Public-Private Governance Initiatives and Corporate Responses to Stakeholder Complaints*

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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 transparent response. 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' propensity to respond transparently to stakeholder allegations. These results suggest a limited but important role for public-private initiatives in global governance.

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, 2020; 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

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[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? If so, what is the channel through which initiative membership affects firm behavior? And how can it be measured?

In this paper, I take two steps towards answering these questions. 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 transparent response to stakeholder concerns as a new ESG performance metric for firms.[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. Transparent response to stakeholder concerns is a good mid-level measure of ESG performance because it legitimates the existence of a direct (e.g., not mediated by state institutions) channel of engagement between firms and stakeholders, 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

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[2]I follow past literature in defining "stakeholders" as non-state actors - particularly NGOs, labor unions, local community members, and other civil society groups - who are affected by the externalities of global production (Bäckstrand and Kuyper, 2017; Dorobantu et al., 2018).

firms more likely to respond transparently to stakeholder complaints. 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 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 likely to respond transparently 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 transparent response behavior at the firm level. The BHRRC is an NGO

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

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 against them than nonmembers. This finding is substantively meaningful: even after controlling for a range of factors, the most conservative estimate is that UNGC members are 14.6 percentage points [5.2, 24.0] more likely to respond transparently than non-members.

In addition to using different model specifications and estimation strategies, I take pains to address the potential issues of selection into UNGC membership and sample selection (e.g., some firms may be more likely to receive complaints than others). To address selection into the UNGC, I follow Berliner and Prakash (2015)'s strategy of instrumenting UNGC membership using past rates of UNGC membership in firms' home states and industries. To address issues of sample selection, I make use of the existence of stakeholder allegations that list multiple complicit firms. I limit the sample to claims that name at least four complicit firms and replicate the main analysis using claim-level fixed effects rather than firm-level fixed effects, showing that - holding constant the substance of the allegations, as well as the stakeholder - UNGC member firms are still significantly more likely to respond transparently. Further, qualitative 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 (Alves, 2020; Bäckstrand and Kuyper, 2017; Jensen and Malesky, 2018). 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, I attempt to advance the debate over whether or not voluntary public-private initiatives are effective tools for incorporating global firms into global governance (Berliner and Prakash, 2015; Levy and Prakash, 2003; Malhotra, Monin and Tomz, 2019). I first make the argument that, in order to evaluate the short-run effects of public-private initiatives on firm behavior, we must ask what good evidence of efficacy would look like. This involves tempering expectations; initiatives such as the UNGC do not give multinational firms the tools that are necessary to immediately begin solving all of the ESG problems in their supply chains, and all evidence suggests that there is no replacement for strong domestic regulation.[4] However, I find that public-private initiative membership does empower firms to engage directly and openly with stakeholder complaints. By lowering the reputational cost of direct communication with stakeholders - in the absense of state coercion - public private governance initiatives can motivate firms to play a role in addressing the negative externalities that they create. My results suggest that, while far from sufficiently enabling firms to self-regulate, public-private governance initiatives incentivize private actors to take an important step towards participation in global governance: communicating directly and transparently with global stakeholder groups.

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 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.

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[4]See Bartley (2018) and Distelhorst, Locke and Samel (2015).
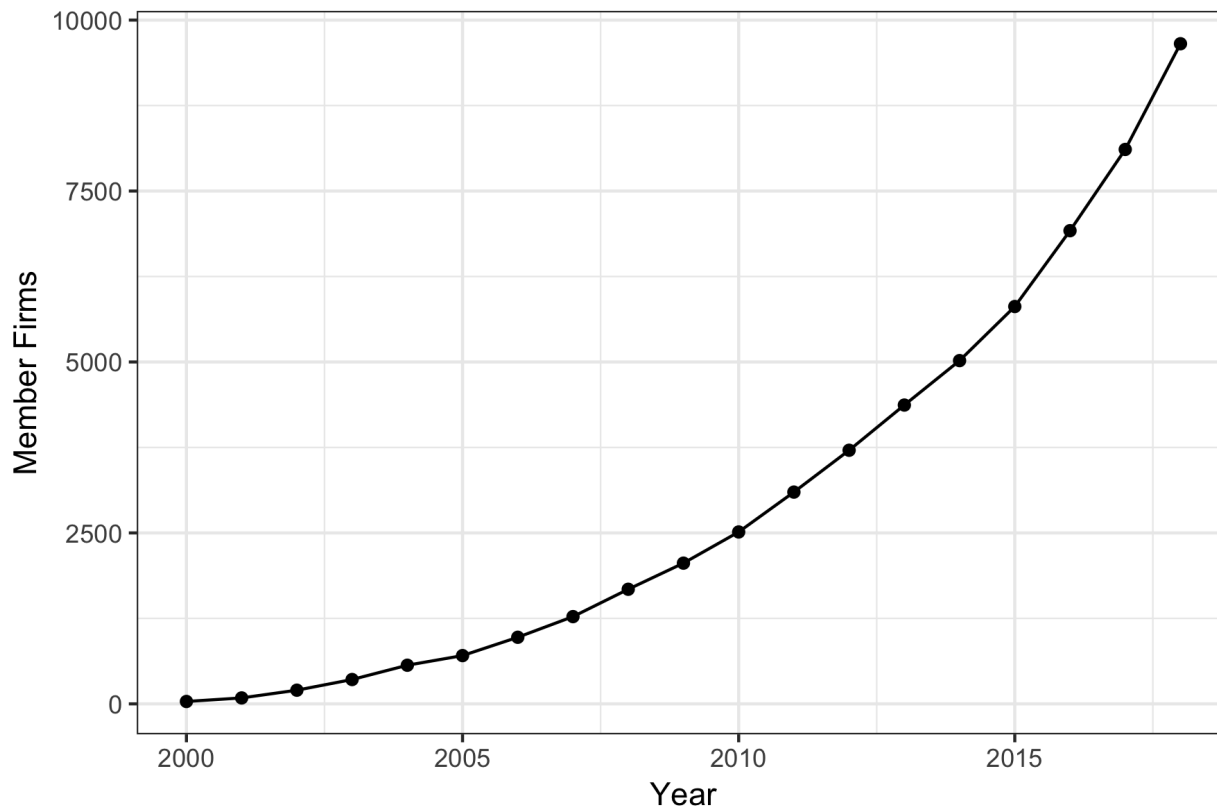
Figure 1: **UNGC Membership has grown exponentially since its founding.**

The UNGC's membership requirements are modest; prospective members must first sub-mit 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 to-wards 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 require-ments (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 enables 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.[5] 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 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

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

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,[6] 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 operationalization 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

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[6]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.

