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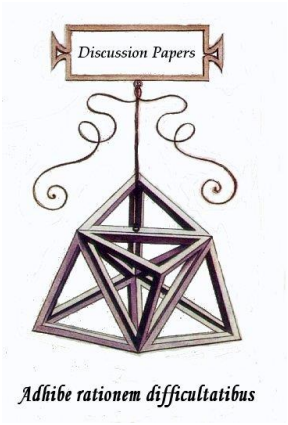

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BEST IN CLASS BUT BIG WRONGDOERS: Exploring the financial performance and human rights infringements nexus in large emerging country companies

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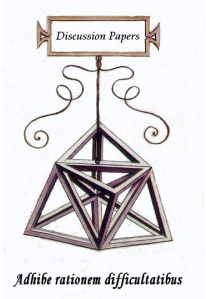

Elisa Giuliani, Federica Nieri, Andrea Vezzulli

BEST IN CLASS BUT BIG WRONGDOERS: Exploring the financial performance and human rights infringements nexus in large emerging country companies

Abstract

Traditionally, financial distress and lack of access to opportunities have been seen as among the most important determinants of corporate wrongdoing. Applying performance feedback theory to the context of emerging country companies (ECCs), we seek to show that the biggest wrongdoers are 'best in class' companies with better performance than that of their industry peers. Using an original dataset, we examine the involvement in business-related human rights controversies (HRCs) for a sample of 245 large public companies from Brazil, China, India, Malaysia, Mexico, Russia, South Africa, and Thailand during the period 1992-2012. We find ECCs with good financial performance (relative to their industry peers) are more likely to be involved in HRCs but that this probability is attenuated if these companies invest in host countries characterized by strong regulatory enforcement which demonstrates the importance of internationalization for reducing wrongful business conduct. We find evidence also that firm self-regulatory policies (i.e. adoption of corporate social responsibility policies) work to mitigate the probability of high performers violating human rights in the conduct of their business. We discuss the contribution to research on the antecedents to corporate wrongdoing, and for performance feedback theory.

Keywords: Performance feedback theory; Human rights controversies (HRCs); Corporate wrongdoing; Emerging country companies (ECCs); Regulatory enforcement; Corporate social responsibility (CSR).

JEL: F23, M14, K40, C23

INTRODUCTION

The International Labor Organization (I.L.O.) estimates that in 2016 a total of 152 million children were involved globally in child labor, while the private economy accounts for some 16 million victims of forced labor (I.L.O., 2017) working often in the lowest levels of the global supply chains orchestrated by leading industry players. A recent EU-funded project (EjAtlas) reported over 2,000 environmental conflicts worldwide over exposure of local communities to toxic emissions from manufacturing or extractive industries, reduction in their health and livelihood conditions, and in some cases life-threatening irreversible damage. There are some alarming statistics related to so-called 'Chinese cancer villages' (Liu, 2010) – in 2009, 459 villages across 29 of the 31 provincial units – providing evidence of abnormal rates of cancer due to toxic emissions from nearby industrial sites. Although perhaps partial and imperfect, these macroscopic data are an indication of the frequent involvement of the business sector in human rights controversies (HRCs) over disruption to or disregard of one or more of its stakeholders universal human rights.[1] These data provide prima facie evidence that business-related HRCs are a significant global phenomenon and not rare isolated events (Earle, Spicer, & Sabirianova Peter, 2010; Palmer, 2012).

Evidence of business-related infringements of human rights has been growing as is the attention being paid to it by analysts and the general public. Its eradication has been at the top of the agendas of international organizations such as certain United Nations (U.N.) agencies and the Organisation for Economic Co-operation and Development (O.E.C.D.), for some time (Moran, 2009; O.E.C.D., 2011; Ruggie, 2008; United Nations, 2003) demonstrating the salience of this largely unresolved and contentious issue. Against this background we still have a poor understanding of the circumstances surrounding companies' involvement in HRCs which in turn,

[1] We understand HRCs to refer to companies that violate a human right defined by the 1948 Universal Declaration of Human Rights and subsequent treaties. Human rights are inalienable fundamental rights to which a person is inherently entitled by virtue of their status as a human being (Ruggie, 2008). The notion of universal human rights gained political traction in the business sector especially after the launch of the U.N. Guiding Principles of Business and Human Rights in 2011. Our definition of corporate wrongdoing as companies' involvement in HRCs is justified by the international scope of our empirical context which calls for a universal framework that surmounts differences in national legal and cultural systems (see also Donaldson, 1996; Wettstein, 2009).

reduce the awareness of current and future managers and business leaders to the problem. This contributes to slowing the search for a solution in the business sector.

The present study focuses on the antecedents to corporate wrongdoing that lead to human rights infringements and controversies[2] in an attempt to redirect debate on the principal causes of wrongdoing. Previous studies of corporate wrongdoing and related constructs were inspired mostly by rational choice theory (e.g. Becker, 1968; Baucus & Near, 1991), or strain theory which was developed initially to explain the 'socio-cultural sources of deviant behaviour' (Merton, 1938: 627) and criminality. These accounts led scholars of organizational wrongdoing to mainstream the idea that firms and individuals situated in milieux where resources are scarce, are more likely to engage in wrongdoing (see Palmer, 2012 for a review), and many studies see financial pressure as triggering wrongful conducts (e.g. Agnew et al., 2009; Clinard & Yeager, 1980; Simpson, 1986; Staw & Szwajkowski, 1975). This suggests that poorly performing firms will be more likely to engage in wrongful practices to achieve and exploit underpriced resources and thus improve their performance (Crane, 2013). More recently, based on the idea that individuals or decision makers are cognitively bounded rather than being fully rational maximizers (Simon, 1955), behavioral theory have been employed to explain wrongdoing, and especially human beings' psychological processes in this context (Smith-Crowe & Zhang, 2016). However, despite fundamental differences in assumptions about human cognition in rational choice and behavioral approaches, standard applications of behavioral theory also suggest that it is poorly performing individuals and companies (i.e. those whose performance is below their aspirations) that are more likely to engage in risky and wrongful behaviors to avoid underperformance (Harris & Bromiley, 2007; Xu, Zhou, & Du, 2018).

