

**WRONGDOING BY EMERGING COUNTRY GLOBAL PLAYERS:
EXPLORING THE LINK BETWEEN FINANCIAL PERFORMANCE AND
INVOLVEMENT IN HUMAN RIGHTS CONTROVERSIES**

ABSTRACT

Are emerging country firms (EFCs) with the highest financial performance relative to industry more likely to incur in human rights controversies (HRCs) than low performing firms? What moderates this relationship? Using original panel data of a sample of 245 large public companies from Brazil, China, India, Malaysia, Mexico, Russia, South Africa and Thailand, we find that the positive relationship between EFCs performance and the likelihood to be involved in HRCs is negatively moderated by host countries' rule of law pressures and by these firms' intensity of adoption of corporate social responsibility policies, while it is stronger for State-Owned Enterprises (SOEs) than for non-SOEs.

Key-words: Human rights controversies (HRCs); corporate wrongdoing; emerging country firms (ECFs); rule of law; corporate social responsibility (CSR); state-owned enterprises (SOEs).

INTRODUCTION

When the Apple-Foxconn scandal hit the news, the world suddenly realized that there are corporations in the developing and emerging countries that are as large and powerful as many advanced country firms. Like Foxconn, a growing number of firms from these countries have become global players (e.g., Cuervo-Cazurra & Ramamurti, 2014), with almost the 30% of the firms in the Forbes Global 2000 ranking coming from emerging economies in 2016. Many such companies are large public firms occupying dominant positions in their home countries, and which have also become well-known for their investments abroad (see e.g. the eminent acquisitions of Land Rover and Jaguar by the Indian Tata Motors). Some of them, however, have become also known for their involvement in human rights controversies and wrongful business conduct (Fiaschi, Giuliani, & Nieri, 2017).

The idea of companies as wrongdoers is not new and it is certainly not a prerogative of emerging country firms (ECFs). Management scholars have investigated firms' 'dark side'¹ for a long time (Baucus & Near, 1991; Harris & Bromiley, 2007; Staw & Szwajkowski, 1975; Szwajkowski, 1985, among others), and have recognized the importance of understanding why firms, and their managers or CEOs, enact wrongful business conducts. More recently, corporate wrongdoing has become of interest to international business (IB) scholars because of the growing evidence of wrongdoing being associated to large multinational corporations (MNCs) with dispersed operations worldwide (e.g., Fiaschi et al., 2017; Giuliani, Macchi, & Fiaschi, 2013; Keig, Brouthers, & Marshall, 2015; Shi, Connelly, & Sanders, 2016; Spencer & Gomez, 2011; Strike, Gao, & Bansal, 2006; Surroca, Tribo, & Zahra, 2013). Earlier studies in IB have focused on the relationship between firms' internationalization strategy and wrongdoing (Shi, Connelly, & Sanders, 2016; Strike, Gao, & Bansal, 2006), or on

¹ Earlier research has referred to firms' 'dark side' using different concepts such as corporate wrongdoing, corporate social irresponsibility, corporate misconduct, illegality and organizational deviant practices. In this paper we will generally use the term corporate wrongdoing or wrongful business conduct (Greve, Palmer, & Pozner, 2010; Palmer, 2012, among others) to refer to the general phenomenon of firms' involvement in events which violate a social or legal norm.

understanding how the home and host countries' institutional pressures may affect the involvement in wrongful conduct (e.g., Fiaschi et al., 2017; Keig et al., 2015; Spencer & Gomez, 2011; Surroca et al., 2013). These studies suggests that MNCs may incur in wrongdoing due to their inability to manage international operations (Strike et al., 2006), or to the poor institutional conditions of the countries where firms have their operations which may constitute an incentive for wrongdoing (Fiaschi et al., 2017; Keig et al., 2015; Surroca et al., 2013). Yet there are numerous open questions in this area of research, particularly about the circumstances that make the involvement in wrongful conduct more likely to manifest (Greve et al., 2010). On empirical grounds, moreover, since most of the earlier research has focused solely on U.S. or other advanced country firms, we know very little about the wrongful conduct of ECFs (Giuliani, Santangelo, & Wettstein, 2016).

Focus on ECFs is interesting for two main reasons. First, because some of these firms have recently become influential international players (UNCTAD, 2014), which means that the harmful impact of their activities on society is no longer an issue that is exclusively relevant to their home government and constituencies, but it becomes of interest to international constituencies as well. Second, because these firms come from countries that are notoriously characterized by institutional voids (Khanna & Palepu, 1997) and less stringent human rights standards and regulations, which raises concerns about their capacity to handle operations in countries with different and more advanced regulations and judiciary systems.

In this paper, we seek to explore the factors that influence ECFs' wrongful conduct, understood as their involvement in human rights controversies (HRCs).² What we know from

² We consider firms involved in HRCs when they violate a human right as defined by the 1948 Universal Declaration of Human Rights (UNDHR) and subsequent treaties. Human rights are defined as inalienable fundamental rights to which a person is inherently entitled simply because she or he is a human being (Ruggie, 2008). As suggested by Giuliani and colleagues (2013), the human rights framework may be better than other conceptualizations of firms' involvement in wrongful conduct because it is a universal normative framework. Recently, this issue has assumed particular importance, due to the growing global scale of business operations which implies that firms operate across different countries with different States' capacity to legislate and ensure the rule of law. Therefore, in the current context, corporate wrongdoing needs to be conceptualized and understood at a global level rather than a national one.

earlier studies is that the involvement in HRCs may not be purely accidental or unintentional (Giuliani et al., 2016), but can be the result of a rent-seeking strategy that allows firms to achieve their profit-maximizing goals at lower costs (Crane, 2013). From the outset, management studies have suggested that it is particularly firms with poor performance records that are more inclined to act wrongfully, as they have a more urgent need to escape from their condition of underperformance and achieve some socially acceptable goals (Baucus & Near, 1991; McKendall & Wagner, 1997; Staw & Sz wajkowski, 1975, among others). However, more recently, this view has been reconsidered (e.g., Mishina, Dykes, Block, & Pollock, 2010), also prompted by burgeoning evidence of highly performing firms' involvement in illegal or otherwise wrongful conducts – a case in point being Volkswagen and the diesel emission scandal (BBC News, 2015). Hence, in this paper we ask whether firms with stronger performance relative to their industry peers are more likely than low performers to be involved in HRCs. Differently from earlier research on corporate wrongdoing we consider companies and their managers as being boundedly-rational agents, and unable to undertake fully rational choices, which means that they use frames and heuristics when deciding about a wrongful conduct (Palmer, 2012).

In developing our theoretical framework, we thus draw on the behavioral theory of the firm (BTF) (Cyert & March, 1963) and, more specifically, on performance feedback theory (Audia, Brion, & Greve, 2015; Greve, 2003; Jordan & Audia, 2012), which suggests that firms take decisions based on their past performance relative to some reference point. Our baseline hypothesis predicts that ECFs that have higher performance relative to their industry peers, are more likely to be involved in HRCs, to satisfy their desire to keep up with their position in the global market place and maintain high levels of performance over time. Moreover, we maintain that, since corporate wrongdoing is a very complex phenomenon that is likely to be explained by many concurrent factors, it cannot be simply the consequence of ECFs' financial pressure to perform well. We thus further enrich our argument by proposing that our direct

baseline relationship is moderated by certain situational factors, both internal or external the organization (Baucus, 1994), that can incentivize or mitigate the likelihood of being involved in HRCs. We focus on three moderators: first, we posit that firms' home and host countries' rule of law, defined as country's quality of contract enforcement, property rights, the police, and the courts (Kaufmann, Kraay, & Mastruzzi, 2011), will negatively moderate our baseline relationship. Second, we hypothesize a negative moderating role of ECFs' adoption of corporate social responsibility (CSR) policies, which we define as the set of voluntary and explicit self-regulatory measures that firms undertake in order to contribute positively to the environment and to society (Carroll, 2008; Rasche, Waddock, & McIntosh, 2013). Finally, we analyze the moderating role of ECFs' political connections, which we operationalize referring to the notion of State ownership, and we claim that being a State-owned enterprise (SOE) will positively moderate the relationship between firms' performance and their involvement in HRCs.

We test our hypotheses on a sample of 245 firms from a set of emerging countries (Brazil, China, India, Malaysia, Mexico, Russia, South Africa and Thailand) ranked by Forbes Global 2000 (2012 edition) as the largest firms from their respective countries. The main analysis covers the period 1992-2012, while robustness checks have been conducted on a more recent cohort (1999-2012). We run a Dynamic Correlated Random Effect (DCRE) Probit model, and found robust support for our hypotheses. Our data show very high persistency in the probability to be involved in HRCs and our results provide support to the positive relationship between ECFs' performance and the likelihood to be involved in HRCs. Then, we find that such relationship is negatively moderated by the host countries' rule of law and the intensity of CSR policies adoption, and is positively moderated by the state-ownership.

The remainder of this article proceeds as follows. First, we provide an overview of the literature on corporate wrongdoing. Next, we develop our theoretical framework on (1) the effect of ECFs' performance on the likelihood to be involved in HRCs (2) the moderating role

of the home and host country rule of law, the intensity of CSR adoption and the State-ownership. We then test our hypotheses and discuss our results. We conclude with a discussion of the study's contribution to IB and management theories and implications for future research.

