MEASURING THE IMPACT OF THE OECD GUIDELINES FOR MULTINATIONAL COMPANIES

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The OECD Guidelines for Responsible Business Conduct of Multinational Companies is one of the largest corporate social responsibility (CSR) programs in the world. As of February 2021, 501 allegations of misconduct by multinational companies had been brought to the attention of the National Contact Points (NCP) of their signatory countries. These cases have resulted in a varied set of experiences that can be used to quantitatively identify the impact on a company of being denounced in this context. To be effective in changing company behavior it is necessary that this program has the capacity to impose costs on the companies that are denounced. As engagement with the program is voluntary, companies can simply ignore complaints without risk of legal sanction. Thus, the effectiveness of the Guidelines depends on their ability to publicize the complaints so that consumers and the market can put pressure on them to change their practices and attitudes. Although there is qualitative evidence of specific cases where the Guidelines have been successful in putting pressure on specific companies, there is less systematic evidence of the impact of the program on the set of companies involved and of the evolution of that impact over time.

This paper seeks to fill this gap by developing an approach to measuring the impact of the OECD Guidelines on affected companies. A vast literature on Corporate Social Responsibility has developed methods to detect and quantify how the public's perception of companies' behavior and choices in areas not directly linked to their core business can be measured. Our approach focuses on the stock price reaction of the firms involved at the time that the information of the complaint was made public. We experiment with different variants of event studies as methods to detect the potential costs imposed on a multinational company by having an allegation of misconduct presented to a NCP. The variations revolve around what is used as a counterfactual to compare the actual observed market swings. We consider three counterfactuals: i) a market model; ii) a sample of unreported companies matched using a set of covariates (propensity score matching); and iii) the returns of the companies themselves over a range of placebo dates, when they had not been reported If companies' returns are harmed by having the alleged misconduct made public, it is reasonable to assume that the Guidelines and the NCPs are at least effective in presenting companies with a good reason to consider revising their behavior.

The main result of this analysis is to quantify that, in fact, the impact on a company of being denounced is negative. Using any of the three counterfactuals we find that on average the program has imposed a cost on the reported companies, so the program poses a credible threat to persuade companies to engage with the Guidelines. Results shows how this impact varies across regions, sectors and specific companies. We have found the program works better in the US and Canada than on other continents. In terms of sectors, the program has been most effective in the basic materials, consumer protection and energy sectors. In the financial sector, however, a denunciation of the program has the effect of increasing the value of the shares, as if shareholders saw in the denunciation evidence of greater future profits for this type of company. This information can be used to better identify what works and what does not. The program depends not only on how the NCPs approach each case differently, but also on how they are able to engage and gain the trust of disadvantaged social groups and organizations, as well as companies. While our investigation does not find which approaches are most effective, they do serve as an important indication of where to look.