We draw on performance feedback theory (Gavetti, Greve, Levinthal, & Ocasio, 2012; Greve, 1998, 2003; Greve & Gaba, 2017) which builds on behavioral theory of the firm, and argue

[2] We use the term HRCs to describe reported instances of business-related HRCs. Since observation of unreported and undenounced controversies is impossible, we understand HRCs and human rights infringements as meaning the same thing.

that it is high performing rather than low performing companies that are more likely to be involved in wrongful conduct leading to HRCs. Empirically, we chose to focus on large and public emerging country companies (ECCs) since their context is likely to modify some of the conditions taken for granted by many scholars investigating wrongdoing in the U.S. or other advanced countries (Palmer, Greenwood, & Smith-Crowe, 2016). ECCs have their headquarters in countries with institutional weaknesses, and often carry the burden of their home countries' alleged corrupt or ill functioning business systems. They are stigmatized internationally based on their origins, described as suffering liability of origin (Ramachandran & Pant, 2010). We suggest that ECCs generally suffer from country of origin liability which dogs their attempts to become global market players. We argue that this changes some of the behavioral assumptions in explanations of corporate wrongdoing, namely by deflecting high performers' perception of being 'best in class' because of their stigmatized origins. It is thus expected that high performing ECCs accept the potential risks related to infringements of human rights (i.e. judiciary sanctions, reputational damages) and continue with their bad behavior in order to meet their aspirations to be high performers in the future.[3] In contrast, we expect low performing firms to be more risk averse and aspire merely to achieving survival. We investigate also, how external regulation and self-regulation (e.g. the adoption of corporate social responsibility (CSR) policies) interfere with high/low performing ECCs' propensity to take risks and enact wrongful conduct leading to HRCs.

Our study is based on an original dataset including 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 ed.) as the largest public firms in their respective home

[3] Similar to Harris and Bromiley (2007), we maintain that companies' involvement in human rights infringements can occur if managers or other relevant firm decision makers see such infringements as beneficial. The international law and related literatures (e.g. Anderson, 2000; De Schutter, 2010; Massarani, Drakos, & Pajkowska, 2007; Ramasastry, 2002) report widely on how infringements of human rights can be beneficial: first, they may lower the costs of manufacturing and other processing or business operations, e.g. by paying below the minimum wage, or not investing in prevention of toxic emissions - both practices that can be harmful to human health. Second, by forming business relationships with illicit third party actors to obtain access to natural resources critical to their business, e.g. gaining access to coltan, a metallic ore that is essential to most electronics and automotive industries, and frequently is mediated by armed rebel groups or criminals who enslave local people including children, to work at extraction sites. These infringements of human rights imply that companies accept the risk accompanying involvement in HRCs (i.e. judiciary sanctions, reputational damage).

countries, covered from 1992 to 2012. We estimate a dynamic correlated random effect probit model, and find that ECCs that are the 'best in class' (i.e. performance higher than their industry average) are more likely than low performing ECCs to be involved in HRCs. However, we find that this effect is weaker if the relevant firms are subject to higher perceived international regulatory pressures in the countries hosting their investments, and when they have more intensively adopted CSR policies.

This study makes two contributions. First, it extends research on the causes of corporate wrongdoing (Greve, Palmer, & Pozner, 2010) by helping to overturn traditional thinking that wrongdoing is associated predominantly to contexts of resource scarcity. Our empirical results are in line with some previous work (Mishina, Dykes, Block, & Pollock, 2010), while we contribute theoretically by noting how contextual factors such as companies' liability of origin can change firms' decision making about risking the enactment of wrongful conduct, and exploring how their decision making processes are modified by international regulatory pressure and companies' self-regulation policies. These theoretical contributions are important for establishing that corporate wrongdoing is a phenomenon that concerns the best resourced firms and not underprivileged and resource scarce individuals or companies (Palmer, 2012). This finding has important implications for both policy and practice. Second, we contribute to performance feedback theory. While some recent scholarly works modify some of the rationales for search, change, and risk taking, and contribute conceptually to our understanding of the factors that can deter risk taking by low performing firms (Jordan & Audia, 2012), we offer a context-informed interpretation of why and under what conditions high performing firms may be more likely to take such risks. This is an important contribution as the power and global economic significance of ECCs increase, making existing theories less appropriate for predicting their strategic choices and business conduct. In addition to suffering country of origin liability, high performing companies may suffer from a wider set of disadvantages which can increase their propensity to take risk despite being high performers, and which need to be considered in future developments of performance feedback theory.

The paper is organized as follows. First, we provide an overview of existing work and gaps in the literature on corporate wrongdoing. We then develop our theoretical framework for (1) the effect of ECCs' performance on the likelihood of involvement in wrongful conduct leading to HRCs, and (2) the moderating role of home and host country regulatory enforcement, and intensity of CSR policy adoption. We test our hypotheses and provide a discussion of our results. The paper concludes with a discussion of the contributions to theory and practice, and some implications for future research.