THEORY AND HYPOTHESES

Background literature

Research in several disciplines has studied firms' involvement in wrongful business conducts for long time now, but a unique definition as well as a comprehensive theory of such a phenomenon is yet to come (Greve, Palmer, & Pozner, 2010) and several research questions about the causes and consequences of such a phenomenon are still in search of an answer, especially in connection to IB (Nieri & Giuliani, 2018).

Most of the earlier research on firms' 'dark side' understands managers' decision to enact a wrongful conduct using the lenses of rational choice theory (Clinard, Brissene, Petrashek, & Harries, 1979; Simpson, 1986; Staw & Sz wajkowski, 1975; Sz wajkowski, 1985; Williams & Barrett, 2000, among others), which predicts that wrongdoing is driven by a rational calculation of the expected benefits (e.g., access to underpriced resources and therefore an increase in the profits) against its potential costs (e.g., sanctions, fines and negative publicity) (Becker, 1968). A landmark example of this approach is the Ford-Pinto case occurred in the 1970s, where the defective fuel system design caused Pinto cars' explosions which led to the death and injury of several people. Although some managers at Ford knew the lack of safety issue, they chose not to recall the cars and amend the defective system, because the monetary costs of making the change were greater than the redress costs of the potential victims (Birsch & Fielder, 1994). This view is also in line with deterrence theory (Cole, 1989), which claims that the greater the certainty and severity of punishment for a specific wrongful event, the more firms are deterred from that event.

Numerous studies have used theories based on rational choice considerations to explain wrongdoing. On these grounds, many such studies considered financial pressure as a main motivation for the involvement in wrongful conduct (Baucus & Near, 1991; Finney & Lesieur, 1982; Mckendall & Wagner, 1997; Staw & Sz wajkowski, 1975, among others), suggesting that low performing firms would be more keen on enacting wrongful practices to achieve and exploit underpricing resources in order to improve their performance (Crane, 2013). However, more recent empirical studies on the conditioned relationship between performance and corporate wrongdoing have found a positive relationship, questioning earlier theoretical lenses (Harris & Bromiley, 2007; Mishina et al., 2010). In particular, Mishina and colleagues (2010), based their analysis on a sample of U.S. firms and drew on prospect theory, house money effect, and managerial hubris to maintain that high-performing firms are more likely to be involved in illegal behavior because they feel they have more to lose than to gain from a performance decrease, which make their decision makers more risk-taking. However, prospect theory interpretations of corporate wrongdoing have been subject to numerous critiques (see Bromiley, 2010, among others) because, being a theory of individual choice, it poorly serves to explain organizational behavior. In this paper, we advance this area of research by combining BTF with key constructs of institutional theory (DiMaggio & Powell, 1983; Kostova, Roth, & Dacin, 2008; Kostova & Zaheer, 1999; Meyer & Rowan, 1977), as elaborated below.

Hypotheses development

Firms' performance and HRCs. BTF aims at studying how firms behave and make decisions under uncertain situations (Cyert & March, 1963). The main assumption is that firms' decision processes go beyond the mere rational cost-benefit calculations as firms' decision makers are characterized by bounded rationality and do not follow a profit maximization logic, because their decisions are influenced by several factors related to firms and their peers activities and

characteristics (Todeva, 2007).

Research on performance feedback theory, which grew out of BTF, maintains that to overcome their bounded rationality and limited cognition, firms learn from their past performance (Greve, 1998). To establish whether a given performance can be considered a success or a failure, the absolute level of performance per se is not sufficient because it does not provide enough information about firm's results in a given year. Rather, performance is judged on the basis of a firm's own goals, which, in turn, depend on its aspirations, defined as "the smallest outcome that would be deemed satisfactory by the decision maker" (Schneider, 1992: 1987). Firms' aspiration levels can be set up either on the basis of their past performance (i.e. historical aspirations), or on the basis of their peers' performance (i.e. social aspirations) which is often observed by the performance level of the firms' own industry (Greve, 1998, among others). The latter is particularly relevant in very dynamic environments, characterized by high levels of uncertainty and frequent changes, whereas in such contexts, historical aspirations are less useful to evaluate firms' performance (Audia et al., 2015). Therefore, social aspirations assumes particular importance in the case of large firms and companies from emerging countries – the context of this research - whose governments are notorious to be susceptible to conflicts, coups, and internal tensions (Marquis & Raynard, 2015), which increase the uncertainty of such environments. On these grounds, our focus here is on social aspirations, and we consider firms' aspirations based on the average performance of their own industry.

Earlier research has pointed out that firms often evaluate themselves through their social aspirations for self-enhancement reasons, which refers to their desire to see themselves as winners, independently on their absolute performance (Sedikides & Strube, 1995). We maintain that self-enhancement is relevant to explain corporate wrongdoing. When firms' performance is above its peers' performance, this positively influences future aspirations because of the desire to continue being winners in the future (Washburn & Bromiley, 2012).

Accordingly, high performers will have strong incentives to make decisions that are most likely to keep up with their aspirations. We posit that this condition will engender risky rent-seeking decisions and will prompt ECFs to act wrongfully to keep up with their aspirations of being high performers. To this end, high performers may be lured into deception of regulators in order to have easier access to critical markets or natural resources, or incur in different types of labor rights violations such as child or slave labor to get production efficiency gains. Accordingly:

Hypothesis 1: Emerging country firms' performance relative to industry will be positively related to their involvement in human rights controversies.

The moderating role of home and host countries' rule of law. We posit that the direct relationship between ECFs' performance relative to industry and HRCs will be negatively moderated by the institutional pressures these firms are subject to at home, as well as in the foreign countries where they operate through their foreign direct investments (FDI). Insights from neo-institutional theory suggest that firms adjust to different types of institutional pressures (DiMaggio & Powell, 1983), in a bid to be seen as legitimate actors in their organizational field (Kostova, 1999; Kostova et al., 2008). Firms' operations are affected by their home countries' context and therefore they are subject to the rule of law of their home country, where their operations are based and originate. However, especially for firms that belong to countries with weaker institutions, international pressures coming from more demanding host countries and by more solid rule of law and judiciary systems are likely to act as an important deterrent for misconduct (Surroca et al., 2013). In contrast, in countries with weaker normative and regulative systems firms may be more likely to enact a wrongful conduct, because social and judicial or extra-judicial sanctions are likely to be limited (Crane, 2013).

We posit that the strength of the home as well as that of the host countries' rule of law in the case of internationalizing firms, will moderate negatively our baseline relationship. Essentially, stronger home or host countries' rule of law pressures will reduce the probability of incurring in HRCs as ECFs increase their performance levels relative to industry. For high performing firms, in fact, high likelihood of incurring in HRCs-related sanctions may conflict with their aspirations to perform better in the future, which means that they will refrain from doing harm when rule of law pressures are stronger. Accordingly:

Hypothesis 2: The positive relationship between emerging country firms' high performance relative to industry and their involvement in human rights controversies is negatively moderated by the rule of law pressures they are subject to at home and in the foreign countries where they invest.

The moderating role of CSR policy adoption. We next envisage that the adoption of CSR policies may negatively moderate our baseline relationship between ECFs' performance relative to industry and involvement in HRCs. The adoption of CSR policies is particularly relevant to ECFs to build and maintain external legitimacy (Fiaschi, Giuliani, & Nieri, 2015; Marano & Kostova, 2016). However, earlier research has suggested that CSR can be also a double-edge sword because it increases media and Non-Governmental Organizations (NGOs) scrutiny over firms' operations and especially it spurs monitoring of any wrongful business-related conduct (Ashforth & Gibbs, 1990; Morsing & Schultz, 2006). Hence, the more intensively firms engage in CSR policies, the more they are exposed to legitimacy losses in case of their being associated with HRCs (Fiaschi et al., 2017) and may thus suffer from the negative repercussions, in terms of e.g. reputational damages or consumers' dislike, attached to the symbolic adoption of CSR policies (Godfrey, 2005; Muller & Kraussl, 2011). We posit that, for high-performing ECFs that have intensively invested in CSR policies, these potential negative repercussions may interfere with managers' aspirations to maintain their high

performance relative to industry and may instill a more cautious HR conduct, deterring wrongdoings accordingly. Hence, we develop the following hypothesis:

Hypothesis 3: The positive relationship between emerging country firms' high performance relative to industry and their involvement in human rights controversies is negatively moderated by the intensity of CSR policy adoption.

The moderating role of State Ownership. Political connections and the presence of SOEs are undoubtedly prevalent in emerging markets (Marquis & Raynard, 2015). Kowalski, Buge, Sztajerowska, & Egeland (2013), for instance, suggests the shares of SOEs among the Forbes Global 2000 companies exceed 50% for China, India and Indonesia and are at 39% and 19% for Russia and Brazil, respectively. A growing research stream on political legitimacy highlights how SOEs possess strategic resources deriving from their connections to their home government that help them gain comparative advantages, which in turn enhance their performance and value (Hillman, 2005; Li & Zhang, 2010). More importantly, SOEs are deemed to “have legitimacy and receive support or even protection from the government agencies that have founded them” (Li & Zhang, 2010: 794), and these political connections increase information asymmetries so that stakeholders do generally have a more limited knowledge about their business activities (Hou & Moore, 2010), and the attention of regulatory scrutiny maybe deflected from dubious corporate conduct (Chen, Firth, Gao, & Rui, 2005; Stuart & Wang, 2016). Also, SOEs' home government may be likely to bail out firms' losses related to wrongdoing, reducing the negative consequences of that involvement, which also reflect in more timid markets reactions to SOEs' involvement in wrongdoing than for non-SOEs (Chen, Cumming, Hou, & Lee, 2016).

