Public-Private Governance Initiatives and Corporate Responsiveness

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Draft Updated April 27, 2020

Abstract

Multinational firms operate in multiple national jurisdictions, making them difficult for any one government to regulate. For this reason much of the regulation of multinational firms is done by the firms themselves, increasingly in conjunction with international organizations by way of public-private governance initiatives. Prior research has claimed that such initiatives are too weak to meaningfully change firms' behavior. Can public-private governance initiatives help firms self-regulate, even if they lack strong monitoring or enforcement mechanisms? I take two steps towards answering this question. First, I introduce a new measure of firms' performance on ESG (environmental, social, and governance) issues: the extent to which the firms issue public responses to claims of misconduct from civil society actors. Second, I argue that public-private governance initiatives allow firms to benefit from the legitimacy of their public partners, lowering the reputational cost of transparency and increasing responsiveness. Employing novel data on firm responses to human rights allegations from the Business and Human Rights Resource Center, I find that membership in the largest and most prominent initiative, the United Nations Global Compact, significantly increases firms' responsiveness to allegations made against them. These results further our understanding of the nature of the relationship between private actors and international organizations.

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1 Introduction

One of the most pressing challenges for global governance concerns the regulation of multinational corporations (MNCs) and the problems that they create: pollution, human rights abuses, corruption, and a range of other ESG (environmental, social, and governance) issues.[1] National governments can typically only regulate business activity within their borders, and attempts by multiple governments to coordinate regulatory policy are complicated by incentives to defect; individual states may benefit from unilaterally lowering their environmental standards, for example, in order to attract investment. Much of the international regulation of business that does exist is self-imposed (Abbott, Green and Keohane, 2016); MNCs set voluntary standards for themselves in order to appeal to discerning consumers (Distelhorst and Locke, 2018; Hainmueller, Hiscox and Sequeira, 2014; Malesky and Mosley, 2018) among other reasons. Critics argue that such private regulation may preempt public regulation (Malhotra, Monin and Tomz, 2019), and that the former is not a good substitute for the latter (Evans, N.d.; Distelhorst, Locke and Samel, 2015).

Public-private governance initiatives - collaborative efforts in which private actors opt into additional self-regulatory measures while receiving support and guidance from public bodies such as international organizations or national regulatory agencies - have arisen as a new organizational form for the governance of global business. Advocates suggest that the public-private approach may allow public actors to harness and guide the self-regulatory efforts of private actors, all while building stronger norms of good corporate behavior (Hassel, 2008; Ruggie, 2002). Westerwinter (2019) identifies more than 400 public-private governance initiatives created in the past twenty years, as growth in traditional intergovernmental organizations (IGOs) has slowed (Abbott, Green and Keohane, 2016).

However, public-private initiatives and IGOs face similar challenges. First, firm participation is voluntary, limiting the depth of any given initiative to what its members will agree

[1] Readers unfamiliar with the term "ESG" can think of it like this: actions that firms take to address ESG issues (labor rights, pollution, bribery) are often labeled corporate social responsibility (CSR). For continuity, I refer to such actions as ESG performance rather than CSR.

to (Downs, Rocke and Barsoom, 1996). Second, given MNCs' often complex operational structures, public actors have little ability to monitor compliance with the tenets of the initiative and thus little ability to detect or punish noncompliance. Given these challenges, can public-private governance initiatives actually help MNCs self-regulate? Or, as their critics have alleged, are they too weak to bind?

In this paper, I take two theoretical steps towards answering this question. First, I argue that extant measures of firms' ESG performance can be classified as either low-cost unilateral *actions* (such as adopting a corporate human rights policy) or high-cost supply chain-level *outcomes* (such as improving labor conditions at developing country supplier factories). Evidence of association between initiative membership and low-cost actions is poor evidence that initiatives help firms make meaningful changes, while the lack of a short-term association between initiative membership and supply chain-level outcomes is poor evidence that initiative membership has no effect; there is a need for a measure in between the two extremes. To fill this gap, I introduce firm responsiveness to stakeholder concerns as a new ESG performance metric.[2] When firms face public allegations of wrongdoing brought by NGOs, labor unions, or other civil society groups, they have the option of responding transparently (e.g., publicly); while more socially responsible, this option is risky for firms as it could increase the salience of the allegations and result in a hit to the firm's reputation. Responsivess to stakeholder concerns is a good mid-level measure of ESG performance because it is costly (unlike the unilateral actions) and firms' management have centralized control over its implementation (unlike the supply chain-level outcomes).

Second, I argue that membership in public-private governance initiatives should make firms more responsive to their stakeholders. The mechanism is legitimacy by affiliation; an initiative's public partner is typically perceived as holding legitimate authority over the governance of ESG related issues such as corruption or pollution. By partnering with private

[2] I follow past literature in defining "stakeholders" as non-state actors - particularly NGOs, labor unions, and other civil society groups - who are affected by the externalities of global production (Bäckstrand and Kuyper, 2017; Bernstein and Cashore, 2007; Chrun, Berliner and Prakash, 2018)

actors via public-private governance initiatives, these public actors are deputizing member firms as legitimate participants in global governance. For firms, the ability to draw on the legitimacy gained by association with a public partner decreases the reputational cost of transparently responding to stakeholder concerns. This is because the firm can cite its initiative membership as evidence of its type; it can more credibly claim (implicitly or explicitly) that the alleged transgression was only a temporary deviation from an otherwise socially responsible course, rather than being indicative of a larger trend of bad behavior.

Empirically, I leverage the rapid rise to prominence of the leading public-private governance initiative - the United Nations Global Compact (UNGC) - from its creation in 1999 to the present day. The UNGC, a UN initiative created with the goal of helping member firms improve ESG practices throughout their entire supply chains (suppliers, contractors, affiliates, etc), grew from 400 member firms in 2002 to over 10,000 at the time of writing (April 2020);[3] for comparison, the second largest initiative (the Roundtable for Sustainable Palm Oil) has approximately 2,000 members (Westerwinter, 2019). Despite its broad scope and large membership, the UNGC lacks monitoring and enforcement power over its member firms, creating an environment in which noncompliance is nearly costless. This is a favorable setting in which to test my theory: if firms become more responsive after joining the UNGC, even though the UNGC lacks any coercive leverage over its members, we can be more confident that the legitimacy mechanism was at play.

I use novel data on stakeholder concerns and firm responses from the Business and Human Rights Resource Center (BHRRC) to test the relationship between public-private initiative membership and corporate responsiveness at the firm level. The BHRRC is an NGO that serves as a sort of indirect grievance mechanism for ESG claims against firms; the center searches for unresolved allegations, and then reaches out to the offending firm and requests a formal, public response. Restricting my focus to the world's largest multinational firms, I find that UNGC member firms are significantly more likely to respond to claims made

[3]An updated count can be found here: https://www.unglobalcompact.org/

against them than nonmembers. This finding is robust to a variety of model specifications, and substantial in magnitude: the most conservative estimate is that UNGC members are 14.6% [9.98%, 19.94%] more responsive than non-members. Further, analysis of the text of firms' responses provides support for the legitimacy mechanism; UNGC member firms commonly cite their UN association in their responses, even when it is not germane to the allegations themselves.

This paper speaks to two different branches of the IR literature on global governance. First, it contributes to the growing literature on the relationship between IGOs and private actors (Bäckstrand and Kuyper, 2017; Jensen and Malesky, 2018; Kahler, 2016). The UN's partnership with private firms to achieve the shared goal of reducing the negative externalities of global business illustrates the power of Abbott et al. (2015)'s orchestrator-intermediary theory of indirect governance; the efficacy of the UNGC stems not from the UN's ability to control member firms, but instead from its ability to empower firms to act as legitimate intermediaries of the UN. Second, my results advance the debate over whether or not voluntary public-private initiatives are effective tools for global governance (Berliner and Prakash, 2015; Levy and Prakash, 2003; Malhotra, Monin and Tomz, 2019). By introducing a new firm-level measure of ESG performance (corporate responsiveness) and demonstrating its positive association with UNGC membership, I make the case that - while they are no substitute for domestic regulation - public-private governance initiatives do help states and IGOs achieve their policy goals.

2 The UN Global Compact: Background

The UNGC, commissioned by former UN Secretary-General Kofi Annan and engineered by political scientist John Ruggie, was designed to increase the efficacy of firms' self-regulation on ESG issues by way of helping them align their efforts with the UN's broader ESG framework, the sustainable development goals (SDGs). Announced at the 1999 World Economic