THEORY AND HYPOTHESES

Background literature and gaps

For some years, researchers in several disciplines have studied firms' involvement in wrongful business conduct; however, a comprehensive theory has yet to emerge, and numerous research questions remain about the causes and consequences of this phenomenon (Greve et al., 2010).

While scholarship is moving progressively from rational choice accounts of organizational wrongdoing in favor of behavioral approaches, most of this work draws either on individual choice theory or individual decision making, rather than on organizational behavior (Bromiley, 2010; Greve et al., 2010). It has been suggested that firm-level behavioral theory (Cyert & March, 1963; March & Simon, 1958) may be more appropriate to investigate corporate level wrongdoing. Harris and Bromiley (2007) in a study of U.S. firms' involvement in financial misrepresentation were among the first scholars to adopt the behavioral theory of the firm to explain misconduct. Their intuition was that '[w]hile firms with performance close to their reference points may hope to achieve aspirations via legitimate means, firms performing far below their aspirations may find few perceived legitimate solutions. Thus, the distance a firm performs below its reference points increases the likelihood of misrepresentation' (Harris & Bromiley, 2007: 353). In the context of behavioral theory, they promoted the idea that wrongdoing can be considered a form of change to solve the problem of underperformance which contrasted with most earlier research focused on more legitimate forms of change. Nevertheless, adoption of behavioral research and related

theoretical advancements to explain the origins of corporate wrongdoing are scarce (beyond Harris & Bromiley, 2007; see also Krishnan & Kozhikode, 2015; Mishina et al., 2010; Xu et al., 2018), as is current understanding about the mechanisms linking performance to wrongdoing.

The present study contributes to this incipient and ongoing conversation. Our focus on ECCs forces a rethinking of some behavioral assumptions used to explain corporate wrongdoing, and especially among high performing firms, and allows deeper examination of the mechanisms linking high performance to wrongdoing that leads to HRCs.

Hypotheses development

Firms' performance and human rights controversies. The idea that firms have their own aspirations namely 'the smallest outcome that would be deemed satisfactory by the decision maker' (Schneider, 1992: 1987), and that their performance relative to their aspirations affects how the firms behave and make decisions is widely accepted in management and organizational studies (Argote & Greve, 2007; Gavetti et al., 2012; Greve, 1998, 2003, 2008; Washburn & Bromiley, 2012, among others). Research on performance feedback theory maintains that to overcome their bounded rationality and limited cognition, decision makers learn from the performance outcomes of their organization (e.g., Gavetti et al., 2012; Greve, 1998). To establish whether a given performance can be considered success or failure requires more than information on the absolute level of performance which does not provide enough information about expected results. Instead, performance should be judged against the firm's goals which are related to its aspirations. Firms may formulate their aspirations on the basis of peers' performance (i.e. social aspirations) based in turn, on observation of the average performance of firms in the industry (Greve, 1998, among others). We follow the approach used in earlier research and suggest that in dynamic environments characterized by high levels of uncertainty and frequent change typical of emerging countries, comparison with industry peers would seem to provide a stronger motivation for change rather comparison with own past performance (Audia, Brion, & Greve, 2015). Previous work highlights

that firms may evaluate themselves based on their social aspirations to achieve self-enhancement i.e. to see themselves as winners regardless of actual performance (Sedikides & Strube, 1995).

We suggest that ECCs' country-of-origin liability might alter some of the behavioral assumptions in explanations of corporate wrongdoing by deflecting high performing firms' perceptions of being 'best in class'. Liability of origin reinforces these companies' self-enhancement motives and increases the likelihood that they will over-estimate the potential gains from wrongful conduct and also will accept the potential risks inherent in human rights infringements in order to maintain their aspiration to be high performers in the future. Thus, high performers may be tempted to deceive the regulators to gain easier access to critical resources, or engage in various labor rights violations such as child or slave labor to achieve production efficiency gains. Additionally, high performing ECCs may be less concerned about the potential losses associated to their involvement in human rights infringements because of the opportunity eventually, to use slack resources to cover those costs.

In contrast, we expect that low performance relative to aspirations will promote risk-averse strategies oriented towards survival rather than success. Low performing ECCs may prefer to pursue other goals related not to higher profits but rather to, for instance, recognition as reliable and legitimate players nationally and/or internationally. This suggests that they will be less inclined to risk involvement in HRCs since this would endanger their survival strategy, and their attempts to pursue other goals. Accordingly:

Hypothesis 1: Emerging country companies' performance relative to the industry average will be positively related to their probability of enacting wrongful conduct reflected by involvement in human rights controversies.

The moderating role of home and host countries' regulatory enforcement. The literature shows that the extent of regulatory enforcement is a key determinant of corporate behavior (Aguilera et al., 2018, among many others), and that firms are subject to regulatory pressures in both the home and (in the case of internationalizing firms) foreign countries especially if their

ventures take the form of foreign direct investments (FDI) (Kostova, Roth, & Dacin, 2008). What is less clear is whether and how regulatory enforcement curbs the propensity for high performing ECCs to take HRCs-related risks to keep up with their social aspirations.

The extent of the regulatory pressures to which a firm is subject at home and/or in a host country is expected to modify the level of risk related to wrongful conduct. Stronger regulatory pressure can imply higher risk because wrongful conduct is more likely to be detected and punished by the relevant regulatory and police agencies, and publicized in the press and by info-mediaries causing reputational damage. The reverse will apply if operations are predominantly in low regulatory enforcement contexts (Surroca, Tribo, & Zahra, 2013).