Because of all these reasons, we maintain that SOEs and non-SOEs may have a different attitude towards HRCs, and envisage that SOEs will display a higher probability,

than non-SOEs, of incurring in HRCs as they increase their performance levels relative to industry. In other words, SOEs' governmental support will favor risk-taking attitudes and increase their chances of being involved in HRCs to keep up with their high performing aspirations. Accordingly:

Hypothesis 4: The positive relationship between emerging country firms' high performance relative to industry and their involvement in human rights controversies is stronger for SOEs than for non-SOEs.

METHODOLOGY

Sample

Our sample comprises a total of 245 firms ranked by Forbes Global 2000 (2012 Edition) as the largest public companies from a wide set of emerging countries (namely, 29 from Brazil, 74 from China, 51 from India, 18 from Malaysia, 15 from Mexico, 25 from Russia, 19 from South Africa, 14 from Thailand). These countries have been selected not only because they are some of the largest and fastest growing emerging economies (Marquis & Raynard, 2015), but also because most of the biggest public companies originate from these countries (UNCTAD, 2014). The focus on large public firms is justified by their being powerful and internationally relevant actors, with a potentially very important impact on society and whose HRCs tend to be more easily reported by the press and NGOs, than those of smaller companies.

Our analysis covers the period 1992–2012, and relies on an unbalanced panel of 2955 firm-year observations. Robustness checks have been conducted also on the 1999–2012 cohort.

Variables

Dependent variable. Our dependent variable – *Human Rights Controversies (HRCs)* – is

a dummy variable that takes value one if firm i at time t is involved in at least one HRC, 0 otherwise. Information about our sample's firms involvement in HRCs is based on the Business and Human Rights Resource Centre (BHRRC), which is considered the world's leading independent information hub providing data on the positive and negative impacts exerted by corporations on human rights. BHRRC researchers collect news and reports relating to business and human rights from the web and other sources, on a day-to-day basis. News, reports, and events focusing on the relations between the activities of companies and human rights are examined, and subject to a minimum criterion of credibility (therefore excluding blind attacks on companies) are published on the BHRRC website. We used this information source to search for alleged human rights abuses connected to the firms in our sample. It resulted in over four thousand documents including news and reports providing evidence of "events" of negative human rights impacts.

Based on BHRRC information we identify events involving the firms in our sample, related to different types of HRCs. We codified the information on individual human rights violations into a dataset which includes for each separate event of HRC (hereafter "event") a brief description of the event, the year(s) in which the event took place, including for each event, the year in which the event is known to have started and the year in which it is considered to have ceased, and the year in which the event was first denounced or reported. For each event we downloaded the document(s) contain full news or reports of the violations(s).

Note that our data do not include events where the HRCs manifestly was unrelated to firm-level decision making or operations. Similarly, our dataset does not include cases of accidents related to an individual employee's lack of diligence, or to a natural disaster, unless there is evidence that the accident was due to e.g. the firm's lack of plant maintenance, or other forms of complicity in the wrongful event.

Once the information was codified in the dataset, a business and human rights expert

checked the events to ensure there were no errors or ambiguities in the events reported, and to check accurate coding of abuses. Data on human rights violations were collected for 1990–2014. However, due to an estimated time lag of two years from a reporting of an onset or ending of a particular human rights abuse, we limited our analysis to year 2012. Note that, since BHRRC information has, to the best of our knowledge, never been used by management scholars, who often recur to Environmental, Social and Governance (ESG) data providers (e.g. MSCI KLD, now MSCI ESG STATS; Sustainalytics; Thomson Reuters ESG scores, etc.) for similar analyses, we cross-checked our evidence with that provided by Sustainalytics via its ‘controversy reports’. We choose Sustainalytics because, compared to others ESG data providers, it is the first to track emerging country companies (since 2009). We found good convergence between our BHRRC records and Sustainalytics for the period 2009–2012.

Our dependent variable *HRCs* is consistent with earlier research (e.g., Baucus & Near, 1991; Shi et al., 2016) but, differently from them, we use a dynamic specification of our econometric model (see next section). Thus, the lagged dependent variable ($HRCs_{(t-1)}$) and the value of the dependent variable at the beginning of the period ($HRCs_{(t_0)}$) are also included in the analysis as independent variables in order to take into account the state dependence of *HRCs* and the associated endogeneity and initial conditions problems (see next section).³

Figure 1 depicts the number of HRCs reported in any year between 1992 and 2012. The growing trend observed is likely due to an increase over time of both media coverage and NGOs reports of HRCs. Thus, we include time dummies in the estimations.

³ Besides the fact that our research interest focuses on the probability of being involved in a HRC (rather its intensity), the choice to adopt a binary variable instead of the count of HRCs is also due to empirical issues concerning the distribution of the observed per year number of HRCs, which is highly skewed and characterized with a very high proportion of zeroes. Furthermore, about 60% of firms in our sample never experienced any HRCs during the reference period. Hence, the observed (dichotomous) status of a firm concerning its involvement (or not) in any HRC in a given year represents a relevant part of the data generating process leading to the final observed number of per year HRCs. Finally, as pointed out also by Mishina et al. (2010), using a dichotomous variable is a more conservative way to limit the issue of potential underreporting of the number of HRCs, since, it will affect only the incidence of Type I errors (in the case of binary dependent variable) by inflating the number of zeroes instead of affecting all the distribution of the number of abuses (in the case of count dependent variable) or all the intensity categories (in the case of ordered dependent variable).

Insert Figure 1 about here

Independent variables

Firms' performance. Following earlier research, we measure firms' performance using Return on Assets (ROA) (Harris & Bromiley, 2007; Mishina et al., 2010). According to our theoretical framework, our variable (ROA_m) is measured as the difference between firm's i ROA at time $t-1$ and average ROA of the industry firm i belong to, at time $t-1$. We retrieved these data from Datastream and we used Thomson Reuters Business Classification (TRBC) to match each firm with the relative relevant peer group.⁴ Moreover, in order to account for possible asymmetric effects of firm's performance on the likelihood to be involved in HRCs, we also consider the interaction term between ROA_m and a dummy variable ($dumROA_m$) that takes value 1 if the firm i ROA at time $t-1$ is above the industry average ROA in the same year ($ROA_m > 0$), 0 otherwise ($ROA_m < 0$).

Home and host countries rule of law. Our variable *Rule of law* measures the strength of the rule of law and the judiciary system in the home and host countries where our sample firms have internationalized via FDI. To measure firms' FDI, we use FDI Markets for data on greenfield and brownfield FDI, and Zephyr (Bureau van Dijk) and SDC Platinum (Thomson Reuters) databases for information on mergers and acquisitions (M&A).⁵ To construct the variable, we rely also on the Rule of Law Index of the Worldwide Governance Indicators developed by the World Bank (WGI_ROL).⁶ The variable *Rule of law* for firm i at time $t-1$ is defined as a weighted average of the home and host countries rule of law up to year $t-1$ according to the following formula:

⁴ See TRBC at <http://financial.thomsonreuters.com/content/dam/openweb/documents/pdf/financial/trbc-fact-sheet.pdf>

⁵ Since FDI Markets is available from 2003, our internationalization variables are based only on M&A deals retrieved from Zephyr and SDC Platinum until 2002.

⁶ See the Worldwide Governance Indicators at <http://info.worldbank.org/governance/wgi/index.aspx#doc>

$$Rule\ of\ Law_{it-1} = \frac{\sum_{t=1}^{T-1} \sum_{j=1}^J P_{jit} * WGI_ROL_{jt}}{\sum_{t=1}^{T-1} \sum_{j=1}^J P_{jit}} \quad i=1, \dots, I ; t=1, \dots, T-1$$

Where P_{ijt} is an indicator variable equal to 1 if firm i is present in country j at period t or when j is the firm's home country; WGI_ROL_{jt} is the value of WGI_ROL for each country j at period t ; $\sum_{t=1}^{T-1} \sum_{j=1}^J P_{jit}$ is the number of countries (including firms' home country) in which firm i is present up to time $t-1$.

Moreover, to be able to distinguish the rule of law pressures received by firms from their home country and the host countries, we interact the variable *Rule of Law* with a dummy variable (*dumInt*) that takes value 1 if firm i has internationalized (in the form of greenfield, brownfield, or M&A) up to time $t-1$, 0 otherwise.⁷

Adoption of CSR policies. To measure the intensity of firms' adoption of CSR policies, we consider five CSR initiatives:

- 1) *Social Policies* which refers to the firm's "socially responsible policies", including philanthropic initiatives, donations, and other activities that benefit different types of stakeholders. We retrieved this information via direct contacts with corporations and corporate websites.
- 2) *CSR Report* which refers to the firm's issuance of a CSR report, either as a separate report or as a section in its annual reports. We scrutinized the reports to avoid including reports that contained no information of value.
- 3) *GRI Report* is based on firms' participation in the Global Reporting Initiative, which represents an international standardized framework for non-financial reporting.⁸ In this case,

⁷ Due to the high proportion of 0s in the distribution of the number of countries where firms in our sample have internationalized over the period 1992-2012, we decided to codify this variable as a dummy.