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: transparent corporate response 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' response behavior, despite lacking monitoring or enforcement power, through the mechanism of legitimation.

4 Transparent Response, Legitimacy, and Public-Private Governance

In this section, I propose a new measure of corporate ESG performance and a new theoretical explanation for how public-private initiative membership affects firms' performance on this metric. First, I contend that transparent corporate response 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' response behavior through the mechanism of conferred legitimacy.

4.1 Response Behavior as ESG Performance Metric

As employed here, transparent response behavior 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

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oil spill of 2010, for example)[7] are not incidents of transparent response, as firms lack the option to keep such incidents quiet by ignoring them or responding privately. 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 transparent response. 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 three justifications for transparent response to stakeholder allegations 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

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[7]Harry Weber, "Blown-out BP well finally killed at bottom of Gulf," *Associated Press*, 19 September 2010.

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

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 accountability 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). 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]

Third, independently of the platforming and remediation effects, transparent responses to stakeholder concerns constitute good ESG performance because they reinforce the emerging norm that multinational firms *should be participants in global governance*.[11] When faced with allegations from stakeholder groups, firms would be well within their legal rights to ignore them and leave the resolution of the issues to the relevant domestic agencies (judiciaries, environmental agencies, etc.). However, by engaging with the stakeholders in front of a global

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[9]Jeyup S. Kwaak, "Posco Unit Admits Using Cotton From Forced and Child Labor", *Wall Street Journal*, 13 August 2014.

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

[11]Hassel (2008).

audience via transparent response, firms implicitly accept their role as legitimate recipients of their stakeholders' complaints. Even if some responses are used to deny the allegations, or to apologize without offering remediation, firms who engage in public dialogue with their stakeholders legitimate the existence of a "direct channel" between firms and the groups who are affected by their actions. This is a necessary (though not a sufficient) step towards self-regulation; if firms do not accept their responsibility to address stakeholder concerns in the absense of state coercion, they cannot possibly engage in the necessarily *supra*national exercise of global governance.

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, issuing a transparent response to allegations is often the first step towards the resolution of the grievance at hand; perhaps most importantly, transparent response signals a firm's willingness to engage directly with its stakeholders in the absense of state/legal coercion. Further, transparent response is not costless. Firms such as Daewoo face backlash when their responses publicize their transgressions, damaging their reputations 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, transparent response behavior 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 change their response behavior can do so relatively quickly.

4.2   Legitimacy and Transparent Response

I argue that UNGC membership should make firms more likely to respond transparently 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 influences their response behavior.

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 legitimation (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.

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

Why would the UN - or any public actor - legitimate private actors in this way? Abbott et al. (2015)'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 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.[14] 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.[15] UNGC member firms, however, can draw on the legitimacy

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[13]In a 2002 article, UNGC architect John Ruggie wrote: "The major advantage of the GC's 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).

[14]In this way, firms face a "disclosure dilemma" similar to that of an IGO deciding whether or not to publicize noncompliance (Carnegie and Carson, 2018, 2019). The key difference is that while IGOs decide whether to publicize member state noncompliance, firms must decide whether to reveal their *own* noncompliance.

[15]See Ruggie (2013)

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."[16]

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 likely to respond transparently to stakeholder concerns than non-members.

4.3   Alternative Mechanisms

I argue that UNGC membership should make firms more likely to respond transparently by lowering the reputational cost of doing so. However, there are other potential mechanisms through which UNGC membership could affect response behavior. First, it could be the case that firms who join the UNGC engage in true social learning; through repeated interactions with their fellow members at working groups and summits, firms could be socialized into becoming better ESG performers. The social learning mechanism may very well be at play, and indeed socialization was the primary mechanism through which the UNGC was intended to change firm behavior.[17] However, I argue that social learning is likely to require continuous engagement with the initiative over a longer timeframe, while the legitimacy mechanism that I propose carries no time lag. Empirically, I examine changes in response behavior beginning in a firm's first year of membership, at which point firms have had no chance to be socialized by the initiative (but they are still able to draw on the UN's legitimacy).

Second, it could be the case that UNGC membership raises the cost to firms of *non*response,

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

[17]Ruggie (2002).

perhaps because member firms who fail to reply to allegations can be accused of hypocrisy, rather than lowering the cost of response. UNGC members may indeed face harsher backlash for involvement in ESG-related scandals than non-members, having made and then violated a public commitment to good behavior. However, recall that my definition of transparent response behavior requires that the stakeholder allegations be non-salient, which excludes events that could be described as scandals. The allegations on which I focus are quite obscure despite their public nature, and claims that are not platformed by way of receiving a public response are unlikely to reach a wide global audience. I therefore expect that non-responses should have a similarly neglible reputational effect on all firms regardless of UNGC membership status.[18]

Finally, it could be that joining the UNGC empowers activists within the firm, such as senior executives or major shareholders, to exert more control over the management of ESG affairs such as handling shareholder grievances. While plausible, this mechanism would require that the firm's chief executive (whose written endorsement is required for UNGC membership) either supports the internal activists or is thoroughly overpowered by them. This alternative explanation touches on the issue of endogeneity, namely the possibility that the decision to join the Global Compact and the decision to respond transparently are driven by the same firm-level push for reform. To mitigate the possibility that my results are affected by endogeneity, I adopt an instrumental variables approach (see subsection 6.4).

5 Research Design

5.1 Variables and Data Sources

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

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[18]Though, to reiterate, nonresponse is also costly as it risks escalating the dispute.

by civil society groups; since 2004, the organization has approached firms 3,846 times and published all responses (and nonresponses) on their website. A few aspects of the BHRRC company response data make it ideal for studying transparent response behavior. 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 and summarized in its weekly newsletter,[19] 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. Most firms receive multiple claims, and some claims target multiple firms; thus, the unit of analysis is the firm-claim.

