Which Firms Leave Multi-Stakeholder Initiatives? An Analysis of Delistings from the United Nations Global Compact

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Abstract:

This study analyzes which firms leave multi-stakeholder initiatives (MSIs) for corporate social responsibility. Based on an analysis of all active and delisted participants from the UN Global Compact between 2000 and 2015 (n= 15,853), we find that SMEs are more likely to be delisted than larger and publicly-listed firms; that early adopters face a higher risk of being delisted; and that the presence of a local network in a country reduces the likelihood of being delisted. We theorize that MSIs face a participant self-selection bias over time and that local networks enable legitimacy spillover effects that prevent firms from exiting.

INTRODUCTION

Multi-stakeholder initiatives (MSIs) are increasingly seen as a means of addressing social and environmental problems in areas such as human and labor rights, deforestation, and climate change. MSIs reflect voluntary predefined rules that seek to guide, assess, verify and communicate firms' social and environmental performance (Fransen & Kolk, 2007). Prominent MSIs include the Forest Stewardship Council, the Global Reporting Initiative, and the Equator Principles. Although these initiatives differ in terms of their aims and underlying mechanisms, they all rest on a collaborative approach towards (global) governance. Within MSIs the authority for designing and enforcing relevant rules is shared between different interest groups, which, as a whole, cross the state/non-state and profit/non-profit-boundaries (Rasche, 2012). Typical stakeholder groups that participate in MSIs include businesses, NGOs, unions, governments, and international organizations.

Our paper is motivated by the large bodies of research related to MSIs. This literature originates from different academic disciplines such as geography (Eden, 2009), political science (Bartley, 2014), development studies (Barrientos & Smith, 2007), and management studies (Reinecke et al., 2012). While the debate hardly cuts across these disciplines, existing studies have allowed us to gain a good understanding of why firms join MSIs (Fransen & Burgoon, 2014), how these initiatives become institutionalized (Gulbrandsen, 2014), what influences their perceived legitimacy (Mena & Palazzo, 2012), and whether or not MSIs have an impact on the issues they are claiming to address (Berliner & Prakash, 2015). Surprisingly little analysis has been devoted to what sort of firms leave MSIs and why they are leaving (see e.g. Knudsen, 2011). As MSIs reflect voluntary governance arrangements, actors can end their engagement, either because they want to exit or because they are forced to leave. The aim of this article is to study what sort of firms leave MSIs. We are interested in exploring the characteristics of those firms that decide to leave MSIs. Our data do not allow us to discuss why firms are leaving MSIs, although we offer some theoretical thoughts and further research directions.

The empirical context for our study rests on an analysis of all active and delisted participants from one particular MSI, the United Nations Global Compact (UNGC), between 2000 and 2015 (n=15,853). We selected the UNGC for three reasons. First, it is the world's largest MSI in terms of the overall number of business participants that joined the initiative (more than 15,800 as of December 2015). Second, it is also the initiative with the highest number of delisted firms (more than 7,000 as of December 2015). Finally, the UNGC is a global initiative with participants from more than 163 countries and not restricted to any particular sector or firm size. Formally, firms leave the UNGC because they are either forced to do so after failure to submit a mandatory annual Communication on Progress (COP) report or because they decide to voluntarily withdraw from the initiative. Our study is concerned with the firms that leave, because they fail to submit a COP report. While our results cannot be generalized to all types of MSIs (e.g., initiatives that delist because of failed audits), the analysis enhances our knowledge about what sort of firms are (not) interested in initiatives with similar characteristics than the UNGC (e.g., the Principles for Responsible Investment).

Studying what sorts of firms are delisted from an MSI is important for a number of reasons. First, it is hard to judge the output legitimacy of any MSI (i.e. whether a particular initiative offers an effective solution to the policy issues that are being addressed) without more specific knowledge about delistings. Mena and Palazzo (2010) argue that the number of participants that implement the rules underlying an MSI influences its output legitimacy. An analysis of delistings can show whether the impact of a specific initiative may be selective (e.g., focusing only on specific corporations). Second, an analysis of delisting behavior is also important for better understanding how MSIs are diffused over time. The delisting behavior of early and late adopters allows drawing conclusions about what type of firms drive the diffusion of MSIs at different stages of institutionalization (see e.g., Tolbert & Zucker, 1983). Finally, we believe that studying what sort of firms leave MSIs also allows important insights into the design of MSIs as governance arrangements. Particularly the discussion of how to set and adjust entry and exit barriers (see e.g., Voegtlin & Pless, 2014) can be enriched by an analysis of delisting behavior.

Our analysis proceeds by reviewing existing literature on MSIs in general and the UNGC in particular. We then develop six hypotheses, which predict what makes delisting more/less likely in the context of the UNGC. Next, we explain what data we used, how we measured relevant variables, what statistical analyses we conducted, and how we checked the robustness of our results. The following section presents the results of our analysis. Based on this, we outline theoretical implications of our results and thus show how existing theory on MSIs can be extended. We also outline policy recommendations for MSIs in general and the UNGC in particular.

MULTI-STAKEHOLDER INITIATIVES

What Are Multi-stakeholder Initiatives?

