Radboud Universiteit

Understanding corporate social irresponsibility in Western Europe: The differences in coordinated market economies and liberal market economies

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1.Introduction

In today's dynamic and interconnected business landscape, the concept of corporate social responsibility (CSR) has gained significant attention, with businesses increasingly expected to accept ethical and socially responsible practices. However, alongside the discourse on CSR lies a less discussed yet equally critical aspect: corporate social irresponsibility (CSiR). CSR focuses on accomplishing the expectations of stakeholders while considering economic, social, and environmental performance. On the other hand, CSiR sheds light on instances where companies engage in actions that are not aligned with stakeholders' expectations and society at large, resulting in negative economic, social, and environmental performance (Shao et al., 2021). Tench et al. (2012, p. 5) elaborated on the actuality of the CSiR concept and stressed that CSiR "is a serious issue of our time, a time associated with both the financial crisis and ecological crisis and is an issue that management, governments, and policymakers are by dint of circumstances increasingly being forced to address." It was also stated that understanding the phenomenon of CSiR is as important for organizations as for society therefore, further studies and analysis are crucial in this area (Tench et al., 2012). Research differs on how one should view the concept of CSiR, and different ethical and ambiguous considerations are present as well (Clark et al., 2022). With this study, I will contribute to the CSiR literature, more precisely to the discussion about what influences the occurrence of CSiR by focusing on how external factors influence the presence of CSiR in organisations. An empirical quantitative study will be conducted in order to sufficiently answer the below-provided research question.

The question of how CSR influences the presence of CSiR (Clark et al., 2022), and how the firm´s performance responds to CSiR (Walker et al., 2019) have been often discussed in previous research. However, the questions about what influences the occurrence of CSiR have caused controversial discussions in the scholarly world. Some researchers state that CSiR is an intentional decision with harmful consequences for organisations as collective agents or employees as individual agents (Iborra & Riera, 2023; Nunn, 2012; Stokes, 2012; Zhang et al., 2023). Individual agents´ behaviour was researched to explain the CSiR in many areas like managers´ values (Hemingway & Maclagan, 2004) or CEO incentives, CEO ethical leadership, and CEO power (McGuire et al., 2003; Rego et al., 2017; Walls & Berrone, 2017). Overall, undesirable behaviour of the organisation is usually explained in literature as the outcome of internal factors such as the behaviour of individuals in the organisation.

On the other hand, others seek to explain CSiR as a consequence of the external environment (Walker et al., 2019). This less-explored perspective posits that CSiR stems from various external environmental pressures (Zhang et al., 2023). Environmental-level antecedents might be "national and industrial levels, such as regulations and norms, level of development, social and cultural institutions, and the level of competition in the industries" (Iborra & Riera, 2023, p. 7). Iborra and Riera (2023) have also stated that only a few researchers have looked at these external determinants. My Master´s thesis seeks to contribute to this aspect of the discussion by focusing on the further explained phenomena.

An area that has not been researched yet is the effect of business systems on CSiR. Nunn (2012) highlighted that the concept of CSiR attributes problematic behaviour in some firms to the individual and corporate agency, suggesting the potential for policy interventions to mitigate irresponsibility and promote responsibility through legal or soft governance measures. However, this perspective overlooks the significant constraints imposed on firms' agency by the structural dynamics of global capitalism. It underscores the significance of inter-capitalist competition and social struggle in delineating the boundaries of corporate agency within this context (Nunn, 2012). In the process of finding out what causes CSiR in organisations only looking at individuals, neglects the impact of structural dynamics in global capitalism on firms' actions. Such narrow scope reduces the potential of organisations governing in a desired manner. Hence, this research not only enriches the scholarly discourse concerning the multifaceted influences on CSiR occurrences but also hold practical significance and implications for local, national, and even global policymakers (Tench et al., 2012).

One way to investigate the differences in global capitalism across the countries is the varieties of capitalism framework (VoC) which is divided into two ideal-type categories: liberal market economies (LMEs) and coordinated market economies (CMEs) (Hall & Soskice, 2001; Walker et al., 2019). This type of classification of institutional systems has been chosen because differences in strategic coordination among corporations are nurtured by national institutional environments and it can be examined in the European context (Hall & Soskice, 2001).

This Master´s thesis seeks to clarify and contribute to the discussion about the role of institutional pressure which influence the occurrence and the level of CSiR by focusing on investigating the impact of global capitalism on CSiR which constraints a firm´s agency. My focus is on investigating whether, in different varieties of capitalism systems, the level of CSiR is different or remains the same. This research uses the VoC framework which serves to compare the influence of different institutional environments on the CSiR level in Western European organisations. Presently, there is a lack of comparative research in this area, thus employing a

comparative approach offers an avenue to extend the discourse regarding the potential external determinants of CSiR (Clark et al., 2022).

To investigate this topic the following research question was formulated: *To what extent do liberal market economies (LMEs) and coordinated market economies (CMEs) influence the level of corporate social irresponsibility (CSiR) in Western Europe?* Using a comparative theoretical lens, this study will apply the varieties of capitalism framework (Hall & Soskice, 2001) to conduct quantitative empirical research across countries in Western Europe. Large corporations which are headquartered in Western Europe will make up the data sample from 2007 to 2020.