Following recent studies (Bennie, Bernhagen and Mitchell, 2007; Bernhagen and Mitchell, 2010), I limit my sample to firms on the *Forbes Global 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.[20] Further, approximately 39%

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[19]The BHRRC claims that it receives over 365,000 webpage views per month, and that its newsletter has over 18,000 subscribers. See https://www.business-humanrights.org/en/about-us/about-us.

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

of all firm-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, 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 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 likely to respond transparently; firms who face allegations from stakeholders in states with weak civil society groups may be less likely to do so. 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 (CS) freedom."

5.2 Descriptive Statistics

Table 1 and Figure 2 provide two important sets of information about the data. First, Table 1 offers descriptive statistics for the full sample. Second, Table 1 and Figure 2 compare average covariate values between UNGC firm-claims and non-UNGC firm-claims in order to

Variable	Missing	Mean	SD	Min	Max
Year	0	2013.05	3.73	2004	2018
UNGC Member	0	0.52	0.50	0.00	1.00
Response indicator	0	0.78	0.42	0.00	1.00
Prior claims	0	4.21	5.49	0.00	34.00
Total assets (log)	55	18.02	1.51	13.44	21.89
CS freedom (home)	61	2.24	0.83	-2.64	3.38
CS freedom (host)	143	0.88	1.29	-2.80	3.37
Sector	6	-	-	-	-

	UNGC			Non-UNGC			
Variable	Missing	Mean	SD	Missing	Mean	SD	Diff-in-means
Year	0	2013.71	3.41	0	2012.33	3.92	1.37***
Prior claims	0	5.25	5.69	0	3.07	5.03	2.19***
Total assets (log)	17	18.21	1.45	38	17.81	1.56	0.39***
CS freedom (home)	28	2.33	0.74	33	2.14	0.90	0.20***
CS freedom (host)	72	1.03	1.22	71	0.71	1.35	0.32***

Table 1: **Descriptive statistics for full sample and UNGC vs. non-UNGC balance table**

identify potential issues of selection.

The top half of Table 1 shows the distribution and missingness of all relevant variables. First, note that the sample is almost perfectly divided between UNGC member firm-claims (52%) and non-UNGC member firm-claims (48%). The overall response rate is 78%. The average number of prior claims is 4.21, though note that this is calculated at the firm-claim level rather than the firm level.[21] The high degree of missingness in the civil society freedom variables is driven both by lack of availability for some country-years, and by the fact that some claims target the entirety of a firm's operations rather than actions in a particular (set of) host state(s).

Firms are not randomly assigned to join the Global Compact, which gives rise to the possibility that those who join are systematically different than those who do not and thus that my empirical results suffer from selection bias. The bottom half of Table 1 displays the covariate balance between UNGC and non-UNGC firm-claims in order to flag potential issues of selection. If UNGC and non-UNGC firm-claims differ substantially on key variables, it

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[21]For comparison, the average firm receives 3.62 claims.
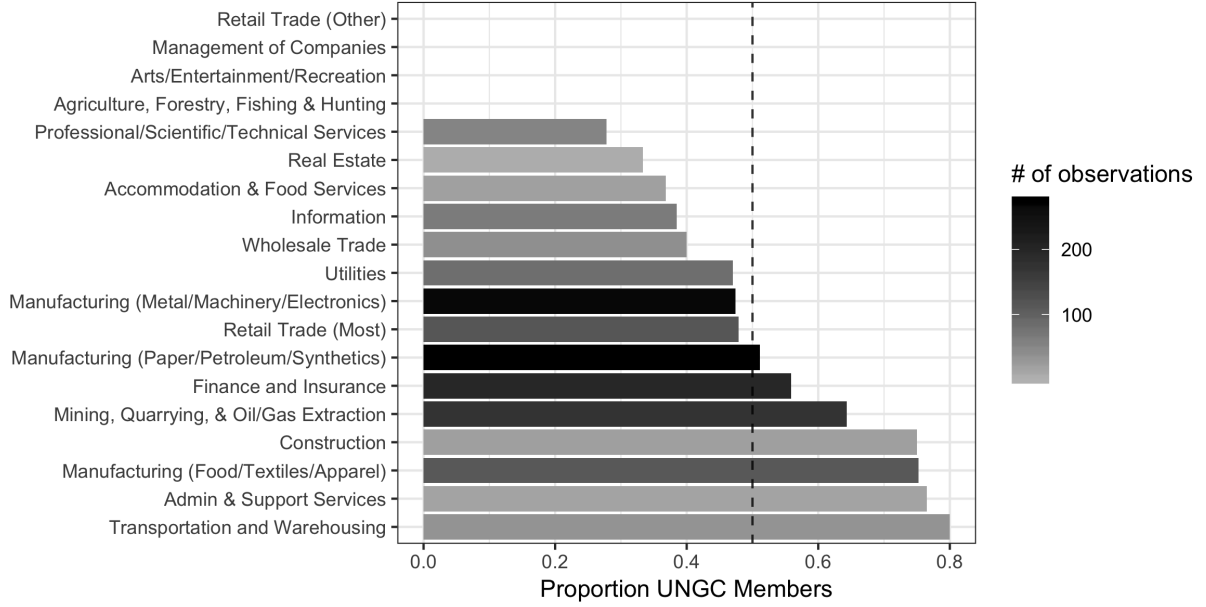
Figure 2: **UNGC membership by NAICS 2-digit sector**. The dashed vertical line is located at the 0.5 mark.

may suggest that selection bias is a larger threat. Results of simple difference-in-means tests provide some reassurance: UNGC members tend to be larger, be headquartered in home states with higher CS freedom, and face claims in host states with higher CS freedom, but only by a very small margin in each case.

Initially, it may appear problematic that UNGC firm-claims are associated with 2.19 more prior claims than non-member firm-claims on average. However, this difference can be explained by the fact that UNGC membership grew substantially between 2004 and 2018; firms are more likely to become members as time progresses, and they are also more likely to have prior claims as time progresses. For example, if a firm received 5 claims prior to joining the UNGC and only 1 claim after joining, its pre-UNGC prior claims average would be $(0+1+2+3+4)/5 = 2$ while its post-UNGC prior claims average would be $5/1 = 5$. Thus, the difference in prior claims cannot be interpreted as evidence that certain types of firms select into the UNGC, or as evidence that the BHRRC/stakeholders view UNGC members as more desirable targets.

