

# Legitimacy, Public-Private Governance Initiatives, and Corporate Responsiveness to Stakeholders

Calvin Thrall

Department of Government, UT-Austin

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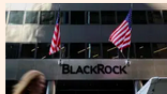
# A new role for firms in global governance?



## Analysis **FTfm**

**Biggest asset managers attacked over role in climate change**

Shareholders put pressure on BlackRock, Vanguard, JPMorgan and T Rowe Price



## **BlackRock Inc**

**BlackRock joins climate group after 'greenwash' criticism**

World's top fund manager has one of the worst rankings for voting on green proposals



## **Human rights**

**Starbucks, Amazon and Costco rapped for weak human rights disclosure**

Companies questioned on their efforts to ensure living wage and avoid child labour



## **The FT View The editorial board**

**Responsible capitalism requires new standards**

Broader sense of purpose is welcome but needs to be measured



## **Leo Strine**

**Workers must be at the heart of company priorities**

A judge's manifesto for fairer and more sustainable capitalism

## ■ DAVOS

**Pushing Davos Leaders  
Beyond Good  
Intentions and  
Greenwashing**

## A new role for firms in global governance?

- ▶ Multinational firms under pressure to meet *transnational* human rights/labor/sustainability standards, not just domestic legal requirements.
- ▶ To meet demand for transnational standards, firms increasingly turn to **public-private governance initiatives** (Abbott, Green and Keohane, 2016; Farrell and Newman, 2015; Westerwinter, 2019).
- ▶ Def: orgs in which private actors opt into additional self-regulatory measures while receiving support and guidance from public bodies such as international organizations or states.
  - ▶ Example: United Nations Global Compact (UNGC)

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## Research question

- ▶ **Do public-private initiatives actually help firms perform better on ESG (environmental, social, and governance) issues?**
- ▶ Initiatives share many features of traditional IGOs
  - ▶ Membership voluntary and endogenous (Downs, Rocke and Barsoom, 1996)
  - ▶ Lack of enforcement power
- ▶ Are firms using public-private initiatives to substitute symbolic change for substantive change?

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# Roadmap

1. Review extant research
2. Introduce new outcome measure: responsiveness to stakeholder concerns
3. Theory: legitimacy and responsiveness
4. Quantitative and qualitative evidence from the UN Global Compact

## Do public-private governance initiatives “matter?”

- ▶ Do firms who join public-private governance initiatives improve their ESG performance?
- ▶ Easy tests:
  - ▶ Improve human rights policy adoption? ✓ (Bernhagen and Mitchell, 2010)
  - ▶ Improve sustainability reporting? ✓ (Mwangi, Rieth and Schmitz, 2013)
- ▶ Tough tests:
  - ▶ Improve working conditions in developing country supplier factories? ✓/× (Barrientos and Smith, 2007)
  - ▶ Receive higher ratings on a wide range of ESG indicators? × (Berliner and Prakash, 2015)



## Do public-private governance initiatives “matter?”

- ▶ Problem: disparity in measures of corporate responsibility
- ▶ Easy tests measure low-cost, unilateral *actions*
- ▶ Tough tests measure *outcomes* throughout the supply chain
- ▶ Need for a measure in between the two extremes

# Responsiveness as Social Responsibility

- ▶ New measure of firms' ESG performance: responsiveness to stakeholder concerns
- ▶ How often do firms respond **publicly** to **non-salient** allegations of human rights/labor/environmental violations?
- ▶ Transparent, but potentially costly due to platforming effect
  - ▶ Ex: Posco and forced labor

## Theory: Legitimacy and Responsiveness

- ▶ Firms face a choice between response (potential platforming effects) and non-response (potential for crisis to develop)
- ▶ Reputational costs of responding are lower if the firm is able to argue that the violation is not indicative of its “type” (Ruggie, 2013).
- ▶ Membership in public-private initiatives allows private firms to benefit from the legitimacy of their public partners
- ▶ Initiative membership → legitimacy via association → response less costly than non-response

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## Theory: Legitimacy and Responsiveness

**Hypothesis: firms who join legitimate public-private governance initiatives should become more responsive to stakeholder concerns.**