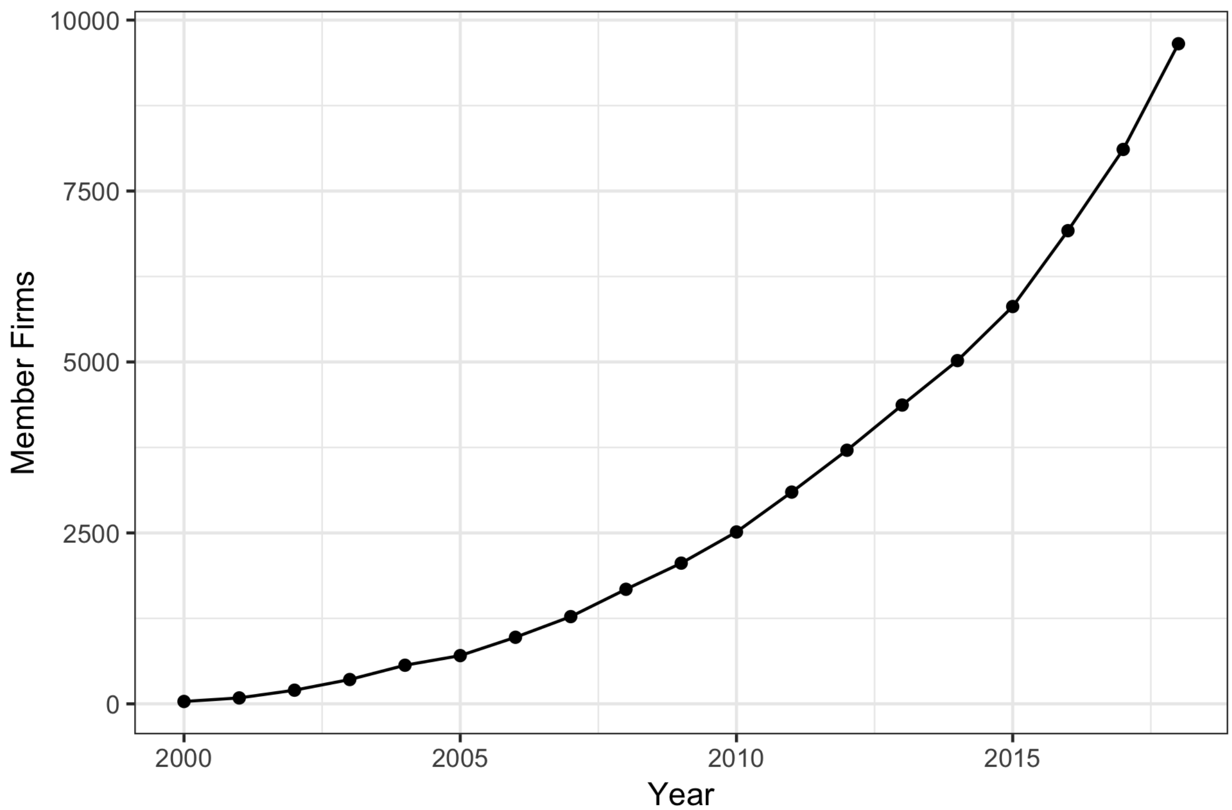


Figure 1: **UNGC Membership has grown exponentially since its founding.**

Forum in Davos and formally operational the following summer, the initiative's membership has grown from a small quorum of elite, mostly western multinationals (including Unilever, Volvo, and Nike) to a global group of over 10,000 firms of all sizes.

The UNGC's membership requirements are modest; prospective members must first submit a brief application, including a letter of interest signed by the chief executive. Once approved, there are two requirements to maintain membership. First, members must pay a small annual fee scaled to their annual revenue (maxing out at $20,000 USD for firms with annual revenue greater than $5 billion USD). Second, each member must submit an annual communication on progress (COP); COPs are long, detailed reports on firms' progress towards meeting a variety of self-imposed ESG targets. All members must discuss how their efforts advance the UN's sustainable development goals, and additional reporting requirements (such as third-party audit reports) are imposed on firms in higher membership tiers (which tend to be larger multinationals). UNGC members gain access to the UN's library of documents on ESG best practices; they also have the option to join and attend local UNGC working groups, allowing them to network with other members, host workshops and seminars on ESG issues, et cetera.

The UN does not set ESG performance targets for Global Compact members, and it has no capacity to verify any of the information included in firms' COPs; the primary membership requirement is regular self-reporting on ESG topics including climate change, anti-corruption, and the advancement of women's rights, among others. Likewise, membership carries few material benefits for firms other than networking opportunities and advice on ESG regulation and reporting. Thus, the UNGC is a decidedly broad but shallow initiative: it targets a wide range of issue areas, but requires relatively little of its member firms. This shallowness has drawn criticism from academics and NGOs who view the Global Compact as little more than an opportunity for firms to pay lip service to good governance without engaging in substantive reform (Berliner and Prakash, 2012, 2015; *Tangled Up In Blue: Corporate Partnerships at the United Nations*, 2000).

Three aspects of the UNGC make it an ideal case for studying the efficacy of public-private governance initiatives. First, its shallowness - low barriers to membership, no strict regulatory targets, no independent monitoring capacity - is characteristic of public-private initiatives more broadly (Westerwinter, 2019). Any mechanisms through which the UNGC is discovered to catalyze stronger self-regulation among its members, then, should also be applicable to other initiatives with similar structures. Second, the UNGC is a broad initiative both in membership and in scope. Unlike more specialized initiatives (such as the Global Methane Initiative or the Better Cotton Initiative), the UNGC covers a range of ESG issues so broad that any firm - regardless of industry, size, or geographic location - could plausibly become a member.[4] This allows me to test the relationship between initiative membership and self-regulation for a wide range of firm types. Finally, the UN is a highly visible and

[4] The sole exception is tobacco; firms that manufacture tobacco products are not allowed to join the UNGC.

legitimate actor in global governance (for example, see Dellmuth and Tallberg, 2015). This provides a strong falsification opportunity for my theory; if I find no evidence of the legitimacy mechanism here, despite the fact that the UNGC offers firms a high-legitimacy public partner, we can be confident that the theory would not apply to less legitimate initiatives either.

3 Public-Private Initiatives: Design, Efficacy, & Measurement

For global firms, joining public-private governance initiatives is an increasingly common response to the demand for private actors to tackle ESG issues. Firms may choose to join such initiatives instead of going it alone for several reasons: initiatives can provide information on what types of self-regulation are seen as appropriate (Hassel, 2008), firms may receive financial returns from initiative-related labeling on their products (Hainmueller, Hiscox and Sequeira, 2014), or they may hope that voluntary self-regulation preempts future public regulation (Malhotra, Monin and Tomz, 2019). While firms may join voluntary regulatory initiatives for myriad reasons, a pressing question for global governance is whether or not these initiatives have been successful in inducing firms to improve their ESG performance. Extant answers to this question vary along two metrics: (1) how the initiative is designed, and (2) how ESG performance is operationalized.

A key insight from rationalist IR scholarship is that states tailor the design of international organizations to suit the organization's intended purpose (Koremenos, Lipson and Snidal, 2001). A similar logic applies to public-private governance initiatives, which are designed around their chosen ESG problem area(s). Some initiatives target facility-specific issues such as the environmental safeguards at individual factories; these initiatives can more easily implement monitoring and enforcement procedures such as annual auditing, and can thus set firm regulatory requirements for member firms. Firms who join these audit-based initiatives have incentive to meet the regulatory targets, as noncompliance will be discovered and punished. The International Organization for Standardization (ISO)'s 14001 standard for environmental protection, which requires a facility audit for initial certification and annual audits for recertification, provides an example. Potoski and Prakash (2005) find that certified firms are more likely to be in compliance with domestic environmental regulations; in later work, Prakash and Potoski (2014) find that higher rates of ISO 14001 membership at the national level lead to reduced levels of air pollution in countries with weak regulatory environments.

However, audit-based initiatives like the ISO 14001 are the exception rather than the rule. Westerwinter (2019) finds that only 13% of public-private governance initiatives have institutionalized monitoring capacity, and only 8% have enforcement capacity. More commonly, public-private initiatives are designed to tackle transnational issues for which audit-style monitoring is either financially infeasible or literally impossible. For example, the UNGC asks member firms to report on ESG self-regulation throughout their entire corporate structures, including supplier networks; given that some members have tens of thousands of supplier facilities,[5] it is clearly not plausible for the UN to independently verify firms' self-reports. Instead, initiatives with transnational issue areas typically attempt to maximize business and stakeholder buy-in to foster norm creation; as Hassel (2008, p. 245) put it, "Multi-stakeholder processes, such as the Global Compact and the Global Reporting Initiative, aim to identify what level of obligation can be demanded from firms without deterring participation."

Since these initiatives do not impose strict regulatory targets on their members and do not independently verify firms' progress towards meeting their self-imposed targets, how can we know whether a given initiative had an impact on member firms' self-regulation? On this question, extant literature can be roughly grouped into two camps based on operational-

[5] In its 2018 sustainability report, UNGC member Ford Motor Company claims to source materials from more than 4,400 facilities in over 60 countries, in addition to 10,000 indirect supplier companies. See https://corporate.ford.com/microsites/sustainability-report-2017-18

ization of ESG performance. The first camp examines the relationship between initiative membership and unilateral ESG *actions* at the firm level, generally finding a positive relationship; for example, UNGC member firms have been shown to draft official human rights policies (Bernhagen and Mitchell, 2010) and file sustainability reports (Mwangi, Rieth and Schmitz, 2013) at higher rates than nonmembers.

The second camp examines the relationship between initiative membership and ESG *outcomes*, finding little evidence of initiative efficacy. Using a survey of workers in supplier factories, Barrientos and Smith (2007) find that factories which supply firms who are member to the Ethical Trading Initiative (a public-private initiative which governs labor conditions in supply chains) do not have stronger labor rights protections than those who do not. Using expert ratings of ESG performance, Berliner and Prakash (2015) find that UNGC membership leads firms to improve only in issue areas in which they were already strong, and to decline in areas in which they were already weak; they suggest that firms join the UNGC in order to "bluewash," or benefit from the UN affiliation while failing to take steps to improve their ESG performance.

While both camps have furthered our understanding of public-private governance, they explore only a limited range of the potential ESG metrics with which initiative efficacy could be evaluated. It is relatively unsurprising that initiative member firms are more likely to take unilateral actions such as drafting ESG policies or filing reports, as these actions are low-cost and in some cases even required for initiative membership; ESG reporting is thus a most-likely case for the efficacy of public-private governance initiatives. Likewise, it is equally unsurprising that initiative membership has no effect on supply chain-level ESG outcomes. Numerous studies highlight the difficulties inherent in regulating supplier networks, even for the most committed firms. For example, facility auditors are prone to corruption (Duflo et al., 2013), and report fewer violations when they are inexperienced or commissioned by the owner of the facility being audited (Short, Toffel and Hugill, 2016). Evidence also suggests that the strength of domestic public regulations is a key predictor of facility-level compliance, even when private regulation is accounted for (Bartley, 2018; Distelhorst, Locke and Samel, 2015). Public-private governance initiatives simply do not offer firms resources that could be used to overcome these difficulties in the short run.