Based on rigorous panel data analysis conducted in this study, several key findings have emerged regarding the relationship between market economy types (LMEs and CMEs) and corporate social irresponsibility in Western Europe. The research reveals that companies operating within CMEs exhibit significantly lower levels of CSiR compared to those in LMEs. This underscores the role of institutional frameworks in shaping corporate behaviour, where CMEs with collaborative economic structures and strong labour union presence tend to mitigate irresponsible corporate practices more effectively. Furthermore, the analysis indicates a significant negative relationship between trade union density and CSiR, suggesting that higher unionisation rates contribute to greater corporate accountability and ethical behaviour. Conversely, market capitalization shows a positive association with CSiR, indicating that larger firms tend to exhibit higher levels of corporate social irresponsibility. These findings contribute to a deeper understanding of how institutional contexts and external pressures influence CSiR practices among large corporations in Western Europe.

The subsequent sections of this Master's thesis are organized as the following. First, I delve into the fundamental principles of corporate social irresponsibility and the literature on varieties of capitalism. Second, I provide an outline of the methodologies employed, followed by the presentation of the quantitative research outcomes. Lastly, I analyse the implications of these findings for both theoretical understanding and practical application. I also summarise the limitations of the research and direction for further research.

2. Theoretical background

2.1 Corporate social irresponsibility

The concept of social irresponsibility was first introduced in the 1970s (Armstrong, 1977) whereas this term was important to be able to define social responsibility by stating what social responsibility is not. Armstrong (1977, p. 185) stressed that an act is "irresponsible if the vast majority of unbiased observers would agree that this was so". The importance of the stakeholder's perception of CSiR, the clarity on who judges CSiR actions, and how one´s demographic background influences this perception are still present in the current debate (Campbell, 2007; Lange & Washburn, 2012; Wagner et al., 2008; Washburn & Lange, 2013). Overall, Tench et al. (2012) stated that defining CSiR is difficult, because societal norms, traditions, conditions, cultures, and other factors are always shaped by the surrounding society which moulds the perception of CSiR. Over the years, a few definitions of CSiR have been created (Campbell, 2007; Pearce & Manz, 2011; Strike et al., 2006; Tench et al., 2012).

However, Clark et al. (2022) pointed out that in the discussion about CSiR, it is important to include 3 different aspects: benefit or harm, unintentionality or intentionality, and voluntary or forced rectification. I will define the concept of CSiR according to these baselines as intentional and harmful actions or behaviour of firms that cause damage in society (Clark et al., 2022; Riera & Iborra, 2017). Küberling-Jost (2021, p. 579) also defined CSiR really close to this concept as "a phenomenon that results from intentionally irresponsible strategies, decisions, or actions evolving with negative effects on an identifiable stakeholder or the environment". The conceptual framework of this Master´s thesis is built on the above-mentioned definitions.

Many scholars have researched whether CSiR is an autonomous construct, if it is connected to CSR, or if there is a continuum or orthogonal link between CSR and CSiR (Campbell, 2007; Iborra & Riera, 2023; Sulphey, 2017). In this aspect, this paper builds on Jones et al. (2009, p. 307) who defined an alternative conceptualisation that states CSiR "should be separated out from CSR to facilitate greater understanding of the terms, their meaning, nature, and purpose". Since this research aims to understand CSiR more in-depth, this perspective helps to set the focus of this study. It is acknowledged that organisations engage in both CSR and CSiR simultaneously (McGuire et al., 2003; Strike et al., 2006) however, I investigate the concept of CSiR as it is a non-symmetrical concept from CSR (Walker et al., 2016). Overall, I will consider CSR and CSiR as two conceptually distinct constructs (Chatterji et al., 2009; Godfrey et al., 2009; Kotchen & Moon, 2012).

To answer the question of why organisations engage in CSiR, many theories have been developed. Riera and Iborra (2017, p. 147) expressed that professionals in different fields started to research CSiR to "have a greater knowledge and better understanding of the mechanisms and tools that can help them to alleviate the possible damage caused by this corporate behaviour". Different fields such as psychology, philosophy, and business served as points of view while trying to give answers to the above-mentioned question (Singer, 2000). From the business science perspective, which focuses on the agent´s perspective, some scholars argue that CSiR stems from internal factors within organizations, such as individual and collective agency (Iborra & Riera, 2023; Nunn, 2012). Stokes (2012) explains how small decisions and micro-moments in individuals´ acts influence responsible actions of organisations and how micro-level decisions create macro-level impact. Moreover, he states that "wrong" choices have negative consequences which cause harm and damage (Stokes, 2012). Communication approaches and meaning-making on the agency level as part of organisations´ strategic role were also explained as the cause of organisations´ irresponsible actions (Bartlett et al., 2012).

According to various researchers (Nunn, 2012; Stokes, 2012; Zhang et al., 2023) CSiR is characterized as a deliberate decision which is made by organizations, perceived as collective entities, or employees, seen as individual actors. Research has delved into various aspects of agency behaviour to elucidate the phenomenon of CSiR, exploring factors such as managers' values (Hemingway & Maclagan, 2004), CEO incentives, ethical leadership, and power (McGuire et al., 2003; Rego et al., 2017; Walls & Berrone, 2017). The literature commonly attributes undesirable organizational behaviour to internal factors, particularly the actions of individuals within the organization.