We suggest that the strength of the regulatory enforcement of the home and host countries (in the case of internationalized firms) will moderate our baseline relationship negatively. The logic is that if regulatory sanctions are more likely, the higher will be the risks from wrongful conduct, and the greater the conflict with the firm's aspirations to better future performance. This is especially true for high performing, risk taking firms with aspirations to continue to be leaders, since they may be subject to higher levels of scrutiny and monitoring from public authorities in countries with strong regulatory pressures because of their market leadership position, or may face higher expected pecuniary costs in case of sanctions (e.g. by 'freezing' the company's revenues and assets). Note that while regulatory pressures at home and abroad may be perceived differently (the firm may perceive that local regulation which is geographically closer will have a more direct effect, or on the contrary it may be easier to evade), we do not predict a different home vs. host country effect, and thus, consider both as equal. Accordingly:

> *Hypothesis 2: The positive relationship between emerging country firms' high performance relative to the industry and their likelihood of enacting wrongful conduct reflected by involvement in human rights controversies is moderated negatively by the regulatory pressure in the home and foreign countries (in the case of internationalizing firms).*

The moderating role of CSR policy adoption. Having posited that external regulatory pressures moderate the relationship between ECCs' performance and involvement in HRCs, we now consider the effect of companies' self-regulation, reflected by the extent of their adoption of a range of CSR policies. This focus on CSR policies is related to skepticism about the ability of social-control agents i.e. the state and government, to ensure the rule of law, and therefore, to deter corporate wrongdoing, because of the well-known country differences in regulatory capacity (Bernaz, 2016; Kobrin, 2009). For this reason, voluntary and self-regulatory firm-level initiatives have become more pervasive in management practice (Campbell, 2007; Jackson & Apostolakou, 2010; Kolk, 2016; Matten & Moon, 2008, among others). They now range from traditional pro-social policies (e.g. donations and philanthropic initiatives to explicitly support disadvantaged communities or contexts), to policies in line with the U.N. Global Compact and other similar initiatives to ensure that companies endorse certain universal principles of conduct, to accountability initiatives that allow for more transparency and disclosure on a wide range of human rights related issues (e.g. CSR reporting, Global Reporting Initiative standards, etc.) (see Gilbert, Rasche, & Waddock, 2011). However, the extent to which these CSR policies prevent business-related harm is unclear; the empirical evidence is limited and generally inconclusive (Kang, Germann, & Grewal, 2016).

We posit that the degree of adoption of CSR policies by the ECCs will negatively moderate the relationship between its performance and its involvement in HRCs. Prior research suggests that ECCs adopt CSR policies to increase their legitimacy especially when they face international audience (Fiaschi, Giuliani, & Nieri, 2015; Marano, Tashman, & Kostova, 2017). Therefore, they will probably fear participation in activities that would de-legitimize their operations, and threaten their financial viability, and ultimately, their performance (Fiaschi, Giuliani, & Nieri, 2017). It is also well known that CSR adoption can have seemingly contradictory effects; it enables greater monitoring and critique, and increases the risk of damage, judiciary and reputational damage in the case of reported wrongdoing (Ashforth & Gibbs, 1990; Morsing & Schultz, 2006). Therefore, we

expect adoption of CSR policies to influence high performing ECCs in relation to their aspirations of being high performers. We argue that adherence to comprehensive CSR policies will reduce the level of HRCs-related risks the high performing companies will find acceptable in the context of their aspirations. Accordingly:

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

METHODOLOGY

Sample

Our sampling frame covers a total of 245 firms ranked by Forbes Global 2000 (2012 ed.) as the largest public companies in a group of emerging countries (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 were selected on the basis of their being amongst the largest and fastest growing emerging economies (Marquis & Raynard, 2015), with the biggest public companies (UNCTAD, 2014). We consider large public firms given their power and international status, and their potentially significant impact on society and higher likelihood (compared to smaller companies) of HRCs being reported extensively in the press and by Non-Governmental Organizations (NGOs). For the firms in our sample we collected the data from 1992 to 2012, obtaining an unbalanced panel of 2955 firm-year observations.

Variables

Dependent variable. Our dependent variable – *Human Rights Controversies*– is a dummy variable that takes the value 1 if firm *i* at time *t* is involved in at least one HRC, and 0 otherwise. Information on the sample firms' involvement in business-related HRCs comes from the Business and Human Rights Resource Centre which has been used extensively by international law scholars (Bernaz, 2016; Ruggie, 2013; van den Herik & Letnar Cernic, 2010, among others), being the main

independent source of information about the impact of business operations on the universally defined human rights. Business and Human Rights Resource Centre researchers collect daily business and human rights news and reports from web and other sources, and publish on the website any news or report with a focus on the impact of companies on human rights, verifying a minimum credibility criterion in order to exclude blind attacks on companies. For each firm in our sample, we analyzed the documents providing evidence of occurrences of negative human rights impacts. In particular, we downloaded and scrutinized more than four thousand documents, and we identified the HRCs involving the firms in our sample. We codified the information on HRCs to produce a dataset that for each separate HRC event (hereafter 'event') included a description, the year(s) in which it occurred (specifying the year in which it is known to have started, ceased, and the year in which it was first reported or denounced). Note that we exclude from the codification all the events that were not related to firms' operations or potential economics gains.

After we created the dataset, a business and human rights expert verified that our coding of controversies was accurate. Although we collected data on HRCs or the period 1990–2014, we decided to limit the analysis to 2012 given an estimated two-year time lag in reporting of the HRC since when it has occurred.