In the following section, I propose a new ESG performance metric that allows for a mid-level test of the efficacy of public-private governance initiatives: corporate responsivess to stakeholder concerns. This measure is an improvement on prior operationalizations because it is completely within firms' control (unlike supply chain-level ESG outcomes) but it involves multiple actors and is potentially costly for firms (unlike unilateral ESG actions). I also propose a theory of how public-private governance initiatives might affect firms' responsiveness, despite lacking monitoring or enforcement power, through the mechanism of legitimation.

4 Theoretical Framework

I advance two theoretical arguments. First, I contend that firms' responsiveness to stakeholder allegations is an important ESG metric, and that responding to such allegations is not costless. Second, I argue that public-private governance initiatives can increase firms' responsiveness through the mechanism of conferred legitimacy.

4.1 Responsiveness as ESG Performance Metric

As employed here, responsiveness can be defined as the extent to which firms issue formal, public responses to non-salient allegations levied against them by nonstate actors. This definition captures three features that I argue are critical for a response to be considered socially responsible. First, the situation must be one in which the firm has the option to keep the alleged violation obscure via nonresponse. This means that responses to major scandals for which the firm is directly implicated (BP and the Deepwater Horizon oil spill of 2010, for example)[6] are not incidents of responsiveness, as firms lack the option to keep such

[6] See Weber (2010) for more details.

incidents quiet by ignoring them or responding privately.[7] Second, the actor making the claim against the firm must lack the legal power to coerce the firm into responding to their allegations; responses to allegations made by sovereign states cannot be considered examples of responsiveness. Finally, responses must be public. Private responses are less costly for firms, as they do not raise public awareness of the issue, and thus are far more likely to be cheap talk than public responses.

I offer two justifications for responsiveness as a meaningful measure of ESG performance. First, public responses to alleged violations have a platforming effect; by virtue of publicly acknowledging a claim, firms are necessarily communicating the content of the alleged violation to a wider audience than the claimant would otherwise be able to reach. Many of the claims in the BHRRC data are made by workers, labor unions, or small NGOs in developing countries, and these actors typically lack the ability to make their voices heard globally in the way that large multinationals can. By responding publicly (therefore, transparently) to these actors' allegations, even if they deny accountability for the alleged violation, firms make these claims more salient than they were before.

This platforming effect is not costless for firms; increasing the salience of a claim increases the risk of public backlash against the firm, which in turn can result in reputational and even financial damage. For example, in 2013 the BHRRC requested a response from Korean trading conglomerate Posco Daewoo International to a claim made by Cotton Campaign (a new, small NGO) regarding the company's alleged use of Uzbek cotton harvested using forced labor. On June 6 the BHRRC posted Daewoo's response, in which the company acknowledged their use of Uzbek cotton and described their efforts to fight forced labor.[8] By June 21, Daewoo's stock had fallen to its lowest value in several months; the company's response prompted headlines such as "Posco Unit Admits Using Cotton From Forced and Child Labor" in the Wall Street Journal.[9] Even though Daewoo used their response to take

[7]Further, firms understand well the importance of managing scandals; see Diermeier (2011).

[8]https://www.business-humanrights.org/en/daewoo-internationals-response

[9]https://www.wsj.com/articles/daewoo-faces-criticism-for-use-of-uzbekistan-cotton-made-with-forced-labor-1407918539

accontability and detail their efforts to combat forced labor in Uzbekistan, the increased salience of the issue led to public backlash.

Second, firms who publicly respond to nonsalient allegations should be more likely to go on to resolve the issue than firms who do not. One of the mechanisms driving this connection is audience costs (Fearon, 1994; Schulz, 2001). By publicly announcing their plans for resolving the claim, as Daewoo International did, firms raise the cost of failing to implement them; shareholders, customers, and NGOs can punish firms for failing to keep to keep their promises, once the promised actions are public knowledge. Even when firms do not admit fault or promise actions in their responses, the increased salience of the claim inevitably increases the pressure being put on the firm to remedy the issue in some way. For example, in 2005 the BHRRC requested a response from Tiffany, a large commercial jeweler, regarding its exploitation of a loophole in U.S. law that allowed it to import "blood diamonds" from Burma. Tiffany responded, claiming that it would continue to import Burmese diamonds given that it was not illegal to do so. Tiffany's response caught the attention of a wide range of NGOs, who in turn pressured the firm to discontinue sourcing from the country. Two days after the response was posted, Tiffany announced that they would no longer import Burmese diamonds.[10]

In sum, responding publicly to stakeholder allegations is a meaningful form of ESG performance. In addition to promoting transparency and giving a platform to often marginalized claimants, responsiveness to allegations is often the first step towards the resolution of the grievance at hand; in turn, remediation is often a critical element of private regulatory initiatives' missions.[11] Further, these responses are not costless; firms such as Daewoo face backlash when their responses publicize their transgressions, damaging their reputations

[10] https://www.business-humanrights.org/sites/default/files/documents/Examples-of-impact-full-Jan-2015.pdf

[11] In particular, UNGC member firms agree to uphold the "Protect, Respect, and Remedy" framework, also known as the UN Guiding Principles. One Global Compact memo states that "The third pillar, Access to Remedy, outlines that where people are harmed by business activities, there is both adequate accountability and effective redress... The principles relating to the responsibility of business enterprises to respect human rights are of direct relevance to the commitment undertaken by Global Compact participants."

and possibly their bottom lines. However, firms are not limited in their capacity to issue responses like they are limited in their capacity to prevent violations throughout their supply chains. Thus, responsiveness is a useful outcome measure for determining the efficacy of public-private governance initiatives such as the UNGC; it is socially responsible, potentially costly, and firms who wish to increase or decrease responsiveness can do so relatively quickly.

4.2 Legitimacy and Responsiveness

I argue that UNGC membership should make firms more responsive to stakeholder allegations by increasing the extent to which the firms' operations are perceived as legitimate, and thus reducing the reputational costs to firms of issuing a response. In this section, I define legitimacy and explain the process through which legitimacy conferred upon firms through UNGC membership leads them to become more responsive.

I follow Hurd (1999, p. 381) in defining legitimacy as "the normative belief by an actor that a rule or institution ought to be obeyed," and agree that legitimacy "is a subjective quality, relational between actor and institution, and defined by the actor's perception of the institution." Legitimacy underscores the sovereignty of domestic governments, but is not completely absent from international politics either (Milner, 1991). The concept has been of particular interest to scholars of international order, who argue that international norms and institutions are abided by when they are seen as legitimate (Hurd, 1999; Ruggie, 1982) and when compliance can confer legitimacy upon the complying states (Finnemore and Sikkink, 1998).

International organizations are both recipients and distributors of legitimacy in international politics. IOs are created by their member states,[12] and the extent to which they are perceived as legitimate is contingent not only on the content of their mandate but on the composition of their membership. Once created, however, IOs also serve a legitimation function. The United Nations in particular has long been recognized as a key source of legiti-

[12] Though IO bureaucrats can also play a role in some instances; see (Johnson, 2014).

mation (Claude Jr., 1966); the organization classifies international uses of force as legitimate or illegimate, delineates the acceptable realm of state action, and provides the normative underpinning for the postwar international order (Barnett, 1997). The UN's approval of an action signals to a global audience that the action was just, or at least that it was not in violation of the norms that constitute legitimate state behavior.

I contend that the Global Compact, as a UN initiative, shares the legitimation function of its parent institution. For firms, membership in the initiative sends a signal to stakeholders that the UN approves of the firms' operations (or at least of their plans for improval); even though the actual provisions of the Global Compact are unlikely to be salient among certain civil society groups, the UN name is the key factor. With UN approval comes the implication that the firm is a legitimate actor under the current international order, which the UN plays a key role in upholding.

Why would the UN - or any public actor - legitimate private actors in this way? Abbott et al. (2015, 2016)'s orchestrator-intermediary theory provides an answer. Abbott and coauthors introduce orchestration as a method of governance via intermediary, in which an orchestrator (in this case the UN) enlists intermediaries (firms) to work towards a shared governance goal that neither party would be able to accomplish on their own (reducing the negative externalities of business).[13] The orchestrator has no direct control over the intermediaries, but instead seeks to simultaneously shape their actions via offering guidance and problem definition (such as the UN's sustainable development goals) and empower them to take the necessary actions by deputizing them as legitimate surrogates of the orchestrator. The UNGC's designers were well aware of the benefits of legitimation: speaking about a similar private initiative, chief architect John Ruggie wrote: "...The Global Sullivan Principles for corporate social responsibility, a partnership of American firms and some NGOs, lacks the social legitimacy of the UN. As a result, the effort has picked up little support beyond

[13] In a 2002 article, UNGC architect John Ruggie wrote: "The major advantage of the GCs network approach is its capacity to respond to the complex and rapidly changing environments that the UN seeks to affect. The UN otherwise lacks that capacity, as do governments, firms and civil society organisations acting alone or in a different format" (Ruggie, 2002, p. 34).

the United States" (Ruggie, 2002, p. 34).