Conversely, others contend that CSiR is influenced by external pressures, including regulatory frameworks, industry norms, or market competition (Iborra & Riera, 2023). There are also existing studies that focus on different institutional contexts and their influence on CSiR. These papers usually focus on how different external forces limit CSR and how it increases the likelihood of CSiR (Ahen & Zettinig, 2015; Dowling, 2014; Windsor, 2013). Another example is Bartlett et al. (2012), who conducted their work in two significant areas impacting the level of organisations' CSiR, one of which was the above-mentioned agency approach. Their second area pointed out that economic imbalances, weak governments, and changing jurisdictions create new environments around the organisations which makes it permissible to act not in an institutionalised and legitimised responsible manner. In this Master´s thesis the focus is on researching one specific type of external force which is the influence of

different systems of capitalism on the CSiR level in organisations headquartered in Western Europe. Nunn (2012) also pointed out that the notion of CSiR assigns responsibility for problematic conduct in certain companies to both individual and corporate agency, implying the potential for policy interventions to address irresponsibility and foster responsibility through legal or soft governance mechanisms. However, this viewpoint fails to acknowledge the considerable constraints imposed on firms' agency by the structural dynamics of global capitalism. It emphasizes the importance of inter-capitalist competition and social conflict in defining the limits of corporate agency within this framework (Nunn, 2012).

The varieties of capitalism as an external governing force together with CSiR have not been researched before, this paper will bring a meaningful contribution to the CSiR literature and to the debate on what influences the occurrence of CSiR. Utilizing the Varieties of Capitalism framework will provide valuable guidance and direction.

2.2 Varieties of capitalism

In the scholarly work, little attention was paid to comparing and understanding the diversity of institutional landscapes (Jackson & Deeg, 2008). Institutions are the regulative, normative, and cognitive parameters that provide the rules of the environment where the companies exist (Jackson & Deeg, 2008). This creates a situation where the institutional environment is a crucial aspect of the organisations´ operation. Campbell (2007) argues that basic economic conditions and the behaviour of organisations are influenced by various institutional conditions such as "public and private regulation, the presence of nongovernmental and other independent organizations that monitor corporate behaviour, institutionalized norms regarding appropriate corporate behaviour, associative behaviour among corporations themselves, and organized dialogues among corporations and their stakeholders" (Campbell, 2007, p. 946). The importance of the power of institutional mechanisms on organisations whether they act socially responsible or not was highlighted in the last three decades (Boudier & Bensebaa, 2011; Bühner et al., 1998; Campbell, 2007; Doh & Guay, 2006). However, the impact of institutional settings on the CSiR practices of organisations is still not clear. The phenomenon of CSR has already been researched in the concept of varieties of capitalism framework (Jackson & Apostolakou, 2010; Jackson & Bartosch, 2016). On the other hand, CSiR was involved with the VoC concept in order to research only the financial performance of the companies (Walker et al., 2019) but no other aspects were included. Therefore, my research results will highly contribute to this debate by involving new point of view.

In order to empirically examine the impact of institutions as external pressure on organisations´ CSiR, the varieties of capitalism framework (Hall & Soskice, 2001) will be applied. The VoC framework is part of the comparative capitalism approach which posits that various institutional configurations exhibit unique strengths and limitations across diverse economic activities (Jackson & Deeg, 2008). Varieties of Capitalism theory classifies economies into two primary groups: Liberal Market Economies (LME) and Coordinated Market Economies (CME). LMEs, such as the United States and the United Kingdom, are characterized by market-driven economic policies where firms coordinate their activities primarily through competitive markets and hierarchies (Hall & Soskice, 2001). In these economies, corporate governance relies heavily on equity markets, and employment relations are typically more flexible, promoting a dynamic but often unstable business environment (Hall & Gingerich, 2009).

Conversely, CMEs, such as Germany and Sweden, feature more strategic coordination through non-market relationships, including collaborative networks among firms and significant involvement of labour unions in corporate governance (Hall & Soskice, 2001). These economies tend to emphasize long-term employment, incremental innovation, and extensive vocational training systems, fostering stability and cooperation (Soskice, 1999). The institutional frameworks in CMEs support coordinated actions and collective bargaining, resulting in a more regulated and stable business environment (Hall & Soskice, 2001).

Scholars have shown persistent interest in conducting cross-country analyses concerning diverse aspects of corporate performance (Hall and Soskice, 2001). The VoC literature highlights the complexity of a nation’s political economy, characterized by interconnected formal and informal institutional frameworks. These frameworks either limit firms' activities or offer avenues for specific actions (Aoki, 2001; Streeck & Crouch, 1997; Walker et al., 2019). Overall, the VoC literature serves as a valuable tool for understanding how firms operate within varying institutional landscapes.

It was stated that differences between LMEs and CMEs can be examined in the European context (Hall & Soskice, 2001) and Schneider (2008) stressed that Hall´s and Soskice´s (2001) bivariate formulation is geographically narrow, meaning that the VoC framework cannot be interpreted to every country due to different historical and economical characteristics. Moreover, Markus and Mendelski (2015) identified that the VoC approach is applicable to some Western economies, while in post-communist (e.g. Hungarian, Slovak, Polish etc.) economies it is not. Due to the above-mentioned reasons Western European countries are going to serve as the sample for my cross-country comparison of CSiR.

The development of CSR in LMEs and CMEs is historically different. In the former variety of capitalism, norms and standards have been formed in an explicit, mostly market-driven fashion (Matten & Moon, 2008). On the other hand, in CMEs, corporate responsibility emerged from state-coordinated regulations and institutionalised initiatives (Matten & Moon, 2008). Jackson and Bartosch (2016) established that if responsible business practices are complemented by greater degrees of regulation, they tend to be more extensive and effective. This insight into the effectiveness of CSR can also shape the understanding of Corporate Social Irresponsibility. Thus, the regulatory environment that supports CSR can also be a critical factor in mitigating CSiR, highlighting the dual role of regulation in promoting responsible business conduct and preventing irresponsible behaviour. I state my prediction in the following hypothesis:

H1: In Liberal Market Economies (LMEs), where market competition is emphasized and institutional frameworks are more market-oriented, there is a higher number of CSiR events compared to Coordinated Market Economies, where institutions are more coordinated and cooperative.

