at $P < .05$, the data is considered heteroscedastic. As shown in table 4, the data is significant for both tests.

Heteroscedasticity can bias the error terms, t-values and significance values of a model (Field, 2013; Hayes & Cai, 2007). This is an issue that should be addressed carefully. Field (2013) argues that log transformations can offer a solution to the problem. However, the log transformation of social performance failed to do this. It is, however, possible to control for heteroscedasticity. Two methods are proposed: (1) the use of weighted least squares (Field, 2013), and (2) the use of robust standard errors (Hayes & Cai, 2007). The latter is preferred, as WLS is not always considered reliable due to the accuracy with which the weight should be determined (Hayes & Cai, 2007).

Table 4: the Breusch-Pagan and Koenker test statistics

	LM	Sig
Breusch-Pagan	23.355	.000
Koenker	29.239	.000

Even though the assumption of homoscedasticity has not been met, following the robust standard errors approach will reduce the bias caused by heteroscedasticity by using "heteroscedasticity-consistent standard errors" (Hayes & Cai, 2007). This method employs a regular linear regression model, but does not assume homoscedasticity.

4.3 Testing the hypotheses

As all assumptions are either met or being controlled for, it is appropriate to proceed to the analysis phase. First, a regular multiple regression will be conducted and the results will be reported accordingly. However, as the data is possibly biased by heteroscedasticity, a second regression using robust standard errors will be conducted to confirm the findings. In order to check for the individual relations between implicit and explicit CSR and social performance, a split analysis will be conducted as well.

4.3.1 Multiple Regression Analysis

The multiple regression follows a hierarchical regression (Field, 2013). In the first model, only the control variables are included. In the second model, the main effect CSRstyle is added. Lastly, the third model contains the entire set of variables, including the direct and moderating effect of CSR targets in executive remuneration. Table 6 describes the model summary of the multiple regression. In model 1, the control variables explain 58.7% of the variance (Adjusted R squared = .587). When adding the variable CSRstyle, the adjusted R squared increases by .049 to a value of .636. The change in adjusted R squared is significant at $p < .001$. The moderating effect of CSR targets in executive remuneration (model 3) does not add to adjusted

Table 6:

	Model 1			*Model 2*			*Model 3*		
Variables	Std. error	Beta	t	Std. error	Beta	t	Std. error	Beta	t
Constant	.094		-4.938	.089		-6321	.090		-5.009
Control variables									
ENVSCORE	.001	.678***	17.574	.001	.343***	6.102	.001	.342***	6.085
CEO_Chair	.039	-.026	-.823	-.036	-.040	-1.386	.037	-.039	-1.327
LOG_Size	.024	.148***	3.763	.023	.121**	3.247	.023	.116**	3.110
Agriculture	.344	-0.24	-.804	.323	-.016	-.555	.323	-.016	-.577
Mining	.074	.025	.758	.070	-.003	-.089	.070	-.007	-.233
Construction	.124	-.012	-.319	.117	-.016	-.550	.117	-.020	-.708
Infrastructure	.048	.042	1.291	.045	.011	.349	.045	.010	.309
Wholesale_Trade	.099	-.024	-.762	.093	-.033	-1.135	.093	-.033	-1.147
Retail_Trade	.072	-.022	-.703	.067	-.015	-.514	.067	-.014	-.454
Finance	.048	-.003	-.090	.045	-.027	-.867	.045	-.030	-.943
Services	.057	.033	1.005	.054	.009	.294	.054	.006	.182
Main effect									
CSRstyle				.001	.409***	7.794	.001	.399***	7.519
Moderating effect									
ExRem							.056	.009	.277
CSR_ExRem							.002	.046	1.443
Model summary									
Adjusted R square	.587			.636			.636		
R square change	.597			.049			.002		
F Change	59.727***			60.743***			1.428		
Durbin-Watson							1.844		

*p < .05
** P < .01
*** p < .001

R squared value, furthermore, the change of the F value is insignificant (p > .05). This would indicate that CSR targets in executive remuneration do not add to explaining the social performance of a firm. The durbin-Watson statistic has a value of 1.844, which shows that the assumption of independent errors is still met after the transformations.

Table 7 describes the ANOVA of the models. This ANOVA tests whether the models are accurate in predicting the outcomes. This is tested by the F-statistic (Field, 2013). The F statistics for all models are >1 which means that every model is more efficient in describing the phenomenon. These values are all highly significant (p < 0.01). Field (2013) further argues that when improvement is due to the model, the degrees of freedom of the model are equal to the number of predictors. This is true for the models in this analysis (df = 11, df = 12 and df = 14, these values are equal to the number of predictors in the related models).

Table 7: ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	76.950	11	6.995	59.727	.000
	Residual	52.003	444	.117		
	Total	128.953	455			
2	Regression	83.221	12	6.935	67.178	.000
	Residual	45.733	443	.103		
	Total	128.953	455			
3	Regression	83.515	14	5.965	57.897	.000
	Residual	45.438	441	.103		
	Total	128.953	455			

Next, the results of the analysis can be interpreted. Table 6 shows the coefficients of the models. In the first model only environmental performance and size have a significant positive effect on social performance. Environmental performance has a beta of .678 and this effect is highly significant (p < .001). The size of a company has a beta of .148 and is highly significant as well (p < .001). The separation of the CEO and chairman positions and the various industries have no significant effects (p > .05).

In the second model, the variable CSRstyle is introduced. The effects of environmental performance and size remain statistically significant (environmental performance at p < .001 and size at p <.01), however the beta of environmental performance decreases to .343 and the beta of size decreases to .121. CRSstyle has a highly significant and strong positive effect on social performance (standardized beta = .409; p < .001).

When the direct effect and interaction effect of CSR targets in executive remuneration are added in the last model, a few minor changes occur. First of all, the beta of environmental performance slightly decreases (.342), but remains highly significant (p < .001). Second, the beta of size decreases to .116, but remains significant as well (p < .05) Lastly, the beta of CSRstyle slightly decreases (.399), but remains highly significant. The newly added direct and moderating effect both have a small positive effect on social performance, however both effects are not significant (ExRem: beta = .009; p > .05; CSR_ExRem: beta = .046; p > .05).

Before drawing any conclusions from the analysis, it is important to verify these results. As mentioned earlier, the assumption of homoscedasticity has not been met, which could lead to bias in the standard errors, the t-values and the significance test (Field, 2013; Hayes & Cai, 2007). In order to control for heteroscedasticity, the approach of robust standard errors will be used. This approach does not assume homoscedasticity, and runs a normal linear regression based on robust standard errors that will not be biased by heteroscedasticity. An SPSS macro called RLM, which is discussed in the work of Hayes and Cai (2007), will be used to run this test. Table 8 shows the model summary of the robust standard errors regression. The R squared value has is similar to the value in the regular regression model (.648), and the F value is still positive and highly significant (p < .001). This means that the model still fits well to the data.

Table 8: Model summary of the robust standard errors regression

R	R-square	F	Sig.	SE of Est
.8048	.6476	99.7714	.000	.3210

Table 9: Regression model with robust standard errors

	Std. Error	Beta	t
ENVSCORE	.001	.342***	6.389
CEO_Chair	.038	.039	-1.277
LOG_SIZE	.023	.112**	3.033
Agriculture	71.0	-.016	-.003
Mining	.060	-.0164	-.2712
Construction	.107	-.021	-.777
Infrastructure	.049	.010	.2794
Wholesale_Trade	.086	-.034	-1.242
Retail_Trade	.062	-.014	-.489
Finance	.046	-.030	-.928
Services	.051	.006	.195
CSRstyle	.001	.399***	8.178
ExRem	.053	.009	.2938
CSR_ExRem	.002	.046	1.478

*p < .05
** P < .01
*** p < .001

When assessing the regression model in table 9, a few conclusions can be drawn. The interpretation of the regular multiple regression is substantiated with robust standard errors. The variable CSRstyle still has a highly significant positive effect on social performance (beta = .399; p < .001). This means that the more explicit a firm in the sample is, the higher its social performance is. Thus, explicit CSR results in higher social performance than implicit CSR. This provides support for H2. Furthermore, there is no significant interaction found of the effect of CSR targets in executive remuneration on the relationship between the explicitness of a firm and its social performance (beta = .046; p > .05). This does not grant support for hypotheses H3a, H3b, and H4. As in the earlier model, two control variables show a significant positive effect on social performance. Environmental performance has a beta of .342 which is highly significant (p < .001). This indicates that firms that score high on social performance, often score high on environmental performance as well. Furthermore, size has a beta of .112 which is highly significant (p < .01). This indicates that the size of a firm in terms of employees has a positive impact on social performance.

4.3.2 Split results

In order to see the individual effects of both implicit and explicit CSR, a split function can be used (Field, 2013). By entering a split variable for the style of CSR (<50 = 0 or implicit, >50 = 1 or explicit), SPSS can run a regression for both groups at the same time. Table 11 shows the split regression for implicit CSR, and table 12 shows the split regression for explicit CSR. A few conclusions can be drawn from the model summaries. First of all, the adjusted R squared values of the split models are lower than the original model, but rather equal to each other. The final model of implicit CSR explains 51% of the variance, where the final model of explicit CSR explains 52.5% of the variance. In both models, the individual and interaction effect of CSR targets for executive remuneration don't add to the explanatory power. For both implicit and explicit CSR, the change of the F-value for model 3 is below 1 and insignificant (p > .05). This indicates that the direct and moderating effect of CSR targets in executive remuneration decreases the explanatory power of the models. Both the implicit and explicit CSR samples show proper values for the Durbin-Watson test statistic.

In the first model of the implicit sample, environmental performance again has a strongly positive effect on social performance (beta = .658; p < .001). Noteworthy however, is that size has an insignificant effect for the implicit sample (beta = .034; p > .05). The other control variables remain insignificant for implicit CSR. In the second sample, describing explicit CSR, environmental performance has a highly significant positive beta (beta = .548; p < .001). For the explicit sample, size does have a significant positive effect (beta = .167; p < .01). The other control variables remain insignificant for the explicit sample as well.