⁸ See GRI at <https://www.globalreporting.org/Pages/default.aspx>

we collected information on the years that the firm produced an accountability report following GRI guidelines, from the initiative website and corporate websites.

4) *UNGC Membership* which relies on information about each firm's participation in the United Nations Global Compact (UNGC), which is a voluntarily initiative involving firms' commitment to align their operations and strategies with ten universally accepted principles focusing on human rights, labor rights, environmental sustainability and anti-corruption (Kell, 2005, 2013).⁹ We collected information on the years when a Communication of Progress was submitted to the UNGC, from its website.

5) *UNGC Contribution* is based on information on whether and when our sample firms contributed financially or not to the Foundation for the UNGC, without taking account of the amount of the contribution.¹⁰

For each of the above initiatives, we constructed a dummy variable which takes value 1 if firm i at time $t-1$ has undertaken the specific type of CSR initiatives, 0 otherwise. Based on these five CSR variables, we constructed a composite index (*CSR Index*), which reflects the intensity of the engagement of firms in CSR policies on a scale from 0 to 1, based on the number of initiatives undertaken by firm i at time $t-1$.

State ownership. *SOEs* is a dummy variable that takes value 1 at time t , if the firm is state-owned (fully or partially), 0 otherwise. We retrieved these data from Datastream and corporate website.

Interactions. To test hypotheses 2, 3 and 4, we use the interaction terms between *ROA_m* and (1) *Rule of Law*, (2) *CSR Index* and (3) *SOEs*.

⁹ See UNGC at <https://www.unglobalcompact.org/>

¹⁰ However, corporate support is generally miniscule, especially compared to the annual budgets of contributing firms (Sethi & Schepers, 2014). For a full description of the Foundation visit: <http://www.globalcompactfoundation.org/>.

Controls. We also include a set of control variables in the analysis, to account for factors that might explain firms' involvement in HRCs, based on earlier research on corporate wrongdoing. Among the firm-level controls, we include firm age (*Age*) measured as the log of the number of years since the foundation of firm *i* at time *t-1*, and firm size (*Size*) proxied by the log of the number of workers at time *t-1*. We control for firm's risk (*Risk*), measured on the basis of ROE volatility at time *t-1* (i.e. based on annual fluctuations in ROE around its trend value, calculated using non-parametric estimation). We rely on Datastream for these data.

Moreover, since the likelihood that the firm is associated with a HRC depends on the extent to which it is on the media and NGOs radar, we follow earlier research (Fiaschi, Giuliani, & Nieri, 2017; Marquis & Qian, 2014) and control for media exposure (*Media Exposure*) which proxies for the company's visibility in the global and local media. We use Lexis Nexis (News section) as the data source for this variable which is computed as the log of number of news items/articles mentioning firm *i* at time *t-1*.

We use industry dummies to control for industry-related specificities in connection with HRCs, since this kind of practices are more likely to manifest in some industries than in others (Crane, 2013). We create three groups of industry, based on the macro industry classification to distinguish between firms in the extractive, manufacturing and service industry. The reference group (*Extractive*) includes firms in the extractive industries (Oil, Gas and Mining), the second group (*Manufacturing*) includes Aerospace, Food and Beverages, Pulp and Paper, Chemicals and Pharmaceuticals, Heavy Industry, Automobile, Electronics, Cosmetics, Retail, Banking, and the third group (*Services*) includes Retail, Banking, Real Estate, TLC, Electricity and other Utilities.

We control also for country-specificities (country dummies, South Africa being our reference group) since each country has a different history and different regulation and

internal institutional arrangements which might result in different valuation of human rights and ethics (Matten & Moon, 2008).

Finally, since the number of reported HRCs may increase over time due to the expected increased availability of information on their occurrence, we include time dummies (*Time dummies*) in the analysis.

Estimation procedure

To test our hypotheses, we model the probability of firm i to be involved in at least one HRC in a given year t with a Dynamic Correlated Random Effects (DCRE) Probit model (Hyslop, 1999; Stewart, 2006; Wooldridge, 2005).¹¹ This model is particularly useful in our setting with a longitudinal data structure and a strong state dependence (see the transition matrix in Table 1) of the dependent variable, because it helps to distinguish between true state dependence (i.e., the time dependence due to the effects of previous HRCs on subsequent events) and spurious state dependence which is driven by the presence of time-invariant unobserved individual effects (unobserved heterogeneity).

Table 1 presents the transition matrix which cross-tabulates the values (with row percentages) of *HRCs* in $t-1$ vs. t , in order to check the degree of association (persistence) between the two binary outcomes. The transition matrix shows that there is a high state dependence in the probability to incur in HRCs along time, with 96.41% of firms with no HRCs in $t-1$ that still do not have such events at time t , whereas 84% of firms with at least one HRCs in $t-1$ that also incur in HRCs at time t .

Insert Table 1 about here

¹¹ The choice of adopting a random effect (RE) specification instead of a fixed effect (FE) one is driven by estimation issues (explained in this section) and by the results of a series of Hausman tests performed on different static panel logit and linear probability models (LPM) that all supported the choice of a RE specification (Wooldridge, 2005). Data submitted as supplementary files.

We use the following econometric specification:

$$\mathbf{HRCs}_{it}^* = \gamma \mathbf{HRCs}_{it-1} + \boldsymbol{\beta} \mathbf{X}_{it-1} + \alpha_i + \mathbf{u}_{it} \quad i \in \{1, 2, \dots, N\}, t \in \{1, 2, \dots, T_i\} \quad (1),$$

where $\mathbf{HRCs}_{it} = I(\mathbf{HRCs}_{it}^* > \mathbf{0})$ is the binary dependent variable, \mathbf{X}_{it-1} is the $(1 \times k)$ vector pre-determined independent and control variables (defined above) including the one-year lagged value of the dependent variable \mathbf{HRCs}_{it-1} ; $(\gamma, \boldsymbol{\beta})$ is the set of unknown parameters, α_i is an individual-specific time invariant term and $u_{it} \sim N(0, \sigma_u^2)$ is a random idiosyncratic disturbance term.

The estimation of model (1) is performed using maximum likelihood techniques that do not require any (within, between or first difference) transformation of the original variables and thus are not affected by the types of estimation bias (e.g., Nickell, 1981) usually arising with fixed-effects model estimations involving this kind of transformations. However, as widely recognized in the econometric literature (see e.g., Mundlak, 1978; Skrondal & Rabe-Hesketh, 2014; Wooldridge, 2005), maximum likelihood estimators applied in nonlinear panel data models can be inconsistent because of two kinds of endogeneity problem: the lack of independence of the initial response \mathbf{HRCs}_{i0} and the random intercept α_i (the so-called initial conditions problem) and lack of independence of the covariates \mathbf{X}_{it-1} and the random intercept α_i (the endogenous covariates problem). In order to take into account these endogeneity problems we follow the solution recommended by Skrondal & Rabe-Hesketh (2014) and adopt a compound conditioning model by allowing random intercept term α_i to be correlated with the initial value of the dependent variable \mathbf{HRCs}_{i0} (Aitkin & Alfò, 1998), the initial value of the independent variables \mathbf{X}_{i0} (Rabe-Hesketh & Skrondal, 2013) and the within-subject means of the independent variables $\bar{\mathbf{X}}_{it-1}$ (Mundlak, 1978; Wooldridge, 2005) up to year $t-1$. The final conditioning joint working model adopted for the random intercept is the following:

$$\alpha_i = \alpha_0 + \delta_{y_0} HRCs_{i0} + \delta_{X_0} X_{i0} + \delta_{\bar{X}_{t-1}} \bar{X}_{it-1} + \eta_i \quad (2),$$

where $\eta_i \sim N(0, \sigma_{\eta^2})$ is an individual-specific random error term.

RESULTS

Table 2 shows the descriptive statistics and Table 3 the correlation matrix. Given the high correlation among some of our variables, we checked for potential multicollinearity issues by computing, for each estimated model, the mean Variance Inflation Factor (VIF). As shown at the bottom line of Table 4, the VIF values are generally acceptable (i.e. below the adopted rule-of-thumb threshold of 10), thus indicating that multicollinearity is not a serious problem in our analysis.

Insert Table 2 about here

Insert Table 3 about here

Hypotheses tests

Table 4 shows the results of the estimated baseline model (1) without interactions. As a matter of comparison, column (1) reports the estimated parameters of the DCRE Probit model without any endogeneity correction, column (2) reports the estimated parameters when including only the initial value of the dependent variable $HRCs_{i0}$, column (3) reports the estimated parameters when adding also the initial values of the independent variables X_{i0} , and columns (4) and (5) report the estimated parameters and marginal effects when adding also the within-subject means of the independent variables \bar{X}_{it-1} .¹² We find a positive and statistically significant coefficient associated to ROA_m all the estimated baseline models, a result that provides support to Hypothesis 1.

¹² In particular, in X_{i0} and \bar{X}_{it-1} we included the set of the initial values and within-subject averages of the following time varying independent variables: *ROA_m*, *CSR Index*, *dumInt*, *Media Exposure* and *Risk*. The variables *Size* and *Rule of Law* were not included due to multicollinearity issues and because the latter variable is already expressed as a (weighted) a within-subject average.