Campbell (2007) argues that firms are inclined towards adopting socially responsible behaviours when they are affiliated with trade or employee associations and when they actively participate in structured discussions with unions, employees, and various stakeholders. Conversely, firms are likely to adopt socially irresponsible behaviour when they are not participating in such discussions (Walker et al., 2019). As labour unions have the power to influence labour-related management decisions and strategies (Whitley, 1999), they are a key factor affecting a firm's responsible or irresponsible practices (Ioannou & Serafeim, 2012). CMEs tend to have more labour unions, labour-related associations or employees are more connected to different unions, therefore, my second hypothesis can be stated as the following:

H2: Companies headquartered in countries with higher trade union density will exhibit lower levels of corporate social irresponsibility (CSiR) compared to those in countries with lower trade union density.

According to Jackson and Bartosch (2016, p. 18), "firms in LMEs tend to rely more on market mechanisms, while firms in CMEs tend to coordinate business transactions through non-market relationships". CMEs characteristically tend to foster long-term relationships,

investments in skill development, and corporate social responsibility (Jackson & Deeg, 2008). On the contrary, maximizing short-term profit and shareholder value stands as the ultimate goal to achieve in LMEs (Jackson & Deeg, 2008). For example, profit-based managerial incentives (i.e. stock options) play a less significant role in CMEs compared to LMEs (Walker et al., 2019). Overall, the mechanism driven by the stock market results in an enhanced bottom-line mentality and a shorter-term approach in LMEs. The stronger the stock market in the economy is, the more impactful the consequent market mechanism becomes. Therefore, I formally state my prediction in the following hypothesis:

H3: Companies headquartered in countries with higher stock market development will exhibit higher levels of CSiR compared to those in countries with lower stock market development.

The hypotheses assume the following relationships illustrated in figure 1.

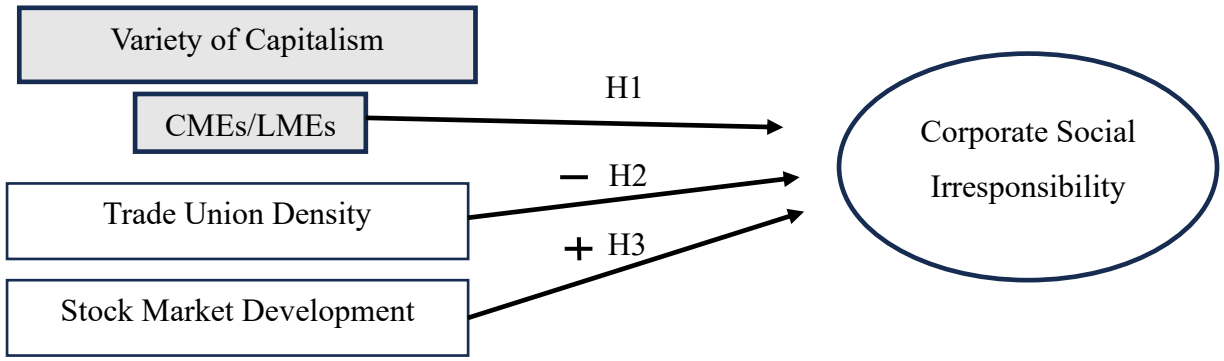

Figure 1. Conceptual model.

3.Methodology

3.1 Research Design

This study employs a quantitative approach utilizing panel data methodology to investigate the relationship between varieties of capitalism and the level of corporate social irresponsibility in Western Europe from 2007 to 2020. A quantitative approach is particularly well suited to establish cause-and-effect relationships and test hypotheses (Hair et al., 2019). Also, approaching CSiR from the quantitative side helps to avoid conducting qualitative research with interviews where organisations want to hide the irresponsible side of their business activity.

Panel data analysis allows for the examination of both within-unit variations over time and between-unit variations at a specific point in time, offering a comprehensive understanding of the dynamics between the variables of interest (Wooldridge, 2010). A panel dataset is particularly suitable for this study as it allows for the analysis of both cross-sectional and time-series variations, providing a comprehensive understanding of how institutional factors influence CSiR practices over time. The purpose of this research is to understand how external pressure changes the level of corporate social irresponsibility in large organisations in Western Europe. To analyse collected data multiple regression analysis was conducted which is "by far the most widely used and versatile dependence technique" (Hair et al., 2019, p. 259). I used this method as an explanatory function to be able to answer the research question which aims to find out to what extent LMEs and CMEs influence the level of CSiR in Western Europe. I tested the hypothesized effects as described by the conceptual model. The dependent variable in this research is CSiR at an organisational level. Independent variables are Trade Union Density, Stock Market Capitalisation as a measurement for stock market development, and the differentiation between LMEs and CMEs. Control variables are company size measured by the value of annual Net Sales, and the Industry in which the companies conduct their business.

The dependent variable is named "csir_stand". It represents the summed number of incidents of CSiR on organisation level, which is standardised between 0 and 1. The first independent variable is "lme/cme" which differentiates the countries between varieties of capitalism- LMEs and CMEs and it is included in the analysis to test the first hypothesis which states that in organisations located in CMEs there is lower level of CSiR than in LMEs. The second independent variable is "tud" (Tradue Union Density) which "corresponds to the ratio of wage and salary earners that are trade union members, divided by the total number of wage and salary earners. Density is calculated using survey data, wherever possible, and

administrative data adjusted for non-active and self-employed members otherwise. Data are expressed in percentages" (OECD, 2014). This variable was used to test the second hypothesis, which assumes that higher percentage of Trade Union Density in countries results in lower CSiR in organisations. The third independent variable is "mc" (Market Capitalisation). This variable is a measure of the total value of all publicly traded stocks in a market divided by the economy's gross domestic product. Therefore, in this context when Market Capitalisation is mentioned, stock market capitalisation to GDP ratio is meaned. The third hypothesis was tested with this variable, which suggests that higher stock market capitalisation results in higher CSiR in the organisations.