Finally, Figure 2 illustrates the proportion of firm-claims in each 2-digit NAICS sector

in which the targeted firm is a UNGC member, as well as the number of firm-claims in each sector. There is substantial variation in UNGC membership across sectors: four sectors have UNGC membership rates of >70%, and four sectors have no UNGC member firms (though these four sectors represent only 27 observations). However, Figure 2 also shows substantial within-sector variation in UNGC membership, and a number of sectors are nearly equally divided into member and non-member firm-claims. Further, the sectors with the greatest variation represent the majority of the firm-claim observations in the dataset; 979 of the 1,515 firm-claims in the dataset are associated with a sector that has a UNGC membership rate between 40% and 60%. The extent of within-sector variation in UNGC membership provides some reassurance that my results are not driven by firms from one or two particular sectors.

5.3 Estimation

I use four different modeling approaches to estimate the effect of UNGC membership on firm response to stakeholder allegations. First, I run a series of two-way fixed effects (2FE) regression models on the full sample of claims in order to control for unobserved heterogeneity at the firm, sector, and time levels. Second, I run another set of 2FE models on a subsample of multi-firm claims using claim-level (rather than firm-level) fixed effects to isolate the within-claim association between UNGC membership and response behavior. Third, I check the robustness of the 2FE models using fixed effects logit and conditional logit models. Finally, I use an instrumental variables approach in order to mitigate potential selection bias.

6 Results and Discussion

6.1 Main Results

The main statistical analysis consists of a set of 2FE models estimated via ordinary least squares (OLS). The general estimating equation, using Angrist and Pischke (2009)'s notation, is as follows:

$$Y_{it} = \gamma_i + \lambda_t + \delta D_{it} + X_{it}'\beta + \epsilon_{it} \tag{1}$$

Y_{it} is firm i's response decision to a claim in year t, and can be equal only to 0 or 1. γ_i is a set of firm (or sector, in some models) fixed effects, and λ_t is a set of year fixed effects. D_{it} is a dummy variable that indicates whether a firm was or was not a member of the UNGC when the claim was made; δ, the parameter of interest, represents the effect of UNGC membership on response behavior. X_{it}' is the matrix of covariates, and β is the vector of their coefficients. ϵ_{it} is the error term.

The advantage of the 2FE approach is that it allows me to control for unobserved variation at the firm, sector, and year levels. It has been noted that the estimates of δ produced by 2FE models are equivalent to the weighted average of all possible two-unit, two-time period difference-in-differences estimates (Goodman-Bacon, 2019); this has led some scholars to refer to the 2FE setup as a generalized difference-in-differences model, and to assign a causal interpretation to δ. However, Imai and Kim (2020) show that the 2FE estimand cannot be interpreted causally without additional (strong) assumptions that I do not wish to make here. For this reason, I interpret the results as well-specified observational estimates of the relationship between UNGC membership and response behavior without assuming causal identification.

Table 2 displays the results of six models. The point estimates are standard OLS coefficients, presented with robust standard errors clustered on firm and claim.[22] As predicted,

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[22]Clustering on the claim is appropriate because some claims are brought against multiple firms, and as such result in multiple observations. I expand on this point in the following section.

Table 2: **UNGC membership and response behavior; full sample 2FE results**

			Dependent variable:			
			Responded to claim = 1			
	(1)	(2)	(3)	(4)	(5)	(6)
UNGC Member	0.203***	0.197***	0.170***	0.193***	0.194***	0.146***
	(0.021)	(0.022)	(0.045)	(0.024)	(0.024)	(0.048)
Prior Claims				0.008***	0.007***	0.002
				(0.002)	(0.002)	(0.004)
Total Assets (log)				−0.015**	0.012	0.006
				(0.008)	(0.012)	(0.050)
CS Freedom (home state)				0.068***	0.046***	−0.033
				(0.016)	(0.016)	(0.037)
CS Freedom (host state)				0.003	0.009	0.015
				(0.009)	(0.009)	(0.010)
Constant	0.673***	1.098***	0.622***	0.762***	0.683***	0.683
	(0.017)	(0.105)	(0.146)	(0.137)	(0.240)	(0.900)
Year FE		✓	✓		✓	✓
Sector FE		✓			✓	
Firm FE			✓			✓
Observations	1,515	1,509	1,515	1,264	1,260	1,264
R^2	0.060	0.142	0.543	0.104	0.169	0.547

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

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 firm, sector, and year fixed effects are added in models 2 and 3. Models 4, 5, and 6 replicate models 1-3 with the addition of covariates. The firm-level fixed effects absorb much of the 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. The variable is substantively significant as well: the most conservative estimate (from model 6) is that UNGC member firms are 14.6 percentage points [5.2, 24.0] more likely to respond to claims than nonmembers.

The results in Table 1 show that UNGC membership and response to stakeholder allegations are positively correlated even when firm-, sector-, and time-level variation is accounted for: this means that the relationship between the two variables holds even within the same firm over time. Again, I do not interpret these results causally. However, note that even if there were to be an unobserved confounder driving changes in firms' response behavior 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 transparent response behavior 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 involve 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 response behavior 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[23]	**13/13 (100%)**	1/3 (33%)
Human rights/Environ.	Facing Finance[24]	**10/10 (100%)**	4/5 (80%)

Table 3: **Ten largest multi-firm claims; response rates by UNGC member status**

Table 3 presents descriptive evidence comparing UNGC vs. non-UNGC response rates from the ten largest multi-firm claims in the BHRRC data. Table 2 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 response behavior 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 2 by estimating additional 2FE models (of the form described in Equation 1) using claim fixed effects rather than firm fixed effects. Again, all models are presented with robust standard

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[23] 2016 claim.
[24] 2018 claim.