MSIs reflect voluntary initiatives, which involve public and private as well as profit and non-profit actors (Fransen & Kolk, 2007; Mena & Palazzo, 2012; Rasche, 2012). Based on multi-stakeholder processes, MSIs define, implement and enforce rules that direct firms' social and environmental behavior in selected areas. Even though participation in MSIs is voluntary, firms are expected to comply with the underlying rules once they have signed up to a particular initiative. The literature distinguishes three types of MSIs in the field of corporate social responsibility (CSR) (see e.g. Gilbert et al., 2011; Waddock, 2008): (1) principle-based MSIs – i.e. initiatives that define broad principles of engagement without any monitoring and certification (e.g., the UN Global Compact, the Principles for Responsible Investment, the Equator Principles); (2) certification MSIs – i.e. initiatives that outline criteria for certifying factories along global supply chains (e.g., the Forest Stewardship Council, Social Accountability 8000); and (3) reporting MSIs – i.e. initiatives that outline frameworks for disclosing non-financial information (e.g., the Global Reporting Initiative, the Carbon Disclosure Project). Our study focuses on what sort of firms leave principle-based MSIs using the example of the UN Global Compact.

The interdisciplinary academic discourse on MSIs has focused on different topics. First, a number of studies have looked at the "production" of MSIs. These studies have highlighted the political nature of standard-setting processes (Moog et al., 2015), the lack of inclusiveness of standard-

making and governance (Boström, 2006), and the role of input legitimacy (Glasbergen, 2013). Second, a number of studies have looked at the "institutionalization" of selected MSIs, focusing, for instance, on how different actors influence patterns of diffusion (Gulbrandsen, 2014), the effects of competition between MSIs on market creation processes (Reinecke et al., 2012), and isomorphism among standard adopters (Manning & von Hagen, 2010). This stream of literature has also discussed possible benefits of adoption that drive institutionalization processes (Amer, 2015; Mouan, 2010). Finally, some studies have looked at the (lack of) "impact" of MSIs. Scholars have examined whether MSIs have any effect on the practices of participants (Clark & Kozar, 2011), while other studies have more directly researched MSIs' impact on the problems they are claiming to address (Oosterveer et al., 2014). Some studies have highlighted that MSIs' impact on social and environmental problems is questionable, as local practices are often incompatible with global standards (Barrientos & Smith, 2007).

Depending on the type of MSI, there are different ways to exit: (1) Principle-based MSIs usually demand a mandatory annual disclosure of implementation progress from participants, non-reporting participants are delisted; (2) Certification MSIs delist participants that fail to reach certain performance standards during audits; and (3) all types of MSIs allow that firms decide to voluntarily withdraw (e.g., by not renewing their membership). While we have plenty of knowledge about why firms join MSIs, we know little about what sort of firms leave MSIs and why they do so. We study what type of firms leave the UNGC and hence contribute to research on principle-based MSIs.

The UN Global Compact

The UNGC offers businesses the opportunity to voluntarily align their business practices with ten principles in four issue areas (i.e. human rights, labor rights, environmental protection, anti-corruption). The ten principles are not tied towards a particular sector, region or type of corporation; rather, they are supposed to be universally valid (Kell, 2013). While the UNGC primarily aims at enlisting businesses in support of the ten principles, non-business actors (e.g., NGOs and unions) can also join the initiative. The UNGC has created rather low entry barriers. Corporations wishing to join have to send a Letter of Commitment (signed by the CEO) to the UN Secretary-General. Firms also

need to provide some basic information via an online application form (e.g., size of business, country). To support the contextualization of the ten principles and to generate local spaces for interaction, the UNGC has created so-called local networks. Such networks reflect "clusters of participants who come together voluntarily to advance the Global Compact and its Principles at the local level […] by providing on-the-ground support and capacity-building tied to distinct cultural, economic and linguistic needs" (Whelan, 2010: 318). So far, such networks have been established in over 100 countries. UNGC participants can, but do not have to, join these networks.

The UNGC does not monitor whether participants live up to their commitment. Rather, all business participants have to submit an annual Communication on Progress (COP) report in order to remain listed as "active". The COP is considered to be a public document (available via the UNGC's website) and its main purpose is to inform all stakeholders about a company's efforts in support of the UNGC (Hamid & Johner, 2010). The content of COP reports is not verified by the UNGC. COP reports are not standardized and only need to meet certain minimum requirements. They need to include: (a) a statement by the chief executive expressing continued support, (b) a description of practical actions in support of the four issue areas (i.e. human rights, labor, environment, and anti-corruption), and (c) a measurement of outcomes (UN Global Compact, 2017). If a participant does not address one or more of the four issue areas, it needs to explain the omission. Whenever a firm submits a COP, which does not meet the basic requirements, it is given a one-off, 12-month "grace period." During this period, the participant is offered support and guidance to come up with an adequate COP. Participants, who do not submit a COP on time, are not immediately delisted. Rather, they are first labeled "non-communicating." If a non-communicating participant does not submit a valid COP report within another 12 months of becoming non-communicating, it is finally delisted from the UNGC (UN Global Compact, 2017). Hence, it can take up to 36 months to delist a participant (initial 12 months of non-disclosure, plus 12 months grace period, plus 12 months non-communicating status). Other principle-based MSIs have adopted similar mechanisms and grace periods (e.g., the Equator Principles, the Principles for Responsible Investment). All expelled companies are listed on the UNGC website. Our analysis assumes that the decision to leave the UNGC is a *deliberate* one, either because

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the firm does not want to (or cannot) produce the COP report or because it decided to voluntarily withdraw from the initiative. Prior to being delisted, participants receive a number of warnings from the Global Compact Office.

