Weaving Together the Normative and Regulative Role of Government: How the Norwegian Sovereign Wealth Fund's "Responsible" Conduct is Shaping Firms' Cross-Border Investments

Gurneeta Vasudeva
University of Minnesota
3-365 Carlson School of Management
321 19th Avenue South
Minneapolis, MN 55455
Phone: (612) 625-5940
Email: gurneeta@umn.edu

Forthcoming in Organization Science

I am grateful to senior editor Klaus Weber and two anonymous reviewers for their valuable comments and guidance. Mary Benner, Andy Van de Ven, Joel Waldfogel and Aks Zaheer provided beneficial feedback for this work. In particular, I would like to thank Cameron Miller and Luke Johnson for their excellent research assistance. Seminar participants at the Strategic Management and Organization department, Carlson School of Management, University of Minnesota and at the Sunoco International Business department, Darla Moore School of Business, University of South Carolina, provided helpful comments. Funding from the Dean's Small Grant at the Carlson School of Management, University of Minnesota provided financial support for the fieldwork in Norway.

Weaving Together the Normative and Regulative Role of Government: How the Norwegian Sovereign Wealth Fund's "Responsible" Conduct is Shaping Firms' Cross-Border Investments

Abstract

Based on institutional theory, I extend research on the regulative role of national government in society, and suggest that government exerts important influences on firms' actions through the diffusion of norms. I suggest that by instituting the Council on Ethics which publicly "censors" and "certifies" the Norwegian sovereign wealth fund's cross-border investments, the Norwegian government contributes to the professionalization of responsible investment principles thus, playing a normative role in shaping firms' investments. Employing a quasi natural experiment, I find that focal Norwegian firms are more likely to make "responsible" cross-border investments following the formation of the Council on Ethics in 2004 and the associated censorship announcements. Further, I find that the normative pressure for responsible investments is mediated by firms' imitation or overlap with the Norwegian sovereign wealth fund's investments. However, the mediated effect of normative pressure on responsible investments becomes weaker for government-owned firms. These findings highlight the importance of normative mechanisms through which government can influence firms' behavior, especially in contexts where regulatory authority may not hold. Moreover, these findings reveal the interplay among the normative, mimetic and regulative pressures, and the heterogeneity in the extent to which firms within the same country demonstrate institutional isomorphism.

Keywords: state norms, state professionalization, social responsibility, sovereign wealth funds, international investments

Introduction

In recent years, sovereign wealth investments estimated at about $5 trillion have expanded the locus of influence of national governments to international contexts through equity investments in foreign firms (Lyons 2008, Kimmit 2008, Kotter and Lel 2008, International Monetary Fund 2008). This trend is in evidence especially in countries such as Norway, United Arab Emirates, and Singapore with vast assets--fueled by oil revenues and trade surpluses--seeking the long-term welfare of their citizens (International Monetary Fund 2008). By combining government ownership and private enterprise, sovereign wealth funds are emblematic of the changing role of government in the modern economy (Evans 1985, Strange 1996, Polillo and Guillén 2005). In this regard, the Norwegian sovereign wealth fund is especially noteworthy. With foreign financial assets valued at approximately half trillion dollars, the Norwegian sovereign wealth fund ranks as the second largest fund in the world, accounting for 1% of all the world's listed equities, and about 1.85% of equity holdings in Europe, thereby pointing to the growing significance of these investments.

Although the investment strategies of sovereign wealth funds vary considerably, together they represent a distinctive class of institutional investors whose unconventional mix of business with politics has spurred widespread debate about their strategic motivations and implications (Cohen 2009, Gilson and Milhaupt 2008). A recent letter (the Dodd-Shelby letter) to the U.S. Congress[1], for example, expressed concern that "sovereign wealth funds may be motivated less by getting the biggest return on their investment and more about using their money as leverage to strengthen their own domestic industries or as political tools." Thus, the growing involvement of sovereign wealth funds internationally has called into question their political, economic and strategic motivations.

Unlike most funds, however, the Norwegian sovereign wealth fund enjoys the reputation of being one of the most transparent in its deals (Sovereign Wealth Fund Institute 2011). Also quite notably, it

[1]Sovereign wealth fund acquisitions and other foreign government investments in the US: assessing the economic and national security implications. U.S. Senate, Committee on Banking, Housing, and Urban Affairs. November, 2007. One Hundred Tenth Congress, First Session.

projects the government's priorities on social, environmental, ethical, and corporate governance issues that form the cornerstone of its "responsible" investment strategy in its cross-border investments (Backer 2009, Chesterman 2011). Not surprisingly, the vast size of the Norwegian sovereign wealth fund coupled with its distinctive responsible investment approach has generated a great deal of attention and discourse concerning its influence on other public and private investors. As a recent law study notes, the emphasis on responsible investments "produces a certain ambiguity in the fund's behavior—it operates like a private investment fund to the extent that it seeks to maximize shareholder value, but the maximization of shareholder value in this case requires the fund be used to effect the global governance goals of the Norwegian state" (Backer 2009: 115). More generally, Backer (2009) views sovereign wealth funds as "regulatory chameleons" that seek to produce change in the behavior of firms without explicit regulation. These observations raise the following questions--Why does "responsible" investment constitute such a central feature of the Norwegian sovereign wealth fund's investment strategy? And to what extent does the Norwegian sovereign wealth fund serve as an instrument of Norwegian state policy in fashioning behavioral norms for its economic entities such as Norwegian firms?

To address these questions, I draw upon both qualitative insights gathered from field interviews, as well as quantitative data from the Norwegian government's archival records and policy documents. Based on these insights, I uncover the rationale for the Norwegian sovereign wealth fund's socially conscious or responsible investments and the processes underlying the construction of these investment principles. Next, I investigate the mechanisms through which the fund's responsible investment principles influence Norwegian firms' behaviors.

I find that the fund's responsible investment principles are hemmed in with societal expectations, thereby giving them a broad societal basis (Ellickson, 1991; Weber et al. 2009). By making "responsible investments" the cornerstone of its cross-border investment strategy, the Norwegian sovereign wealth fund seeks to establish legitimacy both at home and in the international community, thereby mollifying concerns about the political and strategic intent of these investments (Chesterman 2011). Further, consistent with received wisdom from neoinstitutional theory (DiMaggio and Powell 1983), I find that

while the Norwegian government does not monitor or impose the adoption of responsible investment principles, it does exercise a strong normative influence on Norwegian firms' investments in both deliberate and unconscious ways. Analysis of a panel data set of cross-border equity investments made by 437 Norwegian firms over the period 1999-2010, reveals that these firms respond to the fund's normative pressure—by imitating the Norwegian sovereign wealth fund's investments—which increases their likelihood of holding responsible investments. Thus, *mimetism* mediates the influence of *normative* pressures, leading to firms' isomorphic actions as reflected in their responsible investment outcomes. Further, the mediated effect of normative pressures is reduced in the presence of ownership ties with the government, suggesting that norms may substitute for regulative forces in producing isomorphic outcomes. In DiMaggio and Powell's (1983) terms, therefore, the study shows how institutional mechanisms such as normative, mimetic and coercive pressures tend to "intermingle" to produce isomorphic outcomes.

The government exerts normative pressure in two ways. First, the sovereign wealth fund's Council on Ethics established in 2004 has played a key role in professionalizing responsible investments and establishing rigorous and systematic processes for screening and evaluation of foreign targets based on their social, environmental, governance and ethical conduct. Second, by openly "censoring" and "certifying" foreign targets, the government makes the Council's recommendations publicly known and demonstrates its commitment to responsible investment principles in its cross-border investments. Interviews with Norwegian firms revealed that they keenly follow the sovereign wealth fund's investments and are actively embracing its responsible investment principles. As one interviewee pointed out, "Norwegian firms can no longer afford to invest in foreign firms that violate the fund's responsible investment principles, for fear of loss of reputation and legitimacy in society."

Although the regulative role of government is well understood, surprisingly few studies of organizational behavior recognize and account for the normative role of public agencies in society (Selznick 1949, 1996, March and Olsen 1984, Cole 1985, Edelman and Suchman 1997, Dobbin and Sutton 1998). Moreover, little is known about the underlying mechanisms through which these norms are

constructed and diffused to firms. As Scott (2001: 54) pointed out, "there is much to examine how regulative institutions function and how they interact with other institutional elements [like norms]". This study seeks to take a step in that direction, by accounting for the normative role of government in influencing firms' behaviors and choices.

Research Setting: Norway's Sovereign Wealth Fund

The Norwegian sovereign wealth fund also referred to as the Government Pension Fund Global[2] was set up in 1990 to support future government spending underpinning the long-term considerations in the use of Norway's petroleum revenues. The fund is derived from taxes on oil revenues deposited in the Norges Bank, Norway's central bank, which invests the fund in a portfolio of foreign equities, fixed income securities, real estate and cash. The Norwegian parliament, Storting, set the framework for the fund in the Government Pension Fund Act, and the Ministry of Finance holds formal responsibility for the fund's management. Thus, the sovereign wealth fund's overall investment strategy in terms of the asset classes and geographic regions in which it invests are determined by the Ministry of Finance. Within this governance framework, the management of the fund is delegated to the Norges Bank Investment Management (NBIM) which resides within the central bank.

Investment in cross-border equities by the fund, which is the focus of this study, was introduced as recently as 1998. By 2010, the fund's portfolio comprised about 60% publicly listed equities, 35-40% fixed income and as much as 5% property investments. The market value of the fund increased from about $30 billion in 1998 to nearly $500 billion in 2010, of which the market value of equity investments was about $300 billion. In 2010, the fund owned equity shares in 8496 listed companies in 58 countries around the world. The fund's equity investments are spread across a wide range of industries and regions: 50% are in Europe, 35% in the Americas, Africa and Middle East, and 15% in Asia and Oceania. The goal of the fund's management is to generate the highest possible returns within set risk limits. Although, its investments are compared to a benchmark Financial Times Stock Exchange (FTSE) global index, the fund differs from other investors to the extent that it can withstand greater volatility in capital markets by

[2] Despite its name, the fund is not earmarked for pension expenditures, and is only invested abroad.

virtue of its long term outlook, size and global presence, and has no obligations that might require costly adjustments. The fund openly claims to exploit these advantages by implementing new investment strategies such as responsible investments that are overseen by the Ministry of Finance based on the recommendations of the Council on Ethics which is an independent government body established by Royal decree in 2004.

Although responsible investments lower the risk of complicity with human rights or other types of social, environmental and ethical violations, the fund is governed by specific policies and guidelines for managing investment and operational risk that are separate from its responsible investment guidelines. Investment risk which includes credit and counterparty risk is managed by maintaining a mix of asset classes, markets, and currencies and capping the ownership level to about 10% in target firms. Moreover, the fund only invests in approved markets that have acceptable regulatory environments to reduce the potential for regulatory risk. In the period 1998 through 2010, the fund recorded an annual overall net return of 3.1%, but the return on equity investments was below this average rate of return. In 2010, the fund's equity excess return compared to the benchmark was 0.7 percentage points. These indicators suggest that the fund's equity investments are performing close to the benchmark, but have performed lower than other securities in which the fund invests.

The Construction of Responsible Investment Principles

The Norwegian government's white paper[3] on 'corporate social responsibility in a global economy', and policy documents concerning the formation of the Council on Ethics constitute the official sources of information regarding the sovereign wealth fund's responsible investment principles. These public documents along with face-to-face interviews and direct interactions with Norwegian government officials, members of the governing council of the Council on Ethics and its secretariat, and firm executives form the basis for understanding the construction and diffusion of responsible investment principles that are central to this study.

Although social responsibility considerations are increasingly incorporated in asset management

[3] Report No. 10 (2008-2009) from the Norwegian Ministry of Foreign Affairs to the Norwegian Parliament (Storting).

by firms and institutional investors around the world, in 2004 the Norwegian sovereign wealth fund was the first large institutional investor to formally introduce responsible investment principles in its guidelines for cross-border equity investments. The Norwegian sovereign wealth fund's responsible investment strategy encompasses the evaluation and continuous management of a broad range of foreign targets' activities including human rights, health and safety standards, environmental protection, corruption and right to collective bargaining. The fund executes this strategy using two distinct approaches that are also organizationally separated to prevent conflicts of interest. First, through its management arm, the NBIM, the government exercises ownership rights in the targets in which the fund has already invested. Second, the Council on Ethics screens and censors current and potential targets based on systematic and rigorous evaluations conducted by in-house professionals.