Table 4: **UNGC membership and response behavior; multi-claim 2FE results**

			Dependent variable:			
	(1)	(2)	(3)	(4)	(5)	(6)
UNGC Member	0.215***	0.218***	0.216***	0.241***	0.254***	0.226***
	(0.036)	(0.036)	(0.036)	(0.044)	(0.043)	(0.044)
Prior Claims				0.009**	0.012**	0.009
				(0.004)	(0.006)	(0.006)
Total Assets (log)				−0.017	−0.003	−0.002
				(0.013)	(0.021)	(0.021)
CS Freedom (home state)				0.080***	0.041	0.018
				(0.026)	(0.028)	(0.032)
CS Freedom (host state)				−0.003	0.018	−0.032
				(0.015)	(0.018)	(0.039)
Constant	0.597***	1.370***	0.701***	0.655***	1.270***	0.970**
	(0.028)	(0.145)	(0.222)	(0.241)	(0.410)	(0.492)
Year FE		✓	✓		✓	✓
Sector FE		✓	✓		✓	✓
Claim FE			✓			✓
Observations	597	596	596	444	444	444
R^2	0.055	0.189	0.386	0.113	0.206	0.375

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

errors clustered on firm and claim.

[Table 4](#) 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 2](#).[25] 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

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[25]The estimates are likely biased slightly upwards, because the lack of within-firm variation in UNGC membership in this restricted sample prevents the inclusion of firm-level fixed effects.

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

In this section, I address two potential concerns with the previously reported 2FE results. First, I address concerns regarding the modeling of a binary process (response or no response) using OLS. Second, I address the concern that UNGC membership may simply be a proxy for a firm's underlying valuation of ESG performance.

I choose two-way fixed effects models (estimated via OLS) as my primary estimation strategy because it allows me to control for unobserved heterogeneity at the firm level, while retaining the desirable properties of consistency and efficiency. Angrist and Pischke (2009) note that OLS is quite good at estimating accurate marginal effects even with binary dependent variables, and 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.[26]

However, the results are not contingent on this modeling choice. I replicate Table 1 and Table 3 using logistic regression with fixed effects, and report the results in Appendix Table 1 and Appendix Table 2 (respectively). To address the "incidental parameter" bias that arises when many fixed effects are included in models estimated with MLE, I also replicate the main and multi-firm claim results using conditional logit models in Appendix Table 3.[27] The results are very similar to the 2FE specifications; the coefficient on UNGC membership remains positive and significant in all models.

Second, one may be concerned that UNGC membership is simply acting as a proxy for firms' underlying strategy towards ESG 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

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[26]See Hainmueller and Hangartner (2013); Kamenica and Egan Brad (2014).

[27]See Beck (2018) and Katz (2001), and the appendix, for more details.

better than average at drafting human rights policies, joining initiatives, and disclosing human rights related information were given a one, all others were given a zero. Unfortunately, MSCI's ratings for most firms in my sample are 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 4 demonstrates that the accross-unit effect of UNGC membership on firms' transparent response behavior is robust to controlling for expert ratings of the firm's human rights policies.

6.4   Instrumental Variables

When attempting to gauge the effects of membership in an organization on members' actions, it is important to 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 $t-1$. The intuition behind the instruments (which were first employed by Berliner and Prakash (2015)) is that firms tend to emulate the decisions of other firms in like circumstances, and often for norm-based as well as utilitarian reasons. This logic of "institutional isomorphism" is nicely captured by DiMaggio and Powell (1983, p. 148): "As an innovation spreads, a threshold is reached beyond which adoption provides legitimacy rather than improves performance." A textile manufacturer may join the UNGC not in order to improve its ESG performance, but rather because doing so has simply become the norm in the textile industry. However, firms may also feel the need to emulate their

Figure 3: **UNGC uptake among Global 2000 firms, 2000-2018, in top 12 states**
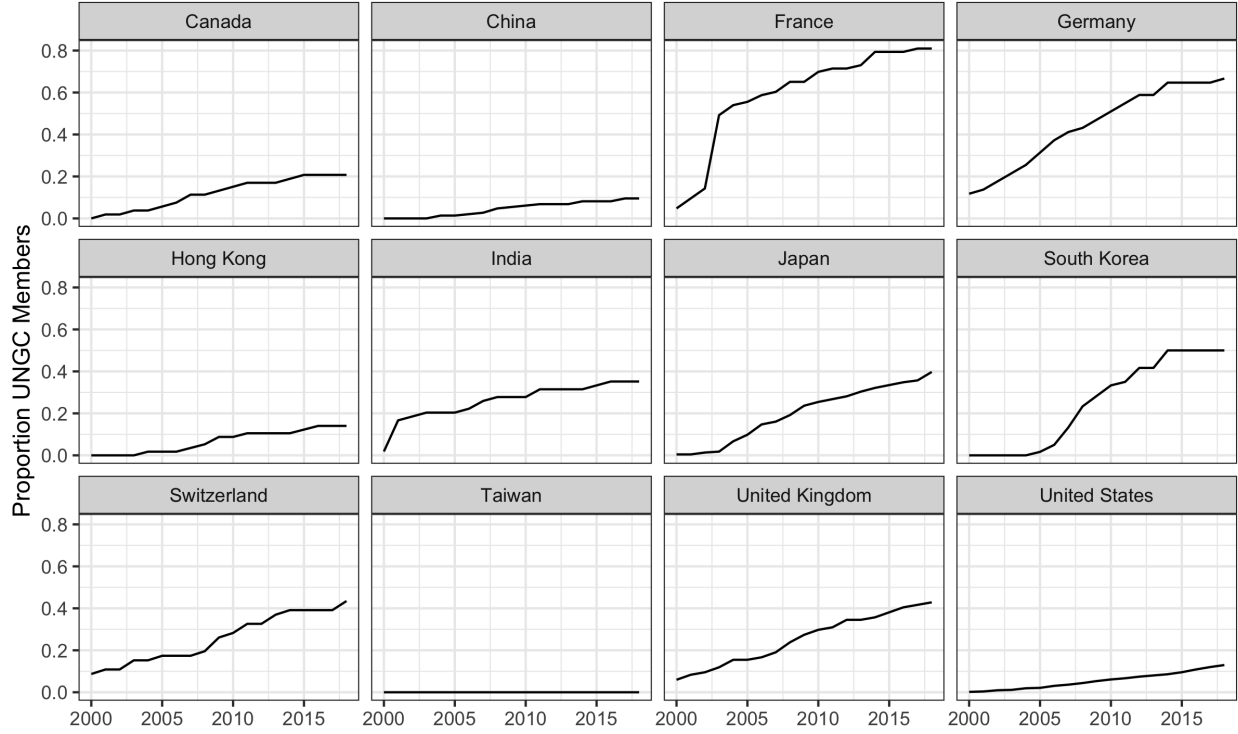
co-national and co-sectoral competitors in order to remain competitive; competition-based diffusion processes have been well-documented by IR scholars.[28]