This legitimation function is likely to be particularly important for firms when they are deciding whether to respond to a stakeholder concern. This is a fraught decision; if firms ignore non-salient stakeholder concerns, they may boil over into widely-publicized crises which negatively impact firm value (Bartley and Child, 2014). However, by responding publicly, firms guarantee that the allegations will become more salient and thus open themselves up to potential backlash. The risk is that civil society groups will identify the alleged transgressions as indicators that the firm is operating in bad faith, and that the firm will lose its social contract to operate (Ruggie, 2013). UNGC member firms, however, can draw on the legitimacy of the UN in order to frame their actions as minor deviations from a socially responsible course rather than being indicative of their type. For example, mining firm GCM Resources wrote in one of their public responses that "GCM continues to embrace, support and enact, within its sphere of influence, these UNGC principles - all of which are consistent with the core values of GCM."[14]

The ability to leverage the legitimacy of the UN name lowers the cost to firms of issuing public responses, as it allows them to soften the reputational impact of increasing the allegations' salience. Thus, the primary observable implication is as follows:

H1: Firms who are member to the UN Global Compact should be more responsive to stakeholder concerns than non-members.

5 Research Design

To test my hypothesis empirically, I rely on data from the Business and Human Rights Research Center (BHRRC)'s company response dataset. As noted previously, the BHRRC is an NGO that requests formal responses from firms who have been accused of misconduct by civil society groups; since 2004, the organization has approached firms 3,846 times and

[14] https://www.business-humanrights.org/sites/default/files/media/documents/gcm-response-un-statement-phulbari-mar-20-2012.pdf

published all responses (and nonresponses) on their website. A few aspects of the BHRRC company response data make it ideal for testing responsiveness. First, the BHRRC exclusively approaches firms regarding claims to which the firms have not yet responded, and thus all responses are original (and nonresponse is not due to firms already having addressed the issue). This also means that the BHRRC data does not include responses to major scandals, as firms typically respond to these issues unprompted. Second, the claimants in the BHRRC data are largely NGOs, labor unions, or other civil society groups in the host country. These groups do not typically have the ability to make their voices heard internationally, and thus their allegations can be considered non-salient. Third, the responses are published in full on the BHRRC's website, satisfying the requirement that responses be public.

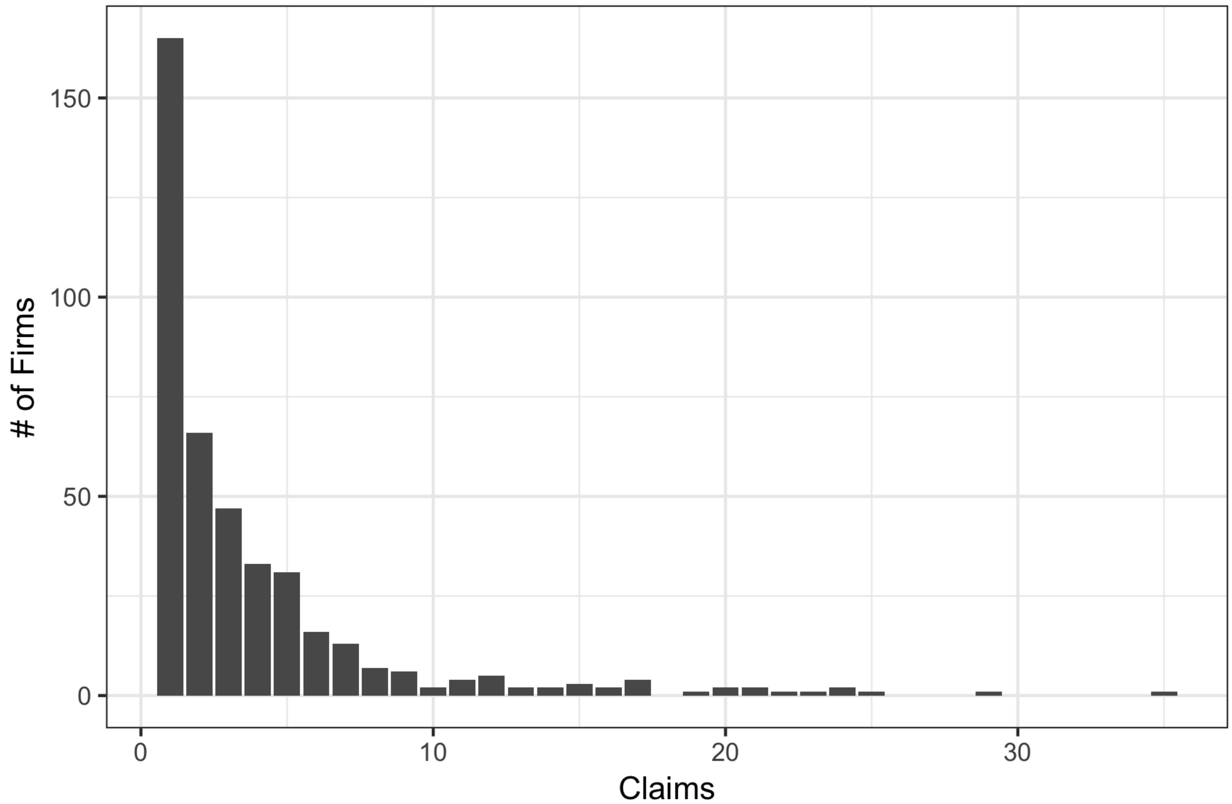
My dependent variable, then, is simply a binary indicator of whether or not a firm issued a response to the claim levied against it. The key independent variable, UNGC membership, is also a binary indicator of whether or not the firm was a member of the UNGC on the date that the response was requested. Because firms who join the Global Compact agree to implement reforms throughout their supply chains and corporate structures, firms are also coded as members of the initiative if their parent firm is a member.

Following recent studies (Bennie, Bernhagen and Mitchell, 2007; Bernhagen and Mitchell, 2010), I limit my sample to firms on the *Forbes 2000* list of the world's 2,000 largest publicly traded companies. In addition to capturing the population of interest (large companies with multinational operations and supplier networks), the fact that all companies on the *Forbes* list are public eliminates a potential confounder.[15] Further, approximately 39% of all claims in the BHRRC data (1,515 out of 3,846) are levied towards one of these firms, which still allows me substantial degrees of freedom with which to work.

I also control for a number of potentially confounding factors. First, as Figure 1 shows, the majority of firms in the sample are approached by the BHRRC at least twice. It is possible that firms become more likely to respond to the organization the more that they

[15] Privately held firms have less incentive to join voluntary governance initiatives and likely have less incentive to be responsive to stakeholder concerns; see Ahlquist and Mosley (2020).

Figure 2: Number of claims per firm (*Forbes Global 2000* firms only)



interact with them over time; thus, I control for the number of prior claims alleged against a firm. I also take firm size into account, as it could be the case that larger firms are more likely to join the UNGC and more likely to respond to allegations. To gauge firm size, I use data on firms' total assets from Bureau van Dijk's Orbis database and FTSE Russell's Mergent Online database.

Further, it is important to control for the domestic political climate in both the host state and the firm's home state. Firms from states with strong civil society group presence may be more responsive; firms who face allegations from stakeholders in states with weak civil society groups may be less responsive. To proxy for this, I use the `v2csrepress` variable from the V-Dem dataset (Coppedge et al., 2018) which measures the extent to which governments repress domestic civil society groups on a scale of -4 (most repressive) to 4 (least repressive). To measure home state civil society repression, I use the value of the `v2csrepress` variable for the state in which the firm is headquartered. To measure host state civil society repression, I do the same but for the state in which the alleged infraction occurred. A number of claims involve multiple host states, or even entire continents; in such cases, I take the average of each implicated state's civil society repression score in the year that the claim was made. Because higher values indicate less repression, I refer to this variable as "civil society freedom".

5.1 Estimation

I use four different modeling approaches to estimate the effect of UNGC membership on firm responsiveness. First, I run a series of a logistic regressions using various combinations of firm, sector, and year-level fixed effects to measure both within-firm and across-firm effects.[16] Second, I run another set of logit models on a subsample of multi-firm claims using claim fixed effects to isolate the within-claim association between UNGC membership and responsiveness. Third, I check the robustness of the logit fixed effects models using conditional logit and linear probability models. Finally, I use an instrumental variables approach in order to mitigate potential selection bias.

6 Results and Discussion

6.1 Main Results

Table 1 displays the results of six logistic regression models of firm response on UNGC membership. As predicted, the UNGC membership variable is positive and significant across specifications. To demonstrate that the significance of the UNGC membership variable is not an artifact of arbitrary covariate selection, I first report the bivariate model (Lenz and Sahn, 2018). The UNGC variable remains positive, significant, and of similar magnitude when controls are added in models 2 and 3. Models 4, 5, and 6 introduce year, sector, and firm-level fixed effects in different combinations. The firm-level fixed effects absorb much of the

[16]NB: I am not using the word "effects" in the causal sense here.