The construction of responsible investments by the sovereign wealth fund is driven largely by legitimacy considerations. Since the sovereign wealth fund is invested entirely in foreign countries and has acquired equity stakes in foreign firms, it has become the subject of growing debate and skepticism concerning its political and strategic motivations both at home and abroad (e.g. Backer 2009). By adopting a responsible investment approach, the government demonstrates the exemplary nature of its investments, thereby gaining the public's confidence and support. Such an enlightened investment approach appeases domestic audiences who believe that the country's wealth should be invested responsibly because target firms that perform better on social, environmental and corporate governance issues are likely to be better managed, and should therefore, generate higher returns on the government's investments. These insights resonate with Ellickson's (1991: 267) key idea that "close knit groups generate norms that maximize the objective welfare of group members". Some observers noted that many politicians in Norway tend to view the recently found oil wealth as antithetical to the traditional Norwegian values of equity and egalitarianism, thus necessitating a higher moral ground to make this wealth seem more legitimate. As one observer described it, "a responsible investment strategy allows the politicians in Norway to sleep well at night."

The process that led to the construction of responsible investment norms has three noteworthy

features. First, the fund's adherence to responsible investments in the initial years following its inception was grounded in a more traditional regulative and legalistic approach. The fund adhered to principles to the extent that it was not violating international treaties on human rights and the Norwegian government's commitment on similar international issues. Such an approach was triggered by the fund's initial investments—in Singapore Technologies Engineering, a Singapore-based company that produced anti-personnel landmines, and in Total, a French company that was building energy infrastructure in Myanmar—that came under criticism because they were antithetical to Norway's international commitments. To remedy such issues, the government established the Advisory Council on International Law with a narrow mandate to ensure that the fund's investments were not in violation of its treaty obligations. This Council made one ruling in its lifespan concerning the fund's investments in an anti-personnel landmines company, which in turn spurred a controversy about whether such investments were in fact violating international treaties. Such public debates and controversies made it evident to the government that the question of responsible investments could not be viewed from a purely legalistic or regulative standpoint, and thus, necessitated a more normative approach. This shift to a normative approach resonates with a key finding from Ingram et al. (2005: 828) who observed that, "when legal sanctions are ineffective or inaccessible, reputation and normative sanctions can create similar benefits…"

Subsequently, the government established the Graver Committee in 2002 to develop the principles for the fund's responsible investments. These guidelines were subsequently approved and accepted by the Norwegian parliament and led to the formation of the Council on Ethics in 2004. The Graver Committee and the Council symbolized a paradigmatic shift in how responsible investment principles were built into the fund's investments. As an interviewee at the Council on Ethics noted, the Graver Committee's guidelines for responsible investments were grounded in the core belief that "the fund should respect the fundamental rights of those who are affected by the companies in which the fund invests."

Second, the process of constructing responsible investment principles was highly inclusive and participatory in nature, involving a range of domestic constituents, and combined practical insights with

philosophical perspectives drawn from a wide spectrum of disciplines. In this sense, responsible investment principles were socially constructed (Berger and Luckmann 1967) and manifested an interpenetration of government and society (Edelman and Suchman 1997). As an illustration of this approach, the Graver Committee was chaired by a notable academic, and comprised members from the government, academia and industry to develop the responsible investment guidelines for the sovereign wealth fund. Moreover, the committee's recommendations were formulated based on not only formal consultations but also informal discussions with non-governmental organizations, and prominent private-sector financial institutions in Norway such as Storebrand and KLP. Apart from engaging with domestic communities and interest groups, the responsible investment principles were aligned with internationally accepted codes of conduct enshrined for instance, in the U.N. Global Compact, and the OECD Guidelines for Multinational Enterprises. At the same time, consistent with Norway's social-corporatist context (Jepperson 2002), no single large firm or group of powerful actors has been privileged in this participative and inclusive process. In sum, the architects of responsible investment principles aimed at creating an intellectual and professional climate around the issue, so as to strengthen the cognitive basis, and involved multiple actors so as to create a solid consensus-based institution to ease its adoption by others.

Third, to give these responsible investment principles a more concrete shape, the government established the Council on Ethics. The Council on Ethics is organizationally independent from the NBIM which manages the fund and executes the investment decisions. The Council continually evaluates the sovereign wealth fund's cross-border investments based on the government's responsible investment guidelines, and recommends to the Ministry of Finance which foreign targets to retain and which to censor or exclude. The Council's recommendations are based solely on the responsible investment principles and do not factor in risk implications or the financial return on the fund's investments. Based on these recommendations, the Ministry of Finance instructs the portfolio managers in the NBIM to execute the exclusion decisions. So far, all recommendations by the Council except two have been accepted and executed. Even in these two instances, when the recommended exclusions of Monsanto and Siemens were not implemented—due to the ambiguity in these firms' actions—the recommendations

were still made public and the firms were kept on the fund's watch list. The organizational structure is intentionally designed to decouple the Council's recommendations for exclusions based on its assessments of social, environmental, governance and ethical issues, from the financial returns and investment risk considerations that are the focus of the portfolio managers in the NBIM. A separation of the Council's mandate in this way also helps reduce conflict of interests with fund managers at the NBIM. As one interviewee observed, "fund managers at the NBIM tend to be skeptical about exclusions because such an approach reduces the size of their investment universe and hence, their degrees of freedom to realize financial returns". Interestingly, the Council's mandate and its organizational separation strengthens NBIM's incentives to exercise ownership rights to improve the social, environmental, ethical and governance records of the targets in which the fund is invested, so as to preempt the subsequent exclusion of these targets by the Council. Thus, even though the approaches for responsible investments followed by the Council on Ethics and the NBIM are different, they act in concert to enhance the quality of the targets in which the sovereign wealth fund has invested.

Drivers for Diffusion

Although the construction of responsible investment principles is characterized by a highly participatory and inclusive process (Edelman 1992, Edelman and Suchman 1997, Weber et al. 2009), the diffusion of these principles highlights the distinctive roles of public and private actors. For example, the government's white paper on social responsibility states that "the Norwegian government does not expect companies to act as the most prominent advocates of human rights or environmental matters…this is primarily a role for the Norwegian authorities or civil society organizations". Even large powerful government-owned firms such as Statoil are known to refrain from influencing how social responsibility issues are handled by others, largely because in doing so it would be "acting outside its legitimate role". Thus, the government in Norway is a part of a larger social and political apparatus (Strang and Meyer 1993, Jepperson 2002) which serves as a "means for promoting social change" by way of diffusing responsible investment norms both in the domestic and global contexts. In a similar vein, scholars have recognized how government can influence firms' strategies through subtle approaches that frame the

issues, and policies that create "constraints and incentives, rather than dictating firm behavior."(Dobbin and Dowd 1997: 502).

Given that only 47 firms have been censored in the period 2005-2010, it is apparent that the government's objective is to "name and shame" foreign firms that do not meet the responsibility criteria based on a thorough and professionally conducted assessment, than to provide information on the non-market risks associated with potential targets. The drivers for diffusion stem largely from the objective of achieving consistency in how the sovereign wealth fund and other domains under government ownership and the private sector operate in the global context. Specifically, the government's responsible investment principles applied to the sovereign wealth fund's foreign investments may be criticized and seen as unduly biased against foreign firms, unless other domestic and international investors also embrace similar principles. Quite importantly, by diffusing responsible investment principles among Norwegian firms and making these principles a core part of their international investments, the government contributes to Norway's positive image and leadership in the global community. As one government report points out, "Norwegian companies abroad are often equated with Norway." Moreover, as an interviewee revealed, "an investor can bring about a desired change in its target's social, environmental or corporate governance record more easily when other investors have similar priorities, pointing to the benefits of co-optation". Finally, Norwegian firms can help the government champion the universal adoption of responsible investment principles.

Theoretical Background: The Normative Role of Government

Although institutional theorists view government as a part of a larger social and political apparatus that comprises, "a collection of institutions, rules of behavior, norms, roles..." (March and Olsen 1984: 741), research on how government matters for business has traditionally focused on the regulative aspects of the role of the state: as rule maker, referee and enforcer (Weber 1968, Skocpol 1985). Surprisingly few organizational studies of institutional construction that examine the emergence of new forms of public agencies, have discussed the normative role of government in society. DiMaggio and Powell (1983) described normative mechanisms as emerging from common cognitive assumptions, and regulative

mechanisms as being primarily coercive. In this regard, Selznick's (1949), account of the evolution of the Tennessee Valley Authority, highlighting a set of normative commitments and cognitive features of public agencies in framing decisions is particularly noteworthy. Similarly, (Westney 1987) observed how the Japanese government established a cognitive and normative basis for the modernization of professions in Japan, based on western practices. Dobbin and Sutton (1998) observed from the professionalization of employee-friendly organizational practices in the U.S., that government can use its "normative strength", by devising ambiguous and complex regulation to diffuse social phenomena, thus suggesting the reification of norms through laws and regulations (Edelman 1992, Edelman et al. 1992).

More recent studies in environmental regulation specifically, have also recognized that owing to difficulties in monitoring performance and designing appropriate incentives (Milgroms and Roberts 1992), traditional styles of government regulation that rely on command and control mechanisms may not be without costs and diminishing returns (Fiorino 1999, Ayres and Braithwaite 1992). Potoski and Prakash (2004), for instance, noted that governments have begun to promote other approaches such as voluntary tools to supplement traditional forms of environmental regulation. As these studies point out, instead of imposing its will based on the threat of regulative sanctions, the government can secure compliance with its agenda and priorities through alternative mechanisms (Ingram et al. 2005).

Consistent with these ideas, observations from field interviews reveal that the sovereign wealth fund's responsible investments are setting a normative standard for "how legitimate and effective financial markets should function". Pointing to the use of non-regulative approaches to accomplish this goal, the sovereign wealth fund's annual report[4] states that "we use a variety of tools to promote our interests, including dialogue with companies, investors, authorities and other standard-setters in the market."

Specifically, the Graver Committee's report noted that:

[4] Government Pension Fund Global, Annual Report, 2010. Norges Bank Investment Management.

> "The [Sovereign Wealth] Fund can also play a *role as a model* for other funds or investors. The size of the Fund may induce many other investors to track the Fund's activities closely. The decision whether and how to introduce ethical guidelines in the Fund may send an important signal and may cause other funds to follow suit."
>
> "The [Sovereign Wealth] Fund can also exert influence indirectly through the market. By explicitly communicating a decision not to buy a particular share, the Fund can send signals to company executives, other market participants and a company's customers."

Such a normative approach can serve as an innovation for coping with evolving social challenges (Ellickson, 1991), and has received favor among social organizations and regulatory authorities in Norway[5].

Hypotheses: Mechanisms for Diffusing Responsible Investments

In the hypotheses that follow, I theorize that the government's exclusion announcements based on the recommendations made by the Council on Ethics exert normative pressures on Norwegian firms for adopting similar responsible investment principles. Firms respond to these normative pressures by imitating the sovereign wealth fund's cross-border investments. In effect, the mimetic mechanism mediates the normative pressure generated from the fund's exclusion announcements, and increases the likelihood of firms' responsible investments. At the same time, the mediated effect of normative pressure is contingent on the presence of firms' ownership ties with the government; in the presence of regulative pressure, the role of norms is substantially diminished. These relationships are illustrated in Figure 1.

---Figure 1 about here---

Normative Pressure for Responsible Investments

According to DiMaggio and Powell (1983: 152), normative pressures that drive isomorphic organizational actions "stem primarily from professionalization." They note that professionalization rests on formal education and legitimation in a cognitive base produced by specialists, and results in the rapid diffusion of new models across organizations. Applying this perspective, the Norwegian government exerts normative pressure for the adoption of its responsible investment principles primarily in the following ways.

[5] Standing Committee on Justice regarding amending the Company Act (Recommendation No. 12 (2006-2007) to the Odelsting.

First, by establishing the Council on Ethics, the government has formalized its mandate for responsible investments, and assumed an *exemplary role* by incorporating social consciousness in the sovereign wealth fund's cross-border investments. But going far beyond this idealistic and symbolic role, the government has contributed to the *professionalization of responsible investment principles*. Towards this goal, the Council on Ethics draws highly qualified and prominent experts from a variety of disciplinary backgrounds and fields, and provides a strong intellectual basis for evaluating and incorporating responsible investment principles. By integrating the philosophical with more practical perspectives, the Council's assessments tend to be more holistic and appeal to a broader set of audiences. The Council's mandate has also brought greater clarity about not only which targets to invest in or exclude, but also educated firms about *how* to operationalize responsible investments, and given a more tangible structure and shape to the often ambiguous and subjective nature of social, environmental and ethical considerations.