Moreover, since to the best of our knowledge Business and Human Rights Resource Centre information has not been used by management scholars who seem to prefer environmental, social and governance (ESG) data providers (e.g. MSCI ESG STATS – formerly MSCI KLD; Sustainalytics; Thomson Reuters ESG scores, etc.) for their analyses, we cross-checked our data against the data in Sustainalytics 'controversy reports'. We chose Sustainalytics because compared to other ESG data providers, it was the first to track ECCs (since 2009). We found good convergence between Business and Human Rights Resource Centre records and Sustainalytics data

for the period 2009-2012, suggesting that our data source provides reliable and comprehensive data on the available knowledge on HRCs.[4]

Our dependent variable *Human Rights Controversies* is consistent with earlier research (Baucus & Near, 1991; Schnatterly, 2003; Shi, Connelly, & Sanders, 2016, among others) although we use a dynamic specification of our econometric model. Thus, the one-year lagged dependent variable (*Human Rights Controversies*$_{(t-1)}$) and the value of the dependent variable at the beginning of the period (*Human Rights Controversies*$_{(t0)}$) are included in the analysis as independent variables to take account of state dependence of *Human Rights Controversies* and associated endogeneity and initial conditions problems (see next section).[5]

Figure 1 shows the number of our sample firms with at least one reported HRC, per year. Given the growing trend, which is due to an increase over time of both media scrutiny and NGOs reporting of HRCs, we include in the analysis a proxy for firm's media exposure and the *Time dummies* - see next section – in the estimated models.

Insert Figure 1 about here

Independent variables. Most of the independent and control variables included in our econometric models are lagged one year (*t-1*) with respect to the reference year of the dependent variable (*t*), to reduce concerns over reverse causality from possible contemporaneous idiosyncratic feedbacks from the dependent to the independent variables.

[4] The information used for this cross-checking is not included here but is available from the authors on request.

[5] 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 per year 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 0s. 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 HRCs in a given year represents a relevant part of the data generating process leading to the final observed number of HRCs per year. 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 0s instead of affecting the whole 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).

Firm performance. To test Hypothesis 1, we follow earlier research and measure firm performance as Return on Assets (ROA) because it is less volatile and less sensitive to heterogeneity in firms' financial structures than other measures, such as Return on Equity, and for this reason is used conventionally for this kind of estimation (Audia & Greve, 2006; Greve, 2003; Harris & Bromiley, 2007; Iyer & Miller, 2015; Mishina et al., 2010, among many others). According to our theoretical framework, our performance variable (*Return on Assets*) is measured as the difference between firm *i*'s ROA at time *t-1* and the industry average ROA of the industry to which firm *I* belongs to. We retrieved these data from Datastream and used Thomson Reuters Business Classification to match each firm to its related industry group.[6]

To account for the effect of possible asymmetries associated with positive vs. negative values of firm performance (relative to industry) on the likelihood of involvement in HRCs, we consider the interaction term between *Return on Assets* and a dummy variable (*Firm's Aspirations*) which takes the value 1 if firm *i's* ROA at time *t-1* is above the industry average ROA in the same year (i.e. *Return on Assets* >0), and is 0 otherwise (i.e. *Return on Assets* <0).[7]

Home and host countries' rule of law. To test Hypothesis 2, we need to measure the extent of the firms' home and host countries' regulatory enforcement. We built a combined variable, *Home and Host Rule of Law*, such that it measures the strength of the rule of law and the judiciary system in the home and host countries of the sample firms based on the location of their FDI flows. To measure firms' FDI, we identified the countries where the firms have operations using FDIMarkets data on greenfield and brownfield FDI, and Zephyr (Bureau van Dijk) and SDC Platinum (Thomson Reuters) data on mergers and acquisitions.[8] We then measured the home and host countries' regulatory environment relying on the Rule of Law Index of the Worldwide Governance Indicators

[6] See Thomson Reuters Business Classification at http://financial.thomsonreuters.com/content/dam/openweb/documents/pdf/financial/trbc-fact-sheet.pdf., last accessed July 20, 2018.

[7] Note that by interacting this dummy variable with the continuous measure of firm's performance (*Return on Assets*) we obtain an econometric model which is observationally equivalent to the 'asymmetric spline function' specification used in other empirical papers (e.g., Audia & Greve, 2006; Greve, 2003; Mishina et al., 2010; Xu et al., 2018).

[8] Since FDIMarkets is available from 2003, our internationalization variable is based only on mergers and acquisitions retrieved from Zephyr and SDC Platinum up to 2002.

(WGI_ROL) developed by the World Bank.[9] The variable *Home and Host Rule of Law* for firm *i* is then defined as a weighted average of the home and host countries' WGI_ROL up to year *t-1* according to the following formula:

$$Home\ and\ Host\ Rule\ of\ Law_{it-1} = \frac{\sum_{t=1}^{T-1}\sum_{j=1}^{J} P_{jit} * WGI\_ROL_{jt}}{\sum_{t=1}^{T-1}\sum_{j=1}^{J} P_{jit}} \quad i=1,\ldots,I\ ;\ t=1,\ldots,T\text{-}1$$

where P_{ijt} is an indicator variable equal to 1 if firm *i* is present in country *j* at period *t* (or if *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 in which firm *i* is present up to time *t-1* (including the firm's home country).