A number of scholars have studied what impact the UNGC creates over time. Berliner and Prakash (2015) found that UNGC participation has no effect on companies' human rights and environmental performance. By contrast, Schembera (2016) found that longer participation in the UNGC leads to higher levels of implementation of the ten principles. It is these conflicting findings that are at the heart of the heated debate around whether the UNGC is a useful framework to advance CSR (Rasche, 2009). Despite the public nature of delistings and their high relevance for the UNGC, surprisingly little research has focused on what sort of firms leave the initiative and why they do so. Knudsen's (2011) early analysis of delistings provided some valuable insights. She found that participants operating in countries with stronger domestic governance institutions were less likely to delist. Further, she found that participants from Eastern Europe and Africa have a higher likelihood of being delisted, while firms from the oil and gas sector were less likely to be delisted. Although these results give important initial directions, they also need to be treated with care, as the underlying dataset included only 227 firms that were delisted during the first six months of 2008. As we are working with a dataset of the full population (i.e. all active and delisted participants from 2000-2015), the conclusions that can be drawn from this study leave no concern for sample significance.

HYPOTHESES DEVELOPMENT

Corporate Size

We can expect that the size of a corporate participant affects his ability and willingness to submit a COP report in at least three ways. First, submitting a COP report requires resources. When signing up to the UNGC corporations have to undergo some degree of change that requires financial as well as non-financial resources (Rasche et al., 2013). For instance, firms have to collect and analyze relevant data and also write up the annual COP report. Companies with limited resources will face difficulties in developing and submitting such a report and hence can be expected to face a higher

likelihood of being delisted. SMEs have on average fewer resources available to manage their commitment to CSR (McWilliams & Siegel, 2001), and hence should face a higher likelihood of being delisted. Second, the degree of required organizational change also depends on the already existing CSR engagement of a participant. Companies, which were already engaged in CSR reporting prior to their commitment to the UNGC, can submit these reports as a COP. This is due to the flexible COP policy of the UNGC. As CSR reporting is particularly widespread among larger corporations but still not significantly developed among smaller firms (KPMG, 2015), we can expect that SMEs face a higher likelihood of being delisted, as many smaller firms would have to create a new reporting infrastructure from scratch. Finally, the existence of reputational risk can shape participants' willingness to comply with the UNGC's COP policy. Especially larger firms get more critical attention from stakeholders than smaller firms do (Kostova & Zaheer, 1999). The more visible a company is to relevant stakeholders, the higher its potential reputational risk (e.g., in case of NGO activism; see also Brown & Knudsen, 2012). Larger firms thus have more incentives to comply with the COP policy, as they are more likely to face adverse reputational effects when being delisted, especially since delistings are publicly communicated. All of the above leads us to hypothesize:

Hypothesis 1: SMEs are more likely to be delisted from the UNGC than larger companies.

We can expect that the hypothesized effects of organization size on a firm's ability and willingness to submit a COP report are particularly strong for well-known global firms. Hence, we include an analysis of the delisting status of the *Financial Times* (FT) Global 500 firms. These companies are ranked by market capitalization. FT 500 firms have significant resources devoted to CSR and usually also a well-developed CSR infrastructure (e.g., dedicated departments; Baumann-Pauly et al., 2013). Also, FT 500 firms are disproportionally exposed to reputational risk and hence remain the main target of NGO campaigning (Sigwatch, 2016). We, therefore, hypothesize:

Hypothesis 2: FT 500 firms are less likely than other participants to be delisted from the

UNGC.

Listing Status

We expect that participants' listing status affects the likelihood of being delisted. In particular, we believe that publicly listed firms will behave differently than privately held firms. Prior research has shown that publicly listed companies that fail to submit a COP report are penalized by financial markets with an average cumulative abnormal return of -1.6% over a period of 5 trading days (Amer, 2015). Investors seem to be aware of delistings and are prepared to punish non-communicating companies (e.g., because of higher perceived risk levels). This is not surprising, as the status of COP reports is available to investors via the Bloomberg Professional service, which is one of the most widely used platforms for financial professionals worldwide. Larger institutional investors can influence companies' attitude towards UNGC commitment, as participating companies depend on their financial resources (Pfeffer & Salancik, 1978). Over 1,500 institutional investors have signed up to the Principles for Responsible Investment (PRI) thereby promising to integrate CSR-related concerns into their investment decisions. Although the PRI has not yet shown large-scale impact (Gond & Piani, 2013), it can be expected that at least some PRI investors monitor the COP status of publicly listed UNGC participants. This exposes publicly listed firms to higher degrees of risk in the event of being delisted.