In the second model, the forms of CSR are added. In the implicit CSR sample, the effect of environmental performance decreases but remains significant (beta = .319; p < .001). The variable CSRstyle has a significant positive impact on social performance for the implicit CSR sample (beta = .454; p < .001). In the explicit CSR sample, environmental performance

Table 11 – Split regression implicit CSR

	Model 1			*Model 2*			*Model 3*		
Variables	Std. error	Beta	t	Std. error	Beta	t	Std. error	Beta	t
Constant	.104		-1.143	.098		-2.200	.099		-2.183
Control variables									
ENVSCORE	.001	.658***	7.701	.001	.319**	2.906	.001	.302**	2.715
CEO_Chair	.047	.102	1.298	.044	.026	.348	.045	.031	.407
LOG_Size	.026	.034	.387	.024	.067	.832	.024	.075	.923
Agriculture	.205	-.062	-.822	.188	-.089	-1.281	.189	-.086	-1.231
Mining	.075	.020	.246	.070	-.047	-.610	.070	-.041	-.539
Infrastructure	.081	.007	.080	.074	.012	.159	.075	.013	.175
Wholesale_Trade	.097	.055	.704	.089	.023	.321	.089	.026	.367
Retail_Trade	.086	.083	1.020	.079	.054	.722	.082	.068	.879
Finance	.061	.056	.633	.057	-.003	-.040	.057	.000	.001
Services	.061	.010	.114	.056	-.030	-.372	.057	-.026	-.322
Main effect									
CSRstyle				.002	.454***	4.384	.002	.441***	4.195
Moderating effect									
ExRem							.282	.243	1.187
CSR_ExRem							.006	.229	1.111
Model summary									
Adjusted R square	.419			.513			.510		
R square change	.475			.090			.007		
F Change	8.498***			19.223***			.705		
Durbin-Watson							1.820		

*p < .05
** P < .01
*** p < .001

Table 12 – Split regression explicit CSR

	Model 1			*Model 2*			*Model 3*		
Variables	Std. error	Beta	t	Std. error	Beta	t	Std. error	Beta	t
Constant	.142		-3.867	.158		-8.724	.167		-8.233
Control variables									
ENVSCORE	.001	.548***	11.306	.001	.264***	4.887	.001	.261***	4.816
CEO_Chair	.048	-.041	-.968	.043	-.024	-.630	.043	-.026	-.678
LOG_Size	.031	.167**	3.324	.028	.128**	2.814	.028	.124**	2.710
Mining	.098	.026	.607	.089	.006	.151	.090	.001	.022
Infrastructure	.049	.014	.356	.049	.014	.356	.049	.012	.304
Wholesale_Trade	.134	-.036	-.860	.121	-.031	-.827	.121	-.031	-.800
Retail_Trade	.087	-.028	-.645	.078	-.013	-.337	.079	-.013	-.332
Finance	.058	-.033	-.725	.053	-.024	-.583	0.53	-.025	-.618
Services	.075	.030	.695	.068	-.004	-.102	.068	-.005	-.125
Construction	.132	-.025	-.594	.119	-.017	-.458	.120	-.020	-.535
Main effect									
CSRstyle				.002	.449**	8.940	.002	.451***	8.537
Moderating effect									
ExRem							.083	.037	.671
CSR_ExRem							.004	.002	.0.37
Model summary									
Adjusted R square	.417			.527			.525		
R square change	.434			.108			.001		
F Change	26.029***			79.928***			.531		
Durbin-Watson							1.986		

*p < .05
** P < .01
*** p < .001

decreases in terms of effect size as well, and remains significant (beta = .264; p < 001). The effect of size reduces as well (beta = .128; p < .01). CSRstyle has a significant positive effect in the explicit sample as well (beta = .449; p < .001).

In the third model, implicit CSR has a highly significant beta of .441 (p < .001) and explicit CSR has a highly significant beta of .451 (p < .001). These results support H1a and H1b. The individual and interaction effect of CSR targets in executive remuneration show insignificant coefficients for both styles of CSR (p > .05). This rejects H3a and H3b. Environmental performance has a positive effect on social performance for both implicit and explicit firms (p < .01). Noteworthy is that size only has a significant positive effect on the social performance of firms that pursue explicit CSR (beta = .124; p < .01). For implicit CSR this relationship is insignificant (beta = .075; p > .05). The other control variables remain insignificant for both groups (p > .05).

The robust standard error approach does not function properly for split file regressions in SPSS. It can thus only be assumed that these results are correct, as heteroscedasticity did not impact the significance levels of the full model either.

5. Discussion

In this chapter, the results of the analysis will be discussed more thoroughly and linked to existing literature. The chapter will start off by examining the main effects of implicit and explicit CSR on social performance. Next, the direct and moderating effect of CSR targets for executive remuneration will be elaborated upon. Lastly, the effects of the control variables will be discussed.

5.1 The main effect

First, the direct positive effects of both implicit and explicit CSR on social performance will be discussed. As mentioned earlier, Carroll (1979) and Matten and Moon (2008) argued that regardless of the form of CSR or the underlying motivation for it, firms that pursue CSR efforts are acting responsibly. Therefore it was hypothesized that both implicit and explicit CSR have a positive effect on social performance. Both hypotheses have been supported by the results. The results can be explained by existing literature.

Implicit CSR is argued to be compliance-based (Hiss, 2009; Matten & Moon, 2008). This means that firms pursuing this form of CSR aim to meet the standards set out by policies or social norms and values in order to avoid sanctions (Hiss, 2009). While firms pursuing implicit CSR communicate their CSR efforts to a lesser extent, they are still considered to behave in a responsible way (Carson, et al., 2013). Furthermore, having CSR standards in place indicate that firms should at least maintain a basic level of social performance (Loannou & Serafeim, 2017). Following this line of reasoning, it seems appropriate that the positive relationship between implicit CSR and social performance has been supported.

Explicit CSR is argued to be a voluntary, as well as strategic response to societal issues (Freeman & Velamuri, 2006; Matten & Moon, 2008). Voluntary CSR can be an act of morality (Carroll, 1991), but is often used to satisfy stakeholders (Fernando & Lawrence, 2014). Some scholars are skeptical towards the results of voluntary CSR, as they are not based on standardized requirements and are therefore often reported subjectively (Crawford & Williams, 2010). However, Rodriguez and LeMaster (2007) argue that when firms publish CSR reports voluntarily, they accept societal expectations, which pressure these firms to increase CSR efforts. Furthermore, CSR efforts are considered to be an opportunity for firms to gain legitimacy, or even acquire a competitive advantage (Jones, 1995; Porter & Kramer, 2006). When explicit CSR efforts are rewarded by society, firms can be expected to be eager to establish a significant level of CSR (Jackson & Rathert, 2016). Therefore, it makes sense that the positive relationship between explicit CSR and social performance is statistically supported.

The main goal of this study was to find an answer to the question which form of CSR has a stronger positive effect on social performance. This question relates to a fierce debate within the field of CSR literature over the past few decades on whether voluntary or regulated CSR should be the norm for firms. The results of the analysis are in favor of the hypothesis that explicit CSR has a stronger positive effect on CSR than implicit CSR. When considering implicit CSR, a certain level of responsibility is demanded (Carson, et al. 2014; Hiss, 2009), however this standard might reduce a firm's motivation to make an extra effort (Hiss, 2009; Viganò & Nicolai, 2009). Firms that perform above the norm might even become demotivated as there is no further incentive for maintaining high levels of CSR (Loannou & Serafeim, 2017). Explicit CSR on the other hand is a response to societal issues that goes further than regulated standards, and is often argued to lead to distinct advantages like a positive brand image, employee retention, increased attraction of young talent, and financial performance (Chan, Watson & Woodliff, 2014; Fernando & Lawrence, 2014; Jones, 1995). When CSR becomes a source of competitive advantage, it could be argued that firms might go beyond standards in order to distinct themselves from competitors (Jones. 1995; Saeed & Arshad, 2012). When incentives for high levels of social performance are more attractive for explicit CSR than implicit CSR, it makes sense that firms pursuing explicit CSR maintain above average levels of social performance, as they might believe that this can be beneficial in the long run (Blindheim, 2015).

5.2 The moderating effect

The moderating effect in the model is the hypothesized positive effect of CSR targets in executive remuneration on the relationship between the implicit and explicit CSR and social performance. Although CSR targets in executive remuneration are a relatively novel phenomenon in management literature (Callan & Thomas, 2011; Flammer, et al., 2018), governance structures and incentives have already been around for decades. Their main function is to keep the priorities of managers in line with that of the share-and stakeholders (Eisenhardt, 1989; Fama & Jensen, 1983a; Jensen, 1994). The positive relationship between executive remuneration and social performance has been confirmed by earlier studies (Callan & Thomas, 2011). Hong, et al. (2016) and Flammer, et al. (2018) find support for a positive relationship between CSR targets in executive remuneration and social performance. In addition, Fama & Jensen (1983) argue that the nature of the incentives included in a contract can make a firm distinctive. Following this line of reasoning, it can be expected that firms implementing CSR targets in executive remuneration can distantiate themselves from firms that do not, by achieving superior social performance. However, the hypotheses assuming (1) a moderating effect of CSR targets in executive remuneration on the individual relations between implicit and explicit CSR and social performance, as well as (2) the hypothesis assuming a stronger moderating effect for explicit firms, have not been supported by the results of this study. Even though the effects are positive, they are small and insignificant. The direct effect of CSR targets in executive remuneration on social performance was even smaller and less significant. These results contradict earlier research by Hong, et al. (2016) and flammer, et al. (2018), but are in line with the results found by Maas (2018). While no definitive conclusions can be drawn from the results, a few alternative explanations have been proposed.

Following institutional theory or stakeholder theory reasoning, it could be argued that regulatory and societal demands provide stronger incentives for social performance than CSR targets in executive remuneration, as they affect the whole firm rather than individual executives (Lorsch & Khurana, 2010). This would make CSR targets in executive remuneration redundant (Russo & Harrison, 2005). Firms pursuing implicit CSR are often compliance-oriented, which means CSR practices are implemented in order to avoid regulatory or normative sanctions towards the firm. These CSR standards provide a motive and incentive for firms to pursue CSR (Hiss, 2009), linking CSR targets to executive remuneration might thus be redundant. For firms pursuing explicit CSR, the strategic importance of the aforementioned benefits on the firm-level might be a more powerful motivation for firms to perform well in the social domain than individual-level CSR targets for executives.

An explanation grounded in agency theory could be that executive remuneration for financial performance can also lead to social performance (Callan & Thomas, 2014; Maas, 2018). Several studies found evidence of a positive effect of social performance on financial performance (Orlitzky, et al., 2003; Waddock & Graves, 1997). If financial performance is in fact influenced by social performance, it might be argued that executives who are mainly compensated for financial performance also benefit from high social performance. This argument is supported by a research conducted by Callan & Thomas (2014). Following this line of thought, it might be argued that specific CSR targets in executive remuneration do not distinct a firm from competitors when competitors remunerate executives for financial performance.

A third explanation might be found in the field of leadership styles. Similar to Blindheim (2015), Angus-Leppan, Metcalf and Benn (2010) consider the individual role of of managers in adapting to a certain form of CSR. Angus-Leppan, et al. (2010) and Blindheim (2015) argue that managers can affect the form of CSR that a firm adopts, as well as the number of social issues they assume responsibility of. Angus-Leppan, et al. (2010) propose authentic and emergent leadership styles to lead to distinct forms of CSR. Following this perspective, it may be argued that based on their leadership style and intrinsic morality, managers decide how and to what extend CSR is pursued. If managers are really able to influence CSR practices based on personal norms and values, it may be the case that the leadership style that a manager assumes is a stronger determinant of social performance than CSR targets in executive remuneration. As this proposition would contrast agency theory, it might require further exploration.

Despite the alternative explanations, the results provide no insight on what causes the insignificant moderating effect of CSR targets in executive remunerations. As research in the field is limited, these alternative explanations are not absolute. The results of this study do not reject the whole concept of CSR targets in executive remuneration, they merely suggest that its relationship with the concepts of implicit and explicit CSR and social performance might be dubious. In addition, the results do not provide evidence for the refinement proposed by Blindheim (2015). A critical evaluation of alternatives, or changes in the compensation structure might provide more insights into the relevance of the concept (Callen & Thomas, 2010; Lorsch & Khurana, 2010).