Net Sales were chosen to determine the largest corporations because they often have more impact on the economy due to their scale of operations, market presence, and resource capabilities (Chandler, 1992; Wan, 2005). This control variable is key as big companies generally have more CSiR actions. Moreover, controlling for net sales ensures that the analysis accounts for the potential impact of a company's size on its likelihood to engage in CSiR. This helps isolate the effect of external institutional pressures and the varieties of capitalism on CSiR, independent of the company's scale of operations. Also, large corporations typically attract more attention from the public, media, regulators, and advocacy groups than small companies due to their prominence in the market (Caldarelli & Amann, 2017) which can help to increase the number of users who can benefit from this research. Net Sales are equal to gross revenue minus applicable sales returns, allowances, and discounts and in the analysis, they were also standardized. Industry, which is an industry-specific dummy variable is the last control variable. Companies are divided into 6 different categories (1-industrial, 2- utility, 3- transportation, 4-bank/savings & loan, 5-insurance, and 6- other financials). Industries vary significantly in their regulatory environments, which can influence the level of corporate social irresponsibility. Moreover, the nature of a company's operations can affect its potential for CSiR as well. Finally, stakeholder expectations and scrutiny can vary by industry (Melo & Garrido-Morgado, 2012). For example, consumer-facing industries might be under more pressure to act responsibly due to direct consumer interactions, whereas B2B industries might face different pressures.

3.2 Data Collection

The study includes large corporations headquartered in Western Europe. Data is collected for the period spanning from 2007 to 2020 to capture longitudinal trends and variations from 16 countries: Austria, Belgium, Denmark, Finland, France, Germany, Greece,

Ireland, Italy, Netherlands, Norway, Portugal, Spain, Switzerland, Sweden, and the United Kingdom. To narrow the sample, the 15 largest corporations headquartered in the above-mentioned countries were analysed.

The dependent variable CSiR was standardised within each year at all companies using a conventional procedure. Particularly, min-max normalization is the method, where calculating the minimum and maximum value were needed, then subtracting the minimum value from each data point and dividing by the range (max-min) was conducted. These standardised numbers helped to enhance the interpretability and comparison without skewing the results. Overall, the higher value, the higher company´s CSiR level is**.**

The control variable Net Sales was chosen to determine the largest companies in the countries. Not establishing a Net Sales threshold value was decided while trying to reduce my data and determine big organisations because the number of organisations meeting the threshold might vary significantly, leading to an inconsistent dataset size and excluding many countries from the dataset without having the chance to take into account the 16 Western European countries. Therefore, I selected the top 15 organisations from every country with the highest Net Sales in 2020. This ensures that I retain the most significant players in the market. In this way the consistent focus on the top organisation is ensured and manageable dataset size is earned. On the other hand, this method also contains some drawbacks. The total Net Sales of the top 15 organisations may not be the same in the other years however, if I had chosen the top 15 companies in every year based on the highest Net Sales, the comparability of the organisations over the given time period would have not be ensured. Secondly, if an organisation just below the top 15 had a significant Net Sales, it was excluded despite their absolute size.

Data from RepRisk was the starting point for the process of data collection. As the world´s largest daily updated ESG database, RepRisk provides quantitative scores and rankings based on the severity and frequency of environmental, social, and governance (ESG) risk events associated with each company. They collect data from publicly available sources to assess the ESG performance and risk exposure of companies worldwide by monitoring news, articles, NGO reports, blogs, print media, government bodies, regulators, think tanks, and social media (Becchetti et al., 2023). This database also allows tracking CSiR over time for many organisations and they range from international to regional, national, and even local levels. (Becchetti et al., 2023; Li & Wu, 2020). From the RepRisk database RepRisk ID, the ISIN (International Securities Identification Number) identification number, the year, and the number

of irresponsible incidents in environmental, social, governmental, and cross cutting categories were downloaded. I summed these categories to get the dependent variable.

Country-level variables were collected from Eurostat and OECD database and firm-level data from DataStream. DataStream offers one of the most comprehensive ESG databases on a firm level (Baldini et al., 2018). Last but not least, I used Eurostat and OECD databases, the European Union´s rich data collections (Lahti et al., 2017).

3.3 Data Analysis

To analyse the collected secondary data, fixed effect panel data regression analysis was conducted which allowed for the examination of the relationship between the independent variables and the dependent variable (Hair et al., 2019). The regression analysis provided insights into the extent to which different market economy types influence the level of CSiR in Western Europe. Stata 17.0 was used to conduct the analysis, which is a powerful statistical software package widely used for data analysis, data management, and graphical visualization (Kohler & Kreuter, 2005).