In addition to the theoretical foundations, my instruments are also empirically motivated. First, Figure 3 shows the proportion of UNGC membership among Forbes Global 2000 firms in twelve different states between 2000-2018.[29] Note that there is a substantial amount of state-level variation in UNGC uptake in terms of date of first adoption (compare India and South Korea), rate of adoption (compare Canada and Germany), and total uptake (compare China and Japan). Sharp national increases in UNGC membership (such as France between 2002-2004 or South Korea between 2005-2008) likely illustrate periods of domestic norm emergence, where firms emulate their co-national peers rather than independently deciding to join the initiative. Second, past studies of the determinants of UNGC membership have

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[28]See Dobbin, Simmons and Garrett (2007) on competition-based diffusion of policies between states, and Haufler (2010) on competition-based diffusion of ideas and practices between firms.

[29]These states were selected because they are the most common home states for Forbes Global 2000 firms.

Table 5: **UNGC membership and response behavior; 2SLS results**

	(1)	(2)	(3)	(4)	(5)	(6)
			Dependent variable:			
			Responded to claim = 1			
UNGC Member	0.261***	0.234***	0.203***	0.264***	0.278***	0.329***
	(0.049)	(0.052)	(0.055)	(0.057)	(0.053)	(0.057)
Prior Claims		0.008***	0.008***	0.010***	0.003	0.007***
		(0.002)	(0.002)	(0.002)	(0.002)	(0.003)
Total Assets (log)		−0.013*	−0.016**	−0.014*	0.012	0.006
		(0.007)	(0.008)	(0.008)	(0.011)	(0.011)
CS Freedom (home state)			0.066***	0.060***	0.044***	0.040***
			(0.014)	(0.014)	(0.014)	(0.015)
CS Freedom (host state)			0.003	0.004	0.003	0.006
			(0.009)	(0.009)	(0.009)	(0.009)
Constant	0.643***	0.858***	0.776***	0.808*	0.564***	0.740*
	(0.027)	(0.126)	(0.134)	(0.414)	(0.209)	(0.446)
Year FE				✓		✓
Sector FE					✓	✓
Observations	1,509	1,455	1,260	1,260	1,260	1,260
R^2	0.054	0.070	0.102	0.124	0.136	0.146
Adjusted R^2	0.053	0.068	0.099	0.111	0.121	0.121
1st stage F-stat:	168***	149***	131***	119***	292***	127***
Wu-Hausman test:	1.88	1.16	0.05	1.83	3.36*	7.04**

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

demonstrated the importance of national and sector-level diffusion processes (Berliner and Prakash, 2012; Lim and Tsutsui, 2012; Perkins and Neumayer, 2010).

Table 5 presents the results of six instrumental variables regression models fit using two-stage least squares (2SLS).[30] The models contain the same covariates as the main 2FE models,

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

as well as year and sector fixed effects. Unfortunately, firm-level fixed effects are omitted as their inclusion reduces the first stage F-statistic below the commonly accepted threshold of 10. Still, models 1-6 show that the across-firm association between UNGC membership and response behavior remains positive and significant when UNGC membership is instrumented with the (lagged) proportion of UNGC members in firm i's home state and sector. Table 5 shows that the F-statistics in all reported models are greater than 100, suggesting that the instruments are highly predictive of UNGC membership. Full first stage results can be seen in Appendix Table 5.

In order for instrumental variables analysis to produce valid causal estimates, the exclusion restriction must be satisfied: the instruments Z must only affect the outcome Y indirectly through their effect on the key endogenous regressor D, conditional on covariates X. While there is no econometric test to confirm the validity of the exclusion restriction,[31] I believe that it is plausibly satisfied in this case. How could lagged rates of UNGC membership in firms' home states or sectors affect their response behavior, other than through encouraging them to join the Global Compact as well? It is possible that lagged UNGC membership rates could serve as a proxy for general sensitivity to ESG issues in certain states and sectors, which could affect firms' propensity to join the UNGC and to respond to stakeholder complaints. However, by conditioning on sector and home/host state civil society freedom, I mitigate this possibility.

The results of instrumental variables analysis provide some reassurance that the relationship between UNGC membership and response behavior is not driven by selection. However, the IV results have limitations as well: I only estimate the across-firm rather than the within-firm effect, and the validity of the estimates hinges on the untestable assumption that the exclusion restriction is met. Still, taken together with the 2FE results for the full sample and the sample of multi-firm claims, the econometric evidence strongly suggests a positive and significant relationship between UNGC membership and response behavior that is not

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[31]See Sovey and Green (2011).

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driven by selection into treatment or sample selection.

Thus far, I have provided evidence of a robust observational correlation between UNGC membership and firms' propensity to respond transparently to stakeholder complaints. However, while I have treated response as a binary variable for the purpose of statistical analysis, I also have access to the text of each public response. In the following section, I turn to qualitative examination of the content of firms' (non)responses in order to investigate the mechanism.

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 responding transparently 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 two 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."[32]

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. It is unlikely that Maersk's decision to respond transparently in 2010 was driven by UNGC-related social learning, as the firm had barely been a member for one year when the response was issued. It is also unlikely that the decision to respond was driven by reformers within the firm; Maersk's former CEO did retire in 2007,[33]

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[32]See full text at https://www.business-humanrights.org...port-workers-in-mumbai#c102601
[33]"Maersk hires Carlsberg CEO as its chief executive", *Reuters*, 22 June 2007.

but his replacement was already on the firm's board of directors, and longtime company head Arnold McKinney-Møller remained heavily involved in the firm's operations until his death in 2012.[34] The largest change between 2007 and 2010 was the firm's ability to claim an association with the UN, empowering them to engage their stakeholders transparently.