5.3 Control variables

A few control variables have been incorporated in the model in order to provide additional insights into the relationship between the independent and dependent variables. First of all, environmental performance was considered to see whether CSR efforts are distributed between the social and environmental dimension rather equally. There was a strong positive relation between environmental performance and social performance, which was tested significantly. The correlation was not too strong (<.90), meaning that the two outputs of CSR were not distributed perfectly equally. Based on the study by Hong, et al. (2016), it can be argued that environmental performance is more important in the heavily polluting industries than the less polluting industries, which would explain the differences in distribution. However, the opposite effect has not been supported. None of the industries that has been controlled for has a significant positive effect on social performance. This could be explained by how social performance is measured. The indicators of social performance relate to concepts like working conditions, diversity, and product responsibility, which are equally important within every company or industry.

Another noteworthy observation regards the relationship between the size of the company and social performance. The split model showed that the relationship between size and social performance was positive but insignificant for firms pursuing implicit CSR, where this positive relationship was significant for firms pursuing explicit CSR. These results are in line with a study conducted by Thorne, et al. (2014). They find that large firms tend to start pursuing voluntary reports due to stakeholder pressures. Large firms are more visible to the public, and are thus more closely monitored by stakeholders. External pressures are therefore stronger for larger firms (Perrini, Russo & Tencati, 2007; Udayasankar, 2008; Thorne, et al., 2014). Also, these firms have more resources to invest in CSR (Perrini, et al., 2007). The former would also explain why size is more important in explicit CSR than implicit CSR, as explicit CSR is conceptualized as a response to external pressures (Matten & Moon, 2008).

6. Conclusion

In this final chapter, the study will be concluded. First, the research question is revisited and answered. Next, theoretical, policy, and managerial implications are being discussed. Then, the limitations of the study will be presented and elaborated upon. Lastly, suggestions for further research are proposed.

6.1 Answering the research question

The paper by Matten and Moon (2008) provided the field of CSR literature with more insight into why and how countries are dominated by different forms of CSR. However, even though Jackson & Rathert (2016) found empirical evidence for this phenomenon, no study so far attempted to test the relationship between implicit and explicit CSR and social performance (Gjølberg, 2009; Matten & Moon, 2008). In addition, Blindheim (2015) proposed a refinement of the implicit-explicit CSR concept, and argued for the individual role of managers in CSR decision making. While interviews provided grounds for this assumption, no statistical evidence has been provided to the field so far.

With the above mentioned gaps in existing literature in mind, this study set out to find an answer to the following research question:

Which of the two forms of CSR, implicit or explicit CSR, has a stronger impact on social performance, and is there a moderating effect of CSR targets in executive remuneration on this relationship?

Finding an answer to whether implicit or explicit CSR has a stronger effect on social performance can provide insights into the role that governments should take when it comes to CSR, as firms decide to adopt either implicit or explicit CSR based on institutional demands in a country (Jackson & Rathert; 2016; Matten & Moon, 2008). Furthermore, testing for a moderating effect of CSR targets in executive remuneration would not only provide insights into the role of individual managers in the implicit-explicit framework (Blindheim, 2015), but would also add to the limited amount of empirical evidence for its relation with social performance (Flammer, et al., 2018; Hong, et al., 2016).

This study makes use of the Thomson Reuters ASSET4 database. This database scores and ranks listed firms based on their economic, environmental, social, and governance performance. The total sample consists of 456 randomly sampled firms, which operate in 16 different countries. Multiple regression is used to analyze the data. As expected, the results indicate that both implicit and explicit CSR have a positive effect on social performance. In addition, explicit CSR efforts result in higher levels of social performance. This is in line with earlier studies which suggest that firms that pursue voluntary CSR, whether it is to satisfy stakeholders or not, often take CSR efforts a step further (Carroll, 1991; Jain, et al. 2015; Rodriguez & LeMaster, 2007). The results do not find empirical support for a positive direct, or moderating effect of CSR targets in executive remuneration on social performance. The results strongly contradict earlier research (Flammer, et al., 2018; Hong, et al., 2016) However, alternative explanations for the results can be proposed based on existing literature (Callan & Thomas, 2014; Lorsch & Khurana, 2010; Russo & Harrison, 2005).

6.2 Implications

Based on the results of the study, theoretical, policy, and managerial implications can be identified.

There are a few implications with regard to the existing theory. First, the results of the study add to the scholarly debate on whether the government should be involved in CSR practices of firms or not. Most scholars make arguments based on the quality of the CSR reports or find empirical evidence to support one form of CSR in a small sample of countries (Cowan & Gardenne, 2005; Crawford & Williams, 2010; Rodriguez & LeMaster, 2007). The approach followed in this study offers new insights to the discussion. By analyzing 456 firms operating in 16 different countries, this study found more generalizable evidence regarding the effectiveness of implicit and explicit CSR. This approach can be replicated in order to confirm the results. The results provide support for the hypothesis that explicit CSR has a stronger effect on social performance than implicit CSR. This outcome sparks the question if scholars should consider whether superior social performance by explicit CSR would outweigh the current issues that they encounter in the quality of the reporting practices. Another theoretical implication regards the novel stream of literature describing CSR targets in executive remuneration. The results show no empirical support for a positive direct or moderating effect of CSR targets on executive remuneration. Results of this study contradict earlier studies by

Hong, et al. (2016) and Flammer, et al. (2018) who find a significant positive effect of CSR targets in executive remuneration on social performance. These contradicting results might indicate that scholars should consider alternative explanations for the managerial role in CSR (Callan & Thomas, 2014; Lorsch & Khurana, 2010; Russo & Harrison, 2005).

The results also indicate major implications regarding policy making. It is argued that firms pursue explicit CSR in institutional contexts where informal institutions are the most powerful stakeholders (Jackson & Rathert, 2016; Matten & Moon, 2008). If explicit CSR really has a stronger positive effect on social performance, countries that aim to stimulate social performance might consider empowering informal institutions like NGOs, pressure groups, and communities to hold firms accountable for social issues (Jackson & Rathert, 2016; Young & Makhija, 2014). As it is argued that a NBS is often deeply rooted in national culture and history (Hall and Soskice, 2001), this change might be rather difficult. However, several scholars observe that countries are shifting demands for implicit CSR to explicit CSR, which indicates that this change is possible (Carson, et al., 2015; Hiss, 2009; Thorne, et al., 2014).

Lastly, managerial implications consider the usefulness of CSR targets in executive remuneration. The results to this study contradict earlier findings that CSR targets in executive remuneration have a positive effect on social performance. Although findings of this study are not definitive, they might indicate that further research is required in order to verify its effectiveness. Members of compensation committees in firms should be cautious when implementing CSR targets in their incentive system.

6.3 Limitations

A critical reflection on the research process identified a few limitations that should be considered when interpreting the results and conclusion of the study. The limitations regard (1) the measure of implicit and explicit CSR, (2) the complementary effect of implicit and explicit CSR, (3) potential subjectivity in measuring social performance, and (4) the potential bias resulting from heteroscedasticity.

The first limitation of the study relates to the measurement of implicit and explicit CSR. Due to the methodology behind the ASSET 4 database, it is difficult to provide a clean-cut answer to whether firms pursue implicit or explicit CSR. With the focus of the database on relativity and benchmarking, firms can only be argued to be “relatively implicit” or “relatively explicit”. The variable is measured on a scale from 0 to 100. The higher a score a firm is granted, the more explicit they are in terms of CSR. Firms that are granted a score below 50 are considered to be relatively implicit, while firms that are granted a score of 50 or higher are considered relatively explicit. In addition, problems are encountered when interpreting the split-regression. The independent variable CSRstyle measures the explicitness of a firm. The higher the value of CSRstyle is, the more explicit the CSR efforts of a firm are. This measuring scale indicates that the results of the split regression should be interpreted with caution. Firms that pursue implicit CSR have a positive effect on social performance, however, the more explicit they become, the higher their social performance is. This does not affect the support found for H1b and H2, but it does suggest that the validity of the results of H1a are questionable.

The second limitation regards the complementary effect of implicit and explicit. Not only does explicit CSR spread to other countries, some scholars argue for the rise of hybrid versions that combine implicit and explicit CSR practices (Blindheim, 2015; Matten & Moon, 2008). The level of regulatory and customary standards in a country have not been incorporated as a variable, even though these standards might account for a substantial portion of the variance in the model. Although the results indicate that explicit CSR has a stronger effect on social performance, it is not sure whether it functions better as substitution or complementary to CSR regulations (Jackson & Rathert, 2016).

The third limitation regards the measurement of social performance. Scholars are often sceptical towards the reliability of the content of CSR reports that firms publish (Cowan & Gadenne, 2005; Lin, 2010). Window dressing and green-washing are frequently used terms to describe the subjectivity of the data that firms communicate (Lin, 2010; Delmas & Burbano, 2011; Haar & Keune, 2014; Laufer, 2003). Data from the ASSET4 database is all gathered from public documents and websites. It is therefore difficult to guarantee objectivity of the data. This should be taken into account when interpreting the results.

The last limitation corresponds to the heteroscedasticity that has been observed in the data. When an assumption of multiple regression is violated, this can cause bias in the results (Field, 2013). This bias has been controlled for in the full regression using robust standard errors as proposed by Hayes & Cai (2007), but this method did not work for the split regression. It could be argued that as heteroscedasticity did not bias the full regression, it will not bias the split regression either, but it is still recommended to be cautious when interpreting the individual effects implicit and explicit CSR.

6.4 Further research

Based on existing literature and the findings of this study, a few interesting directions for further research are suggested. The first suggestion proposes a refinement of the implicit-explicit framework. While Angus-Leppan, et al. (2010) and Blindheim (2015) suggest that the individual level should be included into the framework, a firm-level concept is overlooked that could potentially add significant value to the model as well, namely organizational culture. According to Lee, Park & Lee (2013), organizational culture plays a role in shaping CSR efforts of a firm. They find that the relationship between cultural fit and CSR capabilities is important for employees, and is especially relevant in order to increase attachment to a firm. This would indicate that firms should take demands of internal stakeholders into account as well. Following a similar approach as Angus-Leppan, et al. (2010), it can be argued that different organizational cultures might lead to different forms of CSR. Preference for either implicit or explicit CSR might attributed to distinct corporate identities which are perceived and shared by their members (Jo Hatch & Schultz, 1997). This could explain intra-country differences of CSR, as observed by Blindheim (2015). Finding the relationship between different organizational cultures and the distinct forms of CSR could provide more insight into how firm-level pressures affect the adoption of either implicit or explicit CSR. It might be possible that firms are influenced by external as well as internal stakeholder pressures regarding CSR efforts.