Insert Table 4 about here

In order to further explore whether this effect has nonlinearities and if it is moderated by other independent variables (Hypotheses 2-4) we estimate a set of extended models with additional interaction terms. Table 5 reports the main results.

Since we are estimating a set of Probit models with several interaction terms, we cannot retrieve the magnitude of the estimated marginal effects nor the statistical significance of the moderating factors by simply looking at the estimated coefficients. Hence, following the guidelines by Zelner (2009), we simulate the magnitude and statistical significance of the marginal and moderating effects by computing predicted probabilities using delta methods (Tsai & Gill, 2013).

Insert Table 5 about here

Figure 2 shows the predictive probability of incurring in HRCs for different values of ROA_m based on the estimation results reported in Table 5 column (1), which allows for asymmetric effects for positive and negative values of ROA_m . The relationship between the performance above the reference industry (ROA_m) and the propensity to be involved in a HRC is still positive, providing support to Hypothesis 1. Moreover, this relationship is even steeper for large positive values of ROA_m .

Insert Figure 2 about here

Figure 3 shows the moderating effect of *Rule of Law*. The predicted probabilities are computed based on the estimation results reported in Table 5 column (2) for different levels of *Rule of Law*. The positive relation between ROA_m and the propensity to be involved in a HRC is stronger when *Rule of Law* is low and weaker when *Rule of Law* high, supporting our Hypothesis 2.

Insert Figure 3 about here

To further investigate the different moderating roles played by countries' rule of law at *home* and *abroad*, we distinguish between EFCs that have internationalized from those that have not. Figure 4 shows the moderating effect of *Rule of Law* when *dumInt* is taking value 0, thus focusing on the home country's rule of law pressure only. In this case, the difference between the two predicted probabilities is never statistically significant along all the values of *ROA_m* in the X-axis.

Insert Figure 4 about here

Figure 5 shows the moderating effect of *Rule of Law* in the host countries only. The positive relation between *ROA_m* and the propensity to be involved in a HRC is stronger when the host countries *Rule of Law* is low and weaker when host countries *Rule of Law* high. The difference between the predicted probability of incurring in HRCs for low values of host countries *Rule of Law* and for high values of host countries *Rule of Law*, tends to be larger and statistically significant for high values of *ROA_m*. Hence, we provide some support to Hypothesis 2, but limited to the internationalizing firms that are subject to host countries' rule of law.

Insert Figure 5 about here

Figure 6 shows the moderating effect of *CSR Index*, using the predicted probabilities computed based on the estimation results reported in Table 5 column (3) for different levels of *CSR Index*. The positive relation between *ROA_m* and the propensity to be involved in a HRC is steeper when *CSR Index* is low and flatter when *CSR Index* high, supporting our Hypothesis 3 of a negative moderating effect.

Insert Figure 6 about here

Figure 7 shows the moderating effect of *SOEs*. The predicted probabilities are computed on the basis of the estimation results reported in Table 5 column (4) for both SOEs

and non-SOEs. This positive relationship between ROA_m and the propensity to incur in a HRC is steeper for SOEs and flatter for non-SOEs (especially for large values of ROA_m), supporting our Hypothesis 4 of a positive moderating effect.

Insert Figure 7 about here

Among the control variables, the coefficient of *Media Exposure* is positive and significant in the models of columns (1) - (3) of Table 4, but becomes weaker and non-significant when using within-subject averages to correct the potential endogeneity bias. In our models, *Size*, *Age* and *Risk* are non-significant across all the models suggesting that these variables do not explain the involvement of high-performing ECFs in HRCs. Regarding countries' specificities, we found that Mexican firms are less likely to be involved in HRCs than South African firms (our reference group) but only in the model of column (3) in Table 4. Finally, we found that firms in *Manufacturing* and *Services* industries are less likely to be involved in HRCs than firms in the reference group of *Extractive* industry, which is in line with previous evidence and concerns on the serious and dangerous impact on society of extractive industries (Giuliani & Macchi, 2014).

Robustness checks

We performed two robustness checks. First, in order to test whether the rapid development of international trade relations from the early 2000s (e.g. the joining of China in the WTO) affected our results, we re-estimated the econometric model using only data from 1999 onwards. We also estimated the model without the Chinese firms because they represent 30% of the firm in our sample and they could be driving the results. In particular, since SOEs are very common in China, we checked that our estimations are not due only to the Chinese firms in our sample. In both cases, the results, which are available upon request in the interest of space, were consistent with our main findings.

DISCUSSION AND CONCLUSION

Discussion

This study delves into the factors that influence business-related HRCs for large public companies from emerging countries. Using a novel dataset of 245 firms from a set of emerging countries, we found that high performing ECFs relative to industry are more likely to be involved in HRCs. This relationship is mitigated by EFCs' host countries rule of law pressures and by their intensity of CSR policy adoption, while it is strengthened by State ownership.

Our main intended contribution is to the existing theoretical understandings of corporate wrongdoing, by also taking an IB outlook at this very important phenomenon. Our results are in line with recent research (e.g., Harris & Bromiley, 2007; Mishina et al., 2010) about there being a positive relationship between firms' performance and wrongdoing, which leads us to question the idea that large public companies are responsive to poor performance (Greve, 1998) when it comes to deciding about enacting a harmful conduct. We propose behavioural interpretations of wrongdoings: we consider our evidence of business-related HRCs as a normal phenomenon (Palmer, 2012), caused by boundedly rational managers and decision makers at the firm level, who follow their aspirations to carry on being "best in class", and thus decide to take more risks to keep up with their aspirations. But we also propose that decisions over a wrongful business conduct are influenced by a set of institutional factors, reflecting these actors' sensitivity to external demands or needs for legitimacy.

The context of our research, that of internationalizing ECFs, suits particularly well the purpose of our study, because it cannot not take for granted assumptions about working legal systems and well-functioning institutions, as these firms, besides originating from fairly institutionally weak countries, invest globally and therefore navigate across different and sometimes opaque and conflicting institutional contexts. Our work is therefore different from earlier research on wrongdoing focusing on one individual country - typically the U.S. - where

institutions are mostly taken for granted and their role is assumed rather than investigated (Harris & Bromiley, 2007; Krishnan & Kozhikode, 2015; Mishina et al., 2010; Shi et al., 2016; Strike et al., 2006). Our IB perspective is ideal to observe how international rule of law pressures influence firm decision makers' limited cognitions and shape their decisions to act wrongly. However, differently from earlier IB research we do not claim here that these decision makers are simply passive or unconscious actors of a complex system that they are not able to control (Strike, Gao, & Bansal, 2006). There is a behavioural pattern that we observe, which suggests that these actors do indeed have some control on decisions about wrongdoings, by adjusting their conduct on the perceived risks – in terms of fines, sanctions or reputational damages – that may come when infringing human rights (Surroca, Tribo, & Zahra, 2013). On more practical grounds this is good news, because it shows that solid rule of law or judiciary systems work to mitigate, although not to completely deter, the occurrence of business-related harmful impacts, also for companies that originate in countries with allegedly weak institutions. Hence, internationalization into countries with stronger judiciary systems may offer managers important learning opportunities in terms of human right management, which they can use even in less demanding contexts. With the growing relevance of soft law instruments on business and human rights, such as e.g. the UN Guiding Principles on Business and Human Rights or the new human rights chapter of the OECD Guidelines on Multinational Enterprises, managers will have to come to grips very soon with the need to enact a coherent human rights conduct as they operate internationally.

We think our study also contributes to research on the substantive vs. symbolic adoption of CSR policies (e.g., Maclean & Behnam, 2010; Marquis & Qian, 2014), which is interested in assessing whether CSR also serves to prevent companies from doing harm (Fiaschi et al., 2017). Our study provides evidence that as ECFs increase their performance relative to industry, their chances of being involved in HRCs grow, but are still lower for more intensive CSR adopters than for non-adopters. Earlier studies found that the more firms invest

in CSR policies, the more they are involved in wrongful conduct since they use the former to offset the latter (Janney & Gove, 2011; Kang, Germann, & Grewal, 2016; Kotchen & Moon, 2012; Muller & Kraussl, 2011). We offer a different and somewhat more optimistic perspective here, where CSR seems to be functioning as a firm-level voluntary institution, which is again good news. For a long time management scholars have tried to build a business case for CSR, supporting it on the grounds that it can help companies being more profitable or to creating value (Kurucz, Colbert, & Wheeler, 2008), while we concur with Margolis & Walsh (2003) that “before rushing off to find the missing link between a firm's social and financial performance, all in hopes of advancing the cause of social performance, we need to understand the conditions under which a corporation's efforts benefit society” (Margolis & Walsh, 2003: 297). Our study contributes to this latter quest by investigating the factors that make business-related harmful impacts more or less likely to occur. This is a very fundamental issue because if CSR is not effective for reducing human misery, it would not matter much if it is a profitable strategy or not.