Further, Shiu & Yang (2017) recently argued that publicly listed firms, which engage in CSR activities, benefit from insurance-like effects if negative events occur. However, such effects only exist if firms can credibly signal their CSR commitment to markets (e.g., through COP reporting). Delisting from the UNGC would undercut such signaling effects. Prior research has also shown that CSR reporting decreases the costs of equity capital for listed firms (Dhaliwal et al., 2011; Reverte, 2012). Being delisted from the UNGC for failure to report on implementation progress would thus increase the risk of higher capital costs. These insights lead us to hypothesize:

> *Hypothesis 3: Publicly listed firms are less likely than other firms to be delisted from the*
> *UNGC.*

Early and Late Adopters

The UNGC's delisting rate is also likely to be influenced by when participants joined the initiative. Institutional theorists have studied how timing affects the rationale of adopting a practice. They have claimed that adoption is a function of the degree of institutionalization. Tolbert and Zucker's (1983) model suggests that early adopters are motivated by gains in efficiency, while late adopters comply with an institutionalized practice in order to appear legitimate. Building on these insights, scholars have argued that late adopters are less likely to show substantive implementation and hence are more likely to decouple (Edelman, 1992; Westphal et al., 1997). Delisting, however, does not necessarily imply policy-practice decoupling, because a participant's status as active/delisted does not necessarily correspond to the level of implementation. As the content of COP reports is not externally verified, it is possible that "active" participants decouple their commitment from actual implementation (but try to hide behind a well-written report). At the same time, it is also possible that "delisted" participants still comply with the ten principles (but decided not to submit a report).

We believe that in the case of the UNGC it is more reasonable to assume that early adopters face a higher likelihood of being delisted than late adopters. Early adopters were particularly interested in gaining legitimacy, as the UNGC provided the unique opportunity to officially partner with the UN. In its early days, the UNGC stressed the "moral case" for joining the initiative (Rasche & Kell, 2010). This case was based on the belief that the UN, as an international organization with high levels of trust and moral authority, can help businesses to become more responsible (Coleman, 2003). However, as the UNGC was in many ways an institutional experiment, early adopters also faced high levels of uncertainty around what exactly they were committing to. For instance, the UNGC changed many of its engagement opportunities in the early days (e.g., the first local network was not launched until 2003). By contrast, we can expect that late adopters have more knowledge about what the initiative is all about, whether it is of potential value to the organization, and whether it is possible to meet the minimum disclosure requirement. Based on these insights, we hypothesize that:

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Hypothesis 4: Early adopters are more likely than late adopters to be delisted from the

UNGC.

Participants from Countries with Legislation on CSR Reporting

The COP report, which participants have to submit on an annual basis, is in many cases not specifically prepared for the UNGC. Due to the initiative's flexible reporting requirements (UN Global Compact, 2017), many firms submit their already existing CSR reports (or use the data from these reports for their COP). Hence, we can expect that participants from countries with existing mandatory regulations around CSR reporting are less likely to be delisted. CSR reporting, also referred to as environmental, social and governance (ESG) reporting, sustainability reporting or non-financial reporting, is either mandated through governmental regulation or is a listing requirement on selected stock exchanges (KPMG et al., 2016). For instance, China and Brazil, two countries with a high number of UNGC participants, have CSR reporting regulation for listed companies. There is continued strong growth of regulation in this area, both within and also outside of OECD countries. We only include countries, which have legally binding regulation on CSR reporting, into our analysis. Countries with "softer" forms of regulation (e.g., via stock exchanges) are excluded, as the scope of these regulations is usually very limited (i.e. in most cases only applicable to certain firms listed on a specific stock exchange).

Hypothesis 5: Companies from countries where CSR reporting is required by law have a

lower share of delisted firms from the UNGC.

Strength of Local Networks

Local networks act as a bridge between the abstract idea of the UNGC on the global level and the concrete realities that firms face in their national context. Prior research has suggested that the level of engagement with a particular local network is dependent upon the number of network participants (Rasche, 2012; Whelan, 2010). Local networks with more participants are likely to have access to more resources (e.g., because they can charge local fees) and hence show higher levels of

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engagement. As UNGC participants are not forced to join the local network in their respective country, we can expect networks with a high rate of participation to also show higher levels of activity (e.g., because they have access to more interested firms). Some networks, which show higher levels of engagement, support their participants in creating COP reports. The 2014 Local Networks Report by the UNGC states that "local networks received in-depth training and guidance to support their participants with issues related to reporting and fulfilling their COP […] requirements." (UN Global Compact, 2014: 14). For instance, the Argentinean, German and Swiss local networks offered such assistance. We can therefore expect that network strength (i.e. networks with higher levels of participation and hence engagement) influences participants' willingness and ability to submit a COP. Based on this, we hypothesize:

Hypothesis 6: Firms operating in countries with local networks that attract a high share of participants have a lower share of delisted firms from the UNGC.

METHODOLOGY

Dataset

Our analysis is based on the complete dataset of the UNGC's active and delisted participants as of 31 December 2015 (n=15,853). The Global Compact Office in New York provided the dataset. We excluded participants, which joined between 1 January 2013 and 31 December 2015, as due to the UNGC's current COP policy, firms that joined during these years cannot be delisted (UN Global Compact, 2017). A firm that joined on 1 January 2013 cannot be delisted before 1 January 2016 due to the current submission deadlines and available "grace periods." Our analysis therefore includes all participants that joined the UNGC before 1 January 2013, and that were either labeled "active" or "delisted" by December 2015. This results in a sample of 11,815 firms for our analysis.