To make sure the analysis is correct, a few steps were conducted. At first I made sure the dependent variable is measured over time and also that the repeated measurements have the "same meaning and metric" (Allison, 2009). Secondly, basic assumptions like linearity, multicollinearity, homoscedasticity and no autocorrelation for fixed effect regression analysis were checked. For testing linearity scatter plot was used created in Stata statistical software. One way for check multicollinearity is to use Variance Inflation Factors (VIFs). However, VIFs are not directly available for fixed effects models in Stata therefore, a common approach was used: running a pooled OLS regression and then check the VIFs to determine if perfect correlation is present in the model or not (O'brien, 2007). Homoscedasticity was tested with Modified Wald test by testing for group-wise heteroscedasticity in the residuals of the fixed effect regression model (Stock & Watson, 2008). Testing for serial correlation in linear panel-data regression, Wooldridge test for autocorrelation in panel data was used where the null hypothesis represents no serial correlation, and the alternative hypothesis represents that serial correlation exists (Born & Breitung, 2016).

Dougherty (2011, p. 523) summarised the "decision-making process for fitting a model with panel data", which was also used in this Master´s thesis in order to make the correct decision whether fixed effect, random effect or pooled OLS model analysis hds to be used. Testing the presence of random effects were also necessary because it determines whether

unobserved heterogeneity across entities can be treated as random and uncorrelated with the regressors (Dougherty, 2011). This helped choose the appropriate model ensuring that the regression results are both consistent and efficient. Therefore, Breusch-Pagan Lagrange multiplier was used. The significance of this test refused the appropriateness of Pooled OLS model. Significant Hausman test allowed to accept the null hypothesis indicating that the fixed-effects model is the appropriate one and the random-effects model was to be rejected. Overall, Houseman test has eliminated the random-effects model and Lagrange multiplier has refused the pooled OLS model therefore, I selected the fixed-effects model (Dougherty, 2011).

However, conducting a pooled OLS regression before a fixed effect panel data regression is a robust approach because it allowed to initially assess the overall model fit and significance of the variables, including dummy variables. This preliminary step ensured that model specification was done before applying fixed effects, which then controls for unobserved heterogeneity and provides unbiased estimates for the within-entity variation. The pooled OLS regression´s coefficients represent average effects across all observations, while fixed effects' coefficients capture within-group variations, providing insights into the relationships while controlling for unobserved group-level factors (Wooldridge, 2010).

While checking basic assumptions, the linearity of the model was proved through a scatter plot. Multicollinearity was tested with Variance Inflation Factors (VIFs) where all VIFs were below 10, which indicates not perfect multicollinearity in the model. Homoscedasticity was tested with Modified Wald Test for group-wise heteroscedasticity where p-value was less than 0.05, therefore, I rejected the null hypothesis of homoscedasticity and concluded that there is evidence of heteroscedasticity in the dataset. For the Wooldridge test, the p-value was less than 0.05 therefore, null hypothesis was rejected and serial correlation in the error terms was proved. To correct for both heteroscedasticity and autocorrelation, cluster-robust standard errors were used which help create a more reliable statistical inference by creating an adjusted model which ensures that standard errors are robust (Wooldridge, 2010).

The Hausman test´s statistic chi2 is calculated as 73.25, with a p-value (Prob > chi2) of 0.0000, indicating that the null hypothesis is rejected. This suggests that there are systematic differences in coefficients between the fixed-effects and random-effects models therefore, fixed-effects model is preferred. The Breusch and Pagan Lagrangian multiplier test for random effects evaluated the presence of unobserved heterogeneity (random effects) in the model. The low p-value (0.00) suggests strong evidence against the null hypothesis that the variance of the random effect is zero.

3.4 Research Ethics

While conducting a quantitative Master's thesis utilizing multiple regression analysis, it is important to consider the rigorous research ethics guidelines to ensure the integrity and credibility of my research process (Smith, 2003). In alignment with APA's Ethics Code, transparency regarding intellectual property rights is paramount. With regards to authorship, all articles used in this Master's thesis are properly cited and the data used are kept for at least 5 years (Smith, 2003).

Since this research is not including participants providing comprehensive information about the research purpose, procedures, potential risks, benefits, confidentiality measures, and participants' rights is not going to be necessary to inform them or to take care of their privacy rights. However, data will be used from legal sources and reliable databases and literature are going to be used to ensure trustworthy and reliable research outcomes. Therefore, upholding privacy is going to be possible as well (Smith, 2003).

4.Results

Table no 1. reports basic descriptive statistics for the variables used in the analysis. The "CSiR" variable represents the raw scores of corporate social irresponsibility, with a mean of 18.33 and a standard deviation of 44.79. The wide range (0 to 525) suggests significant variability in CSiR among the firms in the sample. CSiR shows a low mean with moderate variability, indicating that while most companies have low levels of standardized CSiR, there are notable exceptions with higher scores. Trade Union Density has 2,534 observations with a mean value of 37.31. It also displays a wide range and significant variation across countries, reflecting diverse labour union environments. Market Capitalization variable is present with 3,108 observations, the mean market capitalization is 0.682. The standard deviation is 0.384, with values ranging from 0.119 to 2.698, suggesting variability in the market capitalization among firms. "LME/CME" dummy variable has a mean of 0.865, indicating that the majority of the observations fall into the CMEs category. LMEs account for 12,5% of the researched countries.

Variable	Obs	Mean	Std. dev.	Min	Max
CSiR_standised	3,108	0.0349206	0.0853133	0	1
CSiR	3,108	18.33333	44.78948	0	525
tud	2,534	37.31468	19.95059	10.6	72.5
mc	3,108	0.6819949	0.3841646	0.1193617	2.69758
cme/lme	3,108	0.8648649	0.3419229	0	1
ns_standardided	3,056	0.1199967	0.1073273	0	1
ns	3,056	19800000	28400000	11900000	253000000.00

Table 1. Descriptive statistics.

