From Private Regulation to Public Policy: The Case of Corporate Non-Financial Reporting

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The Research Problem
Crisis of regulation
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A crisis of regulation?

- Governments around the world have struggled to set, monitor, and enforce effective standards for corporate social and environmental performance.

- The problem is that while the web of private enterprise continues to expand across the globe through the spread of multinational corporations, the jurisdiction of government remains, to a large extent, trapped within national borders.
What is private regulation?

“Private regulation may be defined narrowly as rule-making by non-governmental actors. Private regulation in a broad sense entails private actors playing a major role – at one or more stages beyond implementation or compliance – in what might be called the ‘regulatory process’ or the ‘governance sequence’: agenda-setting, rule-making, implementation, monitoring, adjudication, and enforcement.” (Büthe 2010)
What is private regulation?

- **Self-regulation** → involves a *single company* voluntarily imposing additional regulation upon itself.

- **Civil regulation** → consists of “voluntary, private, nonstate *industry* and *cross-industry* codes that specify the responsibilities of global firms …” (Vogel 2010)
The Research Problem

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Crisis of regulation

What is private regulation?

From private regulation to public policy

Figure 1: From private regulation to public policy.

References

Figure 2: Total number of corporate non-financial reports published per year worldwide.
Table 1: A sample of country-level laws and regulations that mandate some type of environmental, social, and/or governance disclosure. Source: UNEP et al. (2010).
While the self-regulation, civil regulation, and government regulation of corporate non-financial reporting have all been trending upward over the past decade, it is unclear how these trends relate to one another.

Question → What factors are driving public policy in the case of corporate non-financial reporting?
Hypotheses

- **H1: Private regulation.** Governments may be inclined to regulate corporate non-financial reporting only *after* a critical mass of companies have done so on a voluntary basis. Thus, I hypothesize that private regulation is more likely to result in new government regulation in countries where a large number of companies are already reporting.

- **H2: ‘Implicit CSR’.** Matten and Moon (2008) argue that companies are more likely to engage in CSR in the coordinated market economies (Hall and Soskice 2001) where national institutions encourage collectivism, solidarity, and partnership governance. I hypothesize that private regulation is more likely to result in new government regulation in economies characterized by high levels of non-market coordination.
H1: Private regulation $\rightarrow$ GRI, GC, and ISO 14001 participation aggregated to country-level.

H2: 'Implicit CSR' $\rightarrow$ government expenditure/GDP (World Bank) and wage coordination (ICTWSS).

Controls: Log total GDP (World Bank) and Trade/GDP (World Bank).
### Table 2: Results of logistic regression models of mandatory corporate non-financial reporting legislation, from 2001 to 2009, for the sample of advanced industrial countries.

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<tbody>
<tr>
<td>GRI participation</td>
<td>0.245**</td>
<td>0.359**</td>
<td>0.428***</td>
<td>0.410***</td>
<td>0.753***</td>
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<tr>
<td></td>
<td>(0.107)</td>
<td>(0.156)</td>
<td>(0.150)</td>
<td>(0.148)</td>
<td>(0.211)</td>
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<tr>
<td>GC membership</td>
<td>0.0567</td>
<td>0.0917</td>
<td>0.0462</td>
<td>0.0719</td>
<td>0.160</td>
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<td>(0.0781)</td>
<td>(0.156)</td>
<td>(0.138)</td>
<td>(0.140)</td>
<td>(0.184)</td>
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<tr>
<td>ISO 14001 certification</td>
<td>0.00166***</td>
<td>0.00175**</td>
<td>0.00203***</td>
<td>0.00215***</td>
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<td></td>
<td>(0.000353)</td>
<td>(0.000704)</td>
<td>(0.000686)</td>
<td>(0.000828)</td>
<td>(0.00136)</td>
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<tr>
<td>Government expenditure/GDP</td>
<td>0.440**</td>
<td>0.435**</td>
<td>0.418**</td>
<td>0.574***</td>
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<td></td>
<td>(0.183)</td>
<td>(0.221)</td>
<td>(0.182)</td>
<td>(0.216)</td>
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<td>Wage coordination</td>
<td>0.998</td>
<td>1.080</td>
<td>1.810</td>
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<td></td>
<td>(1.491)</td>
<td>(1.141)</td>
<td>(1.918)</td>
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<tr>
<td>Log total GDP</td>
<td>-2.277</td>
<td>-5.387**</td>
<td></td>
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<tr>
<td></td>
<td>(1.925)</td>
<td>(2.665)</td>
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<td>Trade/GDP</td>
<td></td>
<td>-0.0681</td>
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<td></td>
<td></td>
<td>(0.0437)</td>
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<tr>
<td>Constant</td>
<td>-12.33***</td>
<td>-28.54***</td>
<td>-32.41***</td>
<td>26.55</td>
<td>108.7</td>
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<td></td>
<td>(1.098)</td>
<td>(7.230)</td>
<td>(8.818)</td>
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<td>Observations</td>
<td>270</td>
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Standard errors in parentheses
* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$
H1: Private regulation → results indicate that participation in GRI and ISO 14001 raise the likelihood of government regulation; the effect of GC membership is uncertain.

H2: 'Implicit CSR' → government regulation is more likely to occur in countries with high levels of government expenditure, like France or Sweden; the effect of wage coordination is uncertain.
Future Research

- **Case study research** → map regulatory terrain through interviews with companies, government ministries, civil society organizations, and professional organizations in France, Sweden, the United Kingdom, and the United States.

- **Quantitative analysis** → regression discontinuity analysis of firm-level data to measure the effect of government regulation on participation in GRI, GC, and CDP.