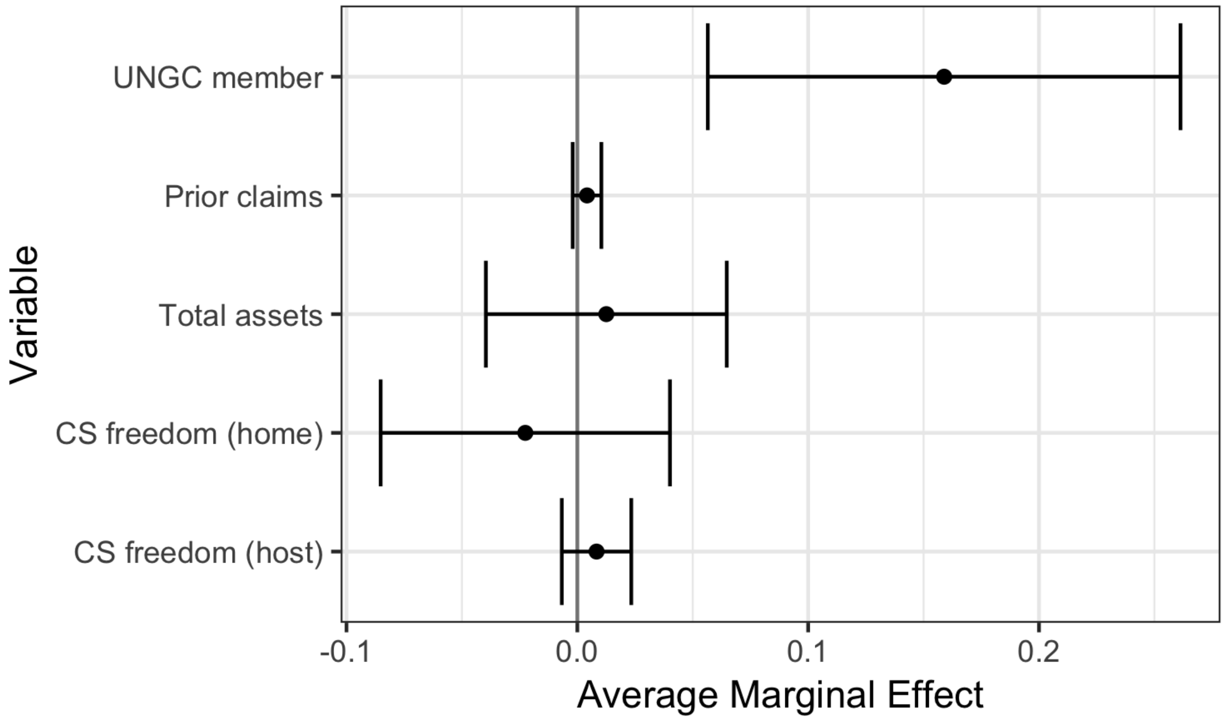
variation in the dependent variable, and none of the control variables achieve significance when they are included. However, the UNGC membership variable remains positive and statistically significant in both models. The variable is substantively significant as well: in model 5, UNGC member firms are 15.9% [10.7%, 21.1%] more likely to respond to claims than nonmembers (see Figure 2).

Table 1: Logit models: full sample

	Dependent variable:					
	Responded to claim = 1					
	(1)	(2)	(3)	(4)	(5)	(6)
UNGC Member	1.236***	1.124***	1.231***	1.303***	2.191***	2.255***
	(0.134)	(0.140)	(0.156)	(0.197)	(0.737)	(0.757)
Prior Claims		0.080***	0.071***	0.041*	0.058	0.060
		(0.017)	(0.018)	(0.023)	(0.044)	(0.046)
Total Assets (log)		−0.081*	−0.101**	0.038	0.173	0.131
		(0.043)	(0.049)	(0.085)	(0.367)	(0.377)
CS Freedom (home state)			0.340***	0.230**	−0.311	−0.498
			(0.080)	(0.110)	(0.441)	(0.504)
CS Freedom (host state)			0.013	0.043	0.115	0.139
			(0.057)	(0.073)	(0.106)	(0.115)
Constant	0.720***	1.957**	1.569*	15.815	−2.131	−0.723
	(0.079)	(0.766)	(0.859)	(2,399.545)	(19,396.470)	(19,364.420)
Year FE				✓	✓	✓
Sector FE				✓		✓
Firm FE					✓	✓
Observations	1,515	1,460	1,264	1,008	1,264	1,008
Log Likelihood	−754.092	−707.008	−587.867	−399.066	−278.997	−230.677
Akaike Inf. Crit.	1,512.184	1,422.016	1,187.735	876.131	1,323.995	983.355
Note:						*p<0.1; **p<0.05; ***p<0.01

We cannot conclude from these results that the relationship between UNGC membership

Figure 3: Average marginal effects (Model 5)



and responsiveness is a causal one; it could be the case, for example, that an unobserved confounder (a change in CEOs' preferences for corporate social responsibility, perhaps) is driving both firms' responsiveness and their decision to join the Global Compact. While these results are suggestive, further evidence is necessary in order to provide strong support for my theory. However, in this case the correlational relationship between UNGC membership and responsiveness is interesting regardless of causality. Note that membership and responsiveness are positively correlated even when firm-level variation is accounted for: this means that the relationship between the two variables holds even within the same firm over time. This means that, even if there were an unobserved confounder driving changes in responsiveness and changes in UNGC membership status, that confounder is still moving both variables in the same direction. This is the opposite of what we would expect if firms were "bluewashing," or using their UN affiliation to mask their poor social performance.

6.2 Multi-firm Claims

One potential concern with the evidence presented thus far is that UNGC member firms may face different types of claims than non-members. Specifically, one may worry that stakeholders perceive UNGC member firms as "easier targets" than non-members due to their professed commitment to social responsibility. If certain types of stakeholders (or stakeholders with certain types of claims) are more likely to bring allegations against UNGC members, then the relationship that I observe between UNGC membership and responsiveness could be driven by some unobserved variation in the quality of claims faced by members vs. non-members.

To address this concern, I present evidence from a set of claims that involved multiple firms (hereafter "multi-firm claims"). These claims tend to consist of reports, released by NGOs, which contain research on specific ESG problem areas (labor rights in Ukrainian garment factories, for example) and identify multiple complicit firms. In these cases, the BHRRC reaches out to each firm identified in the stakeholder's complaint for a response. Usefully, these multi-firm claims tend to involve both UNGC member firms and non-member firms, allowing me to compare the responsivess of the two groups while holding the substance of the claim (and the stakeholder) constant.

Claim Substance	Stakeholder	UNGC res. rate	Non-UNGC res. rate
Human rights	Global Witness	**6/8 (75%)**	7/18 (39%)
Human rights	Freedom House/others	**6/10 (60%)**	4/11 (36%)
Transparency	Publish What You Pay	**9/14 (64%)**	3/5 (60%)
Human rights	War on Want	**2/5 (40%)**	3/14 (21%)
Labor rights	ITGLWF	3/8 (38%)	**6/10 (60%)**
Human rights	BankTrack	6/11 (54%)	**4/7 (57%)**
Human rights	Dream for Darfur	2/3 (67%)	**12/14 (86%)**
Access to medicine	Doctors without Borders	**10/11 (91%)**	2/5 (40%)
Human rights/Environ.	Facing Finance[17]	**13/13 (100%)**	1/3 (33%)
Human rights/Environ.	Facing Finance[18]	**10/10 (100%)**	4/5 (80%)

Table 2: **Ten largest multi-firm claims; response rates by UNGC member status**

[12] 2016 claim.
[18] 2018 claim.

Table 2 presents descriptive evidence comparing UNGC vs. non-UNGC response rates from the ten largest multi-firm claims in the BHRRC data. Table 3 contains two notable pieces of information: first, for seven of the ten claims (and all of the largest four), UNGC member firms responded at a higher rate than non-members. Second, there is substantial heterogeneity in overall response rates across claims; the 2018 Facing Finance claim had an overall response rate of 93% (14/15), while the War on Want claim had an overall response rate of only 26% (5/19). This suggests that claim-level factors such as NGO prestige or perceived merit of the claim may factor into firms' response decisions.

More systematically, I leverage the presence of multi-firm claims to isolate within-claim variation in responsiveness by UNGC member status. To do so, I first restrict the sample to claims that include at least four firms. There are 81 such claims, with a total of 597 firm-claim observations. Using this sample, I then replicate the results from Table 1 using claim fixed effects rather than firm fixed effects.

Table 3 presents the results. The coefficient on UNGC membership remains positive and significant across specifications, and the results are generally quite similar to the main results presented in Table 1; even when we restrict our focus to within-claim variation, UNGC member firms still respond at higher rates than non-member firms. These results provide reassurance that the main findings are not driven by systematic differences in the types of claims made against UNGC vs. non-UNGC firms, or by systematic differences in the types of stakeholders who bring claims against UNGC vs. non-UNGC firms.

6.3 Robustness

One concern with the previous analysis may be that UNGC membership is simply a proxy for firm's underlying strategy towards corporate social responsibility issues. To mitigate this concern, I use data on expert ratings of firms' performance on ESG issues from MSCI. Specifically, I control for firms' ratings on "Human Rights Policies & Initiatives;" firms which experts identified as being better than average at drafting human rights policies,

Table 3: Logit models: multi-firm claims

	Dependent variable:					
	Responded to claim = 1					
	(1)	(2)	(3)	(4)	(5)	(6)
UNGC Member	1.070***	1.011***	1.213***	1.629***	1.493***	1.585***
	(0.190)	(0.201)	(0.231)	(0.336)	(0.315)	(0.432)
Prior Claims		0.076***	0.056**	0.054	0.088**	0.083
		(0.025)	(0.025)	(0.036)	(0.040)	(0.057)
Total Assets (log)		−0.103*	−0.089	−0.154	−0.129	−0.250
		(0.056)	(0.066)	(0.134)	(0.118)	(0.176)
CS Freedom (home state)			0.370***	0.113	0.212	−0.196
			(0.142)	(0.218)	(0.224)	(0.378)
CS Freedom (host state)			−0.018	0.151	−0.160	−0.522
			(0.078)	(0.122)	(0.265)	(0.419)
Constant	0.392***	2.072**	0.874	21.737	3.001	24.854
	(0.116)	(1.017)	(1.222)	(6,522.639)	(11,972.280)	(30,612.360)
Year FE				✓	✓	✓
Sector FE				✓		✓
Claim FE					✓	✓
Observations	597	575	444	340	444	340
Log Likelihood	−347.807	−328.142	−251.176	−152.463	−180.847	−109.776
Akaike Inf. Crit.	699.613	664.283	514.352	378.926	527.695	413.552

Note: *p<0.1; **p<0.05; ***p<0.01

joining initiatives, and disclosing human rights related information were given a 1, all others were given a zero. Unfortunately, there are significant limitations to the MSCI data: first, they are only available through 2016, which prevents analysis of claims from 2017 and 2018. Second, MSCI has slowly expanded the universe of firms to which it assigns ratings over time. This means that, for most firms in the dataset, ratings were only available from 2013 - 2016. As a result, there is extremely little within-firm variation in UNGC membership in the limited sample: only 9 of the 127 firms in the sample experience a change in UNGC membership, limiting the utility of within-unit comparisons.