Based on the pooled OLS panel analysis we can conclude that 42.09% of the variance in the dependent variable is explained by the independent variables. The Trade Union Density does not have a statistically significant effect on the standardized corporate social irresponsibility, as indicated by the p-value of 0.494. This suggests that Trade Union Density does not significantly influence CSiR levels. There is a positive and statistically significant relationship between market capitalization and standardized CSiR ($p < 0.001$). The negative coefficient (-0.0280477) suggests that, on average, companies in coordinated market economies exhibit a lower level of standardized corporate social irresponsibility compared to those in

liberal market economies. Utilities show significantly lower standardized CSiR compared to industrial companies (p = 0.024). There is no significant difference in standardized CSiR compared to industrial companies (p = 0.236). Banks/savings & loan institutions have significantly higher standardized CSiR compared to industrial companies (p < 0.00). Insurance companies exhibit significantly lower standardized CSiR compared to industrial companies (p < 0.00). Other financial companies have significantly higher standardized CSiR compared to industrial companies (p < 0.00). There is a strong and highly significant positive relationship between standardized net sales and standardized CSiR (p < 0.00).

	1a		1b	
	Pooled OLS	Significance	Fixed-effects	Significance
tud	-0.0000547	0.494	-0.0049625	0.000
	(0.0000799)		(0.0011132)	
mc	0.0210084	0.000	0.0203955	0.001
	(0.0039852)		(0.0062141)	
cme/lme	-0.0280477	0.000	-	-
	(0.0038678)			
ns_standardised	0.4823239	0.000	0.3587049	0.255
	(0.0139022)		(0.3146045)	
industry 2	-0.0112452	0.024	-	-
	(0.0049964)			
industry 3	-0.0081928	0.236	-	-
	(0.0069073)			
industry 4	0.0329683	0.000	-	-
	(0.0051259)			
industry 5	-0.0466527	0.000	-	-
	0.0049198			
industry 6	0.0717088	0.000	-	-
	(0.0078591)			
Year dummies	Yes		Yes	
Observations	2482		2482	
# companies	222		222	
R-squared	0.4209		0.1237	

Notes: The dependent variable is CSiR. Standard errors are reported in parentheses. Standard errors are clustered on companies.

Table 2. Pooled OLS and fixed-effects estimates of specification.

A fixed-effects regression analysis was conducted on a dataset comprising 2 482 observations across 222 distinct companies. The within-group R-squared (0.0938) indicates that approximately 9.38% of the variation in the dependent variable is explained by the independent variables within each group. The between-group R-squared (0.1366) suggests that approximately 13.66% of the variation in the dependent variable is attributable to differences between groups. The overall R-squared (0.1237) provides an average measure of the explanatory power of the model across all observations. F-statistic with a value of 11.60 and a p-value less than 0.001, proved that the model is statistically significant at conventional significance levels. The independent variable Trade Union Density with the coefficient of -0.0049625 which suggests that with each unit increase in "tud", the dependent variable "csir_standardised" decreases by approximately 0.005 units. This coefficient is statistically significant at the 0.05 level, with a p-value of 0.000 therefore, we can conclude that our second hypothesis is accepted. Higher Trade Union Density can relate to lower level of CSiR in the researched countries. The last independent variable is Market Capitalisation which coefficient is 0.0203955. This indicates that for each unit increase in "mc", the dependent variable "csir_standardised" increases by approximately 0.020 units which aligns with our third hypothesis, which assumes that higher Market Capitalisation leads to higher CSiR. This coefficient is statistically significant with a p-value of 0.001.

Overall, pooled OLS regression´s results provided a comprehensive summary of the regression analysis, including model fit statistics, significance tests, and individual coefficients. Fixed effects regression provided similar information but with additional details such as clustered standard errors and variance component estimates for random effects models. One of the biggest difference is that in fixed effects regression two variables (cme/lme and industry) are omitted and therefore, not tested for significance.

When comparing the results of the pooled OLS regression and the fixed effect analysis, it's evident that they test different variations of the relationship between the dependent variable and independent variables. Comparing the results between the pooled OLS regression and the fixed effect analysis reveals intriguing differences in the significance of key variables. In the pooled OLS regression, Market Capitalisation demonstrates a significant positive relationship with the dependent variable, indicating that larger market capitalization is associated with higher CSiR. Conversely, Trade Union Density shows no significant relationship in the pooled OLS model, suggesting that this variable does not independently predict the dependent variable when controlling for other factors. However, in the fixed effect analysis, Trade Union Density becomes significant with a negative coefficient, implying that an increase in this variable is

associated with lower outcomes when individual-specific effects are considered. This divergence suggests that while market capitalization consistently affects outcomes positively across both models, the influence of the number of associations varies depending on whether individual-specific effects are controlled for. This comparison underscores the importance of considering the specific structure of the data and the potential impact of unobserved individual heterogeneity when interpreting results from different regression models. This discrepancy can be attributed to the fixed effect model's ability to capture time-invariant characteristics within entities, potentially revealing nuances that are masked in cross-sectional analyses like pooled OLS.

5.Discussion

5.1 Summary

This study utilized panel data methodology to investigate the relationship between market economy types (LMEs and CMEs) and corporate social irresponsibility in Western Europe from 2007 to 2020. A fixed-effects regression analysis revealed significant findings regarding the influence of trade union density and market capitalization on CSiR levels. The results suggest that trade union density has a statistically significant negative effect on CSiR, indicating that higher unionization rates are associated with lower levels of corporate social irresponsibility. Conversely, market capitalization exhibited a positive and statistically significant relationship with CSiR, implying that larger market capitalization is linked to higher levels of irresponsibility.