Overall, the UNGC delisted 7,017 firms until December 2015. Of these the vast majority were expelled for failure to submit a COP (84.81%), while only a minority was delisted because of voluntary withdrawal (11.33%). For instance, Volkswagen voluntarily withdrew from the initiative in

2015 after its scandal around the manipulation of diesel engines. Only 3.62% of delisted participants were expelled because they merged with another company or because the company seized to exist. We only include companies in the analyses that were expelled from the UNCG because they failed to submit a COP report, resulting in a final sample size of 10,749 firms (i.e. all firms that joined before 1 January 2013 and that were listed "active" or that were "delisted" due to non-reporting).

Variables and Statistical Analyses

Variables. The variable of interest is whether a firm is delisted or not from the UNGC. We create a dummy variable that is employed as the dependent variable. The following independent variables are used according to our generated hypotheses:

- SMEs (H1): We define SMEs as all companies with less than 250 employees according to an official recommendation by the EU (EU 2003/361/EC); micro enterprises (i.e. firms with less than 10 employees) were included into the SME category (dummy). Such a classification is in line with prior empirical work on SMEs (see e.g., Berliner & Prakash, 2012).

- FT500 (H2): We defined FT500 as a dummy variable (UNGC participant is/is not listed in the *Financial Times Global 500* as of December 2015).

- Listing Status (H3): The variable concerns the publicly listed status of a participating firm and was defined as a dummy (1 = "publicly listed", 0 = "private company, subsidiary, or state-owned company").

- Time that participants joined (H4): We defined a dummy variable (1 = "early adopters" who joined the UNGC prior to and including 2008, 0 = "late adopters" who joined after 2008). We chose 2008 as a cut-off year, as the UNGC had gained a robust membership base until then (6,207 participants until the end of 2008). The UNGC started out with 50 firms in 2000 and grew especially in 2006, 2007 and 2008 (as participants from China and India started to join).

- Existence of CSR reporting legislation (H5): We defined a dummy variable regarding whether CSR reporting legislation was in place (dummy, 1 = "legislation was in place when firm joined UNGC"). The information whether or not a country has CSR reporting legislation in

place was obtained from a comprehensive overview of reporting legislation published by KPMG, the United Nations Environment Programme (UNEP), the Global Reporting Initiative (GRI), and the Centre for Corporate Governance in Africa (KPMG et al., 2016). A country was only coded as having reporting legislation in place if legally binding measures existed (i.e. non-binding recommendations were not considered).

- Strength of local networks (H6): We defined a variable describing the existence and strength of a local network in a particular country (0 = "no network or no information available"; 1 = "weak network defined as less than 70% of country participants are organized in the network"; and 2 = "strong network defined as at least 70% of country participants are organized in the network"). We chose 70% as a threshold for a network to be classified as weak or strong, as most networks above this threshold showed a high level of activity and participant engagement (UN Global Compact, 2015).

As control variables, we include dummies of countries, industry sectors and whether a country is an OECD member or not.

Logistic regression. After descriptive analyses, we employ logistic regression analyses to test the effects of the various independent variables on delisting. We estimate the following model:

$$D_i = \beta_0 + \beta'_1 X_i + \beta'_2 C_i + \varepsilon_i \qquad\qquad (1)$$

where D_i is the measure of whether firm i is delisted or active. β_0 is the average outcome. X_i captures all independent variables relevant for testing the hypotheses and C_i comprises dummies for the industry sectors. ε_i is the individual error-term. β' is the vector of key coefficients of interest.

Multilevel mixed-effects generalized linear model (MMGLM). We then control for contextual effects such as shared environments by employing a multilevel mixed-effects generalized linear model. The UNGC database has a nested structure with two levels: country and firms. In such a

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sample, the individual firm observations are generally not independent as firms within one country are subject to national legislation and other national factors (Hox, 2002). The estimated model looks as follows:

$$D_{ij} = \beta_{0j} + \beta'_1 X_{ij} + \beta'_2 C_{ij} + \varepsilon_{ij} \tag{2}$$

$$\beta_{0j} = \beta_0 + \beta_3 O_0 + \vartheta_{0j} \text{ (country level)}$$

where D_{ij} is the measure of whether firm i in country j is delisted or active. β_{0j} is the average outcome in country j which is equal to the sum of the population average (β_0), the country specific effect (υ_{0j}) and the effect of being an OECD member (O_0). X_{ij} captures all independent variables relevant for testing the hypotheses and C_{ij} comprises dummies for the industry sectors. ε_i is the individual error-term. The composite model looks as follows:

$$D_{ij} = \underbrace{\beta_0 + \beta'_1 X_{ij} + \beta'_2 C_{ij} + \beta_3 O}_{\text{fixed effects}} + \underbrace{\vartheta_{0j} + \varepsilon_{ij}}_{\text{random effects}} \tag{3}$$

RESULTS

Descriptive Results

Hypotheses H1 to H6 are tested by descriptive statistics with the final sample of 10,749 firms. The findings are presented in Table 1. Hypothesis H1 suggests that SMEs are more likely to be delisted than larger firms. In total, 6,325 SMEs were listed in the UNGC whereof 67.37% were delisted between 2000 and 2012. For larger firms, 38.20% were delisted over the same period of time. Hence, the share of delisted SMEs is much larger than the one of participants with more than 250 employees (+29.17%, Table, last column) – supporting H1. Hypothesis H2 suggests that FT500 firms are less likely to be delisted from the UNGC than other participants. This hypothesis is supported. Out of all UNGC participants, 184 firms were listed in the FT500. Only 0.54% of these 184 firms were delisted, while the delisting rate of non-FT500 firms is at 56.31%. H3 predicts that publicly listed firms are less likely than other firms to be delisted from the UNGC. We find support for this

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hypothesis, as publicly listed firms have a lower share of delisted firms (20.51%) than firms with other ownership structures (59.46%) – supporting H3.