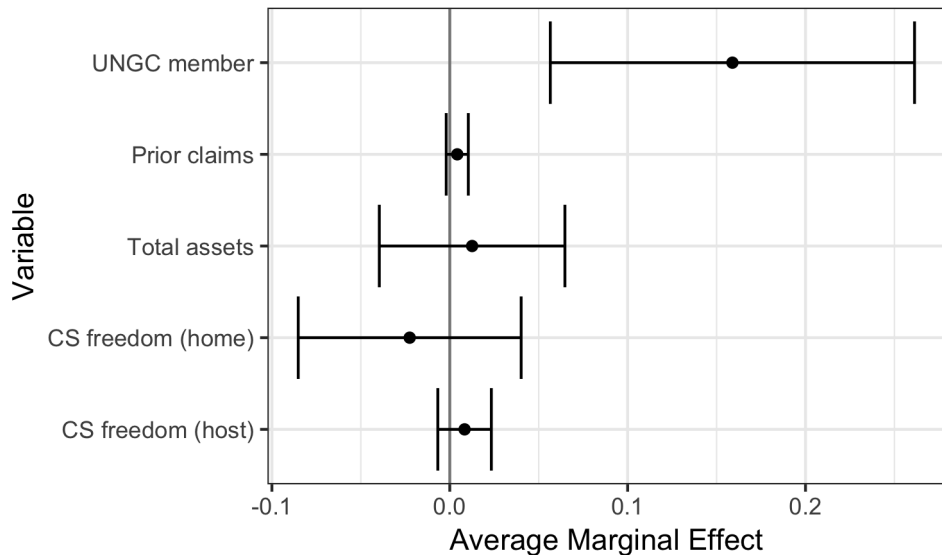
# Research Design

- ▶ I focus on membership in the UN Global Compact (UNGC)
  - ▶ Largest membership, shallow, highly legitimate (Claude Jr., 1966; Ecker-Ehrhardt, 2016; Finnemore and Sikkink, 1998)
- ▶ Data on stakeholder concerns and company responses from the Business and Human Rights Research Center (time span: 2000 - 2018)
- ▶ DV: 1 if firm issued public response to allegation, 0 if not
- ▶ Restrict sample to Forbes 2000 firms, following others (Bennie, Bernhagen and Mitchell, 2007; Bernhagen and Mitchell, 2010).  $N = 1,515$
- ▶ Controls: # of prior allegations, firm size, home and host country civ. society freedom, year/sector/firm FEs

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## Results (logit w/year, firm FEs)





## Results w/MSCI ESG rating control (table)

|                            | <i>Dependent variable:</i> |                    |                     |                       |
|----------------------------|----------------------------|--------------------|---------------------|-----------------------|
|                            | Responded to claim = 1     |                    |                     |                       |
|                            | (1)                        | (2)                | (3)                 | (4)                   |
| UNGC Member                | 0.808**<br>(0.367)         | 1.028**<br>(0.425) | 1.243***<br>(0.449) | 1.593***<br>(0.589)   |
| Prior claims               | -0.021<br>(0.034)          | -0.001<br>(0.040)  | -0.024<br>(0.048)   | 0.026<br>(0.063)      |
| Total assets               | 0.0004<br>(0.128)          | 0.075<br>(0.144)   | 0.098<br>(0.155)    | 0.321<br>(0.203)      |
| ESG rating                 | 0.894**<br>(0.375)         | 0.666<br>(0.423)   | 1.251**<br>(0.493)  | 0.753<br>(0.804)      |
| CS freedom<br>(home state) |                            | 0.101<br>(0.216)   | 0.088<br>(0.248)    | 0.342<br>(0.365)      |
| CS freedom<br>(host state) |                            | 0.231*<br>(0.123)  | 0.191<br>(0.136)    | 0.198<br>(0.176)      |
| Constant                   | 0.932<br>(2.296)           | -0.833<br>(2.651)  | -0.785<br>(2.960)   | 13.834<br>(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               |

# Illustrations

## Maersk

- ▶ 2007 - Chinese labor law - no response
- ▶ 2010 - Dockworker assault - “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.”

## ING Group

- ▶ 2006 - FairFin report - private response
- ▶ 2014 - Amnesty International report - “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”

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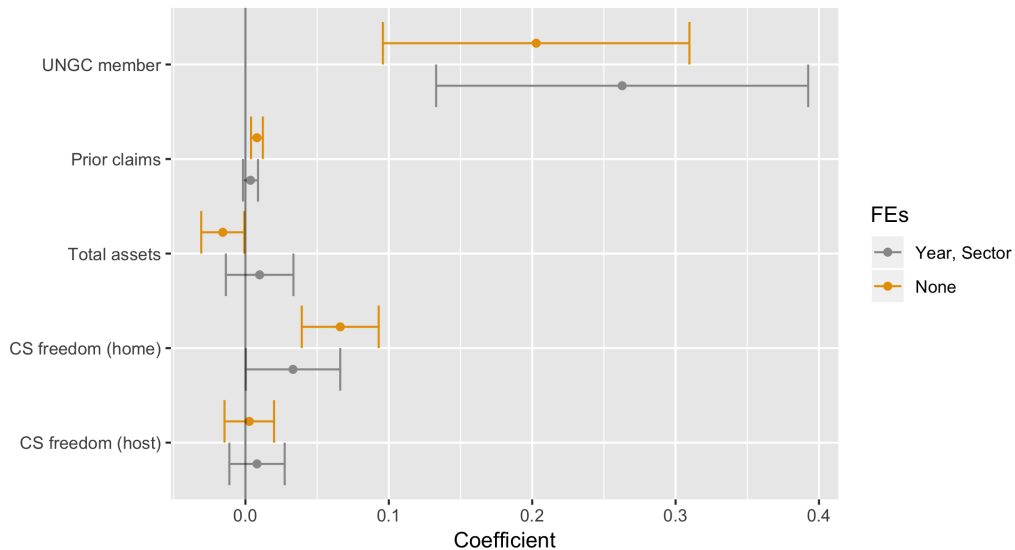
# Conclusion