Additional research on CSR targets in executive remuneration is required as well. The two alternative explanations that were proposed in the discussion section provide interesting directions for further research. First of all, comparing the effects of firm-level and individual level incentives might complement current literature on the agency problem in the domain of CSR. Following Lorsch & Khurana (2010), it might be possible that collective benefits for a firm (like increased brand reputation, employee attraction, and financial performance) might be stronger determinants for social performance than individual financial incentives for executives. If this assumption is correct, CSR targets in executive remuneration would be redundant. Additional research could potentially clarify this issue.

Second, additional research on the relationship between financial targets in executive remuneration and social performance would be useful. Callen & Thomas (2014) argue that as social performance has a positive effect on financial performance, executives might use social performance instrumentally in order to meet their financial targets. If financial targets have a positive effect on social performance, CSR targets would be redundant. This could be tested by comparing the effects of financial targets and CSR targets in executive remuneration on social performance.

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Appendix 1 - Interaction effect

When checking for a moderating effect of the variable ExRem on the relation between CSRstyle and SOCSCORE, an interaction effect needs to be created. If a continuous independent variable is involved in the interaction, as is the case with the variable CSRstyle, a centered variable needs to be computed first (Field, 2013). The first step in computing a centred variable is to check the descriptives of the variable, which are presented in table 1. The second step is to look for the mean of the variable. Lastly, the centered variable is created by subtracting the mean from the original variable. The newly created centered variable is called CSRcentered. Centered variables need to meet 2 requirements: the mean should have a value of 0, and the standard deviation should have the exact same value as the standard deviation of the original variable. As presented in the descriptive statistics below, CSRcentered meets both requirements.

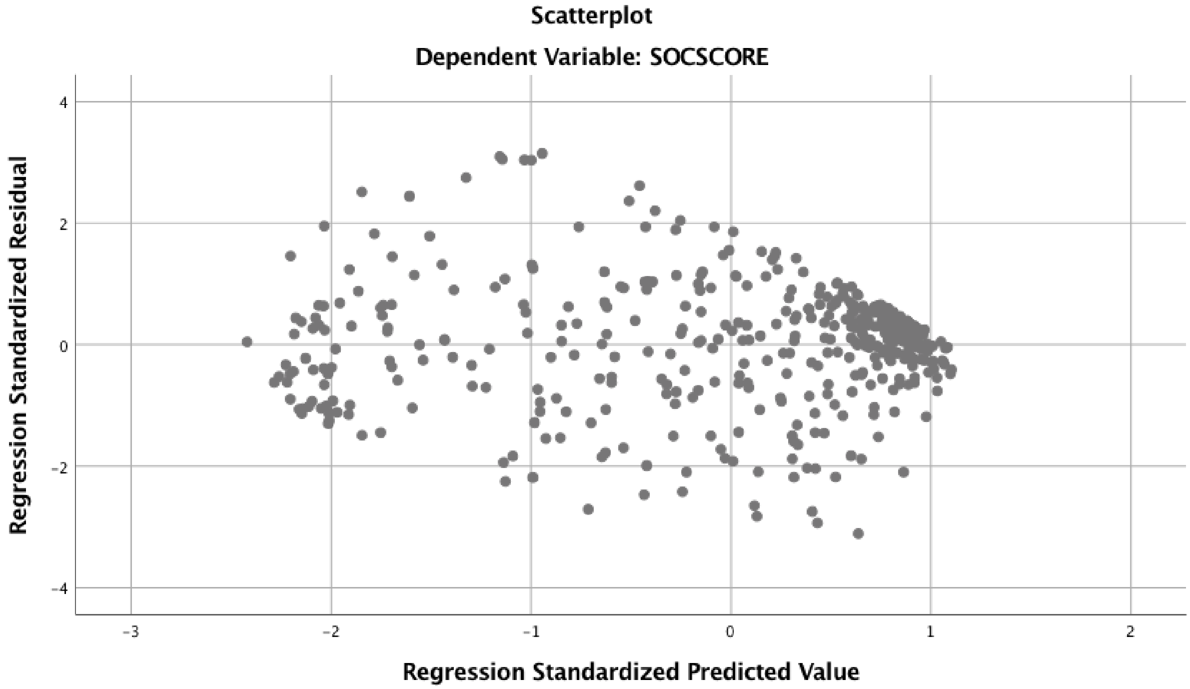
Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
CSRstyle	456	12,6400000	95,4500000	71,3660526	27,4547206
CSRcentered	456	-58,726053	24,0839474	,000000000	27,4547206
Valid N (listwise)	456				

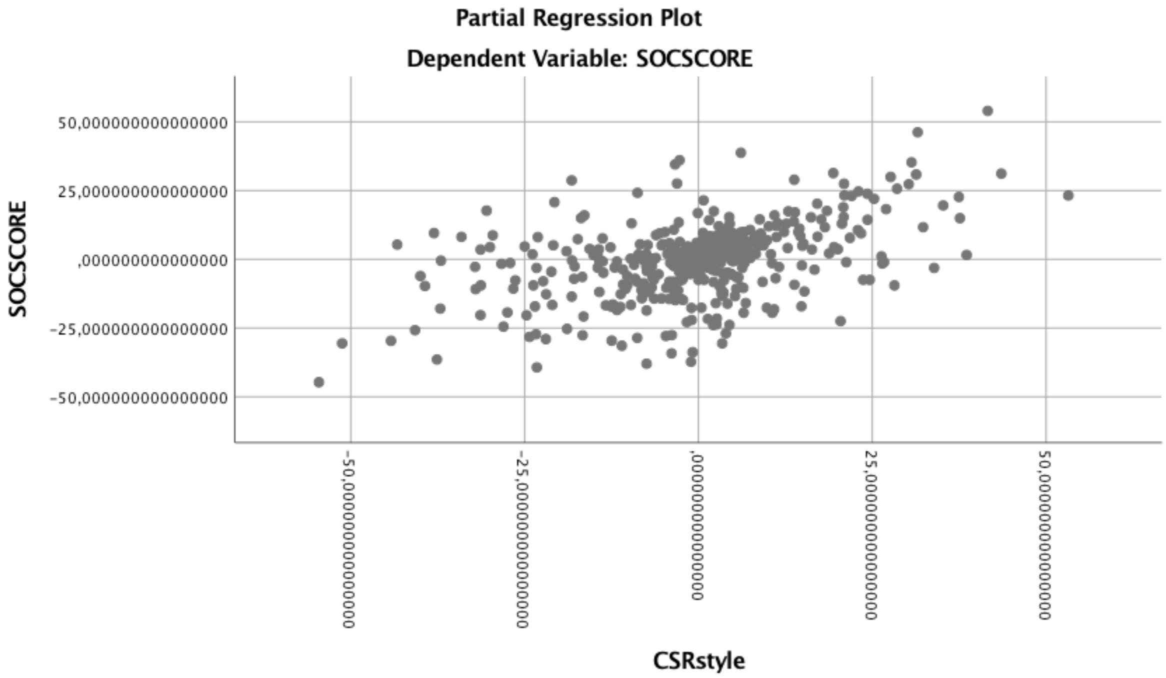
The variable testing the interaction effect can now be created by computing a new variable that multiplies the variable CSRcentered by ExRem (Field, 2013). The newly created variable is called CSR_ExRem.

Appendix 2 - Scatterplot and Partial Plots

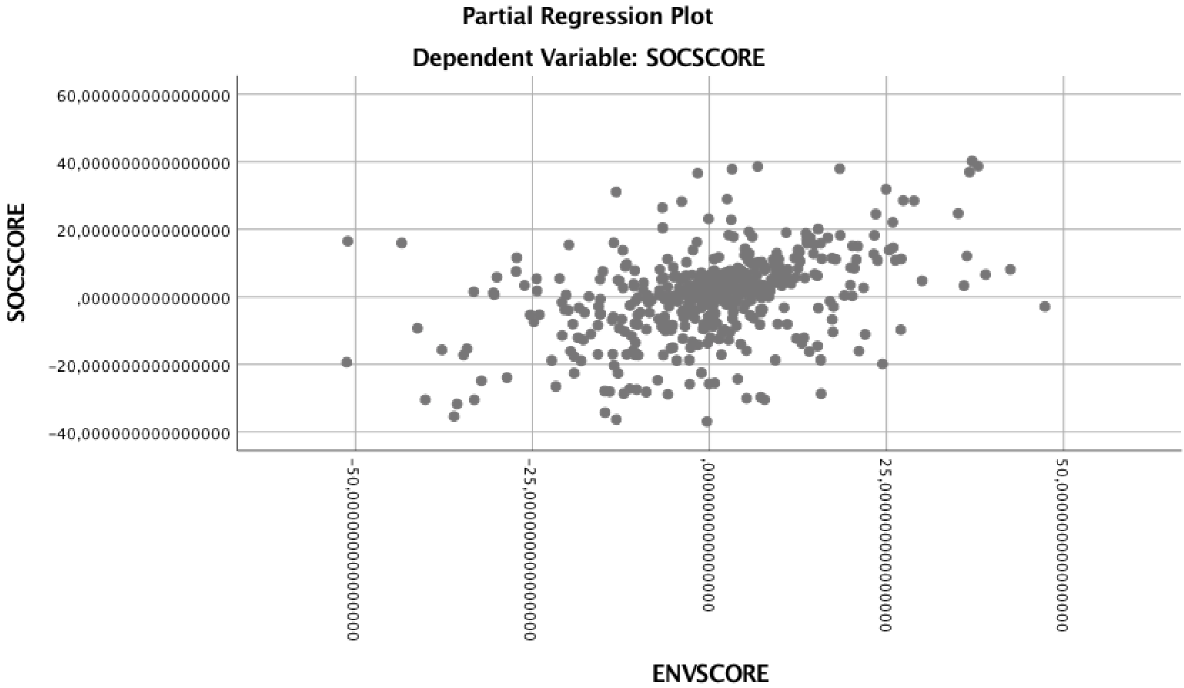
Plot 1: Scatterplot



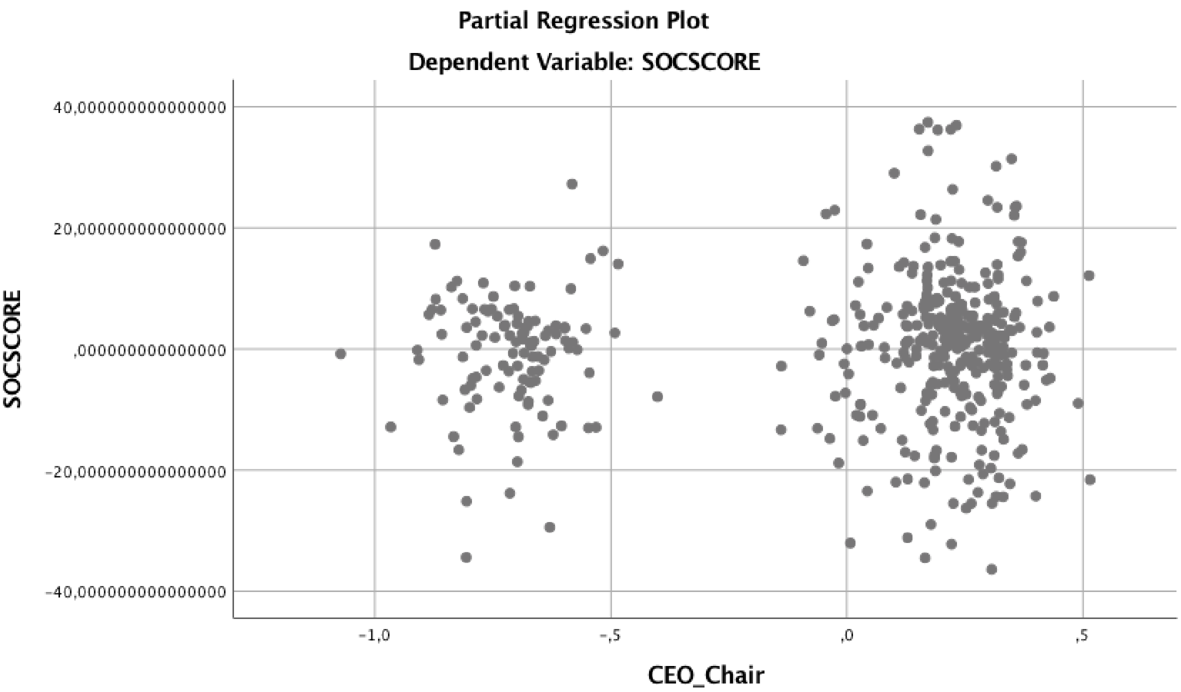
Plot 2: partial regression plot for CRSstyle