To distinguish rule of law pressure on firms in the home and host countries, we interact the variable *Home and Host Rule of Law* with a dummy variable (*Firm's Internationalization*) which takes the value 1 if firm *i* has internationalized its activities (in the form of greenfield or brownfield investment, or a merger or acquisition) up to time *t-1*, and 0 otherwise.[10]

CSR policy adoption. To measure the intensity of firms' adoption of voluntary self-regulatory policies, we consider five CSR initiatives on the grounds that they are those most widely adopted by the companies in our research:

1) Social Policies which refer to '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 CSR reporting in the form of a separate report or as a section in its annual report. We scrutinized the documents to avoid including reports that contained no information of value.

[9] See WGI at http://info.worldbank.org/governance/wgi/index.aspx#doc, last accessed July 20, 2018.
[10] Due to the high proportion of 0s in the distribution of the number of countries where the sample firms have invested over the period 1992-2012, we codify this variable as a dummy.

3) GRI Report is based on firms' participation in the Global Reporting Initiative (GRI) which provides an international standardized framework for non-financial reporting.[11] In this case, we collected information on the years that the firm produced an accountability report according to GRI guidelines, from GRI and corporate websites.

4) UNGC Membership which is based on information on the firm's participation in the U.N. Global Compact (UNGC), which is a voluntarily initiative involving commitment to aligning operations and strategies with ten universally accepted principles related to human rights, labor rights, environmental sustainability, and anti-corruption (Kell, 2005, 2013).[12] We collected information on the years when a Communication of Progress was submitted to the UNGC.

5) UNGC Contribution is based on information on when the sample firms contributed financially or not to the Foundation for the UNGC but not on the amount of the contribution.[13]

For each of the above initiatives, we constructed a dummy variable which takes the value 1 if firm *i* at time *t-1* undertook the specific type of CSR initiative, and 0 otherwise. Based on these five CSR variables, we then constructed a composite index (*CSR Adoption*) which reflects the intensity of firms' engagement in CSR policies, based on the number of initiatives undertaken by firm *i* at time *t-1*, and then rescaled on a range of 0 to 1.

Controls. We control for a variety of factors that previous research on corporate wrongdoing has found affecting firms' involvement in HRCs. Among the firm-level controls, we include firm age (*Firm's Age*) measured as the log of the number of years since the firm's foundation, and firm size (*Firm's Size*) proxied by the log of the number of workers at time *t-1*. We control for firm's market risk (*Firm's Risk*), measured on the basis of firm's ROE volatility at time *t-1* (i.e. based on

[11] See GRI at https://www.globalreporting.org/Pages/default.aspx , last accessed July 20, 2018.
[12] See UNGC at https://www.unglobalcompact.org/, last accessed July 20, 2018.
[13] 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/., last accessed July 20, 2018.

annual fluctuations in the ROE around its trend value, calculated using non-parametric estimation).[14] We retrieved these data from Datastream.

Moreover, we control for media exposure *(Media Exposure)* since the likelihood for reporting firm's involvement in HRCs depends on how much the company is on media and NGOs radar (Fiaschi et al., 2017; Marquis & Qian, 2014). We measured firm's media exposure as the log of the number of articles mentioning firm *i* at time *t-1*, relying on about 325,000 articles concerning our sample of companies, browsed form Lexis Nexis (News section).

We control also for state ownership since this is a prominent feature of ECCs. *State-Owned Firm* is a dummy variable that takes the value 1 if the firm is state owned (fully or partially) at time *t*, and 0 otherwise. We retrieved the data from Datastream and corporate websites.

Furthermore, since the involvement in HRCs is more likely to occur in some industries compared to others (Crane, 2013), we include industry dummies. We aggregate industries in three groups based on their macro industry classification, to distinguish among firms in the extractive, manufacturing and services sectors. The reference group (*Extractive*) includes firms in the oil, gas and mining industries; *Manufacturing* includes aerospace, food and beverages, pulp and paper, chemicals and pharmaceuticals, heavy industry, automobile, electronics and cosmetics; and *Services* includes retail, banking, real estate, telecommunications, electricity, and other utilities.

We control for country-specificities using country dummies, with *South Africa* as the reference group (Matten & Moon, 2008), to account for differences in the history, regulations and institutional arrangements of the home countries which may affect the human rights conduct of corporations.

Finally, we include time dummies (*Time dummies*) given the increased number of reported HRCs that may be related to the growing information available.

[14] The choice of using ROE for our measure of firm's market risk instead ROA (used to measure firm's performance) relies on the fact that, as explained above, the former is associated with a higher volatility, which gives to our measure of market risk a larger degree of variation.

Estimation procedure

To test our hypotheses, we estimate the probability of firm *i*'s involvement in at least one HRC in a given year *t* employing a dynamic correlated random effects probit model (Hyslop, 1999; Stewart, 2006; Wooldridge, 2005).[15] This model is particularly useful for longitudinal data and 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. 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 *Human Rights Controversies* in *t-1* vs. *t*, to check the degree of association (persistence) between the two binary outcomes. The transition matrix shows that there is high state dependence in the probability of a HRC along time, with 96.41% of firms having no HRC in *t-1* also with no HRC event at time *t* and 84% of firms with at least one HRC in *t-1* having a HRC event at time *t* too.

Insert Table 1 about here

We use the following econometric specification:

$$HRC_{it} = \gamma HRC_{it-1} + \beta X_{it-1} + \alpha_i + u_{it} \quad i \in \{1,2,\dots,N\}, t \in \{1,2,\dots,T_i\} \qquad (1),$$

where HRC_{it} is the binary dependent variable, X_{it-1} is the $(1xk)$ vector of pre-determined independent and control variables (defined above) including the one-year lagged value of the dependent variable HRC_{it-1}; (γ,β) 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.