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Hypothesis H4 suggests that late adopters are less likely to be delisted than early adopters – this is supported by the data. We find that early adopters are more likely to be delisted than late adopters (+23.96%). Hypothesis H5 suggests that firms, which operated in countries with CSR reporting legislation in place when they joined the UNGC, are less likely to be delisted. We find weak support for this hypothesis. While 53.55% of firms from countries with CSR legislation in place were delisted, 58.67% of firms from countries without any CSR legislation in place were delisted (Table 1). Excluding SMEs from the analyses (as CSR reporting legislation usually targets larger firms), we find that 37.43% of the 2,821 larger firms that were exposed to CSR legislation were delisted, while 39.55% of the 1,603 larger firms that were not subject to such legislation were delisted. Hence, looking only at larger firms, the picture is not much different from the overall effect on all firms. Hypothesis H6 is about the supportive nature of local networks, suggesting that firms operating in countries where a high number of participants are organized in the network face a lower likelihood of being delisted. This hypothesis is only weakly supported. While the delisting rate for firms that operate in countries without any network is high (74.14%), the share is much lower for weak and strong networks, 48.59% and 54.59% respectively.

Regression Results

Table 2 presents the regression results – both, the logistic regression (Logit, Column (1)) as well as the multilevel mixed-effects generalized linear model (MMGLM, Column (2)), produce similar results for all hypotheses but H6. For the interpretation of the estimates, we focus on the MMGLM as the multilevel model better reflects the structure of the data.

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Also when controlling for all other variables that are hypothesized to be associated with being delisted or not, the descriptive results are largely confirmed. For example, SMEs have a higher likelihood of being delisted compared to larger firms (Odds Ratio OR = 3.437), meaning that the likelihood of being delisted is 3.437 times higher compared to the likelihood of a larger firm being delisted. Another factor increasing the likelihood of delisting is being an early adopter (OR = 3.120). Firms with the following characteristics have a lower likelihood of being delisted: being listed in the FT 500, being a publicly listed firm or being in a country where legislation on CSR reporting is in place. Thus, the hypotheses H1, H2, H3, H4 and H5 are supported.

For the effect of local networks on the likelihood of being delisted (H6), the estimates change largely when taking the two-level structure of the data (firm in country) into account. Taking weak local networks as the reference category, firms in countries with strong local networks are slightly more likely to be delisted (OR = 1.237), but firms in countries with no local networks are 3.384 times more likely to be delisted than are firms in countries with weak networks. Countries explain 7.83% of the variance of being delisted (ICC Intra Class Correlation coefficient).

DISCUSSION AND IMPLICATIONS

Theoretical Implications

Effects of firm size on MSI engagement. Our findings suggest that the ability and willingness of organizations to engage in COP reporting seems to be negatively correlated with firm size. This confirms prior theoretical insights that SMEs do not engage much in formal CSR reporting (see e.g., Brammer & Pavelin, 2006; Gallo & Christensen, 2011). Rather, SMEs often choose informal reporting mechanisms such as face-to-face meetings with selected stakeholders (Spence, 2004). As principle-

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based MSIs, like the UNGC or the PRI, require annual reports from their participants, our results show that these initiatives are primarily designed for larger companies, which can cover the organizational costs of creating formal reporting mechanisms. This shows that the expected cost/benefit ratio of participating in principle-based MSIs is contingent upon firm size. On the one hand, SMEs face higher marginal costs of disclosure relative to larger companies. We can thus expect that SMEs are confronted with higher organizational barriers to remain part of principle-based MSIs. On the other hand, SMEs also find it more difficult to fully reap the benefits of principle-based MSIs. Although initiatives like the UNGC state that they welcome SMEs (Rasche & Kell, 2010), larger firms can better activate the benefits of participation, such as indicated by the lower delisting rate for FT 500 firms. For instance, benefits such as reputational effects, being part of a platform for corporate political activity, and improved access to the UN system have a higher relevance for larger firms. A weak value proposition for SMEs does not *ipso facto* mean that these firms do not implement MSIs. Baumann-Pauly et al. (2013) even argue that SMEs face lower costs of integrating CSR practices into the organization (relative to larger firms), as coordination costs are lower and employees' personal commitment is easier to secure. What the results show is that principle-based MSIs are not designed in a way that they offer enough value to SMEs for them to avoid delisting.

Effects of join year on MSI engagement. So far, there is little longitudinal analysis of principle-based MSIs (mostly due to a lack of relevant data). Our analysis suggests that late adopters face a lower likelihood of being delisted, while early adopters of the UNGC were delisted more often. Theoretically speaking, this points towards the existence of a self-selection bias. Over time, MSIs may attract those participants that know what they are getting into and that also know whether or not they can live up to the proposed principles. While in the early days of an MSI the participant base is still more heterogeneous, knowledge about what the initiative is (and is not) is (a) increasing and (b) diffusing over time. This makes the MSI attractive to a much narrower base of "informed" potential participants. We believe that this mechanism is likely to hold for principle-based MSIs in general, as these initiatives have low entry barriers and therefore attract a broad mix of participants in their early days. We can thus assume that principle-based MSIs run through an initial phase where delistings can

expected to be high, although this rate should decrease over time as participants gain more knowledge of the MSI. This insight shows the relevance of institutional-level learning (Haunschild & Chandler, 2008). Late adopters learn from the delisting experiences of early adopters and adapt their behavior accordingly. A track record of successes and failures of prior adopters is available once a MSI's diffusion has progressed. Based on this, potential adopters can better judge whether and how a certain initiative fits their needs. Such an explanation of adoption behavior later in the diffusion process is not yet sufficiently integrated into the MSI literature.