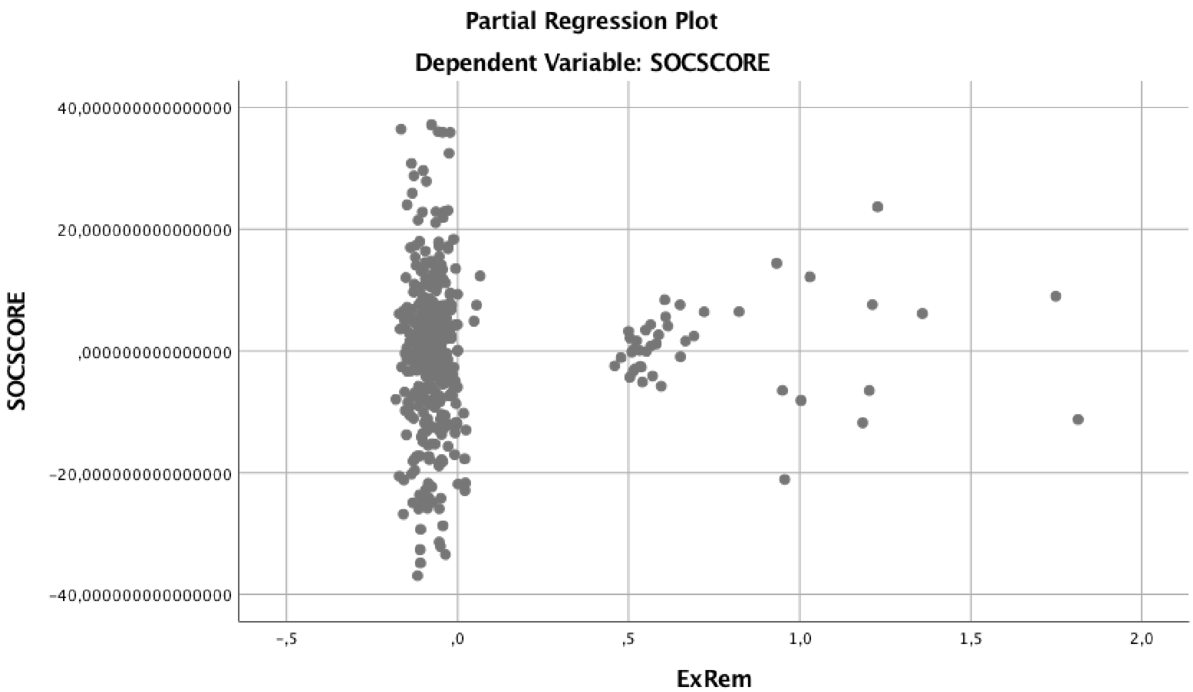
Plot 3: partial regression plot for environmental performance



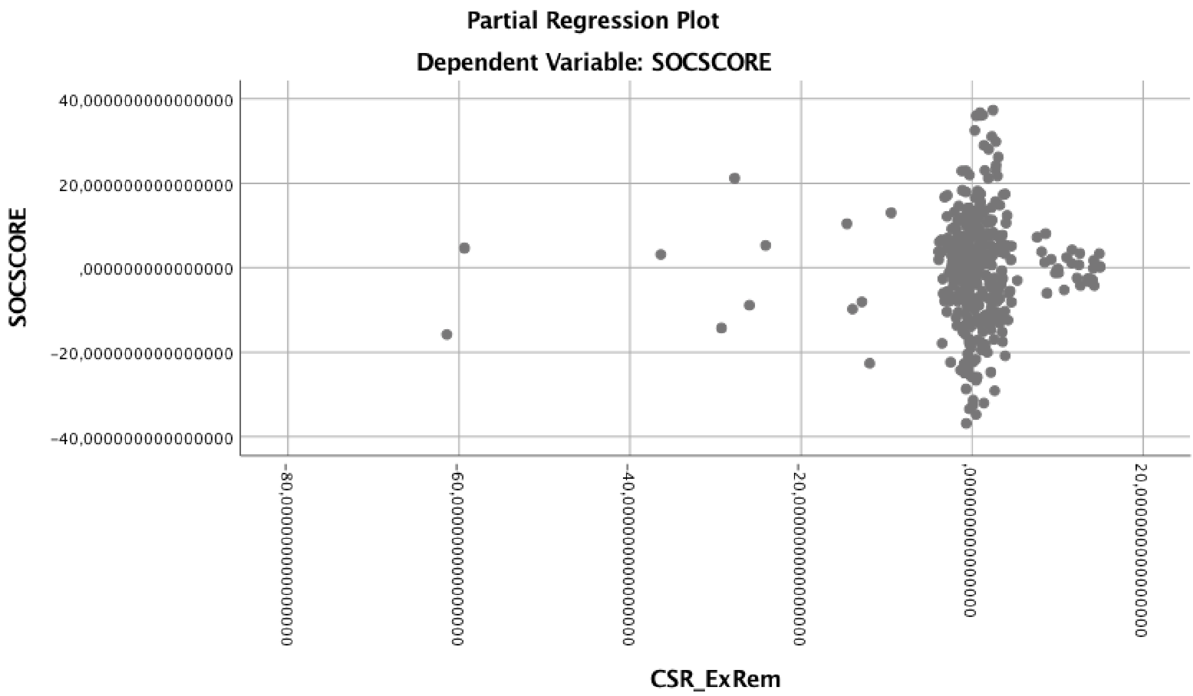
Plot 4: partial regression plot for CEO Chairman seperation



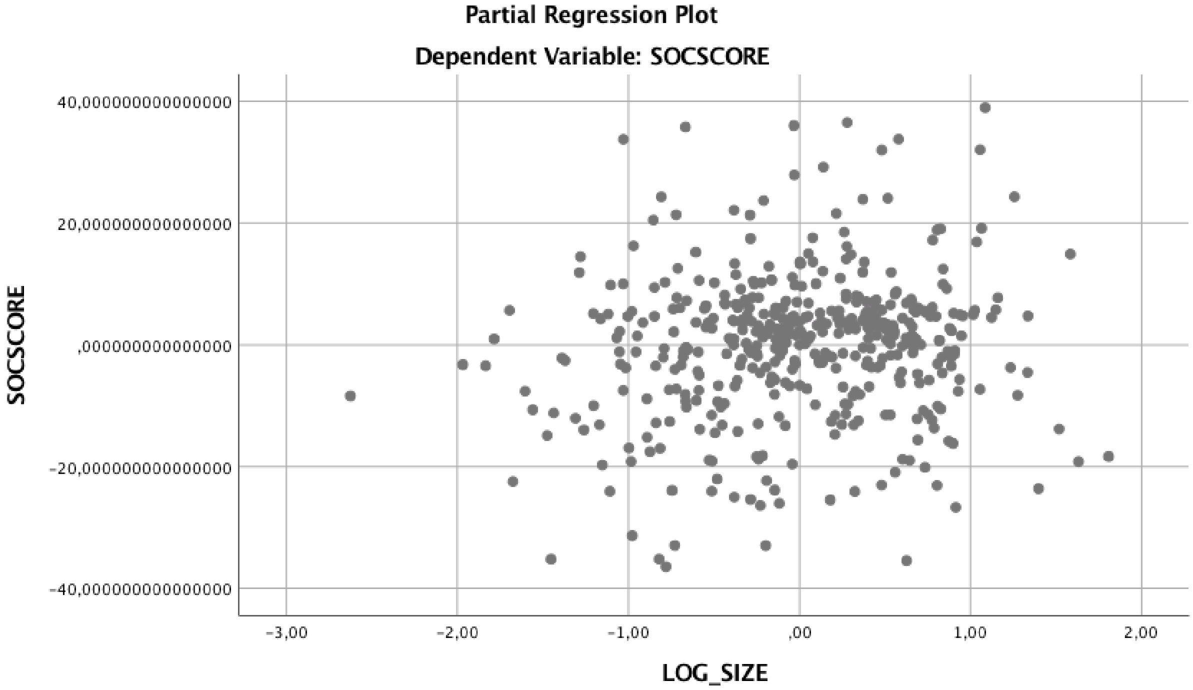
Plot 5: partial regression plot for CSR targets in executive remuneration



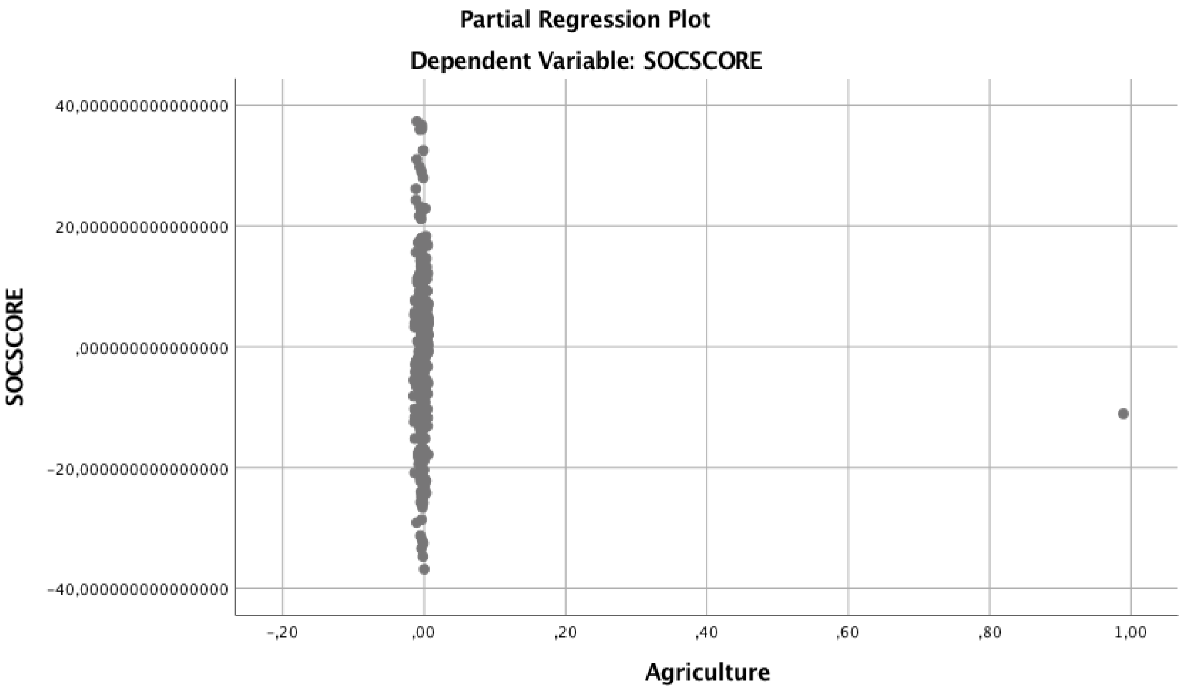
Plot 6: partial regression for the interaction effect of ExRem and CSRstyle