Finally, our study contributes to research on the impact of political connection, i.e. being a SOE, on firms' behaviour (Chen et al., 2005; Hou & Moore, 2010; Stuart & Wang, 2016; Zhang, Marquis, & Qiao, 2016), and the benefit firms may have from such ties, in terms of access to resources or judicial decisions. Earlier studies on SOEs and non-SOEs, especially on emerging country, suggest that SOEs may benefit from their ties with the government in case of involvement in wrongful conduct since they are less monitored (Hou & Moore, 2010), and in case a SOE is discovered to be involved in wrongful events, the punishment for such violation is less severe and tends to be more delayed (or even avoided) (Chen et al., 2005). Our results provide support to this view, a result that we interpret in light of the fact that State-ownership mitigates HRC-related risks and sanctions, being SOEs more easily backed up – both financially and in terms of their legitimacy – by their home governments.

Limitations and future research

We would also note some limitations in our study that present opportunities for further research. First, our study is based on a restricted sample of large public companies from a set of emerging countries which are not representative of all firms in emerging countries. Hence, similarly to other studies, there are external validity issues that need consideration when interpreting our findings. Given the context of our research, in fact, we cannot rule out the possibility that smaller firms may enact wrongful conducts to escape their condition of underperformance (Merton, 1938). However, smaller firms' wrongdoing is seldom observed by NGOs or the press, because of their scarce economic relevance, and therefore analyses of that context would have required a different research design, and the collection of primary data. As a way forward, it would be interesting to investigate the link between firms' financial performance relative to a reference point and wrongdoing across categories of firms that are different in terms of their size, ownership (e.g. private vs. public) or country of origin by also considering differences between emerging and advanced country firms, among other dimensions.

Second, to measure HRCs we used information on alleged human rights violations, independently on whether they have been judged as such by a domestic court or not, since only a small minority of human rights violations result in lawsuits and receive a final judicial decision and there is wide cross-country variety in how human rights' treaties are incorporated into national legal systems. Moreover, the present work and other similar works (e.g., Fiaschi et al., 2017; Marquis & Qian, 2014; Surroca et al., 2013), relies on evidence of social conduct or misconduct being reported (by the press, NGOs, activists, governments, residents, etc.), so we may be underestimating our dependent variable. This concern is however mitigated by the fact that we are not interested in explaining the intensity of corporate wrongdoing *as such* but rather in assessing inter-firm differences in their likelihood of being involved in HRCs. In this context, a problem arises if we have a reason to believe that

some firms are observed more closely (and therefore their wrongful events receive more reporting attention) than others. To account for this, we controlled for media exposure, as in Marquis & Qian (2014). We nevertheless acknowledge that more research is needed to further refine existing measures of corporate wrongdoings for large global players.

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FIGURES

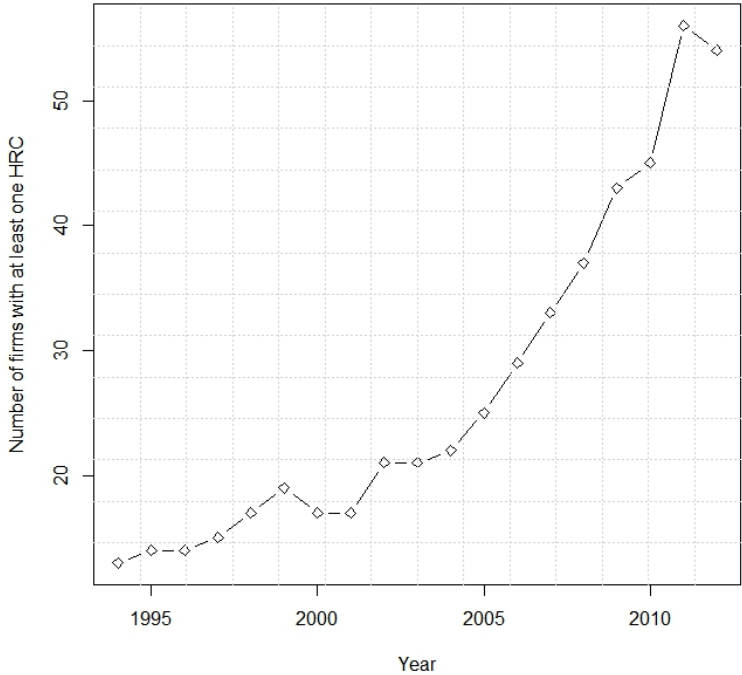


Figure 1. Number of firms with at least one HRC, by year.
Source: Authors' own elaboration based on BHRRC.

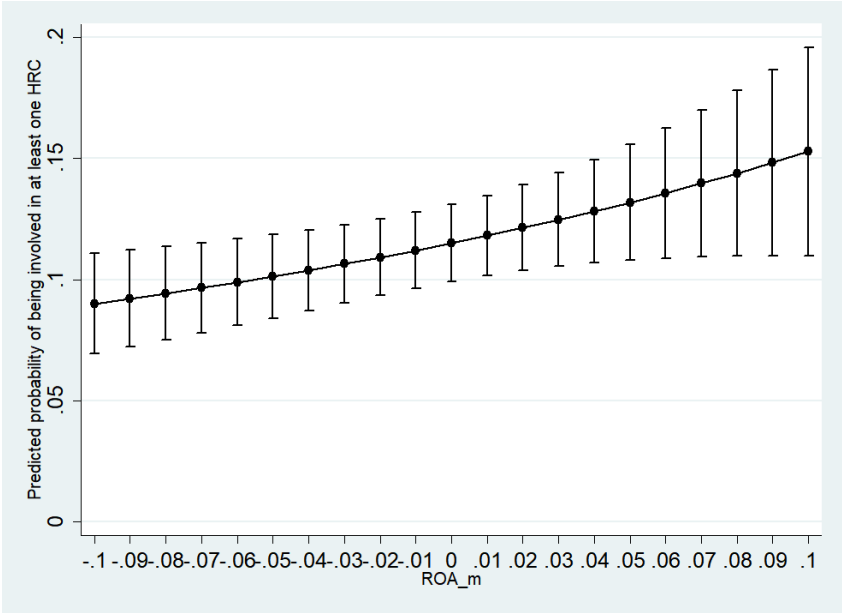


Figure 2. Predicted probability of being involved in HRCs for different values of ROA_m
Source: Authors' own elaboration based on Model 1 from Table 5 (with 95% of confident intervals).

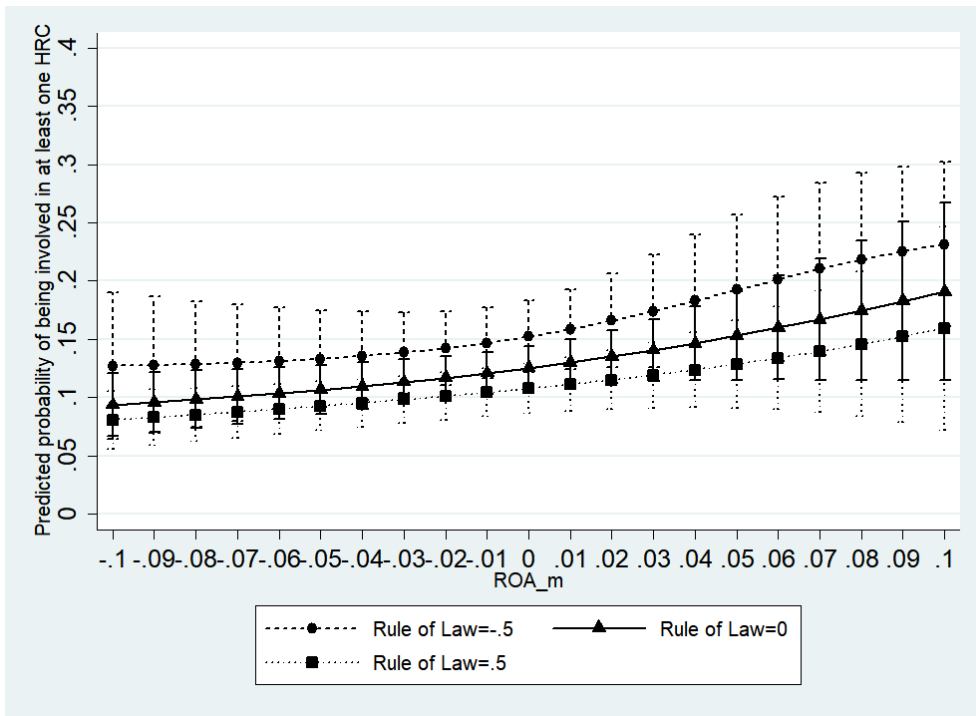


Figure 3. Moderating effects of home and host countries rule of law
Source: Authors' own elaboration based on Model 2 from Table 5 (with 95% of confident intervals).