- ▶ New measure of corporate responsibility: responsiveness to stakeholders
- ▶ Public-private initiatives may incentivize firms to participate in global governance
- ▶ But, legitimacy by association could also be misused; green- and blue-washing (Berliner and Prakash, 2015; Malhotra, Monin and Tomz, 2019).

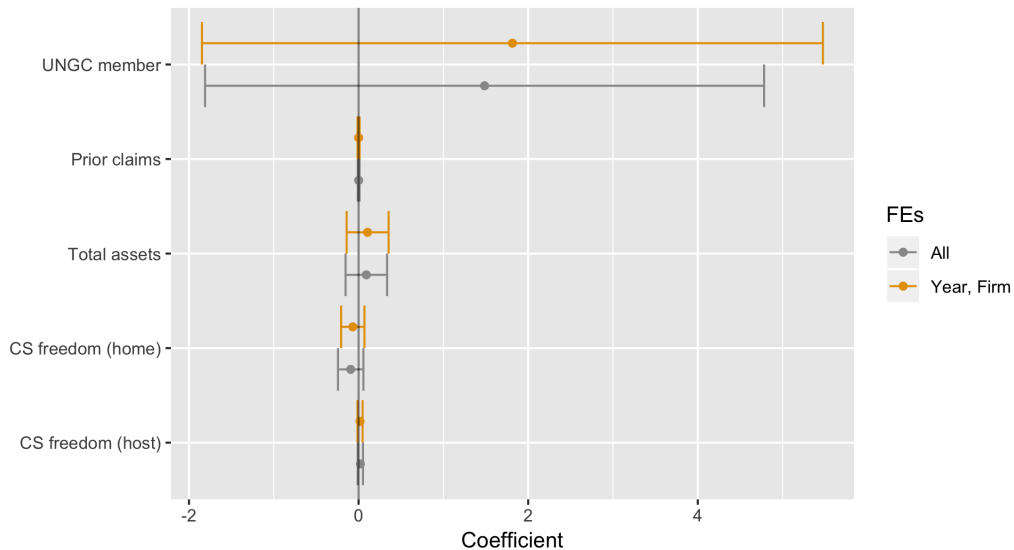
Calvin Thrall

`cthrrall@utexas.edu`

## Results (IV)



## Results (IV), firm-level FEs



# Main results regression table

|                            | <i>Dependent variable:</i> |                     |                     |                       |                        |                        |
|----------------------------|----------------------------|---------------------|---------------------|-----------------------|------------------------|------------------------|
|                            | Responded to claim = 1     |                     |                     |                       |                        |                        |
|                            | (1)                        | (2)                 | (3)                 | (4)                   | (5)                    | (6)                    |
| UNGC Member                | 1.236***<br>(0.134)        | 1.124***<br>(0.140) | 1.231***<br>(0.156) | 1.303***<br>(0.197)   | 2.191***<br>(0.737)    | 2.255***<br>(0.757)    |
| Prior Claims               |                            | 0.080***<br>(0.017) | 0.071***<br>(0.018) | 0.041*<br>(0.023)     | 0.058<br>(0.044)       | 0.060<br>(0.046)       |
| Total Assets (log)         |                            | −0.081*<br>(0.043)  | −0.101**<br>(0.049) | 0.038<br>(0.085)      | 0.173<br>(0.367)       | 0.131<br>(0.377)       |
| CS Freedom<br>(home state) |                            |                     | 0.340***<br>(0.080) | 0.230**<br>(0.110)    | −0.311<br>(0.441)      | −0.498<br>(0.504)      |
| CS Freedom<br>(host state) |                            |                     | 0.013<br>(0.057)    | 0.043<br>(0.073)      | 0.115<br>(0.106)       | 0.139<br>(0.115)       |
| Constant                   | 0.720***<br>(0.079)        | 1.957**<br>(0.766)  | 1.569*<br>(0.859)   | 15.815<br>(2,399.545) | −2.131<br>(19,396.470) | −0.723<br>(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