Benefiting from large amounts of funds and technical expertise, the Council conducts rigorous and systematic evaluations of the sovereign wealth fund's investment targets. These evaluations rely on not only publicly available information, but also draw on direct and more exclusive information that is obtained as a result of ownership privileges. For example, the Council may contact target foreign firms and engage in dialogue or conduct site visits to determine if there are reasonable grounds for investigation or exclusion of firms from the fund's investment universe. Importantly, the Council on Ethics monitors and assesses firms that may not be in the news, but exploit a particular natural resource, or operate in a geographically problematic part of the world. In this manner, the Council provides independent and updated assessments on issues such as working conditions in coal mines, oil operations in the Amazon and Niger Delta and mining operations in Africa and Latin America. For example, in 2006 the Council recommended the exclusion of the South African firm DRD Gold Limited from the sovereign wealth fund's investment universe on the grounds that the firm was contributing to unacceptable levels of health and environmental damage in its operations in Papua New Guinea and Fiji. This recommendation was accepted and executed by the Ministry of Finance, but three years later the Council determined that the

grounds for exclusion from the fund's investment universe were no longer valid after DRD Gold sold or closed its mines in Papua New Guinea and Fiji, and operated only in South Africa. Thus, the Council presents updated and detailed recommendations to the Ministry of Finance about which targets to censor from the fund's investment universe and which to retain. Notably, the Council's assessments and recommendations (with two exceptions) have always been accepted and implemented by the government and have rarely been challenged for their factual accuracy. Such actions have instilled societal trust, credibility and confidence in the Council's recommendations.

Second, upon approval of the Council's recommendations, the government makes its exclusion decisions publicly known, thereby releasing valuable information to other investors about targets that it has censored and those that it has "certified". These decisions are widely disseminated through press releases, the fund's website, conferences and direct interactions with market participants such as Norwegian firms that may be considering international equity investments of their own. The resulting exclusions of some large and prominent firms[6] have received a lot of attention from journalists, researchers and investors. Articles related to Norwegian firms' compliance or non-compliance with responsible investments in the popular press, and linking such investment principles to the priorities of the sovereign wealth fund have thus, risen sharply in the Norwegian language press after 2004 when the Council on Ethics was established[7]. These trends illustrate that the sovereign wealth fund's responsible investment principles are being noticed and have sparked public attention.

Finally, the Council's actions and approaches have also provided organizational blueprints for incorporating responsible investment principles. Private Norwegian institutional investors such as Storebrand and KLP, for example, have established their own Council on Ethics in recent years which similarly provide guidelines for evaluating investments, and many have put in place dedicated

[6] Examples of firms that have been excluded from the sovereign wealth fund's investment portfolio based on recommendations of the Council on Ethics include: Boeing, EADS, and Honeywell for production of nuclear arms, Philip Morris and ITC for production of tobacco, Walmart for serious and systematic human rights violations, and Rio Tinto for severe environmental damages. Given the prominence of these firms, these exclusion decisions have attracted widespread attention.

[7] These news articles were made available by the Norwegian financial firm KLP which tracks and analyzes responsible investment trends using the Norwegian news service Retriever for guiding its own investment strategies.

departments and staff that focus on evaluating responsible investments, modeled along the sovereign wealth fund's approach. This organizational trend in turn has spurred a trained community of professionals in areas relevant to social, environmental and corporate governance.

As one interviewee in the Council on Ethics noted:

> "Exclusions is not the important thing; it is an indication of how the topic [of responsible investments] is being addressed…it is also the most visible and concrete." The idea is that we start on picking the good—good investments. We're looking to establish structures and systems to support making better investment decisions in our new investments…"

These normative pressure from the government about which targets to exclude and which to retain based on responsible investment principles have been quite profound. Legitimacy is an important factor in firms' decision-making because actions that are seen as consistent with those of other prominent actors help attract greater societal resources (Suchman 1995). Institutional theorists studying firms' behavior have recognized that beyond its resources and capabilities, the ability of a firm to survive and succeed is also contingent upon the degree to which the surrounding social structure approves of its actions (Baum and Oliver 1991, Oliver 1997, Dacin et al. 2007, Powell et al. 2005). Failure to comply could result in not only observable financial and reputational losses but also unobservable costs or an illegitimacy-discount by stakeholders (Diestre and Rajagopalan 2011).

As one head of social responsibility in a leading Norwegian financial institution pointed out:

> "The [sovereign wealth fund's] ethical guidelines were an important step in making the industry understand that we need to think about other issues than just short-term and traditional financial questions. When the Ethical Council was formed they started operationalizing the ethical guidelines. Our clients have started asking: are you aligned with the sovereign wealth fund?"

It follows therefore, that by establishing the Council on Ethics and announcing the fund's exclusion decisions, the government exerts normative pressure for isomorphic actions by way of encouraging adoption of responsible investment principles in firms' decision-making.

Hypothesis 1: The government's normative pressure emanating from the sovereign wealth fund's exclusion announcements will have a positive effect on the likelihood that a focal firm's cross-border investments comprise responsible targets.

The Mediating Role of Imitation

An important question that emerges from the preceding hypothesis pertains to the mechanism through which the normative pressures emanating from the government translate into isomorphic outcomes among firms. Although firms could potentially use varied approaches for demonstrating their commitment to responsible investments, most firms will find it beneficial to directly imitate the sovereign wealth fund rather than replicate the government's process as they seek to incorporate responsible investment principles in their cross-border investments. As Dobbin and Sutton (1998: 443) observed, it is not uncommon for "organizational practices and social customs to originate in state action" and be viewed as "a part of the natural order of things".

Interviews with corporate investors in Norway validate this imitative approach:

> "We automatically follow the decisions of the sovereign wealth fund. We are saying that they have a big staff and they are doing very solid work, so we should just align with them. All the companies they excluded will automatically be excluded from our investments."

> "When the Minister of Finance in a press conference says, publicly, that we do not want to invest in this company because of its huge amount of pollution that will destroy the conditions of people living there in 10 or 20 years, its really hard to say that we don't agree."

These observations align with institutional theory which predicts that firms tend to emulate the practices of large and prominent societal actors--such as national government--because these actors convey assumptions that dictate which activities are legitimate or consistent with societal functions (Meyer and Rowan 1977, Meyer and Scott 1983). Firms also find it more convenient or practical to model themselves after large organizations because they are seen as more successful and have the necessary resources to conduct the due diligence in making their selections (Fligstein 1990, Haveman 1993, Haunschild and Miner 1997). Thus, as DiMaggio and Powell (1983) found, institutional heuristics such as "imitate large organizations" often guide organizational strategies.

Observations from the field point to several indicators suggesting direct imitation of the sovereign

wealth fund's investments[8]. From the perspective of Norwegian firms, the adoption of responsible investment principles evidenced from the direct imitation of the sovereign wealth funds' cross-border equity investments is based on the consideration that the sovereign wealth fund's targets are selected after rigorous assessments in a highly professional and systematic manner which is difficult for any firm to replicate on its own. Thus, as Haunschild and Miner (1997), noted, imitation is driven in part by its "perceived benefits", or the expectation of producing a desired outcome.

It is noteworthy that even the largest financial institutions in Norway do not have nearly as sophisticated and elaborate in-house organizational capabilities as the government to evaluate and rate their investment portfolios based on their foreign targets' environmental, social and governance performance. Such considerations can be quite significant for a large proportion of Norwegian firms engaged in natural-resource based industries such as oil and gas, shipping and fisheries that are especially vulnerable to unforeseen regulation and reputational losses due to their social and environmental footprint.

A corporate investor highlighted the actions of Nordea, a prominent Norwegian bank, that illustrate imitation as a mechanism for conforming with the government's responsible investment expectations, and the challenges to legitimacy when deviations occur:

> "I don't know if you have looked at the latest news about Nordea. In the beginning they tried to resist following the sovereign wealth fund. They said, well, we are an active owner, and we focus on trying to engage with companies. But the sovereign wealth fund also has an active ownership strategy and they also try to engage before they exclude. If the second largest fund in the world is not able to engage a company, then I don't think Nordea which is ten times smaller can do it."
>
> Now they [Nordea] are following the sovereign wealth fund on weapons, except nuclear weapons. And they [Nordea] are very heavily criticized by all the non-governmental organizations [in Norway] because they don't want to exclude nuclear weapons even though they have excluded landmines and cluster munitions."

Thus, investments that are isomorphic with those of the government can potentially benefit

[8] Examples of firms censored by the sovereign wealth fund (e.g. Sterlite Industries on environmental grounds, Safran S.A. and Serco Group for nuclear arms, Poongsan for cluster munitions, Africa Israel Investments Ltd. for human rights violations, and several others) have been subsequently censored by the Norwegian firm KLP. Another indicator of direct imitation is the example of the internet bank, Skandiabanken, a financial intermediary in Norway that has introduced an ethical labeling system and started to flag mutual funds (such as Vanguard and Fidelity) with red symbols as a way to warn other investors that these funds comprise companies that have been censored by the sovereign wealth fund.

Norwegian firms by providing them with not only intangible benefits in the form of reputation gains and legitimacy, but also tangible benefits in the form of better quality of investments and regulatory relief (Tolbert and Zucker, 1983, Haunschild and Miner 1997).

In sum, the government exerts normative pressure on firms by professionalizing and publicizing the fund's responsible investment principles, and firms imitate these principles for achieving responsible investments, or for simply legitimacy considerations. It follows therefore, that normative pressures become effective to the extent that they lead to greater imitation, and greater imitation in turn associates with a greater likelihood of including responsible targets in firms' cross-border investments.

> *Hypothesis 2: The positive effect of the government's normative pressure emanating from its exclusion announcements on the likelihood that a focal firm's cross-border investments comprise responsible targets is mediated by a focal firm's imitation of the sovereign wealth fund's investments.*

The Contingent Effect of Regulative Pressure

The preceding hypotheses suggest that the government's normative pressures on firms for responsible investments are mediated by direct imitation of the sovereign wealth fund's investments. However, the extent to which normative pressure and the associated mimetic mechanism are amplified or diminished could vary based on certain firm-specific characteristics that might associate with alternative channels through which the government can influence firms' behavior.

Studies on the relationship between government and business across several countries have revealed that firms connected to the government through shareholdings, for instance, tend to enjoy preferential treatment by way of access to the government's informational and financial resources (Faccio 2006). In lieu for such preferential treatment, when the government owns assets in a firm, it exercises greater regulative control on the firm's investments through both written rules and unwritten codes of conduct (North 1990). Applying this insight to the context of this study, firms that are connected to the government are not solely reacting to the exclusion announcements to recognize and respond to the government's policies and priorities for responsible investments; such firms will likely encounter cognitive overlap through other channels that bring them in contact with the government (Dobbin et al.

1993). In particular, firms that are connected to the government through ownership ties, become more likely to align with the government's priorities and honor its commitments, due to regulative pressures rather than norms alone.

As Aharoni (1981:1341) observed, publicly owned firms are "expected to pursue various activities in the public interest… with the need to assure public accountability and consistency with social goals". Such firms are naturally subject to a greater degree of regulative pressure, and the logic for compliance emerges from the threat of legal, political and financial sanctions rather than normative pressure alone (Shleifer and Vishny 1994). As a result, managers in these firms often resort to cooperative strategies with the government for securing social and political support, and change their product lines, organizational forms, technology or physical location in response to the government's policies and preferences (Aharoni 1981, Shleifer and Vishny 1994, Dobbin 1994).

Consequently, one might expect therefore, that in the presence of regulative or coercive pressure, the effectiveness of normative pressure is greatly diminished. As DiMaggio and Powell (1983:150) pointed out, in such situations "organizational change is a direct response to government mandate". Taken together these observations suggest that coercive pressure owing to ownership ties will reduce the effect of normative pressure emanating from the government's exclusion announcements.

> *Hypothesis 3: The mediated relationship between the government's normative pressure and the likelihood that a focal firm's cross-border investments comprise responsible targets is contingent on the government's regulative pressure on a focal firm such that the effect of normative pressure on responsible investments is reduced in the presence of ownership ties with the government.*

Data and Empirical Analysis

The study employs both qualitative insights and longitudinal quantitative data to develop and test these hypotheses in the context of the Norwegian sovereign wealth fund and firms' cross-border equity investments. This research context is particularly appealing for examining the normative role of government given its strong public commitment to influence the adoption of responsible investments by other investors. Unlike most other sovereign wealth funds, the Norwegian fund's records of cross-border equity investments are transparent, well documented and have been publicly available since their

inception in 1998. Alongside the Norwegian sovereign wealth fund, a diverse set of Norwegian firms are undertaking cross-border investments of their own. The context also allows for a separation of the public agency from firms, both of whom participate in the same activity, i.e. acquisition of cross-border equity in foreign firms. Since the first cross-border equity acquisitions by the sovereign fund were made in 1998, there is no left censoring of this data. The potential for selecting the same targets as the sovereign fund in a subsequent year stems from the fact that the sovereign fund's acquisition of equity in a target firm is capped at a level of about 10% to limit its exposure to a single entity.