Effects of local networks on MSI engagement. Our analysis shows that the mere existence of local networks influences the delisting rate, while the strength of a network (measured by the number of active participants) does not seem to affect delistings significantly. This finding calls into question existing MSI theory, which suggests that the presence of more participants in a local network increases the level of engagement (Rasche, 2012). Our findings suggest that the presence of a network is already sufficient to prevent participants from leaving MSIs. Local networks with many participants do not automatically show lower delisting rates. We argue that what keeps participants from leaving an MSI is the existence of legitimacy spillover effects from existing network participants to newcomers. Prior research has argued that "similarity" acts as a heuristic that allows outsiders to construct legitimacy transfers based on established categories (Kostova & Zaheer, 1999; Kuilman & Li, 2009). Being part of a local network acts as such an established cognitive category, in that networks unite firms that are similar in terms of their support for the UNGC. Outside audiences thus confer legitimacy to UNGC participants based on whether they can typify them into a category of organizations that share a common feature (Haack et al., 2014). Leaving the UNGC would imply losing access to the local network and hence the perceived association with a similar class of organizations. Although participants in local networks are likely to differ in terms of their size and sector, they are all similar in terms of being perceived as working towards goals that are organized under the UN umbrella. As the UN enjoys high levels of trust and legitimacy (Torgler, 2008), we can expect that outsiders will confer legitimacy to organizations that they can typify into a recognized cognitive category (i.e. "local networks members"). We believe that such legitimacy spillovers are tied

to local networks, as these networks are the "face" of the UNGC on the local level and hence more known to local audiences. Understood in this way, the existence of local networks positively influences firms' decision to remain part of the UNGC.

Policy Recommendations

Principle-based MSIs. Principle-based MSIs may be at risk of suffering from adverse selection. Low entry barriers and a high level of delisting are likely to damage the reputation and legitimacy of an initiative. The legitimacy of an MSI is hard to judge from the outside and by non-experts. Hence, evaluators will rely on heuristics (Haack et al., 2014). Publicly available information on delistings acts as such a heuristic and thus influences MSIs' perceived legitimacy. In case of a high delisting rate, firms with a strong CSR profile will find it harder to credibly signal their performance. As a result, better performing companies may shy away from participation, as they expect negative legitimacy spillovers. For policy makers this implies (a) that it is important to sufficiently differentiate MSI participants within an initiative (e.g., through different levels of participation) and (b) to carefully adjust entry barriers. Currently, most principle-based MSIs have had rather low entry barriers. We suggest increasing entry barriers to a level that ensures that participants have a basic willingness to engage in the initiative and the necessary resources to do so. This could be done in different ways (e.g., by changing reporting requirements and asking for a sign-up fee). However, we also caution that entry barriers need to be set in a way that the respective MSIs are able to keep a diverse participant base. Club theory suggests that MSIs, which only attract CSR leaders, may be ineffective due to a lack of learning effects (Berliner & Prakash, 2014). Principle-based MSIs have to reward leaders, while, at the same time, allow laggards to ratchet up their performance.

Our analysis also shows that MSIs enjoy lower delisting rates if they engage participants through local networks. The mere existence of a local network in a country can bring down the delisting rate. For policy makers this implies that investments into local networks are important. Participants are likely to find it hard to connect to a global initiative with a vast number of participants. Local networks allow for creating a collective identity on the ground, which is likely to

affect the perceived value of a MSI. MSIs should actively encourage and financially support the

establishment of networks in countries where this has not been done yet (around 60 countries for the

UNGC). Policy makers should also ensure that networks engage SMEs into smaller "regional

clusters." Larger, nation-wide networks do not offer much value to SMEs, whose CSR activities are

usually embedded in local communities (Murillo & Lozano, 2006). This recommendation would be

particularly relevant for larger and heterogeneous countries (e.g., China, India).

UN Global Compact. One key recommendation based on our analysis would be to make COP

reporting a condition for entering the UNGC instead of making it an outcome of participation. Our

results suggest that a large number of firms do not seem to be interested in aligning their business

practices and strategies with the UNGC's ten principles. As it stands, these firms can remain part of

the initiative for at least three years due to the flexible nature of the UNGC's COP policy (UN Global

Compact, 2017). Although it remains subject to further research why exactly these firms joined the

UNGC in the first place, our results show that those who argue that a large number of firms misuse the

initiative for "bluewashing" (Berliner & Prakash, 2015) may indeed have a point. Making the

submission of a COP report a precondition for participation would slightly increase entry barriers and

also offer a baseline from where to judge future implementation progress. The COP report could then

outline how the ten principles are addressed at the time of joining, and what plans exist for the future.