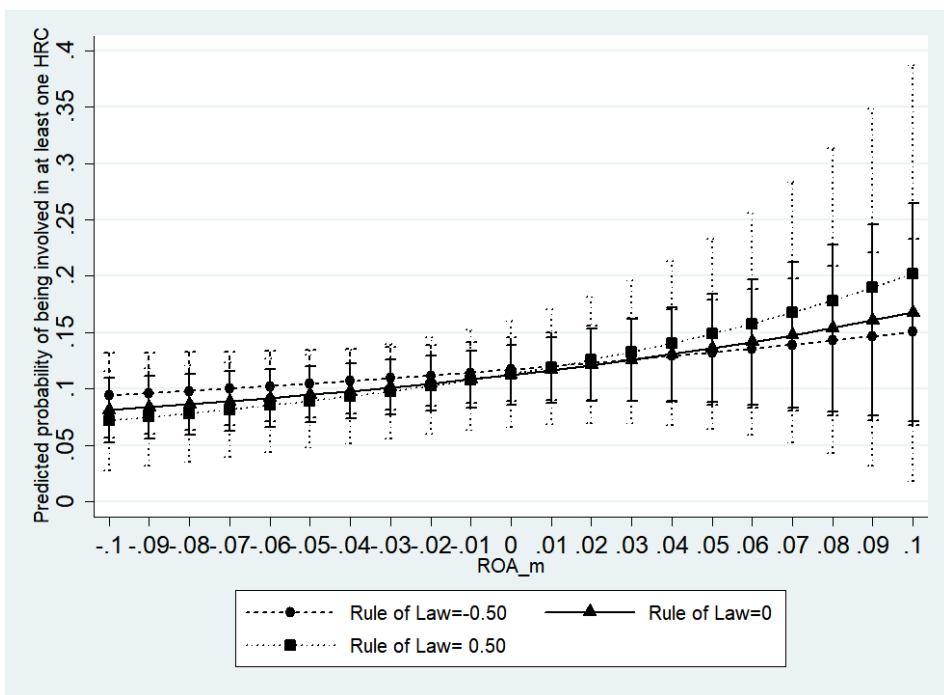


Figure 4. Moderating effects of home country rule of law
Source: Authors' own elaboration based on Model 2 from Table 5 (with 95% of confident intervals).

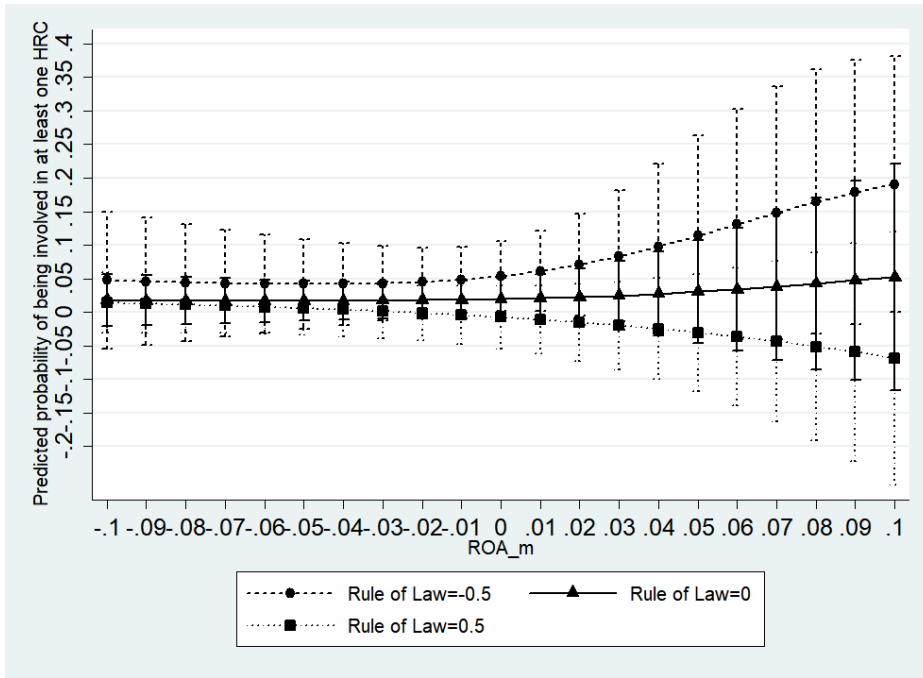


Figure 5. Moderating effects of host countries rule of law

Source: Authors' own elaboration based on Model 2 from Table 5 (with 95% of confident intervals).

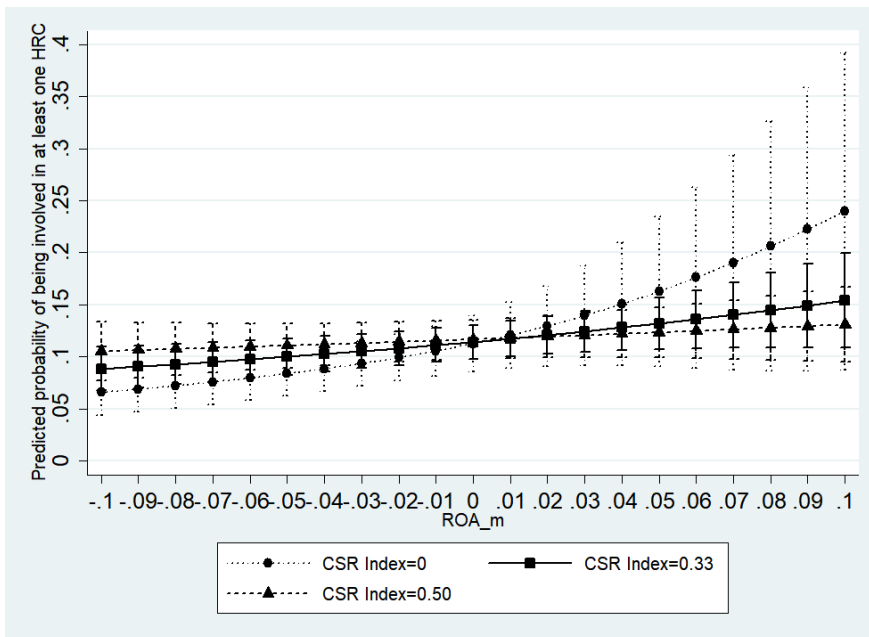


Figure 6. Moderating effects of the adoption of CSR policies

Source: Authors' own elaboration based on Model 3 from Table 5 (with 95% of confident intervals).

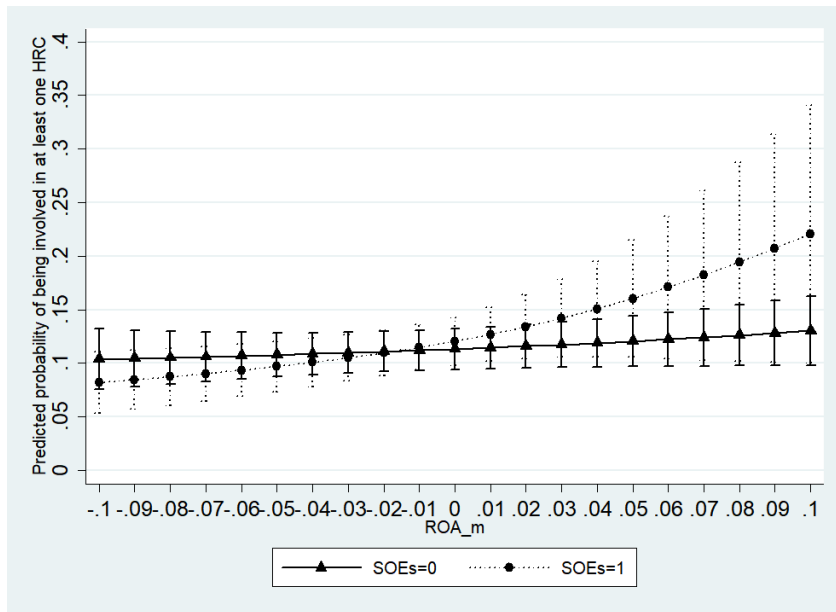


Figure 7. Moderating effects of State-ownership

Source: Authors' own elaboration based on Model 4 from Table 5 (with 95% of confident intervals).

TABLES

Table 1. Transition matrix

$HRC_{s,t-1}$	$HRC_{s,t}$		Total
	0	1	
0	2,474 96.41%	92 3.59%	2,566 100%
1	59 15.17%	330 84.83%	389 100%
Total	2,533 85.72%	422 14.28%	2,955 100%

Table 2. Descriptive Statistics

<i>Variables</i>	<i>Min</i>	<i>Max</i>	<i>Mean (Proportion)</i>	<i>Standard Deviation</i>
<i>HRCs</i>	0	1	0.14	0.35
<i>ROA_m</i>	-0.19	0.34	0.02	0.06
<i>Rule of Law</i>	-1.13	1.43	0.08	0.52
<i>CSR Index</i>	0	1	0.28	0.25
<i>SOEs</i>	0	1	0.41	0.49
<i>Media Exposure</i>	0	8.53	2.74	1.92
<i>Size</i>	-12.30	13.40	9.68	1.67
<i>dumInt</i>	0	1	0.48	0.50
<i>Risk</i>	0.00	1.38	0.10	0.19
<i>Age</i>	0.69	5.32	3.45	0.88
<i>Extractive</i>	0	1	0.15	0.35
<i>Manufacturing</i>	0	1	0.32	0.47
<i>Services</i>	0	1	0.54	0.50
<i>Brazil</i>	0	1	0.13	0.34
<i>China</i>	0	1	0.24	0.43
<i>India</i>	0	1	0.22	0.41
<i>Malaysia</i>	0	1	0.10	0.30
<i>Mexico</i>	0	1	0.07	0.26
<i>Russia</i>	0	1	0.08	0.27
<i>South Africa</i>	0	1	0.09	0.29
<i>Thailand</i>	0	1	0.06	0.24