Although the hypothesized relationships are tested based on panel data, the interviews and direct interactions with the Norwegian government and firms enhanced the study's theoretical development and empirical analysis. In particular, the direct interactions helped identify specific mechanisms and the construction of appropriate measures for testing the hypothesized relationships. I conducted two rounds of field interviews for this study. In the first round at the start of this study in 2008, I conducted phone interviews with two government officials at the NBIM directly responsible for the management of the sovereign wealth fund. In these interviews, I sought a basic understanding of the fund's objectives, how it was run, where it was invested, and its potential impact on other firms and investors in Norway and worldwide. Insights from these interviews corroborated the information obtained from the government's policy documents. These interviews and policy documents formed the basis for the main ideas developed in the study.

In the second round, I undertook a field visit to Norway in 2011, and over a period of one week conducted eight interviews, each lasting two to three hours with government officials in the Ministry of Finance, and NBIM, with members of the secretariat and governing body of the Council on Ethics, and with managers at the Folketrygdfondet (the domestic arm of the sovereign wealth fund). In addition, I interviewed managers heading the social responsibility function in prominent private sector financial institutions—KLP, Storebrand and DNB, a consumer goods company—Orkla, and the state-owned oil company—Statoil. These interviews provided insights from a representative sample of key government

and corporate investors that are central to the subject of this study. In these interviews, I presented a broad outline of my ideas and explained the main hypothesized relationship specified under Hypothesis 1. I then asked the interviewees to share their reactions and insights, which allowed me to fine tune the specific mechanisms underlying the hypothesized effects. The interviews were recorded and then transcribed with the help of two research assistants resulting in approximately 200 pages of interview notes. Such an approach of gathering insights directly from the field added nuance and depth to the theoretical arguments, and bolstered confidence in the findings.

The hypotheses are tested based on the cross-border investments for 437 Norwegian firms spanning 49 industries. The panel data set includes firms that have engaged in at least one cross-border investment over the period 1999-2010. This selection criterion is necessary so as to determine the overlap with the Norwegian sovereign wealth fund's cross-border equity investments. Data on firms' cross-border equity investments is obtained from the Thomson SDC Platinum Mergers and Acquisitions database. Because some firms made investments in multiple years the final sample comprises 736 firm-year observations. The equity investments made by the Norwegian sovereign wealth fund since 1998, the year of inception, are obtained directly from the electronic archival records of the global equity holdings of the Government Pension Fund managed by the Norges Bank[9].

I employ a quasi natural experiment, defined as an exogenous jolt to the system—marked by the formation of the Council on Ethics and the subsequent censorship announcements—whose timing is unexpected, and which was not created by the firms but which affects the whole population of firms (Meyer 1982, Siegel 2009, Wan and Yiu 2009). I study the periods before and after 2004 the year marking the formation of the Council on Ethics to assess the extent to which the sovereign wealth fund's responsible investment principles diffused to firms' cross-border investments. Fisman and Miguel (2007) similarly used such a natural experiment for demonstrating the role of norms in society. At the same time, it is worth noting that this identification strategy despite its advantages, does not meet the standard of a

[9] http://www.nbim.no/templates/reportroot____65330.aspx.

randomized experiment. Consequently, a causal claim concerning the mechanism through which norms are diffused cannot be made with absolute certainty.

*Dependent Variable***.** The key outcome of interest in this study is the likelihood that a focal Norwegian firm's cross-border investments in a given year comprise socially responsible targets. However, firms make few cross-border investments in any given year as evidenced from the mean of 1.4. Accordingly, the number of responsible investments among these cross-border investments in a given year is also small with a maximum value of 1, resulting in a binary measure. To calculate this binary measure, I assign a value of 1 when the cross-border investments in a given year comprise a responsible investment target that is listed on any one of the following sustainability indices or organizations: Dow Jones Sustainability Index (DJSI), OMX Ethical Index, FTSE4Good, U.N. Global Compact, U.N. Principles for Responsible Investment, and 0, otherwise. Listing on one of these recognized sustainability indices (e.g. Fowler and Hope 2007, Doh et al. 2010, Robinson et al. 2011) or international organizations (e.g. Lim and Tsutsui 2012) is well accepted as an indicator of commitment to social responsibility criteria and signals that the firm is among the "best in class". Although these lists are by no means comprehensive, they serve as important indicators, and thereby offer at best a conservative measure for testing the hypothesized relationship.

Mediator Variable. The extent to which a focal firm imitates the sovereign wealth fund's cross-border investments serves as a mediator variable. To measure imitation, I examine the focal firm's cross-border investment portfolio in a given year, and calculate the proportion of target firms in which the sovereign wealth fund has previously invested. Consistent with this approach, Gimeno et al. (2005) measured mimetism as both focal firms and prior movers clustering in the same international markets. Semadeni and Anderson (2010) also measured imitation based on common and overlapping services provided by firms. Similarly, Haunschild and Miner (1997) used counts of adopters of a common practice as a measure of inter-organizational mimetism.

In this study, if the focal firm invested in n firms in year t, of which n_s firms received prior equity investments from the sovereign wealth fund, then the proportion of overlap in year t measuring imitation is calculated as a ratio of n_s and n.

Independent Variable. The main explanatory variable that accounts for the government's normative pressure is measured as the cumulative count of censorship announcements by the government. Normative pressures are often subtle (Dobbin and Sutton 1998) and informal (Westphal and Zajac 1994), which can preclude their precise measurement. To address this issue, I operationalized normative pressures based on the actual exclusion announcements by the government. This operationalization allows for the most directly observable and quantifiable measure of the government's normative pressure. This measure is justified by three additional considerations: i) exclusion decisions are kept highly confidential and are only announced to the public following approval from the Ministry of Finance, ii) exclusion recommendations are made in-house by the Council on Ethics and thus, embody the government's professionalization of responsible investments, and finally, iii) exclusion decisions are made by the government's Ministry of Finance and do not involve any firms. Consequently, the measure captures the exogenous nature of the government's normative pressures.

To measure normative pressure, I created a time-varying count variable that recorded the number of foreign firms censored by the government and hence, excluded from the sovereign wealth fund's investment universe. As shown in Figure 3, the first exclusions were announced in 2005 following the formation of the Council on Ethics in 2004. In this manner, the empirical setting allowed for observing the behavior of firms both in the presence and in the absence of normative pressures.

Moderator Variable. A dummy variable for majority stakeholding by the government defined as equity ownership greater than 50% accounts for the extent to which firms may be prone to isomorphic behavior and adopt the sovereign wealth fund's responsible investments due to regulative pressure. This

ownership data is obtained from the firms' records in the SDC dataset. 14% of the 437 firms in the sample are government-owned.

Control Variables. To account for alternative explanations, I controlled for a number of contextual variables, and characteristics of the focal firms and their targets. In the model estimating imitation based on a focal firm's investment overlap with the sovereign wealth fund, I included the cumulative investments by the sovereign wealth fund as an offset variable, because overlap could increase simply because the fund has invested in a large number of targets worldwide. The number of targets in which the sovereign wealth fund invested increased from 1792 in 1999 to 8496 in 2010.

In all models, I included a dummy variable to account for whether or not the focal firm is from the oil industry. Since oil is a strategic resource vital to Norway's economy, and contributes to the sovereign wealth fund, a firm from the oil industry could behave in a systematically different way compared to other firms. In addition, since money managers, investment banks and other types of financial firms may contribute more to the professionalization of investment norms, and also benefit more from such professionalization (via portfolio managers trained in responsible investments, for instance) I included a financial industry dummy. The focal firm's industry sector was obtained from the SDC database. 7.6% of the firms in the sample belong to the oil and gas industry and 12.7% belong to the financial industry. Firms' propensity to adopt responsible investment principles may also become higher when they are listed on the Dow Jones Sustainability Index (DJSI), which is recorded as a 0 or 1 dummy. The data on firm listings was requested directly from DJSI. Listings on such global indices also help capture the effect of international institutional investors who may propel firms to embrace social responsibility norms. Similarly, a dummy records if the firm is listed in the Oslo Børs. Some firms in Norway are also part owned (up to a maximum of 10%) by the domestic arm of the sovereign wealth fund Folketrygdfondet (FTF) which invests only in Norwegian firms and pursues a social responsibility agenda through the exercise of ownership rights. Accordingly, I control for the extent to which a firm is owned by the FTF, based on its equity stake, as reported by the FTF. Firms' responses may also vary according

to their ties and proximity to the government, through mechanisms other than ownership. To account for such effects, I created a dummy variable coded as 1 if the focal firm participated in the government-led coalition KOMpakt, and 0, if the focal firm did not participate in this network. The Norwegian KOMpakt represents a formal domestic association formed in 1998, involving government-owned and private firms, as well as a variety of interest group organizations for fostering commitment to responsible investment principles. Firms that are members of the KOMpakt are also members of the U.N. Global Compact, and may therefore, become part of an epistemic community supporting social responsibility.

The model also accounts for private ownership obtained from the ORBIS database. This measure controls for the extent to which firms are owned (at times by as much as 100%) by prominent private institutional investors in Norway such as DNB, KLP and Storebrand that may exert ownership rights and influence firms' decision-making. Apart from government and private shareholding and listing on sustainability indices, firms are also subjected to pressure for responsible investments when they become members of government-backed international organizations such as the U.N. Principles for Responsible Investments which was established in 2006 following the formation of Council on Ethics. Four firms in the dataset—all of which belong to the financial industry—are identified as members of the UNPRI using a dummy variable. Prior cross-border investment experience is calculated as a Herfindahl index that accounts for the cumulative spread of investments across countries up to the given year. The index varies from 0.07 to 1, with 1 denoting a concentrated investment portfolio such that all cross-border investments are made in a single country. Likewise, the count of investments in Norwegian firms captures the focal firm's domestic experience. Firm size is measured as the log of the number of employees reported in the SDC database. Since this measure is only available for publicly traded firms, it is included in the supplementary analysis for a sub-set of firms. The number of employees for the firms in this sample range from 1 to 109,558.

In addition, the model controls for the characteristics of firms' investment portfolios. The total number of cross-border investments and the number of cross-border investments made in related

industries captures the complexity of the investments. Further, to account for the general attractiveness of targets, I controlled for the number of targets in the focal firm's portfolio that received prior investments from other Norwegian firms.

Finally to account for contextual variables, I controlled for a time-varying measure of the total number of foreign firms excluded by KLP—a prominent institutional investor in Norway. KLP makes the names of excluded firms publicly known, and therefore, serves as a proxy for the effect of similar actions of prominent private institutional investors. The number of firms in the industry accounts for the extent to which the focal firm faces competition from other firms in Norway, potentially for the same targets.

Method

Since the observations for a focal firm are often repeated across years, the outcomes can be serially correlated. To account for possible correlation within a firm's observations across time, the model is estimated as a panel based on the generalized estimating equation (GEE) method. The GEE yields consistent estimators of the underlying parameters while accounting for the underlying correlation between observations (Liang and Zeger 1986). Accordingly, I estimate the target overlap between the focal firms and the sovereign wealth fund, and the likelihood of firms' responsible investments using a GEE model with robust standard errors and an independent correlation structure which is recommended for panels with small cluster sizes.

To test for mediation, I use Baron and Kenny's (1986) three-step procedure that is appropriate for panel data models (e.g. Dokko and Rosenkopf 2010), since repeated observations across firms correct for firm-level correlation between the explanatory variables and the error term (Hsiao 1986). For mediation to occur: i) the independent variable (normative pressure measured by the government's exclusion announcements) should have a significant effect on the outcome variable (responsible investments by focal firms), ii) the independent variable should have a significant effect on the mediator variable (imitation measured as the overlap between the focal firm and government's investments), and iii) the

significant relationship between the independent variable and outcome variable should reduce or become non-significant upon inclusion of the mediator. In the section that follows, I present the results from this mediation model.

--- Table 1 and Figures 2 and 3 about here ---

Results

The descriptive summary statistics for the model covariates are presented in Table 1. The maximum number of cross-border acquisitions made by a focal firm in any given year is 12. The average proportion of overlap with the sovereign wealth fund's investments is 0.07 with a standard deviation of 0.24. The maximum proportion of acquisition overlap is 100%. About 12% of the 437 firms in the sample show some degree of imitation with the sovereign wealth fund's investments, but only 4% of the 437 firms in the sample have made responsible cross-border investments. These statistics suggest that imitation does not always correspond to responsible investments, though they are positively correlated with a coefficient of 0.18. It is noteworthy that overlap with other firms' investments is negatively correlated with the likelihood of responsible investments, suggesting therefore that the outcome associated with competitive imitation may be distinct from that associated with normative imitation.