Model (1) is estimated using maximum likelihood techniques that do not require any (within, between, or first difference) transformation of the original variables, and thus, are not

[15] The choice of adopting a (correlated) random effect specification, rather than a fixed effect one, is driven by reasons of greater estimation flexibility (as explained below in this section) and by the results of a series of Hausman tests performed on different static panel logit and linear probability models, which provided empirical support to this choice (Wooldridge, 2005).

affected by the types of estimation bias (e.g., Nickell, 1981) generally associated to fixed-effects model estimations involving these kinds of transformations. However, as acknowledged in the econometric literature (see e.g., Mundlak, 1978; Skrondal & Rabe-Hesketh, 2014; Wooldridge, 2005), maximum likelihood estimators applied to nonlinear panel data models may be inconsistent because of two kinds of endogeneity problems: lack of independence of the initial response *Human Rights Controversies*$_{i0}$ and the random intercept α_i (the so-called initial conditions problem), and lack of independence of the covariates $\boldsymbol{X_{it-1}}$ and the random intercept α_i (endogenous covariates problem). To account for these problems we adopt the solution recommended by Skrondal and Rabe-Hesketh (2014) and estimate a compound conditioning model allowing the random intercept term α_i to be correlated to the initial value of the dependent variable *Human Rights Controversiess*$_{i0}$ (Aitkin & Alfò, 1998), the initial values of the independent variables $\boldsymbol{X_{i0}}$ (Rabe-Hesketh & Skrondal, 2013), and the within-subject means of the independent variables $\boldsymbol{\bar{X}_{it-1}}$ (Mundlak, 1978; Wooldridge, 2005) up to year *t-1*. The final conditioning joint model adopted for the random intercept is the following:

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

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

RESULTS

Table 2 presents the descriptive statistics and Table 3 the correlation matrix of the variables used in the models. Given the high correlation among some of the variables, we checked for potential multicollinearity by computing, for each linear specification of the estimated model, the mean variance inflation factor (VIF). The last row in Table 4 shows that multicollinearity seems not to be a serious problem if we adopt the rule-of-thumb cutoff value of 10 (Neter, Johnson, & Leitch, 1985).[16]

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[16] In Model 7 the VIF is 11.91 which is slightly above the acceptable threshold. This may be the result of the presence of multiple interactions between *Return on Assets, Firm's aspirations, Home and Host Rule of Law* and *Firm's Internationalization*.

Insert Table 2 about here

Insert Table 3 about here

Hypotheses testing

Table 4 shows the results of the estimated baseline equation (1) without interactions. For comparison, Model 1 reports the estimated parameters of the static random effects probit model (i.e. excluding the lagged dependent variable among the regressors), and Model 2 reports the estimated parameters of the dynamic correlated random effects probit model without any correction for endogeneity. Model 3 reports the estimated parameters including only the initial value of the dependent variable *Human Rights Controversies*$_{i0}$ in the random term equation (2), and Model 4 reports the estimated parameters when also including the initial values of the independent variables X_{i0}. Finally, Model 5 reports the estimated parameters and marginal effects with the full specification including also the within-subject means of the independent variables $\bar{X}_{it-1}$ in the random term equation (2).[17] We find that coefficient of *Return on Assets* is positive and statistically significant in all the models which supports Hypothesis 1. In particular, comparing the estimates of Model 1 (i.e. the static specification used in the previous empirical literature) with the other dynamic estimates of Models (2-5) shows that, when the lagged dependent variable is omitted (as in Model 1), the magnitude of the estimated coefficient of *Return on Assets* (along with other persistent regressors such as *Firm's Age*, *Firm's Internationalization* and *Media Exposure*) is upward biased. This occurs because: (i) the static Model 1 cannot distinguish between true vs. spurious state dependence (Heckman, 1981), and (ii) the dynamic Models (2-5) are able to disentangle the short-run vs. long-run effects associated to each independent variable whereas the static Model 1 simply combines these effects. In Model 5, the estimated short-run (i.e. one-year

[17] In particular, in X_{i0} and $\bar{X}_{it-1}$, we include the set of initial values and within-subject averages of the following time varying independent variables: *Return on Assets, CSR Adoption, Firm's Aspirations*, *Media Exposure* and *Firm's Risk.* The variables *Firm's Size* and *Home and Host Rule of Law* are not included for multicollinearity reasons and because the latter variable is already expressed as a (weighted) within-subject average.

lagged) effect of *Return on Assets* ($\frac{\partial \Pr(HRC_{it}=1)}{\partial Return\ on\ Assets_{it-1}}$) is equal to 0.23 while the estimated long run effect which can be approximated by applying the formula $\frac{\hat{\beta}_{HRC}}{1-\hat{\gamma}}$, is equal to 0.26.

Insert Table 4 about here

To further explore whether this effect has nonlinearities and 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.

To assess the overall strength of the moderating factors (or to use Baron & Kenny's (1986) definition, to test their differential validity) in Models 7 and 8, we report the likelihood-ratio (LR) X^2 test for joint statistical significance of the interaction terms, using Model 6 as the null (see the last row in Table 5). The overall moderating effects of *Home and Host Rule of Law* and *CSR Adoption* are jointly significant at the 1% and 5% levels, respectively.