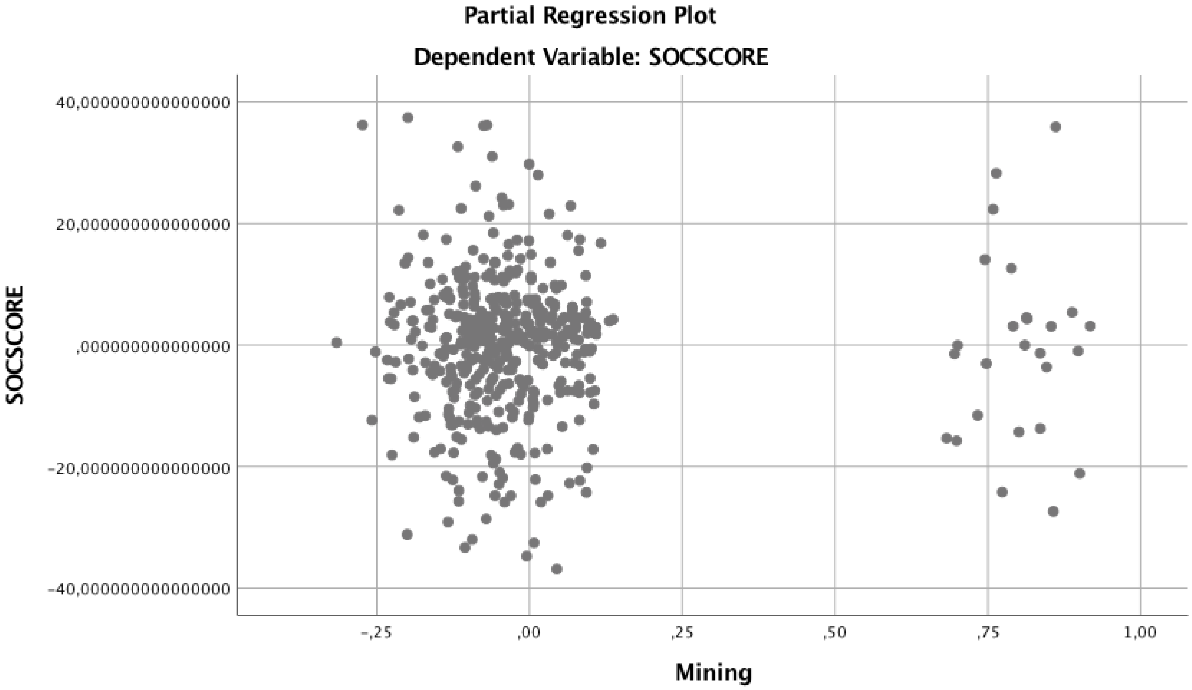
Plot 7: partial regression plot for Size



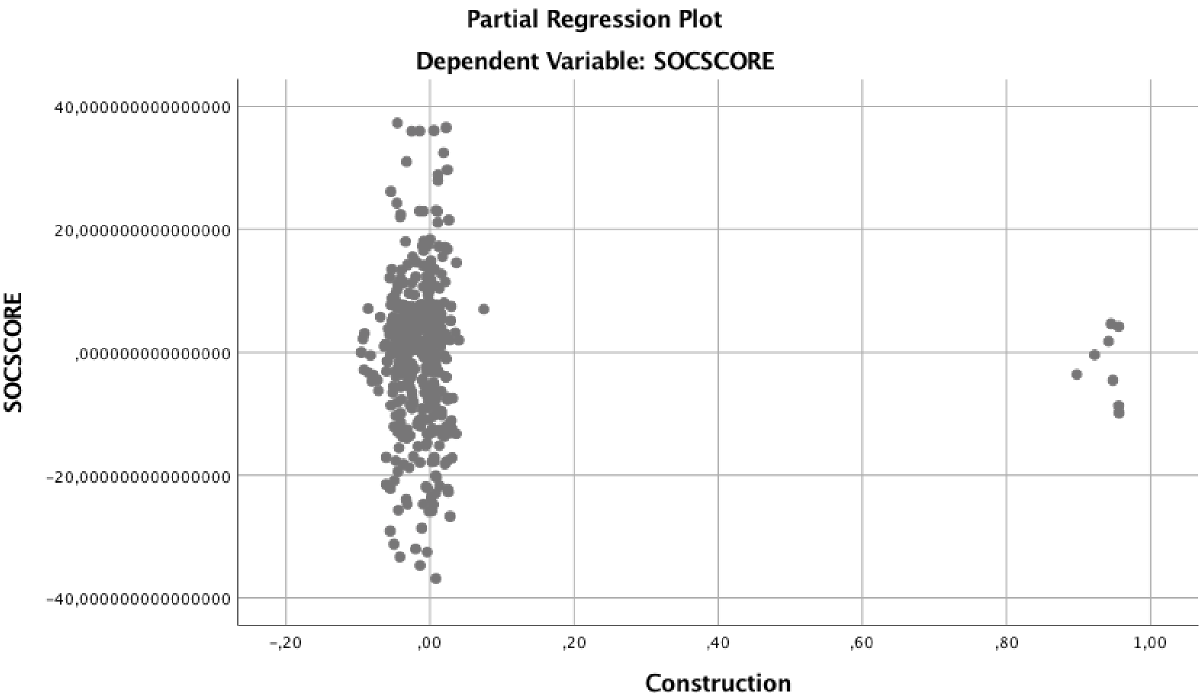
Plot 8: partial regression plot for Agriculture



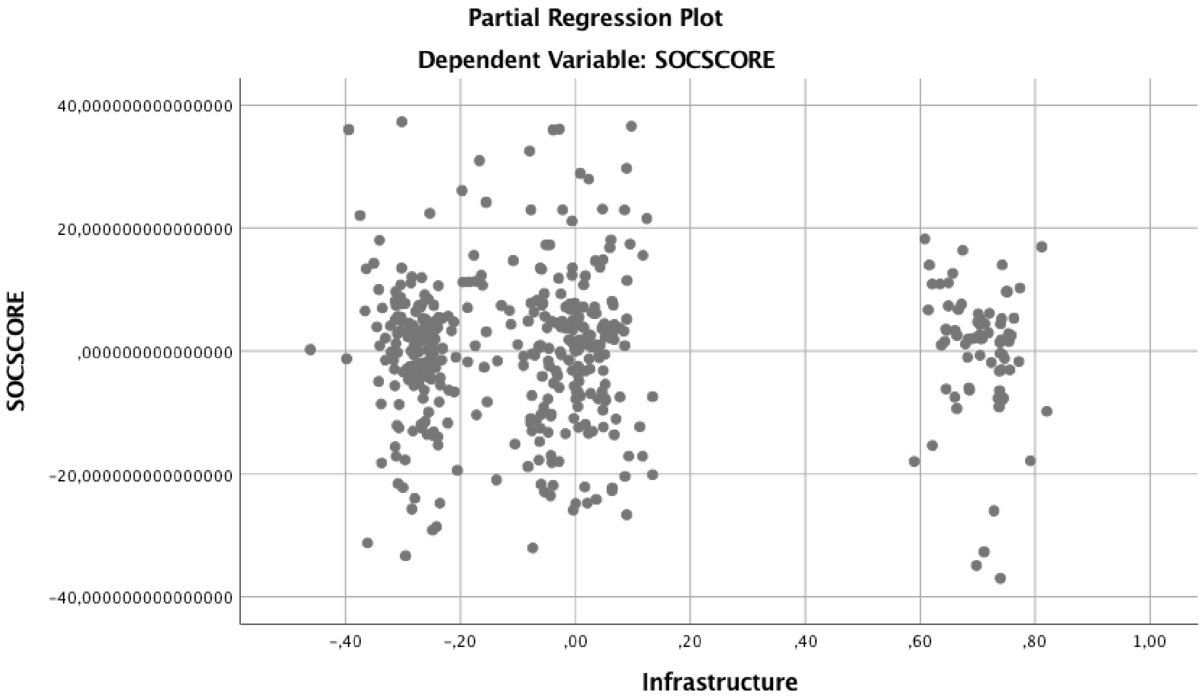
Plot 9: partial regression plot for Mining



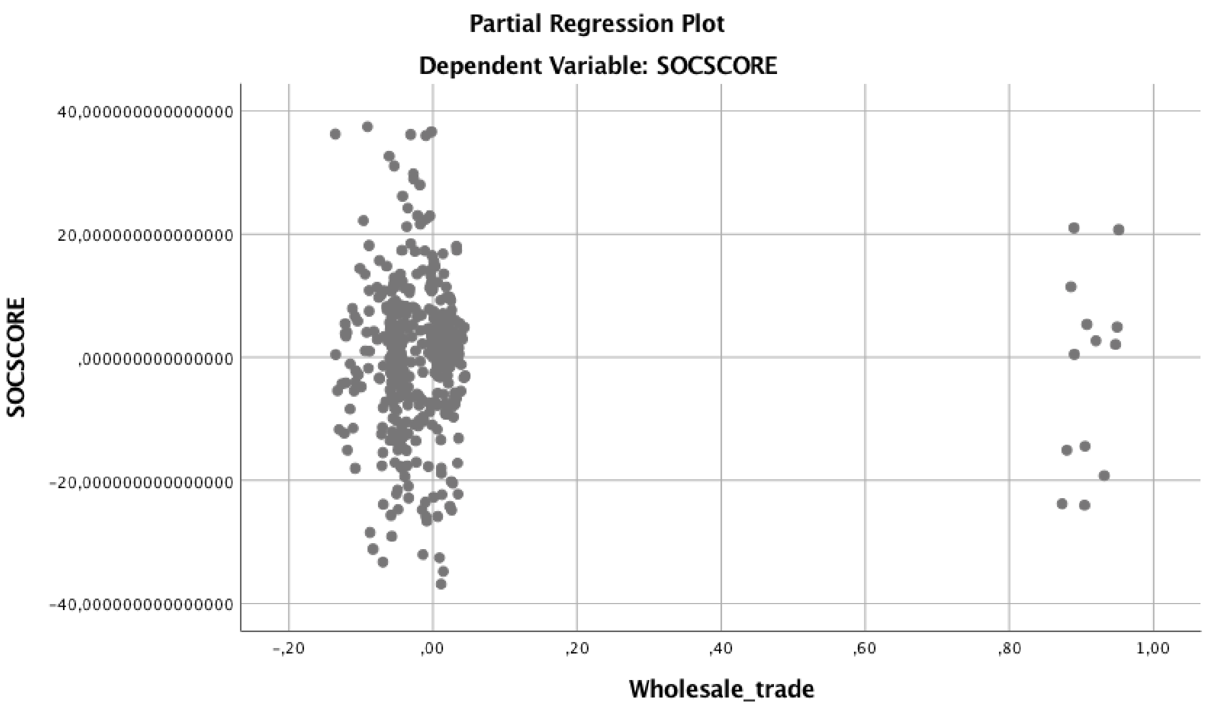
Plot 10: partial regression plot for Construction