As Figure 2 shows firms' cross border investments rose sharply after 2003, but then started to decline around 2008. Figure 3 shows that the first exclusion announcements by the government were made in 2005 after the Council on Ethics was formed, and the pattern of firms' imitation of the sovereign wealth trended upwards in this same period. The trend in imitation illustrated in Figure 3 reveals that although firms demonstrated some degree of overlap even prior to the establishment of the Council on Ethics and exclusion announcements, there was considerable fluctuation and no clear direction in the trend until after 2004, which marked a steep increase in overlap. Around the year 2008, however, the trend in overlap declined possibly due to the growing opposition of the government's "naming and shaming" approach, but still remained at a higher level than the pre-2004 period.

The results from the mediation models are presented in Tables 2(a) and (b). Hypothesis 1 suggests that the cumulative count of exclusions exert normative pressure which in turn increases the likelihood that a firm will invest in responsible targets, thereby demonstrating institutional isomorphism. Hypothesis 2 suggests that the effect theorized under Hypothesis 1 is mediated by imitation or the extent to which firms' investments overlap with those previously made by the sovereign wealth fund.

Results from Model 2 in Table 2(a) show that the cumulative number of exclusion announcements by the government has a significant positive effect on the likelihood that a firm makes responsible investments in a given year ($p<0.05$). This result satisfies the first of Baron and Kenny's (1986) three conditions for mediation to hold. Model 3 in Table 2(a) shows that when the mediator variable (extent of overlap between the firm and sovereign wealth fund's investments) is added to Model 2, the significant positive effect of the independent variable (cumulative count of exclusions) disappears, and the mediator has a highly significant positive effect ($p<0.001$). In particular, a one unit increase in overlap increases the likelihood of responsible investments by 8%. This result satisfies the second of the three conditions. Finally, Model 7 in Table 2(b) shows that the independent variable (cumulative counts of exclusions) has a significant positive effect on the mediator variable (extent of overlap between the firm and the sovereign wealth fund's investments). Thus, the third condition for mediation is also satisfied ($p<0.01$). Hypothesis 1 and Hypothesis 2 are, therefore, supported.

Hypothesis 3 suggests that the mediated effect of normative pressure on firms' responsible investment outcomes is negatively moderated by regulative pressure in the presence of government ownership ties. Model 8 in Table 2(b) shows that the effect of normative pressure on imitation is even greater when firms are government owned. This relationship is shown graphically in Figure 4. However, as Model 4 in Table 2(a) shows, the positive effect of normative pressure on responsible investment outcomes are significantly reduced for firms that are government owned. This interaction effect depicted in Figure 5 continues to hold, though it declines slightly in magnitude and significance upon inclusion of the mediator variable in Model 5, suggesting partial mediation by the overlap between the firm and sovereign wealth fund's investments. Thus, Hypothesis 3 is also supported.

This contingent analysis approach (e.g. Rajan and Zingales 1998) bolsters the main thesis of the study concerning the normative role of government. According to this approach, normative pressures should become weaker when firms are already subject to regulative or coercive pressures owing to their ownership ties with the government. Thus, even though government ownership results in a greater degree of imitation and associates with a greater likelihood of responsible investment outcomes, it dampens the effect of normative pressure, as one might expect.

Interestingly, as the results show, the main effect of government ownership on both the mediator variable (imitation) and the outcome variable (responsible investments) is positive and significant. Also, the effect of government ownership on responsible investments reduces slightly in magnitude but not in significance when the mediator is added in the model. These results suggest that unlike its mediating role for normative pressure, imitation does not mediate the effect of regulative pressure on the likelihood of responsible investment outcomes. In government owned firms, responsible investments may result from other mechanisms such as governance and monitoring or incentives such as resource access and investments, and imitation may simply occur for legitimacy or strategic considerations. In fact, as Figure 5 reveals, the likelihood of responsible investments by government owned firms reduces with the cumulative count of exclusions, suggesting that a greater emphasis on responsible investments in one government domain such as the sovereign wealth fund may reduce responsible investments in another.

Turning to the control variables, the proportion of targets in which other competing Norwegian firms have invested has a significant negative relationship with both imitation and the responsible investment outcome. The number of prior cross-border investments has a significant positive effect on responsible investments. Firms that are listed on DJSI and UNPRI, and firms from the oil industry are also more likely to make responsible investments. But firms that are owned by private institutional investors are less likely to make responsible investments. Although firms that are members of the KOMpakt imitate more, they are less likely to make responsible investments. Similarly firms from the financial industry imitate more, but are not significantly more likely to make responsible investments.

It is worth emphasizing that the exclusion announcements by a prominent private institutional investor in Norway have no effect on either imitation or the responsible investment outcome. This finding illustrates the important fact that the actions and holdings of even the largest and most prominent private financial institutions in Norway when considered together are significantly smaller compared to the equity holdings of the sovereign wealth fund. Thus, such influences from the private sector may be easily overshadowed by the sovereign wealth fund.

--- Tables 2(a), 2(b) and 3 and Figures 4 and 5 about here ---

Accounting for Alternative Explanations

Although, the reported models employ a quasi natural experimental design and include a number of control variables that account for alternative explanations such as the influence of private-sector and international institutions on firms, I conducted supplementary analysis to test the robustness of the findings. Firms' imitation of the sovereign wealth fund's investments may be endogenous in nature, or co-constitutive with the normative pressures from the government (e.g. Edelman and Suchman 1997). Moreover, given the small proportion of firms whose investments comprise at least one responsible target (or observations with non-zero values), the probit model may suffer from the problem of zero inflation such that most of the predicted probability arises from the zero outcome. A large number of zeros could arise from unobservable factors that may explain firms' responsible investments, or simply from the fact that only a limited number of well accepted observable indicators (listing on sustainability indices and U.N. organizations) were used for identifying whether or not a target was "responsible". To deal with such issues, firms' imitation and responsible investments are estimated by a double hurdle or selection type model (Heckman 1979) that accounts for unobserved variation and endogeneity concerns (Shaver 2005, Harris and Zhao 2007).

In this two-staged model, the first stage accounts for the extent to which the firm imitates the sovereign wealth fund, and the second stage estimates the probability of responsible investments conditional on imitation. To identify this system of equations, the extent to which other Norwegian firms invested in a firm's targets is included as an instrument or explanatory variable in the model estimating

imitation, but not in the model estimating responsible investments. The results from this two-stage probit model shown in Table 3 are consistent with the mediation model.

I also examined the mediation model using an alternative Sobel-Goodman mediation test which reveals that the mediation effect is significant ($p<0.01$) with about 28% of the effect of normative pressure on responsible outcomes mediated by imitation. The results from this test confirm the significance of the mediation model. In another specification, I examined the sensitivity of the findings estimated by the mediation model using an alternative measure for normative pressure operationalized as a dichotomous post-2004 dummy variable instead of the actual announcements by the Council of Ethics. Lastly, I estimated the models by controlling for the number of employees to account for firm size and the number of majority equity investments made by firms that were only available for sub-samples of the dataset. Even though these additional control variables were not available for all firms, thereby reducing the sample size, the results remained robust to these alternative specifications.

Discussion

Traditional models of how government matters for firms have focused primarily on the effectiveness of government regulation, but have largely overlooked how government can shape the preferences of firms through the diffusion of norms. Drawing on neoinstitutional theory, I find that the Norwegian sovereign wealth fund influences home country firms' cross-border investment decisions by projecting investment norms that are indeed heavily weighted by the priorities of the government. Firms become more likely to imitate the sovereign wealth fund's cross-border investments in the presence of normative pressure. Such imitation in turn increases the likelihood of responsible investments.

In particular, as the study shows, the effectiveness of norms is contingent on firms' ownership ties with the government. The effectiveness of norms becomes weaker when firms are already subject to regulative or coercive pressure owing to their ownership ties with the government. By weaving together the regulative pressure that emerges from the government's ownership ties with its normative role, the study provides a more complete understanding of the mechanisms contributing to institutional isomorphism and social control. Incorporating the role of government ownership ties also allows for

discerning how regulative pressure either complements or substitutes the normative pressure from the government.

Although, studies have recognized that regulative and normative systems that lie along a continuum ranging from "the legally enforced to the taken for granted" (Hoffman 1997: 36) form vital "pillars" of institutions (Scott 2001), few studies have explicitly accounted for these distinctive pressures originating from government. In this regard, the study makes important contributions that center on how governments can use normative pressure aided by professionalization for advancing their national priorities, especially in domains where regulative authority alone may not suffice (Potoski and Prakash, 2004, Ingram et al. 2005).

An important feature of the study is that it captures the normative role of government in an identifiable manner. This normative role is evidenced by the "patterns of sanctions, patterns of primary behavior, and aspirational statements" (Ellickson, 1991: 183). In this regard, the exclusion announcements made by the government following the establishment of the Council on Ethics in 2004 2004 offer a measurable representation of the sovereign wealth fund's commitment to responsible investments. Indeed, the exclusion announcements have generated a great deal of media and public attention, educated firms about the processes for incorporating responsible investments and spurred a community of experts, all of which relate most directly to the government's normative role.A comparison of firms' behaviors shows that firms responded differently--imitated the sovereign wealth fund more, and also become more likely to invest responsibly post-2004--once the government established the Council on Ethics and made its exclusion decisions publicly known.

Findings from this study are consistent with institutional theory based predictions of imitation and diffusion. Haveman (1993) and Haunschild and Miner (1997) for instance, emphasized legitimacy and taken-for-granted practices and concluded that the actions of large organizations--such as the sovereign wealth fund in this context--are likely viewed as successful and hence, serve as role models. Moreover, like Haunschild and Miner's (1997) finding that the frequency of actions enhances imitation, an increase in censorship in the present setting associates positively with the likelihood of responsible investments.

The magnitude and direction of these effects are strikingly similar, though not directly comparable with these prior studies.

While the study observes isomorphic tendencies among firms, it does not distinguish between different motivations for such outcomes. Firms may display isomorphism because managers have genuinely embraced the norms espoused by the government. But such isomorphism may also simply occur for ceremonial purposes motivated by legitimacy considerations (Oliver 1991, Weber et al. 2009). The study also does not observe the benefits accruing to conforming firms (Deephouse 1996, Doh et al. 2010). Questions concerning whether conforming firms perform better or receive public endorsement may be examined in future work.

Although this study focuses on the diffusion of state norms to Norwegian firms' investments in cross-border equities, the interviews revealed that the influence of these norms has spread to other domestic and international domains. In the domestic context, for instance, there is growing normative pressure on firms from local governments to incorporate the sovereign wealth fund's responsible investment principles in employee pension schemes. Internationally, the Norwegian government through its central bank has been quite active in shaping the practices of other investors globally. In 2010, for instance, the Norwegian government asked the European Commission to require that member states' corporate disclosure rules be modified to increase transparency. Similarly, consequent to the recommendations made by the NBIM, the Hong Kong exchange introduced new rules requiring firms in the mining industry to report on their environmental, health and safety records, and the Brazilian exchange introduced new rules prohibiting the same person serving as CEO and chairman in a firm. In the U.K. also, subsequent to NBIM's efforts, the corporate governance code was revised requiring directors to be re-elected annually rather than every three years. The widespread diffusion of these responsible investment norms catalyzed by the Norwegian sovereign wealth fund offers an interesting avenue for future research because it challenges the conventional wisdom that norms and informal social control can be effective only in close knit and homogenous contexts (Ellickson, 1991). It also suggests, as scholars of

world systems have long argued, that domestic policies are increasingly susceptible to normative, coercive and competitive pressures originating from other countries (e.g. Henisz et al. 2005, Weber et al. 2009)

Despite this trend towards isomorphism journalists and policy analysts in Norway among other observers have begun to take a more skeptical view of the Norwegian government's "naming and shaming" approach. Relatedly, as one interviewee revealed, a predominant profit orientation in the financial community could detract from the adoption of responsible investment norms:

> "The core financial community will always have some resistance to responsible investments because when you exclude firms based on social or ethical considerations, it can have a big financial price. For example, the reason for excluding Exxon can be that it violated environmental safety norms in Indonesia, which accounts for only a very small fraction of Exxon's revenues, and has very little significance for Exxon's profitability."