7.2   G4S

Unlike Maersk, 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[35]. 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.[36] 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

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[34] "Maersk shipping magnate Mc-Kinney Moller dies," *Reuters*, 16 April 2012.

[35] Clare Sambrook, "Meet G4S, Government's untouchable friend," *openDemocracy*, 15 October 2010.

[36] 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

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 continuing 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."[37]

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

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

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 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 respond transparently - 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 ESG violation, and firms will do so whenever possible.

8 Conclusion

In this paper, I re-examine the relationship between public-private governance initiatives and firm-level ESG performance. First, I propose transparent response to stakeholder complaints as a mid-level ESG performance metric that is better suited to capture the immediate effects of initiative membership than extant measures. Second, I theorize that public-private initiative membership should make firms more likely to respond to stakeholder concerns. By partnering with high-legitimacy public entities like the UN, firms gain the ability to more credibly frame their responses as socially responsible rather than performative; in turn, this reduces the reputational cost of transparent response vis-à-vis nonresponse. In a series of empirical tests, I find robust support for my theory. Firms who are member to the UN Global Compact (the leading public-private initiative) are consistently more likely to respond to stakeholder complaints than nonmembers, even when a range of other factors are accounted for. Further, I present evidence that this effect is not driven by selection into the Global

Compact or by the selective targeting of complaints towards UNGC member firms.

I find that, when presented with stakeholder complaints, UNGC member firms are 14.6 percentage points [5.2, 24.0] more likely to publicly address the complaints than nonmembers. This is a substantial effect, but what can we learn from it? I do expect that firms who respond transparently to stakeholder allegations should be more likely to go on to resolve them, as public response increases the salience of the allegations (the platforming effect) and firms may face backlash for failing to follow through on their promises (the audience costs effect). Although I present some anecdotal evidence of the relationship between response and remediation, I lack the data necessary to test it systematically. Due to this limitation, I avoid interpreting the empirical results as suggesting that UNGC members are 14.6 percentage points more likely to *remediate* stakeholders than nonmembers.

However, the results do allow me to speak to the relationship between public-private initiative membership and corporate engagement with civil society. When firms issue public responses to stakeholder complaints - regardless of the response's content, or actions taken post-response - they legitimate the existence of a direct channel through which civil society groups can bring their concerns to firms. This direct channel can be critically important in states with weak domestic institutions, where stakeholders may not be able to engage powerful multinational firms indirectly via domestic judiciaries or regulatory agencies. For firms, the ability to engage stakeholders directly is a necessary (though not a sufficient) component of self-regulation, as actions that firms take under pressure from governmental intermediaries cannot be considered self-regulatory. Voluntary self-regulation occurs when firms take action above and beyond what is legally required of them.

Past research has placed upper and lower bounds on public-private governance initiatives' ability to help firms regulate their global operations.[38] In this paper, I find a mid-level effect: by lowering the reputational cost of direct and transparent response to stakeholder complaints, public-private governance initiatives incentivize firms to address the negative ex-

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[38]See Berliner and Prakash (2015) and Bernhagen and Mitchell (2010), respectively.

ternalities that they create without coercion from the state. To be clear, I agree with extant work that public-private governance initiatives are no substitute for strong domestic regulation in the fight against human rights abuses, pollution, corruption, and all other negative consequences of business activity. My findings suggest a more modest, but still important role for public-private initiatives: through offering legitimacy by association, initiatives subsidize firms' direct and open communication with aggrieved stakeholders. Importantly, this effect maintains despite the initiative's lack of monitoring or enforcement power.

Though the empirical analysis in this paper focuses exclusively on the UN Global Compact, the theoretical framework that I propose should be generalizable to a wide range of public-private initiatives. The critical element is the extent to which global audiences perceive the initiative's public partner as a legitimate steward of global governance; while the UN is a particularly high-legitimacy actor, other organizations also meet this criterion. For example, the Extractive Industries Transparency Initiative counts fifteen domestic agencies (including USAID and Japan's Ministry of Foreign Affairs) as public partners,[39] and the Ethical Trading Initiative's primary public supporter is the United Kingom's Department for International Development (DFID).[40] Another high-legitimacy IGO, the OECD, is the leading public partner of the Global Reporting Initiative. Future research could fruitfully examine how the efficacy of different initiatives varies according to the composition of their public partners.

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[39]See https://eiti.org/supporters/countries
[40]See https://www.ethicaltrade.org/about-eti/funding

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Supplementary Appendix

This is the supplementary appendix for "Public-Private Governance Initiatives and Corporate Responses to Stakeholder Complaints." It contains five additional sets of models:

1. Alternative specification 1: Fixed effects logit models (full sample).

2. Alternative specification 2: Fixed effects logit models (multi-firm claims).

3. Alternative specification 3: Conditional logit models (full sample and multi-firm claims).

4. Alternative specification 4: Logit models with MSCI ESG ratings control.

5. First stage results for 2SLS models.

A Appendix

A.1 FE logit: full sample

Table 6: **UNGC membership and response behavior; full sample fixed effects logit results**

	Dependent variable:					
	Responded to claim = 1					
	(1)	(2)	(3)	(4)	(5)	(6)
UNGC Member	1.236***	1.280***	2.432***	1.231***	1.302***	2.191***
	(0.134)	(0.147)	(0.661)	(0.160)	(0.169)	(0.715)
Prior Claims				0.071***	0.070***	0.058
				(0.020)	(0.024)	(0.045)
Total Assets (log)				−0.101**	0.040	0.173
				(0.048)	(0.071)	(0.446)
CS Freedom (home state)				0.340***	0.254***	−0.311
				(0.081)	(0.092)	(0.411)
CS Freedom (host state)				0.013	0.042	0.115
				(0.060)	(0.064)	(0.110)
Year FE		✓	✓		✓	✓
Sector FE		✓			✓	
Firm FE			✓			✓
Observations	1,515	1,509	1,515	1,264	1,260	1,264
Log Likelihood	−754.092	−676.689	−347.450	−587.867	−534.365	−278.997
Akaike Inf. Crit.	1,512.184	1,421.378	1,562.900	1,187.735	1,142.730	1,323.995

Note: Constant term included but not reported. *p<0.1; **p<0.05; ***p<0.01

A.2 FE logit: multi-firm claims

Table 7: **UNGC membership and response behavior; multi-claim fixed effects logit results**