## IV Results regression table

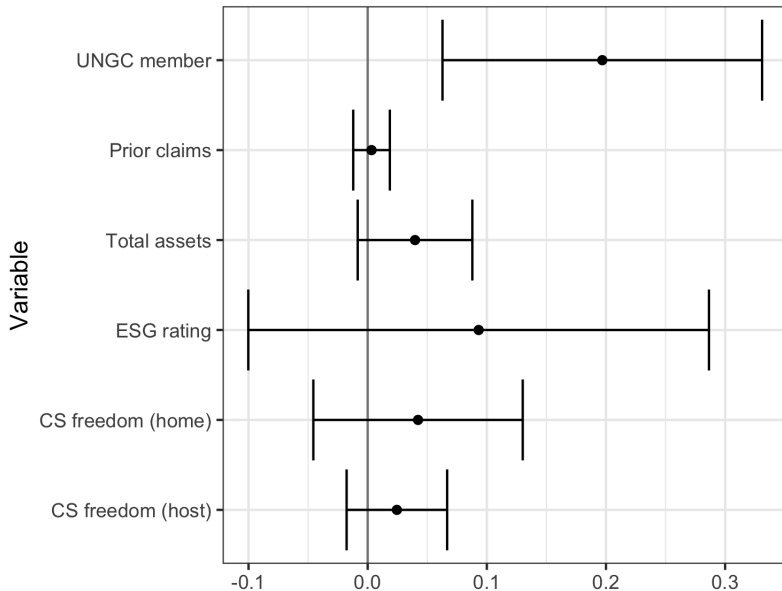
|                            | <i>Dependent variable:</i> |                     |                     |                     |                   |                   |
|----------------------------|----------------------------|---------------------|---------------------|---------------------|-------------------|-------------------|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

\*  $p < 0.1$ ; \*\*  $p < 0.05$ ; \*\*\*  $p < 0.01$



## Results w/ MSCI ESG ratings (mfx plot, model 4)



# Main results, OLS w/robust SEs clustered on firm

|                            | <i>Dependent variable:</i> |                     |                     |                     |                     |                     |
|----------------------------|----------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
|                            | Responded to claim = 1     |                     |                     |                     |                     |                     |
|                            | (1)                        | (2)                 | (3)                 | (4)                 | (5)                 | (6)                 |
| UNGC Member                | 0.203***<br>(0.021)        | 0.184***<br>(0.022) | 0.193***<br>(0.024) | 0.182***<br>(0.027) | 0.146***<br>(0.048) | 0.160***<br>(0.051) |
| Prior claims               |                            | 0.009***<br>(0.002) | 0.008***<br>(0.002) | 0.003<br>(0.003)    | 0.002<br>(0.004)    | 0.002<br>(0.004)    |
| Total assets (log)         |                            | -0.011<br>(0.007)   | -0.015**<br>(0.008) | 0.010<br>(0.013)    | 0.006<br>(0.050)    | 0.002<br>(0.052)    |
| CS freedom<br>(home state) |                            |                     | 0.068***<br>(0.016) | 0.038*<br>(0.019)   | -0.033<br>(0.037)   | -0.054<br>(0.042)   |
| CS freedom<br>(host state) |                            |                     | 0.003<br>(0.009)    | 0.009<br>(0.010)    | 0.015<br>(0.010)    | 0.017<br>(0.011)    |
| Constant                   | 0.673***<br>(0.017)        | 0.843***<br>(0.129) | 0.762***<br>(0.137) | 0.822***<br>(0.259) | 0.683<br>(0.900)    | 0.818<br>(0.928)    |
| Year FE                    |                            |                     |                     | ✓                   | ✓                   | ✓                   |
| Sector FE                  |                            |                     |                     | ✓                   |                     | ✓                   |
| Firm FE                    |                            |                     |                     |                     | ✓                   | ✓                   |
| Observations:              | 1,515                      | 1,460               | 1,264               | 1,008               | 1,264               | 1,008               |
| R <sup>2</sup> :           | 0.060                      | 0.074               | 0.105               | 0.157               | 0.547               | 0.484               |
| Adj. R <sup>2</sup> :      | 0.059                      | 0.072               | 0.101               | 0.124               | 0.351               | 0.305               |

Note:

\* p<0.1; \*\* p<0.05; \*\*\* p<0.01

## Summary stats

| Variable        | Mean         | Std. Dev.    | Min       | Max           |
|-----------------|--------------|--------------|-----------|---------------|
| response_dummy  | 0.78         | 0.42         | 0.00      | 1.00          |
| UNGC_Member     | 0.52         | 0.50         | 0.00      | 1.00          |
| prior_claims    | 4.21         | 5.49         | 0.00      | 34.00         |
| v2csreprss_home | 2.24         | 0.83         | -2.64     | 3.38          |
| v2csreprss_host | 0.88         | 1.29         | -2.80     | 3.37          |
| total_assets    | 231602512.92 | 502290246.56 | 687654.00 | 3216222895.00 |

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