Consistent with this observation, Tolbert and Zucker (1983) argued that unless practices result in immediate and tangible organizational benefits, they diffuse gradually in the absence of regulatory or legal mandates, and can even become challenged and contested leading to a lack in societal consensus. Based on these insights, future research could investigate how conflicting and opposing institutional logics (e.g. Marquis and Lounsbury 2007, Greenwood et al. 2010) arising from financial versus social responsibility considerations, for instance, could shape firms' decision-making.

Moreover, state norms may not be effective or appropriate in every context. For example, societies differ in the extent to which they are pre-disposed to norms versus rely on more formal and rule-based structures, thereby suggesting the need for more comparative studies on the appropriate institutional mechanisms for achieving the desired societal goals. A manager in a large Norwegian multinational firm shared an important observation pointing to the contrasting approaches towards social responsibility between Norway and Sweden:

> "In Norway, the culture of the people is that we don't like rules; we like to be our own master and we are quite informal, whereas the Swedes and Swedish businesses are more respectful of hierarchy and rules. So Norway may in that regard lag a bit when it comes to developing systems, because we don't really appreciate them. It could be that a Swedish manager is very concerned

> about having in place management systems, perhaps ISO certification, whereas a Norwegian manager would hate to introduce anything that is unnecessary bureaucracy, but of course, wants to do good things."

From a policy standpoint, the study suggests that as many analysts around the world suspect, the sovereign wealth fund's investments may be more than simple economic tools, and in fact, play a decisive role in shaping firms' strategic choices concerning their cross-border investments. Increasingly, policymakers worry that sovereign investors may use their investments as bargaining chips to the advantage of their home country firms and industries (Fligstein, 2005). In this regard, the social, environmental and ethical principles underlying the Norwegian sovereign wealth fund's cross-border investments may serve to placate such concerns and justify the growing involvement of national government with foreign firms. In this sense, the government's responsible investments may in part be explained by the growing imperative to be seen as legitimate in light of its new role as an investor in foreign equities. In some cases, governments may desire to steer home country firms toward specific targets because of a belief that investments in those targets will yield—from a national perspective—particularly useful benefits to the domestic economy.

In sum, while government constrains and regularizes behavior of firms through regulative mechanisms that emphasize rules, monitoring and sanctioning, the evolving role of government in the modern economy creates new opportunities to revisit this conventional wisdom. By putting the spotlight on the national government as an "ideal" institutional investor, the study contributes to the research concerning the changing role of government in the modern economy. Thus, regulative control may not be the only approach available to government to bring about social order; governments desirous of societal change could institute the appropriate norms in addition to the regulative mechanisms.

References

Aharoni, Y. 1981. Performance evaluation of state-owned enterprises: A process perspective. *Management Sci.* **27** 1340–1347.

Ayres, I., J. Braithwaite. 1992. *Responsive Regulation*. Oxford University Press: New York.

Backer, L. C. 2009. Sovereign wealth funds as regulatory chameleons: The Norwegian sovereign wealth funds and public global governance through private global investment. *Georgetown J. of Internat. Law* **41**.

Baron, R. M., D. A. Kenny. 1986. The moderator-mediator variable distinction in social psychological research: Conceptual, strategic, and statistical considerations. *J. Personality Soc. Psych*. 51(6) 1173–1182

Baum, J. A. C., C. Oliver. 1991. Institutional linkages and organizational mortality. *Admin. Sci. Quart.* **36** 187–218.

Berger, P.L., T. Luckmann. 1967. *The Social Construction of Reality*. Doubleday: New York.

Cohen, B. 2009. Sovereign wealth funds and national security: The great tradeoff. *Internat. Affairs* **85** 713.

Cole, R. E. 1985. The macropolitics of organizational change: A comparative analysis of the spread of small group activities. *Admin. Sci. Quart.* **30** 560–585.

Dacin, M. T., C. Oliver, J. P. Roy. 2007. The legitimacy of strategic alliances: An institutional perspective. *Strategic Management J.* **28** 169–187.

Deephouse, D. L. 1996. Does isomorphism legitimate. *Acad. of Management J.* **39** 1024-1039.

Diestre, L., N. Rajagopalan. 2011. An environmental perspective on diversification: The effects of chemical relatedness and regulatory sanctions. *Acad. of Management J.* **54** 97–115.

DiMaggio, P., W. Powell. 1983. The iron cage revisited: Institutional isomorphism and collective rationality in organizational fields. *Amer. Sociological Rev.* **48** 147–160.

Dobbin, F. 1994. *Forging Industrial Policy: The United States, Britain, and France in the Railway Age*. Cambridge University Press, Cambridge, UK.

Dobbin, F.R., J.R. Sutton, J.W. Meyer, W.R. Scott. 1993. Equal opportunity law and the construction of internal labor markets. *Am. J. Sociol.* **99** 396-427.

Dobbin, F., T. J. Dowd. 1997. How policy shapes competition: Early railroad foundings in Massachusetts. *Admin. Sci. Quart. 42*(3) 501-529.

Dobbin, F., J. R. Sutton. 1998. The strength of a weak state: The rights revolution and the rise of human resources management divisions. *American J. Sociology* **104**(2) 441-476.

Doh, J. P., S. D. Howton, S. W. Howton and D. S. Siegel. 2010. Does the market respond to an endorsement of social responsibility? the role of institutions, information and legitimacy. *J. Management* **36**(6) 1461–1485

Dokko, G., L. Rosenkopf. 2010. Social capital for hire? mobility of technical professionals and firm influence in wireless standards committees. *Org. Sci.* **21**(3) 677-695.

Edelman, L. B. 1992. Legal ambiguity and symbolic structures: organizational mediation of civil rights law. *American J. Sociology* **97**1531–1576

Edelman, L.B., S.E. Abraham, H.S. Erlanger. 1992. Professional construction of the legal environment: the inflated threat of wrongful discharge doctrine. *Law Soc. Rev.* **26** 47–83.

Edelman, L. B., M. C. Suchman. 1997. The legal environments of organizations. *Annual Rev. Sociology* **23**(1) 479-515.

Ellickson, R.C. 1991. *Order Without Law: How Neighbors Settle Disputes*. Harvard University Press, Cambridge, MA.

Evans, P. B. 1985. Transnational linkages and the economic role of the state: An analysis of developing and industrialized nations in the post-World War II period. P. Evans, D. Rueschemeyer, T.Skocpol eds. *Bringing the State Back In*. Cambridge University Press, Cambridge, UK, 192-226.

Faccio, M. 2006. Politically connected firms. *Amer. Econom. Rev.* **96** 369–386.

Fiorino, D. J. 1999. Rethinking environmental regulation. *Harvard Environ. Law Rev.* **23**(2) 441–69.

Fisman, R., E. Miguel. 2007. Corruption, norms, and legal enforcement: Evidence from diplomatic parking tickets. *J. of Political Economy* **115** 1020–1048.

Fligstein, N. 1990. *The Transformation of Corporate Control.* Harvard University Press, Cambirdge, MA.

Fligstein, N. 2005. The political and economic sociology of international economic arrangements. N. Smelser, R. Swedberg eds. *The Handbook of Economics Sociology*. Princeton University Press, Princeton, NJ, 183–204.

Fowler, S. J., C. Hope. 2007. A critical review of sustainable business indices and their impact. *Journal of Business Ethics* **76** 243–252

Gilson, R., C. Milhaupt. 2008. Sovereign wealth funds and corporate governance: A minimalist response to the new mercantilism. *Stanford Law Rev.* **60** 1345–1369.

Gimeno, J., R. E. Hoskisson, B. D. Beal, W. P. Wan. 2005. Explaining the clustering of international expansion moves: A critical test in the U.S. telecommunications industry. *Acad. of Management J.* **48** 297–319.

Greenwood, R., A M. Díaz, S. X. Li, J. C. Lorente. 2010. The multiplicity of institutional logics and the heterogeneity of organizational responses. *Org. Sci.***21 (**2): 521-539.

Harris M.N., Zhao X. 2007. A zero-inflated ordered probit model, with an application to modeling tobacco consumption. *Journal of Econometrics* **141** 1073–1099

Haunschild, P. R., A. S. Miner. 1997. Modes of interorganizational imitation: The effects of outcome salience and uncertainty. *Admin. Sci. Quart.* **42** 472–500.

Haveman, H. A. 1993. Follow the leader: Mimetic isomorphism and entry into new markets. *Admin. Sci. Quart.* **38** 593-627.

Heckman, J. 1979. Sample selection bias as a specification error. *Econometrica* **47** 153–161.

Henisz, W. J., B. A. Zelner, M. F. Guillén. 2005. The Worldwide Diffusion of Market-Oriented Infrastructure Reform, 1977–1999. *American Sociological Review* **70**(6) 871-897.

Hoffman, A.W. 1997. *From Heresy to Dogma: An Institutional History of Corporate Environmentalism*. New Lexington Press, San Francisco.

Hsiao, C. 1986. *Analysis of Panel Data*. Cambridge University Press, New York

Ingram, P., J. Robinson, M. Busch. 2005. The intergovernmental network of world trade: IGO connectedness, governance, and embeddedness. *Amer. J. of Sociology* **111** 824–858.

International Monetary Fund. 2008. Accessed December 15, 2012 http://www.imf.org/external/pubs/ft/survey/so/2008/pol03408a.htm

Jepperson, R. 2002. Political modernities: Disentangling two underlying dimensions of institutional differentiation. *Soc. Theory* **20** 61–85.

Kimmitt, R. M. 2008. Public footprints in private markets. *Foreign Aff.* **87** 119–130.

Kostova, T., K. Roth, M. Dacin. 2008. Institutional theory in the study of multinational corporations: A critique and new directions. *Acad. of Management Rev.* **33** 994–1006.

Kotter, J., U. Lel. 2008. Friends or foes? The stock price impact of sovereign wealth fund investments and the price of keeping secrets. *Federal Reserve Board Internat. Finance Discussion Paper No. 940*, http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1292407.

Liang, K., S. Zeger. 1986. Longitudinal data analysis using generalized linear models. *Biometrika* ***73*** 13–22.

Lim A., K Tsutsui. 2012. Globalization and commitment in corporate social responsibility: cross-national analyses of institutional and political-economy effects. *American Sociological Review* **77**(1) 69-98.

Lyons, G. 2008. State capitalism: the rise of sovereign wealth funds. *Law & Business Rev Am*. **14** 179-180.

March, J., J. Olsen. 1984. The new institutionalism: Organizational factors in political life. *Amer. Political Sci. Rev.* **78** 734–749.

Marquis, C., M. Lounsbury. 2007. Vive la résistance: competing logics and the consolidation of U.S. community banking. *Acad. of Management J.* **50**(4), 799-820.

Meyer, A. D. 1982. Adapting to environmental jolts. *Admin. Sci. Quart.* **27** 515–537.

Meyer, J. W., B. Rowan. 1977. Institutionalized organizations: Formal structure as myth and ceremony. *Amer. J. of Sociology* **83** 340–363.

Meyer, J. W., W. R. Scott. 1983. *Organization Environments: Ritual and Rationality.* Sage, Beverly Hills, CA.

Milgrom, P., J. Roberts. 1992. *Economics, Organization and Management.* Prentice Hall, Englewood Cliffs, NJ.

North, D. C. 1990. *Institutions, Institutional Change, and Economic Performance.* Cambridge University Press: Cambridge, UK.

Oliver, C. 1991. Strategic responses to institutional processes. *Academy of Managenment Rev.* **16**(1) 145-179.

Oliver, C. 1997. Sustainable competitive advantage: Combining institutional and resource-based views. *Strategic Management J.* **18** 697–713.

Polillo, S., M. Guillén. 2005. Globalization pressures and the state: The worldwide spread of central bank independence. *Amer. J. of Sociology* **110** 1764–1802.

Powell, W., D. White, K. Koput, J. Owen-Smith. 2005. Network dynamics and field evolution: The growth of inter-organizational collaboration in the life sciences. *Amer. J. of Sociology* **110** 1132–1205.

Robinson, M., A. Kleffner, S. Bertels. 2011. Signaling sustainability leadership: Empirical evidence of the value of DJSI membership. *J. Bus. Ethics.* **101**(3) 493-505.

Scott, W. 2001. *Institutions and Organizations.* Sage Publications, Thousand Oaks, CA.

Selznick, P. 1949. *TVA and the Grass Roots*. Univ. Calif. Press: Berkeley, CA.

Selznick, P. 1996. Institutionalism "old" and "new". *Admin. Sci. Quart.* **41** 270–277.

Semadeni, M., B. S. Anderson. 2010. The follower's dilemma: Innovation and imitation in the professional services industry. *Acad. of Management J.* **53** 1175–1193.