Such a policy change would also ensure that new participants have already gained some experience

with reporting non-financial information and are aware of the required resources. Another possibility

would be to label all companies, which have joined the UNGC but have not yet submitted a COP, as

"candidates."

Our results also suggest that the UNGC currently has no mechanism in place that allows deviant

companies to be punished. So far, the UNGC assumes that delisted firms are punished through the

public nature of delistings – all expelled firms are listed on a "name and shame" board on the

initiative's website (Hamid & Johner, 2010). Our findings suggest that this mechanism is likely to

influence larger publicly listed firms, while it does not show much effect on SMEs. As the exit option

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is not costly for SMEs, and as delisted firms can reapply to the UNGC at any time, there are incentives

for firms to free ride (i.e. join the initiative for three years without any reporting). We thus recommend

requiring asset-specific investments from new participants. Such investments would at least partly

address the problem of missing credible commitment, as they create sunk costs for participants and

hence make the exit option more costly (Prakash & Potoski, 2007). Practically speaking, such

investments can be required by making participation in local networks mandatory. On the one hand,

this would tighten the links between participants and the UNGC through more regular interactions. On

the other hand, it would also require firms to participate in and contribute to collective action

activities. As such activities are only accessible by network members, participants' investment in them

(either financial or non-financial) is hard to regain.

CONCLUDING REMARKS

Given the growing attention to MSIs and their relevance to address social and environmental

problems, it is crucial to better understand what types of firms are affected by this mode of

governance. We contribute to the current debates by systematically analyzing what types of firms

voluntarily leave a leading principle-based MSI, the UNGC. Our results show that firm size, join year

and the existence of local networks influence whether firms decide to leave MSIs. We only find weak

support for the impact of CSR reporting legislation on delisting behavior. Overall, our study shows

that principle-based MSIs seem to face a dilemma. On the one hand, such initiatives are based on

rather low entry barriers and hence attract a high number of participants. The high number of

participants is needed to achieve the sustainability transformations that these initiatives promote.

Former UN Secretary-General Ban, for instance, called for 20,000 UNGC participants by the year

2020 (United Nations, 2011). On the other hand, low entry barriers also imply a high number of

delistings. This simultaneous existence of strong participant growth and a high number of delistings

calls the long-term "business model" of principle-based MSIs into question.

TABLES AND FIGURES

Table 1. Descriptive statistics on hypotheses H1 – H6.

Hypothesis	Variable	Summary statistics	n	Delisted	Delta %
H1	SMEs	n	6,325	4,261	+29.17%
		(%)		(67.37%)	
	Other	n	4,424	1,690	
		(%)		(38.20%)	
H2	FT 500	n	184	5	-50.87%
		(%)		(5.44%)	
	Other firms	n	10,560	5,946	
		(%)		(56.31%)	
H3	Publicly listed firms	n	1,131	232	-38.36%
		(%)		(20.51%)	
	Other firms	n	9,618	5,719	
		(%)		(59.46%)	
H4	Early adopters	n	5,787	3,844	+23.96%
		(%)		(66.42%)	
	Late adopters	n	4,962	2,107	
		(%)		(42.46%)	
H5	Legislation existed	n	6,936	3,714	-5.12%
		(%)		(53.55%)	
	No legislation	n	3,813	2,237	
		(%)		(58.67%)	
H6	Strong network	n	6,618	3,604	-19.68%[1]
		(%)		(54.59%)	
	Weak network	n	2,801	1,361	-25.55%[1]
		(%)		(48.59%)	
	No network/ no information	n	1,330	986	
		(%)		(74.14%)	
Total		**n**	**10,749**	**7,017**	
		(%)		**(59.39%)**	

Note: [1] Difference between variable and "no network/ no information"

Table 2: Logit/MMGLM estimates of H1 to H6 on being delisted from the UNGC

Variables	(1) Logit	(2) MMGLM
Hypothesis H1		
SMEs	3.75***	3.44***
95% CI	[3.090; 3.906]	[3.061; 3.860]
Other	*ref.*	*ref.*
Hypothesis H2		
FT 500	0.02***	0.02***
95% CI	[0.002; 0.114]	[0.002; 0112]
Other firms	*ref.*	*ref.*
Hypothesis H3		
Publicly listed firms	0.37***	0.37***
95% CI	[0.307; 0.454]	[0.305; 0.449]
Other firms	*ref.*	*ref.*
Hypothesis H4		
Early adopters	3.03***	3.12***
95% CI	[2.401; 3.826]	[2.510; 3.878]
Late adopters	*ref.*	*ref.*
Hypothesis H5		
Legislation existed	0.78*	0.80*
95% CI	[0.619; 0.991]	[0.659; 0.975]
No legislation	*ref.*	*ref.*
Hypothesis H6		
strong network	4.61***	1.24*
95% CI	[4.248; 5.007]	[1.005; 1.521]
weak network	*ref.*	*ref.*
no network/ no information	1.89***	3.38***
95% CI	[1.766; 2.024]	[2.532; 4.523]
N	10,610	10,742

Note: * if $p < 0.05$, ** if $p < 0.01$, *** if $p < 0.001$. Odds ratios are presented, 95% confidence intervals are in parentheses (95% CI). The dependent variable is the dummy delisted, the controls include dummies of industry sectors, countries and a dummy for OECD in the logit regression, and a set of dummies of industry sectors in the MMGLM.

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