CSiR, as a consequence of the external environment´s impact from the perspective of Varieties of Capitalism framework, is not a well-researched area. This Master´s thesis seeks to provide an explanation whether CSiR stems from various external environmental pressure where regulations and norms, the level of competition, social institutions and industrial levels represent the "external environment" (Iborra & Riera, 2023; Zhang et al., 2023). Prior studies, such as Hall and Soskice (2001), have highlighted the distinctive characteristics of CMEs and LMEs, suggesting that CMEs foster more collaborative and long-term oriented business practices.

The analysis demonstrated that companies in coordinated market economies exhibit a lower level of corporate social irresponsibility compared to those in liberal market economies. This supports the first hypothesis (H1), which posited that in LMEs, where market competition is emphasized and institutional frameworks are more market-oriented, there is a higher incidence of CSiR events compared to CMEs, where institutions are more coordinated and cooperative. This finding underscores the crucial role of market economy types in influencing CSiR levels in different countries. The results also showed that higher trade union density is associated with lower levels of CSiR, validating the second hypothesis (H2), which stated that companies headquartered in countries with higher trade union density would exhibit lower levels of corporate social irresponsibility. This suggests that stronger labour unions and collective bargaining rights contribute to greater corporate accountability and ethical behaviour. Furthermore, the third hypothesis (H3) was confirmed, indicating that higher market capitalization is associated with higher levels of CSiR.

The significant acceptance of these hypotheses confirms that institutional and market factors play a crucial role in shaping corporate conduct. In LMEs, the competitive, market-oriented environment and developed stock markets drive higher CSiR, while in CMEs, the coordinated institutional frameworks and strong trade union presence mitigate irresponsible practices, emphasizing the importance of institutional context in corporate social irresponsibility.

As an answer to the research question, the findings reveal that coordinated market economies exhibit significantly lower levels of CSiR compared to liberal market economies. This supports the hypothesis that CMEs, with their cooperative and long-term oriented institutional frameworks, mitigate irresponsible corporate behaviours more effectively than the competitive, market-driven environment of LMEs. Additionally, the analysis shows that higher trade union density is significantly associated with reduced CSiR, suggesting that strong labour unions enhance corporate accountability and ethical behaviour. Conversely, market capitalisation is positively and significantly related to CSiR, indicating that larger firms tend to exhibit higher levels of irresponsibility. These findings underscore the critical role of institutional contexts in shaping corporate conduct and highlight the need for tailored regulatory approaches to foster corporate responsibility in Western Europe.

The findings support Nunn's argument that structural dynamics and inter-capitalist competition constrain firms' agency and influence their CSR practices. Additionally, the negative relationship between trade union density and CSiR underscores the regulatory role of labour unions, aligning with Nunn's advocacy for policy interventions to promote responsible corporate behaviour. Conversely, the positive link between market capitalisation and CSiR in LMEs underscores the pressures of market competition on corporate conduct, reinforcing Nunn's perspective on the challenges of governing organizations amidst economic imperatives.

5.2 Implications

These findings have significant implications for policymakers, businesses, and stakeholders in Western Europe. The negative relationship between trade union density and CSiR suggests that promoting unionisation and collective bargaining rights may contribute to fostering corporate social responsibility practices and reducing irresponsible behaviour among firms. However, the positive association between market capitalization and CSiR highlights the need for greater scrutiny and regulation of large corporations to mitigate the adverse social and environmental impacts associated with their operations. The differences observed between

LMEs and CMEs underscore the importance of institutional factors in shaping corporate behaviour and the need for tailored regulatory approaches based on market economy types. Policymakers should also consider the implications of these findings when designing regulatory interventions aimed at promoting corporate accountability and sustainability in Western Europe.

5.3 Limitations

While the study provides valuable insights into the relationship between market economy types and CSiR, certain limitations must be acknowledged. The Varieties of Capitalism (VoC) framework, while insightful for understanding economic institutions in Western Europe, may not be universally applicable across all countries due to differing political, economic, and cultural contexts globally. This limits the generalisability of findings beyond the specific regions studied. Secondly, the analysis focused exclusively on 16 countries in Western Europe and examined only the largest corporations within these nations. This selective sampling may overlook nuances in CSiR practices among smaller firms or in regions outside of Western Europe.

Based on Iborra and Riera (2023) were the different “external factors” determined, but these factors could be more comprehensive or different, which is the third limitation of this Master´s thesis. To include more factors like political and economic stability, economic incentives and disincentives, geopolitical factors, or global supply chain dynamics, in the analysis is beyond the capacity of this thesis but can be a good starting point for other researchers.

Additionally, the study's reliance on secondary data sources, such as RepRisk and economic databases, introduces potential biases from data collection methodologies and interpretation. Future research could address these limitations by expanding the geographical scope and incorporating a broader spectrum of company sizes and industry sectors to enhance the robustness and applicability of findings regarding corporate social irresponsibility.

5.4 Recommendations

Further research is needed to explore the mechanisms underlying the observed relationships and to investigate the role of other external factors, such as corporate governance structures, regulatory frameworks, or cultural norms in shaping CSiR practices. Combining internal and external factors may yield interesting research results, as well. Additionally, qualitative research methods, such as interviews or case studies, may complement quantitative

analyses by offering richer insights into firms' motivations and decision-making processes regarding CSR and CSiR.

In conclusion, this research bridges the gap between theoretical frameworks of VoC and empirical evidence on CSiR, highlighting the complex interplay between institutional environments and corporate behaviour. It calls for a nuanced approach to understanding and addressing CSiR, considering the diversity of institutional landscapes within global capitalism.

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