Shaver, J. M. 2005. Testing for mediating variables in management research concerns, implications and alternative strategies. *J. of Management* **31**(3) 330–353.

Shleifer, A., R. Vishny. 1994. Politicians and firms. *Quart. J. of Econom.* **109** 995–1025.

Siegel, J. 2009. Is there a better commitment mechanism than cross-listings for emerging-economy firms? Evidence from Mexico. *J. of Internat. Bus. Studies* **40** 1171–1191.

Skocpol, T. 1985. Strategies of analysis in current research. P. Evans, D. Rueschemeyer, T. Skocpol eds. *Bringing the State Back In.* Cambridge University Press, Cambridge, UK.

Sovereign Wealth Fund Institute. 2011. Accessed April 4, 2011 http://www.swfinstitute.org/.

Strang, D., J. W. Meyer. 1993. Institutional conditions for diffusion. *Theory and Society* **22** 487–511.

Strange, S. 1996. *The Retreat of the State: The Diffusion of Power in the World Economy*. Cambridge University Press, Cambridge, UK.

Suchman, M. 1995. Managing legitimacy: Strategic and institutional approaches. *Acad. of Management Rev.* **20** 571–610.

Tolbert, P. S., L. G. Zucker. 1983. Institutional sources of change in the formal structure of organizations: The diffusion of civil service reform, 1880-1935. *Admin. Sci. Quart.* **28** 22–39.

Wan, W. P., D. W. Yiu. 2009. From crisis to opportunity: Environmental jolt, corporate acquisitions, and firm performance. *Strategic Management J.* **30** 791–801.

Weber, M. 1968. *Economy and Society: An Interpretive Sociology.* Bedminister Press, New York.

Weber, K., G. F. Davis, M. Lounsbury. 2009. Policy as Myth and Ceremony? The Global Spread of Stock Exchanges, 1980--2005. *Acad. of Management J.* **52** 1319-1347.

Westney, D. E. 1987. *Imitation and Innovation: The Transfer of Western Organizational Patterns to Meiji Japan.* Harvard University Press, Cambridge, MA.

Westphal, J. D., E. J. Zajac. 2001. Decoupling policy from practice: The case of stock repurchase programs. *Admin. Sci. Quart.* **46** 202-228.

Figure 1 Model Relationships

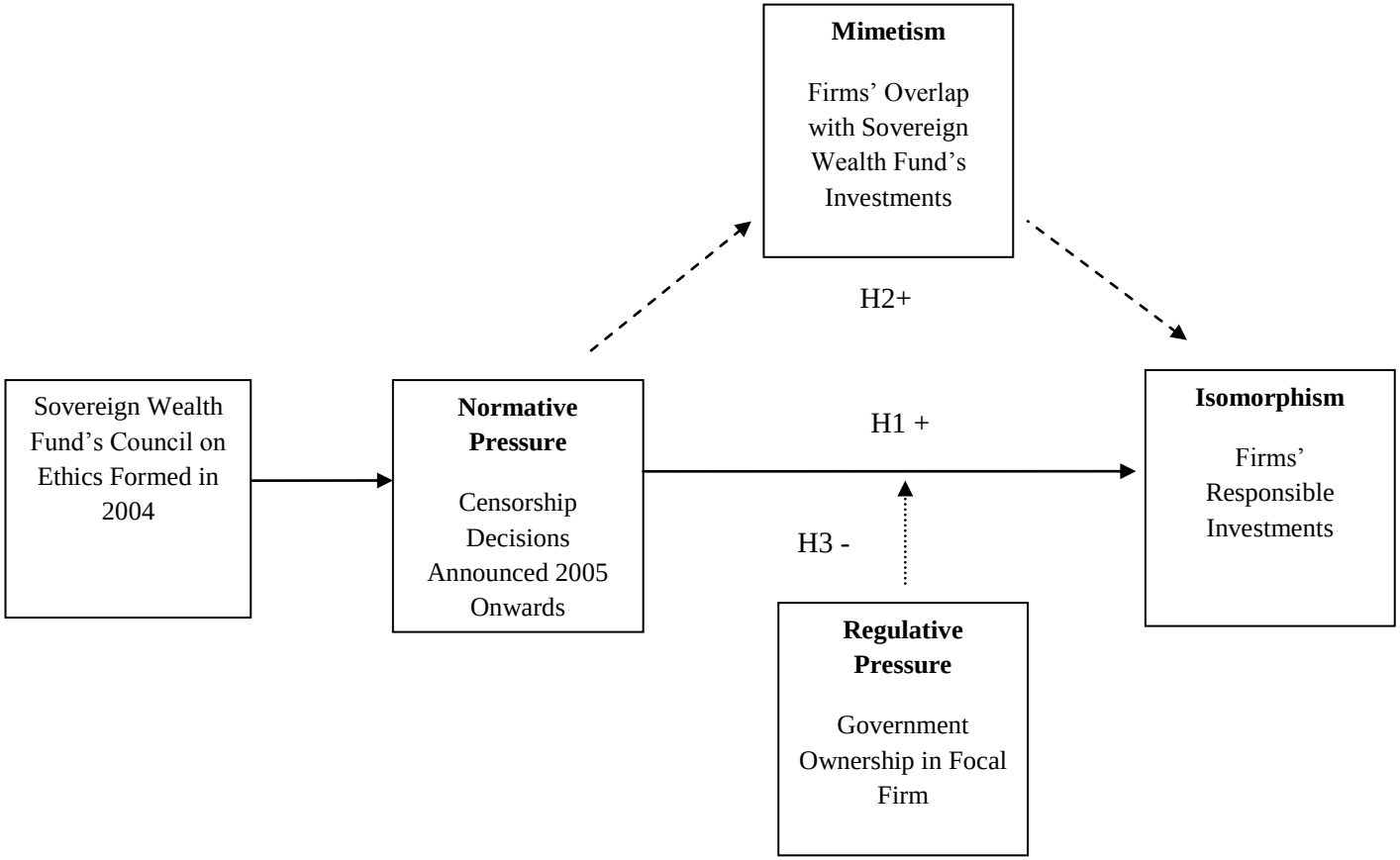

Figure 2 Number of Cross-Border Acquisitions by Norwegian Firms (Pre- and Post-2004)

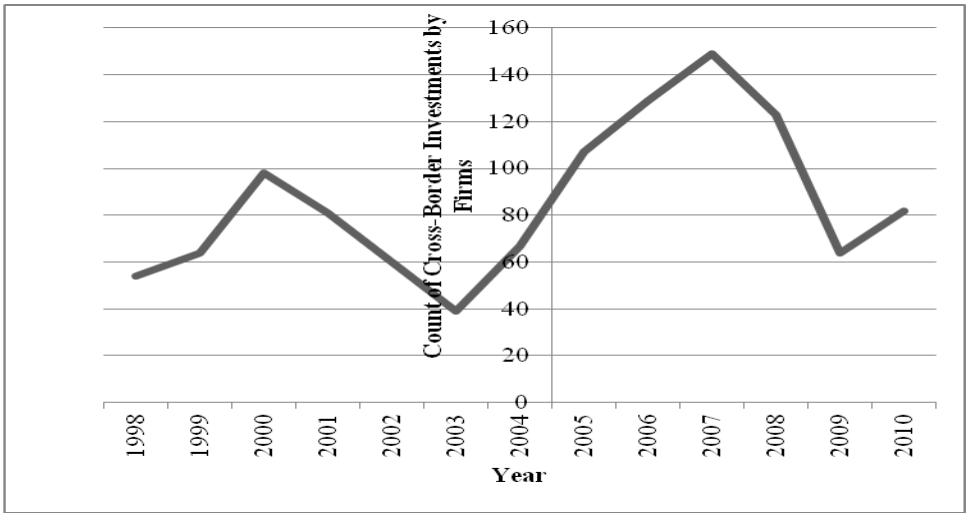

Figure 3 Target Overlap between Focal Firms and Sovereign Wealth Fund (Pre- and Post-2004)