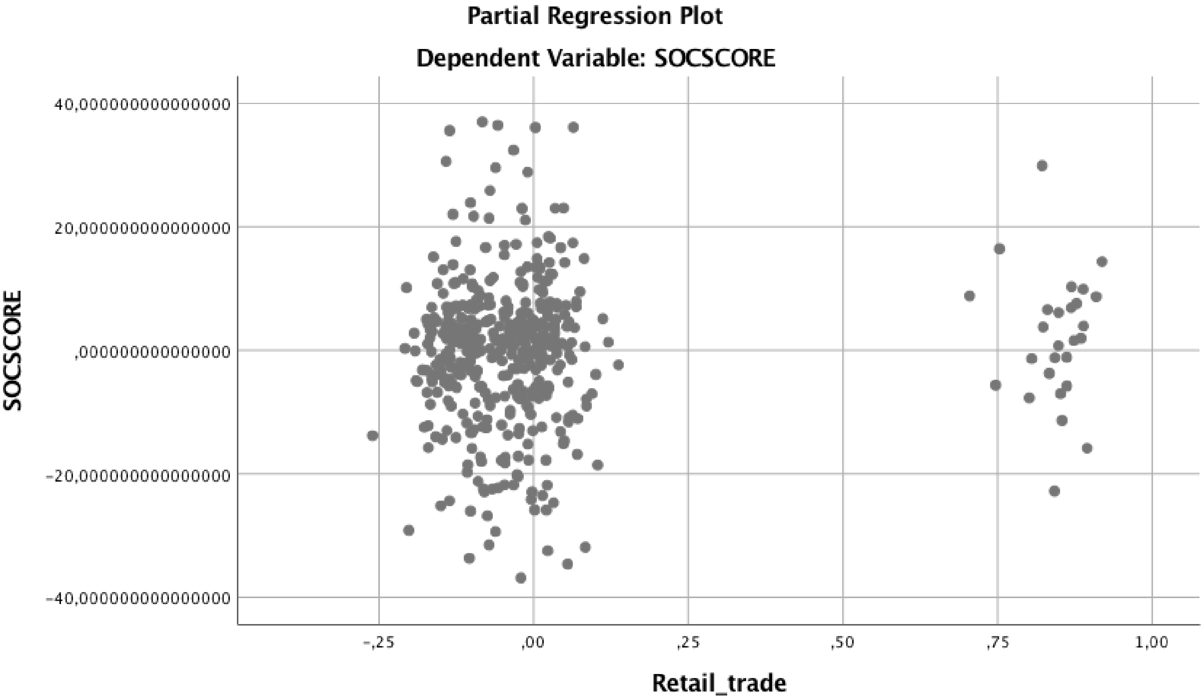
Plot 11: partial regression plot for Infrastructure



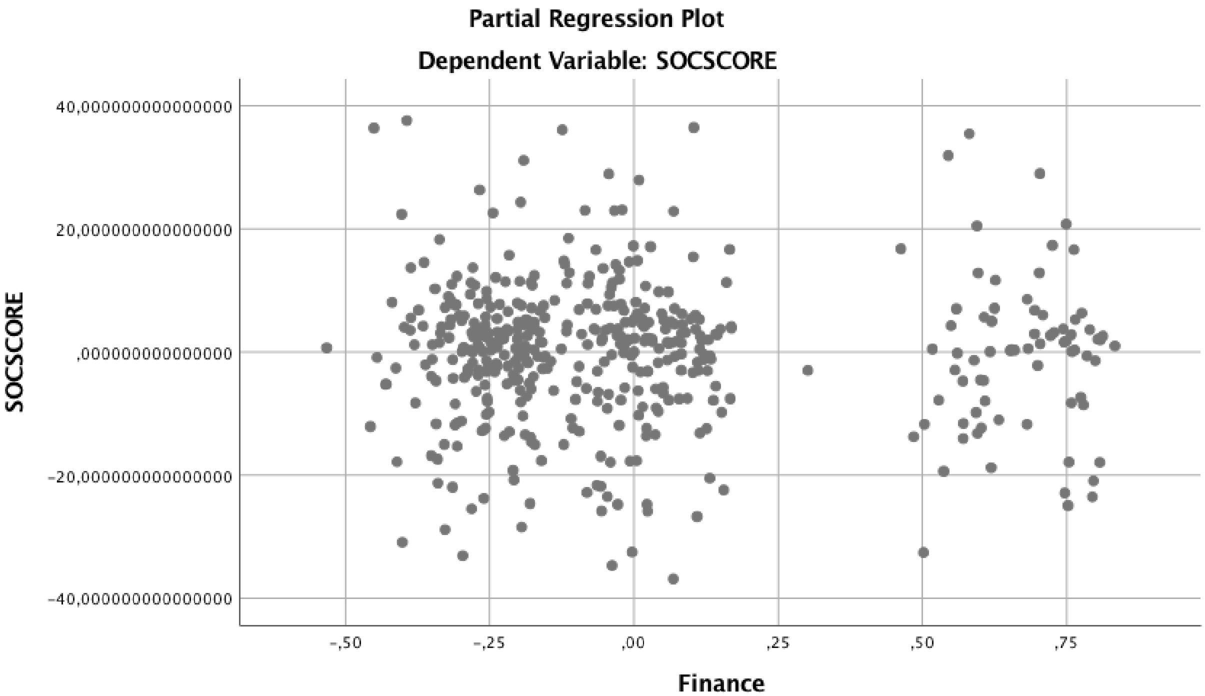
Plot 12: partial regression plot for Wholesale Trade



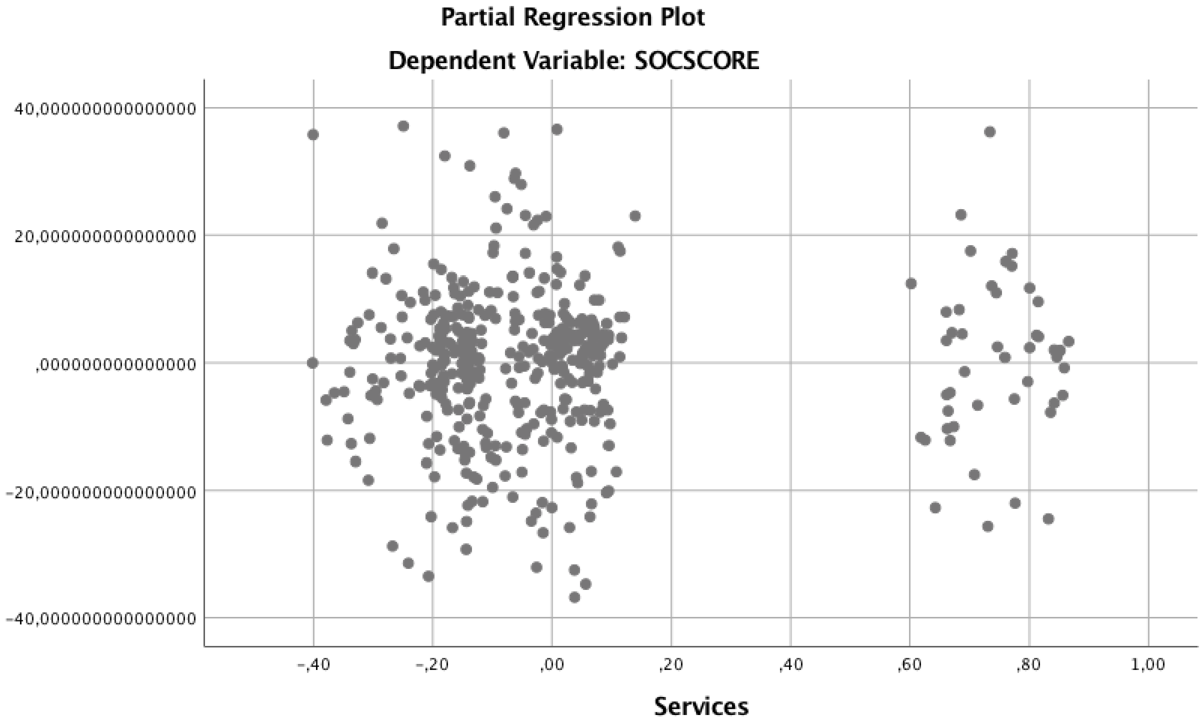
Plot 13: partial regression plot for Retail Trade



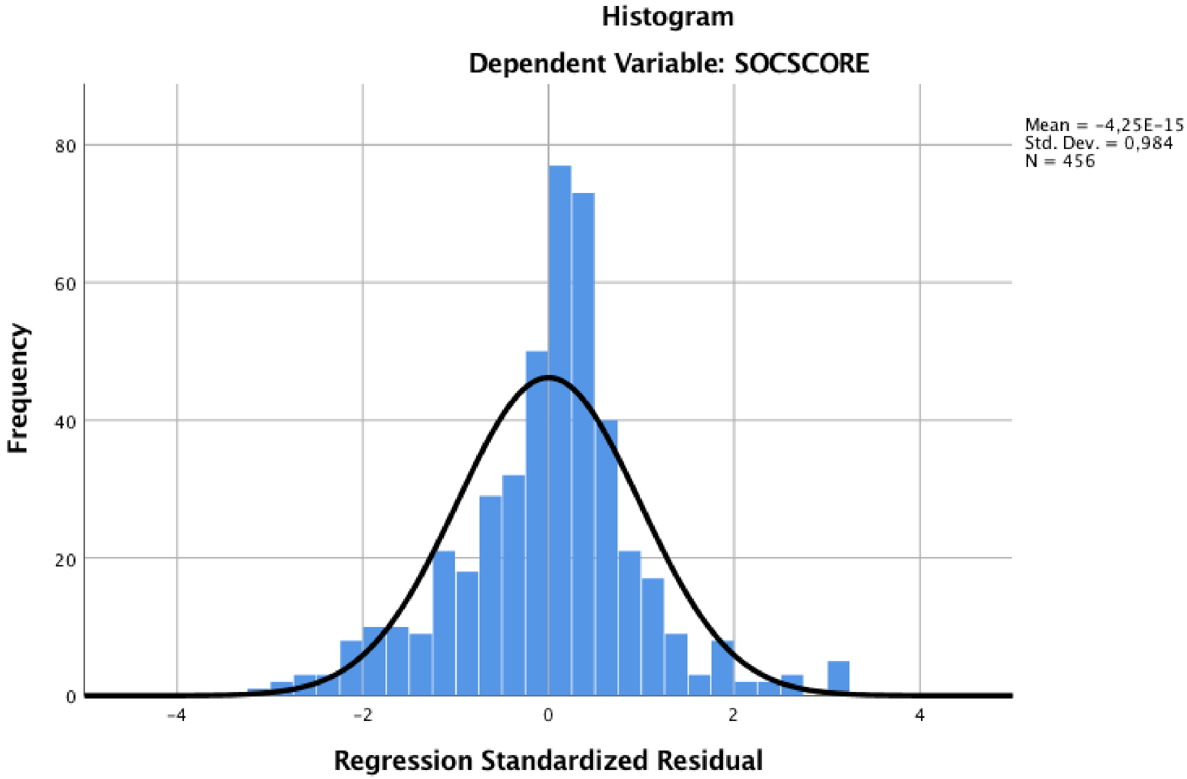
Plot 14: partial regression plot for Finance