Despite the limitations of the MSCI data, Appendix Table 1 demonstrates that the accross-unit effect of UNGC membership on responsiveness is robust to controlling for expert ratings of the firm's human rights policies. Appendix Figure 1 displays the marginal effects plot for model 4.

Another set of potential concerns with the previous results regards the use of fixed effects in logistic regression models. Two potential problems arise: first, the inclusion of a large number of fixed effects in models estimated with unconditional MLE is known to bias coefficient estimates when there are relatively few (< 20) observations in each group (Katz, 2001). Second, the calculation of marginal effects becomes increasingly difficult and even impossible as additional columns are added to the X matrix.

To address the first issue, I re-estimate Table 1 and Table 3 using conditional logit models. Conditional logit solves the incidental parameter problem by maximizing the likelihood function condtional on the sum of the dependent variable within each group ($\sum_{t=1}^{t=T} y_{it}$), thus controlling for group-level heterogeneity without actually including the group dummies (α_i) in the model (Chamberlain, 1980). This strategy has been shown to perform better than standard logit with fixed effects when the number of observations per group is small, as is the case in my sample (both regarding firm fixed effects and claim fixed effects) (Beck, 2018; Katz, 2001). Appendix Table 3 and Appendix Table 5 display the results of the main and multi-firm claim results (respectively) re-estimated with conditional logistic regression. The results are very similar to the fixed effect specifications; the coefficient on UNGC membership remains positive and significant in all conditional logit models.

While the conditional logit models address the issue of incidental parameter bias, the tradeoff is that they also do not allow for the calculation of marginal effects. To provide reasonable estimates of marginal effects, I replicate Table 1 and Table 3 using OLS with fixed effects. While OLS cannot model a binary data generating process as well as logistic regression estimated via MLE, Angrist and Pischke (2009) note that it is quite good at estimating accurate marginal effects; economists and political scientists have long advocated for the utility of the "linear probability model" (OLS with binary outcome variable), and continue to use it in their research (Guriev, Kolotilin and Sonin, 2011; Hainmueller and Hangartner, 2013; Heckman and Snyder, 1997). Appendix Table 2 and Appendix Table 4 each present the results of six linear regression models, estimated with the same set of controls as their counterparts in Table 1 and Table 3 (respectively) as well as robust standard errors clustered on the firm and on the claim (respectively). In all models, the estimated effect size of UNGC membership is substantial; the most conservative estimate (from Appendix Table 2, model 5) is that UNGC membership increases responsiveness by 14.6% [9.98%, 19.94%].

6.4 Instrumental Variables

When attempting to gauge the effects of membership in an organization on members' actions, one must always confront the issue of selection. While I can control for observable confounders, firms who select into the UNGC may be systematically different than non-joiners on some unobservable metric (latent valuation of ESG issues, etc) that leads to biased inferences. To address this issue quantitatively, I use an instrumental variables approach.

I use two instruments for UNGC membership in my analysis: the proportion of Global 2000 firms from firm i's home country that were UNGC members at time $t-1$, and the proportion of Global 2000 firms from firm i's sector (measured at the NAICS 2-digit level) that were UNGC members at time $t-1$. These instruments draw on the logic of diffusion;

Table 4: Instrumental variables regression models

	Dependent variable:					
	Responded to claim = 1					
	(1)	(2)	(3)	(4)	(5)	(6)
UNGC Member	0.261***	0.234***	0.203***	0.263***	1.814	1.486
	(0.049)	(0.052)	(0.055)	(0.066)	(1.868)	(1.682)
Prior claims		0.008***	0.008***	0.004	0.0001	0.001
		(0.002)	(0.002)	(0.003)	(0.006)	(0.005)
Total assets (log)		−0.013*	−0.016**	0.010	0.106	0.091
		(0.007)	(0.008)	(0.012)	(0.126)	(0.125)
CS freedom (home state)			0.066***	0.033**	−0.068	−0.093
			(0.014)	(0.017)	(0.070)	(0.076)
CS freedom (host state)			0.003	0.008	0.017	0.021
			(0.009)	(0.010)	(0.015)	(0.016)
Constant	0.643***	0.858***	0.776***	0.803*	−2.311	−1.681
	(0.027)	(0.126)	(0.134)	(0.444)	(3.547)	(3.348)
Year FE				✓	✓	✓
Sector FE				✓		✓
Firm FE					✓	✓
Observations	1,509	1,455	1,260	1,005	1,260	1,005
R^2	0.054	0.070	0.102	0.145	0.085	0.104
Adjusted R^2	0.053	0.068	0.099	0.112	−0.307	−0.205
Res. Std. Error	0.403	0.398	0.389	0.368	0.468	0.428

Note: *p<0.1; **p<0.05; ***p<0.01

through a variety of mechanisms (learning, imitation, etc), scholars of international politics have demonstrated that norms, behaviors, and ideas often spread from an actor to her geographical/institutional/organizational neighbors (Dobbin, Simmons and Garrett, 2007; Finnemore and Sikkink, 1998; Gilardi, 2012; Greenhill, 2010). In past studies of the determinants of UNGC membership, the presence of national and sector-level diffusion processes has been demonstrated (Berliner and Prakash, 2012; Perkins and Neumayer, 2010). Further, the instruments I use are the same as those used by Berliner and Prakash (2015) in order to determine the effect of UNGC membership on firm-level ESG metrics, as I do here.

Table 2 presents the results of six instrumental variables regression models fit using two-stage least squares (2SLS),[19] each with the same set of controls and fixed effects as the corresponding logit model from Table 1. Models 1 through 4 look highly similar to the non-instrumental variables results: the coefficient on the UNGC member variable is positive and statistically significant, even when controlling for year and sector fixed effects. When firm-level fixed effects are added in models 5 and 6, however, the variable remains positive but loses its statistical significance. This is not entirely surprising: only 39 of the 420 firms that appear in the data have been approached by the BHRRC as both members and nonmembers of the UNGC, resulting in relatively little within-unit variation in the key independent variable. Combined with the reduced degrees of freedom that result from the inclusion of hundreds of firm dummies, wider confidence intervals are to be expected.

The results of instrumental variables analysis provide some limited support for the legitimation hypothesis: the UNGC member variable is positive in all models, and statistically significant in four of six. However, the instrumental variables results provide support for the accross-unit relationship between UNGC membership and responsiveness rather than the within-unit relationship. To strengthen my case for the presence of the latter, I now examine the language of firms' responses prior to and after joining the Global Compact.

[19] Though my key independent and dependent variables are binary, 2SLS remains consistent. See Angrist and Krueger (2001).

7 Evidence from Response Documents

In this paper, I have argued that UNGC membership allows firms to coopt the UN's legitimacy, lessening the reputational costs of responsiveness relative to its benefits. Theoretically, this legitimacy boost should make responding to allegations less costly for firms regardless of the content of their responses. However, if the legitimacy mechanism that I suggest is truly at work, we should expect UNGC member firms to draw attention to their membership in their response documents at least some of the time. In this section, I highlight three instances in which firms drew upon the legitimacy of the UN in their response documents.

7.1 Maersk

In 2007, the BHRRC made its first contact with Danish transportation/logistics giant Maersk regarding the company's membership in the European Union Chamber of Commerce in China (EUCCC). The EUCCC had taken a position against a proposed Chinese labor law reform, which various labor groups and unions (including the International Textile, Garment, and Leather Worker's Federation) argued would improve the quality of labor rights in China; these groups called on the multinationals who were members of the EUCCC to denounce the organization's opinion or leave the group altogether. Maersk, who was not a UNGC member in 2007, did not respond to the BHRRC's request for response.

The next time the BHRRC approached Maersk was in 2010, regarding an unanswered claim brought forth by the International Transport Worker's Federation (ITF). The group, an NGO that works to support transport workers and their local unions, alleged that workers of a Maersk-contracted firm had physically assaulted union dockworkers in Mumbai. Unlike the previous approach, Maersk (who had since joined the UNGC in 2009) issued a public response to ITF's claims. In the response, the firm made it clear that they were aware of the violent acts and that they were being addressed: "Since we... received confirmation the incidents (referred to in the article) took place we have been working with all parties involved - which includes the ITF - towards a solution which would respect the interests of all."[20]

In the final paragraph of their response, Maersk wrote: "As AP Møller-Maersk we have signed up to the UN Global Compact. As part of this we are continuously working to ensure correct standards in the area of labour rights for all business units in our Group." Note that this statement communicates very little other than the fact that Maersk is associated with the Global Compact, a UN initiative. Maersk's UNGC membership is not directly germane to the substantive content of the response, so why mention it? I argue that Maersk was drawing upon the legitimation function of the UNGC, citing its UN affiliation in order to signal that - while the company may be responsible for human rights violations from time to time - it is not a bad actor in international politics and it retains the right to do business internationally. Maersk's ability to leverage the legitimacy of the UN, which it lacked in 2007 but had gained by 2010, may have played a key role in the firm's decision to respond to the BHRRC's second request but not to the first one.