Table 3. Correlation matrix

<i>Variables</i>	1	2	3	4	5	6	7	8
1 <i>ROA_m</i>	1							
2 <i>Rule of Law</i>	0.085	1						
3 <i>CSR Index</i>	0.030	0.121	1					
4 <i>SOEs</i>	-0.177	-0.166	-0.105	1				
5 <i>Media Exposure</i>	0.008	0.198	0.269	0.093	1			
6 <i>Size</i>	-0.091	0.001	0.214	0.106	0.325	1		
7 <i>dumInt</i>	0.033	0.476	0.303	-0.121	0.355	0.278	1	
8 <i>Risk</i>	-0.034	-0.047	-0.007	-0.079	0.039	-0.037	-0.084	1
9 <i>Age</i>	-0.011	0.241	0.171	-0.054	0.012	0.054	0.103	0.03

Table 4. DCRE Probit baseline model results

<i>Independent variables</i>	(1)	(2)	(3)	(4)	(5)
<i>HRCs_{t-1}</i>	2.05** (0.21)	1.85** (0.18)	1.82** (0.17)	1.71** (0.18)	0.12** (0.02)
<i>ROA_m</i>	2.32* (0.93)	1.79† (0.91)	2.37* (1.00)	3.24* (1.41)	0.23* (0.10)
<i>Rule of Law</i>	-0.30* (0.14)	-0.34* (0.14)	-0.35* (0.14)	-0.30† (0.16)	-0.02† (0.01)
<i>CSR Index</i>	0.19 (0.26)	0.21 (0.26)	0.30 (0.27)	0.28 (0.42)	0.02 (0.03)
<i>SOEs</i>	0.06 (0.15)	-0.05 (0.14)	-0.07 (0.14)	-0.12 (0.17)	-0.01 (0.01)
<i>Media Exposure</i>	0.16** (0.04)	0.13** (0.04)	0.12** (0.04)	0.11 (0.07)	0.01 (0.01)
<i>Size</i>	0.08 (0.05)	0.06 (0.05)	0.06 (0.05)	0.06 (0.05)	0.00 (0.00)
<i>dumInt</i>	0.03 (0.15)	0.04 (0.14)	0.04 (0.15)	0.09 (0.17)	0.01 (0.01)
<i>Risk</i>	-0.44 (0.35)	-0.49 (0.36)	-0.51 (0.38)	-0.77 (0.47)	-0.05 (0.03)
<i>Age</i>	0.12 (0.09)	0.11 (0.08)	0.11 (0.09)	0.10 (0.10)	0.01 (0.01)
<i>Manufacturing</i>	-0.36† (0.21)	-0.38† (0.20)	-0.40† (0.21)	-0.42† (0.24)	-0.03† (0.02)
<i>Services</i>	-1.01** (0.24)	-0.81** (0.19)	-0.82** (0.20)	-0.85** (0.23)	-0.06** (0.02)
<i>Brazil</i>	0.01 (0.30)	-0.02 (0.28)	-0.05 (0.30)	-0.21 (0.35)	-0.01 (0.02)
<i>Mexico</i>	-0.43 (0.36)	-0.55 (0.34)	-0.64† (0.38)	-0.60 (0.42)	-0.04 (0.03)
<i>China</i>	-0.18 (0.29)	-0.03 (0.27)	-0.04 (0.28)	-0.08 (0.32)	-0.01 (0.02)
<i>Malaysia</i>	-0.51 (0.37)	-0.27 (0.34)	-0.25 (0.35)	-0.46 (0.42)	-0.03 (0.03)
<i>Thailand</i>	-0.22 (0.39)	0.00 (0.35)	-0.01 (0.36)	-0.19 (0.43)	-0.01 (0.03)
<i>India</i>	-0.00 (0.27)	0.12 (0.25)	0.18 (0.26)	0.20 (0.30)	0.01 (0.02)
<i>Russia</i>	-0.40 (0.32)	-0.28 (0.30)	-0.29 (0.31)	-0.28 (0.35)	-0.02 (0.02)
<i>HRCs₀</i>		1.98** (0.37)	2.09** (0.39)	2.41** (0.45)	0.17** (0.03)
<i>X₀</i>			YES	YES	YES
<i>X̄_{t-1}</i>				YES	YES
<i>Constant</i>	-2.91** (0.62)	-2.70** (0.57)	-2.66** (0.58)	-3.03** (0.68)	
<i>Time dummies</i>	YES	YES	YES	YES	
<i>Mean Variance Inflation Factor (VIF)</i>	1.71	1.73	1.74	2.61	
<i>Number of observations</i>	2,955	2,955	2,796	2,796	

†p < 0.10; *p < 0.05; **p < 0.01

Table 5. DCRE Probit interaction model results

<i>Independent variables</i>	(1)	(2)	(3)	(4)
<i>HRC_{St-1}</i>	1.70** (0.19)	1.72** (0.20)	1.71** (0.19)	1.73** (0.19)
<i>ROA_m</i>	5.53 (3.77)	8.21 (7.75)	16.52* (7.34)	-1.80 (4.79)
<i>dumROA_m</i>	-0.26 (0.17)	-0.14 (0.34)	-0.78** (0.30)	0.03 (0.25)
<i>dumROA_m*ROA_m</i>	-1.37 (4.06)	-2.58 (8.09)	-9.38 (7.59)	6.09 (5.05)
<i>Rule of Law</i>	-0.30† (0.16)	-0.84 (0.75)	-0.30† (0.16)	-0.32* (0.16)
<i>dumInt</i>	0.10 (0.17)	0.27 (0.39)	0.09 (0.17)	0.10 (0.16)
<i>dumInt*ROA_m</i>		15.17* (7.43)		
<i>dumInt*dumROA_m</i>		0.16 (0.35)		
<i>dumInt*dumROA_m*ROA_m</i>		-13.87† (7.81)		
<i>dumInt*Rule of Law</i>		0.15 (0.83)		
<i>dumROA_m*Rule of Law</i>		1.30 (0.87)		
<i>dumInt*dumROA_m Rule of Law</i>		-0.20 (0.44)		
<i>ROA_m*Rule of Law</i>		5.10 (17.46)		
<i>dumInt*ROA_m*Rule of Law</i>		-23.76* (11.54)		
<i>dumROA_m*ROA_m*Rule of Law</i>		0.68 (18.89)		
<i>dumInt*dumROA_m*ROA_m*Rule of Law</i>		30.87** (11.88)		
<i>CSR Index</i>	0.32 (0.42)	0.38 (0.43)	-0.75 (0.74)	0.37 (0.42)
<i>dumROA_m*CSR Index</i>			1.61* (0.76)	
<i>ROA_m*CSR Index</i>			-31.72† (17.43)	
<i>dumROA_m*ROA_m*CSR Index</i>			22.71 (18.27)	
<i>SOEs</i>	-0.12 (0.18)	-0.19 (0.18)	-0.12 (0.18)	0.41 (0.31)
<i>dumROA_m*SOEs</i>				-0.52 (0.34)
<i>ROA_m*SOEs</i>				17.26* (7.67)
<i>dumROA_m*ROA_m*SOEs</i>				-18.56* (8.41)
<i>Media Exposure</i>	0.11 (0.07)	0.11 (0.07)	0.12 (0.07)	0.12† (0.07)
<i>Size</i>	0.06 (0.05)	0.04 (0.05)	0.07 (0.06)	0.06 (0.05)
<i>Risk</i>	-0.82† (0.48)	-0.84† (0.49)	-0.88† (0.50)	-0.88† (0.48)
<i>Age</i>	0.10	0.12	0.09	0.09

	(0.10)	(0.10)	(0.10)	(0.10)
<i>Manufacturing</i>	-0.40	-0.45†	-0.43†	-0.41†
	(0.24)	(0.24)	(0.24)	(0.23)
<i>Services</i>	-0.84**	-0.88**	-0.88**	-0.86**
	(0.23)	(0.24)	(0.24)	(0.23)
<i>Brazil</i>	-0.25	-0.14	-0.17	-0.26
	(0.36)	(0.36)	(0.36)	(0.35)
<i>Mexico</i>	-0.64	-0.54	-0.56	-0.63
	(0.43)	(0.43)	(0.44)	(0.42)
<i>China</i>	-0.12	0.08	-0.08	-0.12
	(0.33)	(0.33)	(0.33)	(0.32)
<i>Malaysia</i>	-0.48	-0.38	-0.41	-0.44
	(0.42)	(0.42)	(0.42)	(0.41)
<i>Thailand</i>	-0.21	-0.19	-0.14	-0.18
	(0.44)	(0.44)	(0.45)	(0.43)
<i>India</i>	0.17	0.21	0.25	0.18
	(0.31)	(0.31)	(0.31)	(0.30)
<i>Russia</i>	-0.31	-0.18	-0.29	-0.31
	(0.36)	(0.37)	(0.36)	(0.35)
<i>HRC_{s0}</i>	2.47**	2.55**	2.49**	2.45**
	(0.46)	(0.47)	(0.46)	(0.45)
<i>X₀</i>	YES	YES	YES	YES
<i>X̄_{t-1}</i>	YES	YES	YES	YES
<i>Constant</i>	-2.86**	-2.98**	-2.65**	-3.05**
	(0.71)	(0.75)	(0.73)	(0.70)
<i>Time dummies</i>	YES	YES	YES	YES
<i>Mean Variance Inflation Factor (VIF)</i>	3.14	11.91	5.67	4.10
<i>Number of observations</i>	2,796	2,796	2,796	2,796

†p < 0.10; *p < 0.05; **p < 0.01