	Dependent variable:					
	Responded to claim = 1					
	(1)	(2)	(3)	(4)	(5)	(6)
UNGC Member	1.070***	1.239***	1.533***	1.213***	1.493***	1.419***
	(0.190)	(0.224)	(0.292)	(0.236)	(0.317)	(0.267)
Prior Claims				0.056*	0.088**	0.090**
				(0.031)	(0.042)	(0.045)
Total Assets (log)				−0.089	−0.129	−0.064
				(0.065)	(0.115)	(0.116)
CS Freedom				0.370***	0.212	0.214
(home state)				(0.133)	(0.224)	(0.149)
CS Freedom				−0.018	−0.160	0.100
(host state)				(0.082)	(0.270)	(0.101)
Year FE		✓	✓		✓	✓
Sector FE		✓	✓			✓
Claim FE			✓		✓	
Observations	1,515	1,509	1,515	1,264	1,260	1,264
Log Likelihood	−754.092	−676.689	−347.450	−587.867	−534.365	−278.997
Akaike Inf. Crit.	1,512.184	1,421.378	1,562.900	1,187.735	1,142.730	1,323.995

Note: Constant term included but not reported. $^{*}p<0.1$; $^{**}p<0.05$; $^{***}p<0.01$

A.3 Conditional logit: full sample and multi-firm claims

Table 8: **UNGC membership and response behavior; conditional logit results**

| | *Dependent variable:* Responded to claim = 1 | | | | |
| | Full sample (1-2) | | Multi-firm claims (3-5) | | |
	(1)	(2)	(3)	(4)	(5)
UNGC Member	1.626***	1.676**	1.349***	1.363***	1.240***
	(0.590)	(0.659)	(0.291)	(0.297)	(0.360)
Prior Claims	−0.009	0.045	0.072**	0.071**	0.088*
	(0.027)	(0.041)	(0.035)	(0.035)	(0.052)
Total Assets (log)	−0.058	0.106	−0.097	−0.112	−0.131
	(0.265)	(0.316)	(0.108)	(0.109)	(0.148)
CS Freedom	−0.245	−0.209	0.158	0.136	−0.100
(home state)	(0.379)	(0.396)	(0.198)	(0.201)	(0.271)
CS Freedom	0.109	0.083	0.006	−0.115	−0.314
(host state)	(0.089)	(0.093)	(0.223)	(0.243)	(0.283)
Year Condition[41]		✓		✓	✓
Sector Condition					✓
Firm Condition	✓	✓			
Claim Condition			✓	✓	✓
Observations	1,264	1,264	444	444	444
R^2	0.009	0.028	0.071	0.068	0.047
Max. Possible R^2	0.282	0.282	0.506	0.489	0.356
Log Likelihood	−203.590	−191.071	−140.260	−133.554	−87.213
Wald Test	9.420*	30.220**	28.700***	27.490***	18.380***
LR Test	10.991*	36.029***	32.621***	31.342***	21.249***
Score (Logrank) Test	10.625*	33.990**	31.450***	30.038***	20.393***

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

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). 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 includ-ing 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).

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[41]Model 2 contains year dummies, rather than maximizing the likelihood conditional on the sum of the dependent variable in each year, as the latter failed to estimate. However, the end result - adjusting for unobserved heterogeneity at the year level - is the same.

A.4 Logit models with MSCI ESG rating control

Table 9: **UNGC membership and response behavior; logit models with MSCI ESG rating control**

	Dependent variable:			
	Responded to claim = 1			
	(1)	(2)	(3)	(4)
UNGC Member	0.808**	1.028**	1.243***	1.676***
	(0.372)	(0.422)	(0.446)	(0.585)
Prior Claims	−0.021	−0.001	−0.024	0.023
	(0.034)	(0.037)	(0.050)	(0.064)
Total Assets (log)	0.0004	0.075	0.098	0.282*
	(0.120)	(0.130)	(0.144)	(0.166)
ESG Rating	0.894**	0.666	1.251***	0.851
	(0.362)	(0.408)	(0.478)	(0.624)
CS Freedom (home state)		0.101	0.088	0.227
		(0.228)	(0.263)	(0.320)
CS Freedom (host state)		0.231*	0.191	0.202
		(0.121)	(0.128)	(0.144)
Year FE			✓	✓
Sector FE				✓
Observations	314	277	277	276
Log Likelihood	−148.376	−128.322	−120.227	−108.018
Akaike Inf. Crit.	306.751	270.644	276.455	282.036

Note: *p<0.1; **p<0.05; ***p<0.01
Constant term included but not reported.

A.5 First stage results for 2SLS models

Table 10: **First stage results**

	Dependent variable:					
	UNGC Member					
	(1)	(2)	(3)	(4)	(5)	(6)
UNGC membership (sector, $t-1$)	0.309*** (0.109)	0.195* (0.116)	0.142 (0.123)	0.292** (0.145)	−0.079 (0.183)	0.036 (0.399)
UNGC membership (home state, $t-1$)	0.836*** (0.049)	0.809*** (0.049)	0.826*** (0.053)	0.881*** (0.057)	0.910*** (0.056)	0.920*** (0.058)
Prior Claims		0.011*** (0.002)	0.010*** (0.002)	0.012*** (0.002)	0.004 (0.003)	0.004 (0.003)
Total Assets (log)		0.034*** (0.008)	0.035*** (0.009)	0.040*** (0.009)	0.064*** (0.012)	0.063*** (0.012)
CS Freedom (home state)			−0.022 (0.016)	−0.037** (0.017)	−0.034** (0.017)	−0.039** (0.017)
CS Freedom (host state)			0.031*** (0.010)	0.037*** (0.010)	0.026*** (0.010)	0.028*** (0.010)
Year FE				✓		✓
Sector FE					✓	✓
Observations	1,509	1,455	1,260	1,260	1,260	1,260
R^2	0.183	0.209	0.224	0.236	0.293	0.299
Adjusted R^2	0.182	0.207	0.220	0.223	0.279	0.278
Residual Std. Error	0.452	0.445	0.441	0.440	0.423	0.424

Note: Constant term included but not reported. *p<0.1; **p<0.05; ***p<0.01