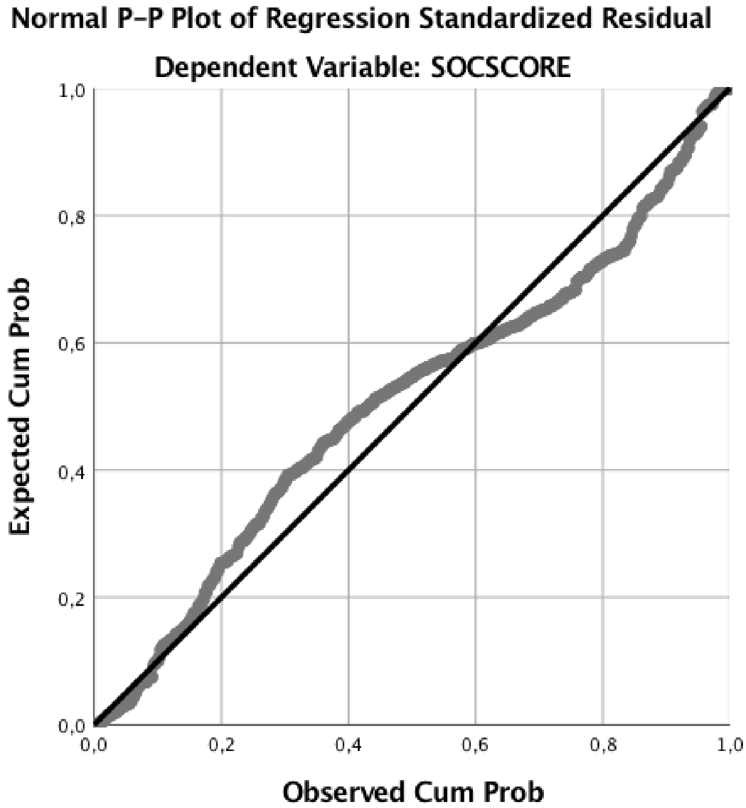


Plot 15: partial regression plot for Services

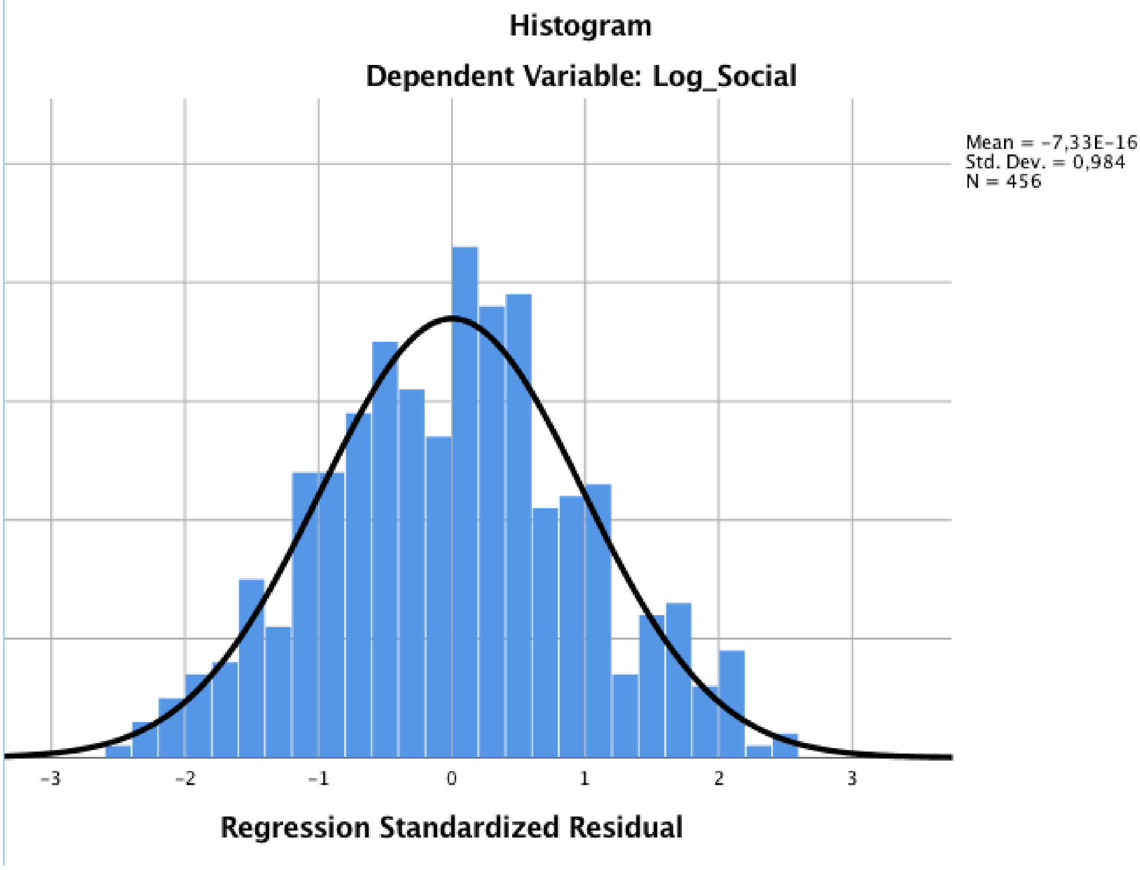


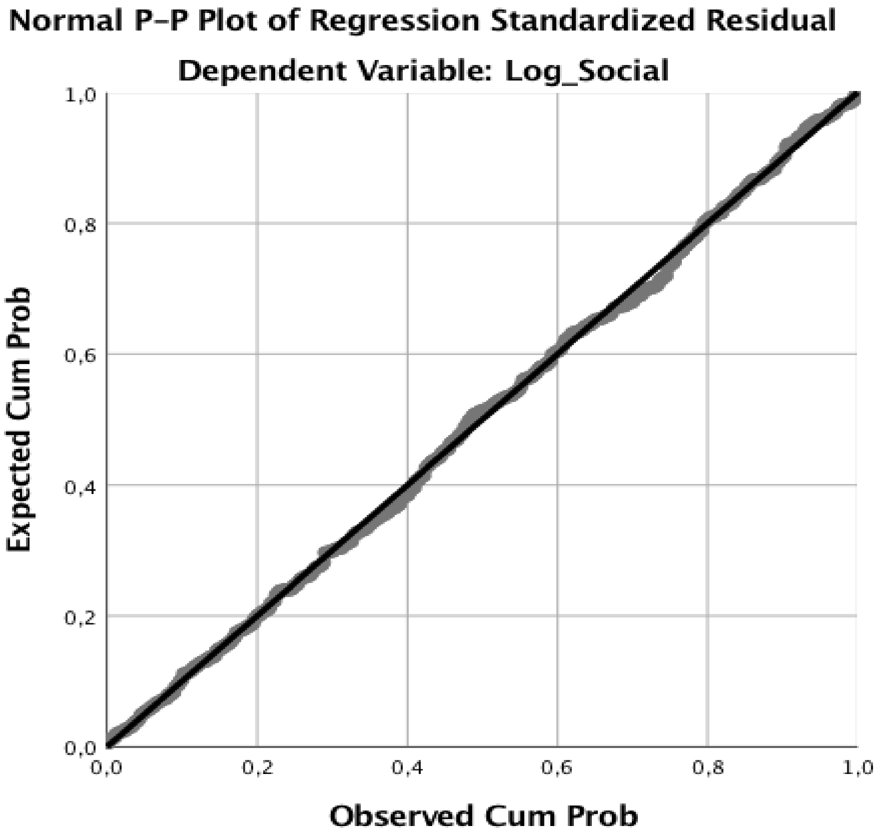
Appendix 3 - Histogram and P-P Plot for SOCSCORE





Appendix 4 - Histogram and P-P Plot for Log_Social





Appendix 5 - The log transformation of Social Performance

As most statistical tests related to the linear regression expect normally distributed error terms, non-normal data can bias the outcomes of the analysis. Bias can be reduced or overcome by transforming the variable. Field (2013) proposes three transformations that might offer a solution to the problem: (1) a log transformation, (2) a square root transformation, and (3) a reciprocal transformation. The most fitting transformation for your data can be found through a process of trial and error. However, it is important to keep in mind that these transformations can only correct for positive skewness or kurtosis. When looking at the distribution of error terms in appendix 3, the data is negatively skewed. In order to make the data fitting for the transformations, variable SOCSCORE (social performance) is first reverse scored. A new variable, Soc_Rev is computed by subtracting the highest value (96.87) by all other values of SOCSCORE. As most transformations require data to have a value >0, the formula for Soc_Rev is: (96.87 - SOCSCORE) + 1. Now that the variable is reversed, the three transformations can be considered. The three transformations look as follows:

1. Log_Rev = LG10(Soc_Rev)
2. SQRT_Rev = SQRT(Soc_Rev)
3. Recip_Rev = 1 / Soc_Rev

After considering all the produced histograms and P-P Plots, the log transformation fitted best with the data. However, it is important to reverse the data again for interpretation purposes. The new variable Log_Social is computed as follows: Log_Social = 1.95 - Log_Rev. The distribution of error terms for the variable Log_Social is described in appendix 4.

Appendix 6 - Collinearity statistics and correlation matrix

Collinearity statistics

	Tolerance	VIF
CSRstyle	.284	3.519
ENVSCORE	.253	3.958
ExRem	.831	1.203
CEO_Chair	.930	1.076
CSR_ExRem	.783	1.277
LOG_SIZE	.577	1.733
Agriculture	.991	1.009
Mining	.849	1.178
Construction	.957	1.045
Infrastructure	.836	1.196
Wholesale_Trade	.937	1.067
Retail_Trade	.898	1.114
Finance	.796	1.256
Services	.830	1.205

Appendix 7 - The assumption of homoscedasticity