7.2 ING Group

In January, 2006, the BHRRC approached ING Group (Dutch banking/finance multinational) regarding a report released by a Belgian NGO called Netwerk Vlaanderen (now FairFin). In the 76 page report,[21] the NGO detailed a large number of links between ING's investments and various labor and human rights abuses, including investments in public works projects in Burma which were allegedly built using forced labor. ING, not a UNGC member at the time, did respond to the BHRRC's request; however, their response consisted of a single sentence: "ING has kindly accepted the invitation of Netwerk-Vlaanderen to discuss the outcome of their report."[22] Thus, while the firm did issue a public response to the

[20] See full text at https://www.business-humanrights.org...port-workers-in-mumbai#c102601

[21] The full text of which can be found here: https://issuu.com/netwerk_vlaanderen/docs/dossier-where-do-you-draw-the-line

[22] https://www.business-humanrights.org/sites/default/files/reports-and-materials/ING-response-Netwerk-Vlaanderen-24-Jan-2006.pdf

BHRRC, the public response only served to inform readers that ING would be addressing the issue privately. While such a response is perhaps more socially responsible than no response at all, it is not an example of responsiveness because the firm did not respond to the allegations themselves in a public and transparent way.

The BHRRC approached ING again in 2014, regarding a similar report issued by Amnesty International. The report detailed various human rights abuses committed by mining companies, and argued that ING was partially responsible due to its investments in the mining industry. ING, who joined the UNGC in December 2006 (just 10 months after the Netwerk Vlaanderen claim), issued a public response to the report in which it acknowledged its funding of the mining companies in the report but denied funding the specific projects which had been associated with human rights violations.[23] Further, ING detailed its ESG investment and loan screening criteria.

Notably, the first sentence of ING's response to the Amnesty International report reads: "ING's respect for human rights, and their integration into our business engagements, is guided by the standards established in the Universal Declaration of Human Rights, the eight Core Conventions of the International Labour Organisation (ILO) and the Global Compact of the United Nations." The firm does not go on to identify the specific standards to which it is referring, nor does it explain which standards it is attempting to apply in relation to Amnesty International's allegations. For ING, the main benefit of beginning its response by stating its UN affiliation is reputational. The UN is perceived as a legitimate authority in global governance, and thus ING can cite its membership in the UNGC to lend credence to claims such as "ING is an active advocate of respect for human rights."[24] Without the ability to coopt the legitimacy of the UN, and thereby hedge against potential reputational costs of responding, ING may have once again decided to respond privately rather than publicly.

[23] For full text, see https://www.business-humanrights.org/en/response-by-ing-re-investments-in-extractive-companies-linked-to-rights-abuses

[24] Quoted from the response document.

7.3 G4S

Unlike Maersk and ING, British security services firm G4S has responded publicly every time it has been approached by the BHRRC. The firm was not a UNGC member when the NGO approached it the first time, but joined shortly after and was a member for all following claims. The case of G4S allows for the examination of how UNGC membership affects the language of a firm's responses, even when it does not drive the initial decision to respond.

The BHRRC first reached out to G4S in October 2010 regarding an article published on openDemocracy, an activism and social justice-focused online media site owned by the nonprofit openDemocracy Foundation for the Advancement of Global Education (Sambrook, 2010). The article begins with the story of Jimmy Mubenga, a man who was killed during the process of his deportation by three G4S security guards, and goes on to list several other alleged human rights abuses committed by the firm's employees. In its response, G4S stated that "each of the incidents [the author] refers to have been fully investigated by the relevant authorities and G4S itself." In addition, it detailed the U.K. government-approved training program that all G4S employees must complete.[25] The firm, not a member of the Global Compact at the time, did not mention any organization other than itself and the U.K. government in its response.

In 2012, the BHRRC approached G4S again, this time regarding the company's operations in the Israeli-occupied West Bank. In this instance, the BHRRC had found several groups (such as NGO Electronic Intifada and blog Laws of Rule) claiming that G4S was continuing to provide security services to Israeli settlements in the West Bank, in violation of international law and the group's own promises. In its response, the firm claimed that it had kept its promises to terminate its major security contracts in the West Bank, and that its continuing operations there were limited to providing security for banks/retail stores and performing maintenance on security systems. However, G4S claimed that while its contin-

[25] Full text available here: https://www.business-humanrights.org/en/uk-opendemocracy-article-alleges-g4s-has-patchy-record-of-deaths-abuses-when-supplying-immigration-prison-services-to-govt#c55550

uing operations do not violate international law, "...we also concluded that to ensure that our business practices remain in line with our own Business Ethics Policy; we would aim to exit a number of contracts which involved the servicing of security equipment at the barrier checkpoints, a prison and a police station in the West Bank."[26]

In its 2012 response, G4S also reprinted in full a rough English translation of an article from the Danish UN Association, a group of Danish NGOs who wish to further various UN initiatives, titled "Positive that G4S joining the Global Compact and withdraws from Israeli jails and the wall in the West Bank." The article includes a quote from Jørgen Estrup, chairman of the Danish UN Association: "It is a clear improvement that G4S has joined the Global Compact and developing a new human rights policy. United Nations Association would have liked to G4S completely withdrew from all activities of the illegal Israeli settlements, but we believe that there is a clear difference between G4S tasks for a supermarket and a prison or at the wall."

It is highly likely that G4S' decision to reprint this article in its response was driven by its desire to benefit from the legitimacy of the UN. First, the article was produced by the UN Association, a group that has UN in its name but is not actually affiliated with the United Nations. Second, the article mentions G4S' membership in the Global Compact multiple times, implying that it should be seen as evidence that the company is moving in a positive direction on human rights issues. Third, the article does not communicate any information about G4S' activities in the West Bank that was not already included in the main part of the response document. The main takeaway of the article is that G4S has joined the UNGC, and that this move signals improvement in the firm's orientation towards social responsibility. G4S may have hoped that stressing its UNGC membership would lend credence to its claim that its West Bank operations are not in violation of international law, or to its promise to exit further contracts in the West Bank.

It is noteworthy that, even though G4S had also issued a public response to the BHRRC

[26]See full text here: https://www.business-humanrights.org/sites/default/files/media/documents/company_responses/g4s-israel-apr-24-2012.pdf

prior to joining the Global Compact, it made sure to discuss its UN affiliation in detail once it gained one. This case - in which UNGC membership affected response language, but not the decision to be responsive - provides evidence that there is not simply some unobserved variable driving both firms' decision to join the UNGC and their decision to respond publicly. Rather, the ability to cite an affiliation with the UN is one factor that drives down the potential costliness of publicly responding to an alleged human/labor/environmental rights violation, and firms will do so whenever possible.

8 Conclusion

Similar to states who join international initiatives such as the UNFCC's Paris Agreement on climate change, firms are increasingly partnering with IGOs and national regulatory agencies via public-private governance initiatives in order to signal their commitment to self-regulation. Like the Paris Agreement, however, such initiatives are often derided as window dressing; in this view, firms enjoy the reputational benefits of membership while failing to implement substantive reforms. Scholars critical of the UNGC, for example, label this practice "bluewashing" (Berliner and Prakash, 2015).

In this paper, I show that the positive reputational benefits associated with joining regulatory initiatives can actually induce firms to *improve* their ESG performance. First, I introduce responsiveness - the extent to which firms issue public responses to stakeholder allegations of misconduct - as a meaningful measure of ESG performance. I then argue that membership in private regulatory initiatives can increase firms' responsiveness via the legitimation function. Firms who join initiatives that are seen as possessing legitimate social purpose will be able to coopt that legitimacy; firms who are perceived as legitimate face lower reputational costs for taking accountability for (or at least publicly acknowledging) claims made against them, and thus are more likely to do so. Empirically, I examine the effects of membership in a shallow but highly legitimate initiative (the UNGC) on firms' responsiveness to concerns brought to them through the BHRRC. I find that membership in the initiative has a substantial positive effect on the probability that a firm responds to a given claim.

These results suggest that public-private governance initiatives, while no substitute for domestic national regulation (Distelhorst, Locke and Samel, 2015; Evans, N.d.), do have a part to play in the global governance of business. They also suggest that legitimacy itself - specifically, the ability to legitimize other actors - can be an important governance tool for IGOs, even in the presence of the well-documented problems of weak monitoring and enforcement capabilities, if it allows the IGOs to act as "orchestrators" and enlist nonstate "intermediaries" in pursuit of a common governance objective (Abbott et al., 2015, 2016). The ability for IGOs to exert influence via nonstate actors may be particularly important during the present era of populist backlash against IOs at the national level (Copelovitch and Pevehouse, 2019).