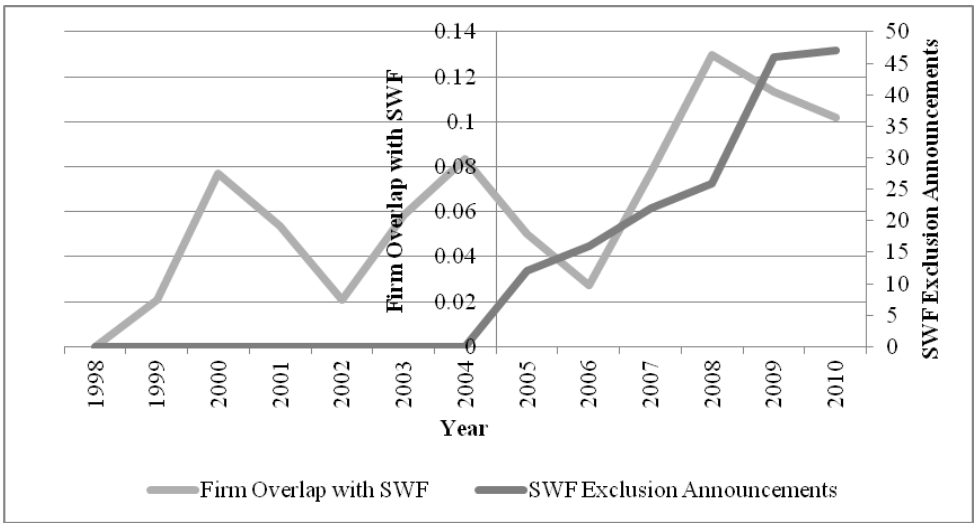

Figure 4 Target Overlap and Cumulative Exclusion Announcements

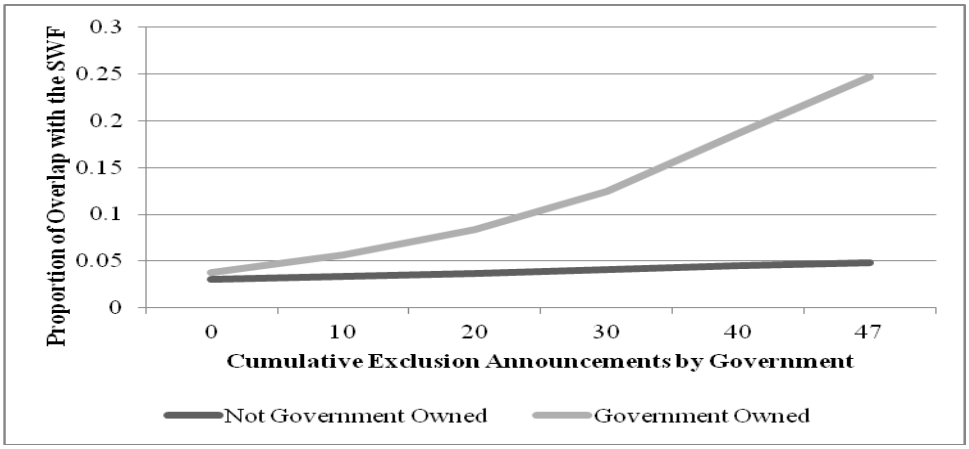

Figure 5 Responsible Investments and Cumulative Exclusion Announcements

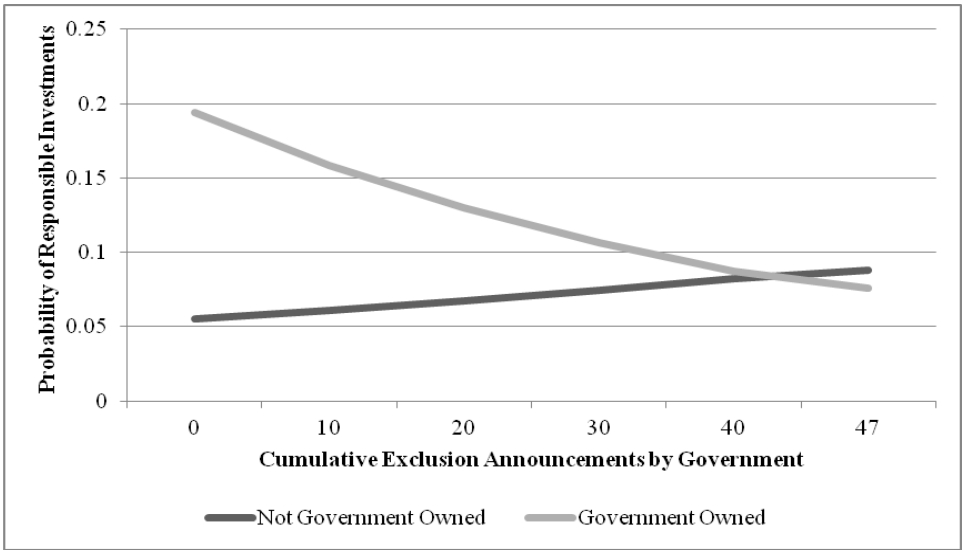

Table 1 Descriptive Statistics

		Min	Max	Mean	Std	1	2	3	4	5	6	7	8	9	10
1	Firms' Responsible Investments	0.00	1.00	0.02	0.13	1									
2	Number of Firms in Industry	0.00	489.00	128.38	123.74	0.02	1								
3	Private Inst. Investor Exclusions	0.00	9.00	4.74	3.59	0.01	0.3	1							
4	Proportion Targets with Firm Investments	0.00	1.00	0.02	0.14	-0.02	0.04	0.09	1						
5	Number of Domestic Investments	0.00	8.00	0.30	0.80	-0.01	-0.05	-0.007	0.04	1					
6	Number of Related Investments	0.00	7.00	0.81	0.93	0.02	-0.08	-0.02	0.01	0.21	1				
7	Number of Cross-Border Investments	1.00	12.00	1.44	1.10	0.11	-0.02	-0.007	0.03	0.35	0.56	1			
8	Prior Cross-Border Investments	0.07	1.00	0.83	0.30	-0.01	0.03	0.01	-0.12	-0.19	-0.18	-0.29	1		
9	FTF Owned	0.00	10.10	0.65	2.05	0.003	-0.10	-0.08	0.10	0.18	0.15	0.28	-0.38	1	
10	Listed on DJSI	0.00	1.00	0.04	0.20	0.16	-0.07	-0.01	0.03	0.21	0.22	0.26	-0.2	0.105	1
11	Institutional Investor Owned	0.00	100.00	1.80	11.61	-0.01	-0.008	0.02	0.06	-0.03	-0.01	0.01	0.05	-0.006	0.37
12	Listed on Oslo Børs	0.00	1.00	0.23	0.42	0.02	0.05	0.04	0.16	0.11	0.15	0.30	-0.32	0.48	0.20
13	UNPRI Member	0.00	1.00	0.01	0.11	0.07	0.02	0.039	0.16	-0.04	0.02	0.04	0.06	-0.009	0.34
14	Government Owned	0.00	1.00	0.08	0.27	0.11	-0.07	-0.05	0.06	0.21	0.18	0.27	-0.32	0.22	0.47
15	Oil Industry	0.00	1.00	0.08	0.27	0.11	0.16	-0.009	0.10	0.02	0.01	0.06	-0.25	0.07	0.21
16	Financial Industry	0.00	1.00	0.12	0.32	0.04	0.32	0.04	0.003	-0.06	-0.18	-0.03	0.11	-0.10	-0.01
17	Firm KOMpakt Member	0.00	1.00	0.07	0.25	0.08	-0.06	-0.02	0.17	0.23	0.21	0.37	-0.48	0.47	0.63
18	Proportion SWF Overlap	0.00	1.00	0.07	0.24	0.18	0.01	0.04	-0.03	0.004	0.01	0.01	-0.04	0.003	0.09
19	Number of SWF Exclusions	0.00	47.00	16.47	16.18	0.05	0.35	0.65	0.091	-0.08	-0.08	-0.06	0.004	-0.12	-0.009

	Variable	11	12	13	14	15	16	17	18	19
11	Institutional Investor Owned	1								
12	Listed on Oslo Børs	0.16	1							
13	UNPRI Member	0.72	0.11	1						
14	Government Owned	-0.02	0.19	-0.03	1					
15	Oil Industry	-0.03	0.11	-0.03	0.33	1				
16	Financial Industry	0.09	-0.08	0.11	-0.10	-0.10	1			
17	Firm KOMpakt Member	0.22	0.37	0.26	0.54	0.33	-0.06	1		
18	Proportion SWF Overlap	-0.02	0.04	0.005	0.13	0.02	0.06	0.09	1	
19	Number of SWF Exclusions	0.006	-0.03	0.03	-0.04	0.02	0.05	-0.03	0.09	1

Table 2(a) Probit GEE Estimates of Responsible Targets in Firms' Investments

Variables	Model 1 Only Controls	Model 2 Main Effects	Model 3 Main Effects Mediation	Model 4 Interaction Effects	Model 5 Interaction Effects Mediation
Intercept	-3.42(-0.49)***	-3.54(0.57)***	-3.60(0.64)***	-3.67(0.55)***	-3.74(0.63)***
Contextual Variables					
Number of Firms in Industry	0.00009(0.0008)	-0.0003(0.0008)	-0.00009(0.001)	-0.0005(0.0008)	-0.0002(0.0009)
Private Inst. Investor Exclusions	0.03(0.03)	-0.002(0.04)	0.001(0.04)	0.02(0.04)	0.02(0.05)
Target Characteristics					
Proportion Targets with Firm Investments	-5.99(-1.32)***	-5.60(1.34)***	-5.32(1.19)***	-6.02(1.42)***	-4.28(1.04)***
Number of Domestic Investments	-0.30(-0.21)	-0.27(0.2142)	-0.33(0.24)	-0.36(0.23)	-0.41(0.26)
Number of Related Investments	-0.20(-0.10)*	-0.17(0.09)*	-0.19(0.10)*	-0.14(0.09)	-0.17(0.10)
Number of Cross-Border Investments	0.21(0.08)*	0.21(0.08)*	0.25(0.09)**	0.20(0.09)*	0.23(0.09)*
Firm Characteristics					
Prior Cross-Border Investments	0.86(0.45)*	0.93(0.51)*	0.83(0.53)	0.77(0.48)	0.68(0.50)
FTF Owned	-0.04(-0.07)	-0.04(0.07)	-0.02(0.07)	-0.05(0.08)	-0.01(0.06)
Listed on DJSI	1.10(0.75)	1.02(0.80)	1.14(0.90)	1.40(0.75)*	1.57(0.82)*
Institutional Investor Owned	-0.06(-0.01)**	-0.05(0.02)**	-0.05(0.01)**	-0.06(0.02)*	-0.05(0.01)**
Listed on Oslo Børs	0.20(0.32)	0.21(0.32)	0.08(0.30)	0.29(0.33)	0.16(0.30)
UNPRI Member	4.15(1.33)**	3.95(1.34)**	3.58(1.28)**	3.96(1.49)**	3.35(1.22)**
Oil Industry	0.76(0.24)***	0.81(0.25)**	0.91(0.26)**	0.82(0.25)**	0.87(0.27)***
Financial Industry	0.11(0.31)	0.19(0.31)	0.04(0.30)	0.26(0.32)	0.12(0.312)
Firm KOMpakt Member	-0.48(-0.39)	-0.40(0.41)	-0.51(0.42)	-0.76(0.39)*	-0.83(0.40)*
Explanatory Variables					
Government Owned	0.89(0.37)*	0.90(0.39)*	0.69(0.30)*	1.49(0.45)**	1.26(0.34)***
Number of SWF Exclusions		0.01(0.009)*	0.006(0.008)	0.01(0.009)*	0.01(0.008)
Num of SWF Exclusions X Govt. Owned				-0.04(0.01)**	-0.03(0.01)*
Proportion SWF Overlap			1.08(0.29)***		1.10(0.29)***
N	736	736	736	736	736
Wald $\chi 2$	247.30	222.13***	482.82***	325.41***	375.27***

β coefficient (robust std. error); *** $p < 0.001$; ** $p<0.01$; * $p < 0.05$

Table 2(b) GEE Estimates of Firms' Overlap with SWF

Variables	Model 6 Only Controls	Model 7 Main Effects	Model 8 Interaction Effects
Intercept	-2.25(0.49)***	-2.95(0.65)***	-3.11(0.68)***
Contextual Variables			
Number of Firms in Industry	0.001(0.001)	-0.0005(0.001)	-0.0003(0.001)
Private Inst. Investor Exclusions	0.02(0.05)	-0.04(0.05)	-0.03(0.05)
Target Characteristics			
Proportion Targets with Firm Investments	-2.7(1.59)*	-2.62(1.18)*	-3.43(1.61)*
Number of Domestic Investments	-0.12(0.13)	-0.04(0.11)	-0.0002(0.13)
Number of Related Investments	0.03(0.15)	0.14(0.16)	0.05(0.12)
Number of Cross-Border Investments	-0.21(0.11)*	-0.15(0.14)	-0.02(0.10)
Firm Characteristics			
Prior Cross-Border Investments	-0.86(0.52)*	-0.18(0.53)	0.11(0.63)
FTF Owned	-0.11(0.13)	-0.12(0.13)	-0.09(0.10)
Listed on DJSI	-0.63(0.61)	-0.95(0.70)	-0.94(0.66)
Institutional Investor Owned	-0.17(0.17)	-0.21(0.17)	-0.25(0.17)
Listed on Oslo Borse	0.26(0.44)	0.63(0.46)	0.63(0.42)
UNPRI Member	1.23(0.84)	0.37(0.99)	-0.01(1.09)
Oil Industry	-2.18(0.69)**	-1.20(0.78)	-1.20(0.72)*
Financial Industry	0.72(0.39)*	0.53(0.45)	0.65(0.39)*
Firm KOMpakt Member	1.87(0.67)**	2.03(0.76)**	2.06(0.57)***
Explanatory Variables			
Government Owned	1.63(0.5)**	1.14(0.64)*	0.22(0.86)
Number of SWF Exclusions		0.02(0.009)**	0.01(0.01)*
Number of SWF Exclusions X Govt. Owned			0.03(0.02)*
N	736	736	736
Wald $\chi 2$	371.99***	1842.41***	1874.97***

β coefficient (robust std. error); *** $p < 0.001$; ** $p<0.01$; * $p < 0.05$

Table 3 Two Stage Probit Estimates of Firms' Responsible Investments

Variables	Main Effects		Interaction Effects	
	Model 9 **Stage 1** **DV= Overlap with SWF**	**Model 10** **Stage 2** **DV= Responsible Investments**	**Model 11** **Stage 1** **DV= Overlap with SWF**	**Model 12** **Stage 2** **DV= Responsible Investments**
Intercept	0.04(0.03)	-0.41(0.14)***	0.04(0.03)	-0.396(0.14)***
Contextual Variables				
Number of Firms in Industry	-0.00007(0.00008)	0.0003(0.0003)	-0.00006(0.00008)	0.0003(0.0003)
Private Inst. Investor Exclusions	-0.001(0.003)	0.007(0.01)	-0.002(0.002)	0.009(0.012)
Target Characteristics				
Proportion Targets with Firm Investments	-0.11 (0.03)**		-0.11(0.03)	
Number of Domestic Investments	-0.003(0.009)	-0.008(0.04)	-0.001(0.008)	-0.02(0.03)
Number of Related Investments	0.006(0.01)	-0.03(0.04)	0.004(0.01)	-0.02(0.04)
Number of Cross-Border Investments	-0.01(0.009)	0.06(0.03)*	-0.009(0.008)	0.05(0.03)
Firm Characteristics				
Prior Cross-Border Investments	0.004(0.03)	0.01(0.15)	0.009(0.03)	-0.01(0.14)
FTF Owned	-0.006(0.003)*	0.02(0.01)	-0.006(0.003)	0.02(0.01)*
Listed on DJSI	0.02(0.08)	-0.03(0.37)	0.02(0.08)	-0.003(0.35)
Institutional Investor Owned	-0.001(0.0006)**	0.005(0.002)*	-0.001(0.0006)	0.005(0.002)*
Listed on Oslo Borse	0.04(0.02)	-0.16(0.11)	0.03(0.02)	-0.15(0.11)
UNPRI Member	0.09(0.06)	-0.16(0.27)	0.09(0.06)	-0.22(0.27)
Oil Industry	-0.02(0.04)	0.13(0.20)	-0.02(0.04)	0.12(0.20)
Financial Industry	0.06(0.03)*	-0.29(0.15)*	0.06(0.03)	-0.28(0.15)*
Firm KOMpakt Member	0.06(0.05)	-0.34(0.22)	0.06(0.05)	-0.34(0.23)
Explanatory Variables				
Government Owned	0.10(0.08)	-0.40(0.36)	0.05(0.13)	-0.14(0.54)
Number of SWF Exclusions	0.001(0.0008)*	-0.007(0.003)	0.001(0.0008)	-0.006(0.003)*
Num of SWF Exclusions X Govt. Owned			0.004(0.005)	-0.01(0.02)
Proportion SWF Overlap		4.24(0.27)***		4.24(0.28)***
N	736		736	
Wald $\chi 2$	2689.10***		2639.72***	

β coefficient (robust std. error); *** $p < 0.001$; ** $p<0.01$; * $p < 0.05$