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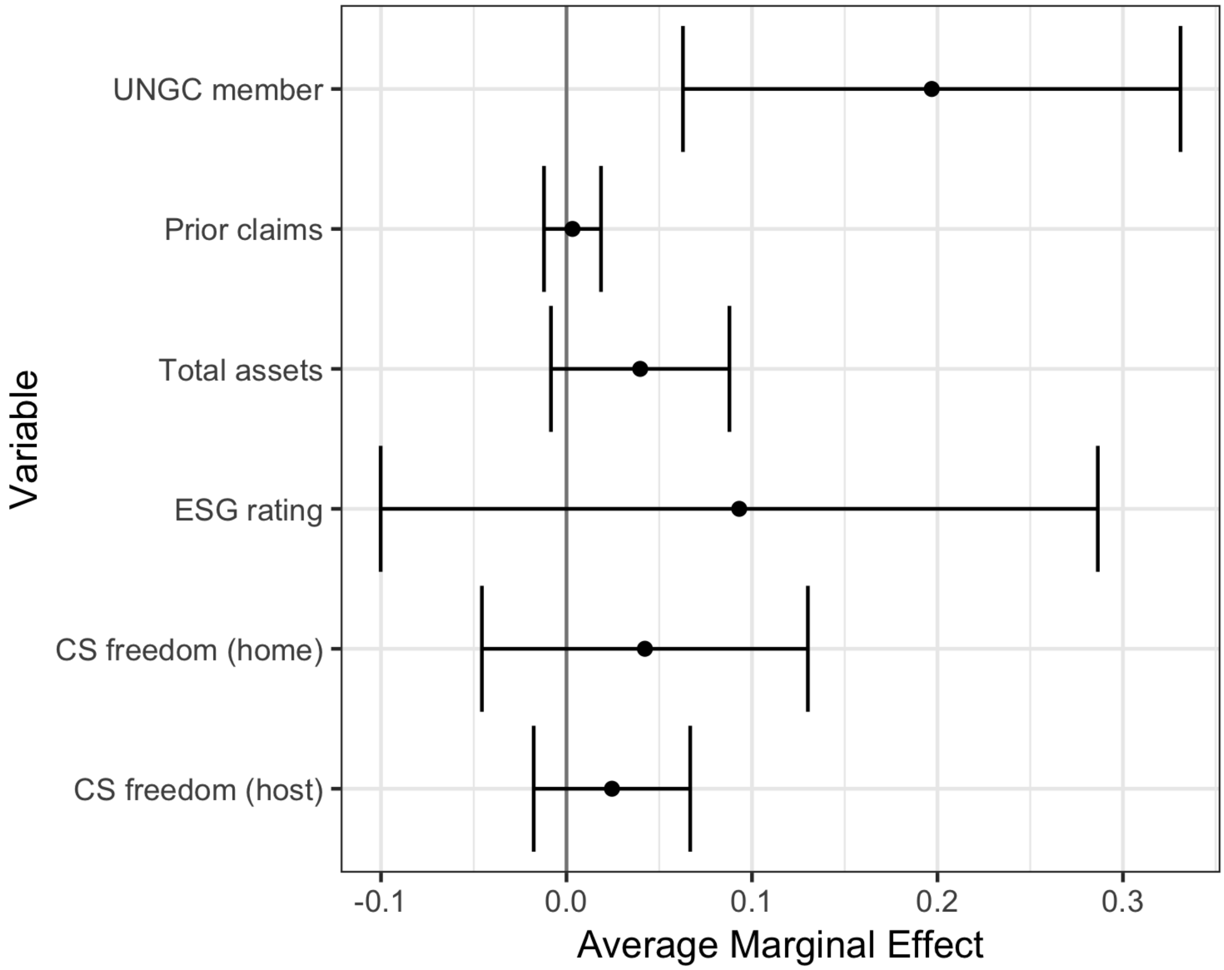
9 Appendix

9.1 MSCI ESG ratings

Table 5: Logit models with MSCI ESG ratings

	Dependent variable:			
	Responded to claim = 1			
	(1)	(2)	(3)	(4)
UNGC Member	0.808**	1.028**	1.243***	1.593***
	(0.367)	(0.425)	(0.449)	(0.589)
Prior claims	−0.021	−0.001	−0.024	0.026
	(0.034)	(0.040)	(0.048)	(0.063)
Total assets	0.0004	0.075	0.098	0.321
	(0.128)	(0.144)	(0.155)	(0.203)
ESG rating	0.894**	0.666	1.251**	0.753
	(0.375)	(0.423)	(0.493)	(0.804)
CS freedom (home state)		0.101	0.088	0.342
		(0.216)	(0.248)	(0.365)
CS freedom (host state)		0.231*	0.191	0.198
		(0.123)	(0.136)	(0.176)
Constant	0.932	−0.833	−0.785	13.834
	(2.296)	(2.651)	(2.960)	(4,781.028)
Year FE:			✓	✓
Sector FE				✓
Observations	314	277	277	242
Log Likelihood	−148.376	−128.322	−120.227	−90.658
Akaike Inf. Crit.	306.751	270.644	276.455	249.315
Note:		*p<0.1; **p<0.05; ***p<0.01		

Figure 4: Average marginal effects for Model 4, Appendix Table 1



9.2 Robustness: main results

Table 6: Main analysis: OLS results

	Dependent variable:					
	Responded to claim = 1					
	(1)	(2)	(3)	(4)	(5)	(6)
UNGC Member	0.203***	0.184***	0.193***	0.182***	0.146***	0.160***
	(0.021)	(0.022)	(0.024)	(0.027)	(0.048)	(0.051)
Prior claims		0.009***	0.008***	0.003	0.002	0.002
		(0.002)	(0.002)	(0.003)	(0.004)	(0.004)
Total assets (log)		−0.011	−0.015**	0.010	0.006	0.002
		(0.007)	(0.008)	(0.013)	(0.050)	(0.052)
CS freedom (home state)			0.068***	0.038*	−0.033	−0.054
			(0.016)	(0.019)	(0.037)	(0.042)
CS freedom (host state)			0.003	0.009	0.015	0.017
			(0.009)	(0.010)	(0.010)	(0.011)
Constant	0.673***	0.843***	0.762***	0.822***	0.683	0.818
	(0.017)	(0.129)	(0.137)	(0.259)	(0.900)	(0.928)
Year FE				✓	✓	✓
Sector FE				✓		✓
Firm FE					✓	✓
Observations:	1,515	1,460	1,264	1,008	1,264	1,008

Note: *p<0.1; **p<0.05; ***p<0.01

Table 7: Main analysis: conditional logit results

	Dependent variable:		
	Responded to claim = 1		
	(1)	(2)	(3)
UNGC Member	1.626***	1.676**	1.743***
	(0.590)	(0.659)	(0.676)
Prior Claims	−0.009	0.045	0.048
	(0.027)	(0.041)	(0.042)
Total Assets (log)	−0.058	0.106	0.068
	(0.265)	(0.316)	(0.330)
CS Freedom (home state)	−0.245	−0.209	−0.346
	(0.379)	(0.396)	(0.457)
CS Freedom (host state)	0.109	0.083	0.107
	(0.089)	(0.093)	(0.102)
Year FE		✓	✓
Sector FE			✓
Firm Condition	✓	✓	✓
Observations	1,264	1,264	1,008
R^2	0.009	0.028	0.034
Max. Possible R^2	0.282	0.282	0.300
Log Likelihood	−203.590	−191.071	−161.984
Wald Test	9.420* (df = 5)	30.220** (df = 18)	28.140* (df = 18)
LR Test	10.991* (df = 5)	36.029*** (df = 18)	34.848*** (df = 18)
Score (Logrank) Test	10.625* (df = 5)	33.990** (df = 18)	32.067** (df = 18)
Note:			*p<0.1; **p<0.05; ***p<0.01

Table 8: Multi-firm claims: OLS results

	Dependent variable:					
	Responded to claim = 1					
	(1)	(2)	(3)	(4)	(5)	(6)
UNGC Member	0.215***	0.202***	0.241***	0.263***	0.223***	0.216***
	(0.036)	(0.039)	(0.044)	(0.048)	(0.044)	(0.052)
Prior Claims		0.011***	0.009**	0.008	0.010**	0.008
		(0.004)	(0.004)	(0.005)	(0.005)	(0.005)
Total Assets (log)		−0.019*	−0.017	−0.024	−0.010	−0.031
		(0.011)	(0.013)	(0.024)	(0.017)	(0.024)
CS freedom (home state)			0.080***	0.013	0.039	−0.007
			(0.026)	(0.035)	(0.033)	(0.039)
CS freedom (host state)			−0.003	0.029	−0.029	−0.043
			(0.015)	(0.020)	(0.040)	(0.039)
Constant	0.597***	0.907***	0.655***	1.506***	0.808**	1.631***
	(0.028)	(0.204)	(0.241)	(0.451)	(0.388)	(0.533)
Year FE				✓	✓	✓
Sector FE				✓		✓
Claim FE					✓	✓
Observations	597	575	444	340	444	340
Note:				*p<0.1; **p<0.05; ***p<0.01		

Table 9: Multi-firm claims: conditional logit results

	Dependent variable:		
	Responded to claim = 1		
	(1)	(2)	(3)
UNGC Member	1.349***	1.363***	2.599***
	(0.291)	(0.297)	(0.904)
Prior Claims	0.072**	0.071**	0.044
	(0.035)	(0.035)	(0.081)
Total Assets (log)	−0.097	−0.112	0.116
	(0.108)	(0.109)	(0.514)
CS Freedom (home state)	0.158	0.136	−1.282*
	(0.198)	(0.201)	(0.747)
CS Freedom (host state)	0.006	−0.115	−1.035
	(0.223)	(0.243)	(0.783)
Year Condition		✓	✓
Sector Condition			✓
Firm Condition	✓	✓	✓
Observations	444	444	340
R^2	0.071	0.068	0.052
Max. Possible R^2	0.506	0.489	0.163
Log Likelihood	−140.260	−133.554	−21.074
Wald Test (df = 5)	28.700***	27.490***	9.910*
LR Test (df = 5)	32.621***	31.342***	18.152***
Score (Logrank) Test (df = 5)	31.450***	30.038***	15.624***

Note: *p<0.1; **p<0.05; ***p<0.01