Since we are estimating a set of nonlinear probit models with several interaction terms, we cannot retrieve the magnitude of the estimated marginal effects or the statistical significance of the moderating factors based simply on the estimated coefficients and relative standard errors. Hence, following the guidelines in Zelner (2009), we simulate the magnitude and statistical significance of the marginal and moderating effects by computing and comparing the predicted probabilities of each model using delta methods (Tsai & Gill, 2013).[18]

Insert Table 5 about here

Figure 2 shows the predictive probability of a HRC for different *Return on Assets* values based on the estimation results reported in Table 5 Model 6 which allows for asymmetric effects of positive and negative values of *Return on Assets*. The relationship between performance above the

[18] Figures 2-6 were produced using the 'margins' and 'marginsplot' commands in Stata 14. The 'margins' command provided predictive margins for theoretically interesting values of the interacting variables with all other variables held at their mean. The 'marginsplot' command was used to graph these predictive margins.

reference industry (*Return on Assets>0*) and the propensity for involvement in a HRC remains positive, providing support for Hypothesis 1. Moreover, this relationship is even stronger for large positive values of *Return on Assets*. The estimated average (short-run) marginal effect in this model of *Return on Assets* on the probability of involvement in a HRC is $\left(\frac{\partial \Pr(HRCs_{it}=1)}{\partial Return\ on\ Asset_{it-1}}\right)$, hence the 'average slope' of the predicted line in Figure 2 is 0.37 (standard error 0.12).

Insert Figure 2 about here

Hypothesis 2 predicts that a positive relationship between firm performance and involvement in HRCs will be weaker in a context of strong rule of law at home and abroad. Model 7 tests this hypothesis and Figure 3 depicts the effect of firm performance on the predicted probability of involvement in a HRC for three levels of *Home and Host Rule of Law:* low (1 standard deviation below the mean: -0.5), medium (mean: 0), and high (1 standard deviation above the mean: 0.5). The positive relation between *Return on Assets* and the probability of involvement in a HRC is stronger if *Home and Host Rule of Law* is low, and is weaker if *Home and Host Rule of Law* is high, supporting Hypothesis 2. The estimated average (short-run) marginal effects of *Return on Assets* on the probability of a HRC in this model (hence the 'average slope' of the three lines depicted in Figure 3), for low (-0.5), medium (0) and high values (0.5) of *Home and Host Rule of Law* are, respectively, 0.53 (standard error 0.36), 0.49 (standard error 0.24) and 0.44 (standard error 0.32).

Insert Figure 3 about here

To investigate the potentially different moderating roles played by countries' rule of law at home and abroad in more detail, we distinguish between internationalized and only domestic ECCs (i.e. without any previous FDI flow up to year *t*). Figure 4 shows the moderating effect of *Home and Host Rule of Law* if *Firm's Internationalization* is 0, thus focusing only on home country rule of law pressure. In this case, the differences between the average slopes of the three lines (hence the estimated average marginal effects of *Return on Assets* for low, medium and high rule of law

pressure in the home country) are never statistically significant for any values of *Return on Assets* in the X-axis.

Insert Figure 4 about here

If, instead, we consider the moderating effect of rule of law pressure in host countries only, we find that the positive relation between *Return on Assets* and the propensity for involvement in a HRC is significantly stronger if the host country rule of law is low, and is weaker (showing even a negative relationship) if the host country rule of law is high. This is depicted in Figure 5 which shows the difference in the predicted probabilities of HRCs for different values (low, average, and high) of host country rule of law.[19] The differences in the predicted probabilities of a HRC tend to become larger and statistically significant for high values of *Return on Assets*. This supports Hypothesis 2 in showing that high performing ECCs investing predominantly in countries characterized by strong rule of law are less likely to be involved in HRCs compared to high performing ECCs investing predominantly in countries characterized by weak rule of law.

Insert Figure 5 about here

Hypothesis 3 predicts that a positive relationship between firm performance and involvement in HRCs will be weaker for more intensive adoption of CSR policies. Figure 6 shows the moderating effect of *CSR Adoption*, using the predicted probabilities computed based on the estimation results reported in Model 8 for different levels of *CSR:* low (0, no adoption of CSR policies), medium (0.33, median value) and high (0.50, value of 75th percentile). The positive relation between *Return on Assets* and the propensity for involvement in a HRC is stronger (steeper) when *CSR Adoption* is low, and is weaker (flatter) when *CSR Adoption is* high, supporting our Hypothesis 3 of a negative moderating effect. In particular, the estimated average (short-run)

[19] The net moderating effect of host country rule of law plotted in Figure 5 is estimated by computing the difference between the overall effect of *Home and Host Rule of Law* plotted in Figure 3 minus the net effect of home country rule of law plotted in Figure 4.

marginal effects of *Return on Assets* on the probability of HRCs (hence the average slope of the lines depicted in Figure 6) when *CSR Adoption* is either low (0) or high (0.50) are respectively, 0.69 (standard error 0.36) and 0.14 (standard error 0.14).[20] Hence, intensive adoption of CSR policies neutralizes the positive effect of *Return on Assets* and the probability of involvement in HRCs.

It is interesting also that *CSR Adoption* has no significant direct effect on the dependent variable *Human Rights Controversies* in any of the estimated models but has a negative and significant moderating effect when interacted with *Return on Assets.* This result might help to explain the mixed evidence and inconclusive results observed in previous empirical works (e.g. Lin-Hi & Müller, 2013; Marquis & Qian, 2014; Muller & Kraussl, 2011) assessing the relationship between adoption of CSR policies and the firm's propensity for involvement in wrongful business conduct which do not properly take account of the level of the firm economic performance.

Insert Figure 6 about here

Regarding the control variables, the coefficient of *Media Exposure* is positive and significant in Models 1-4 in Table 4, but this result may be biased by reverse causality (e.g. enhanced media attention may be driven by rumors of involvement in possible HRCs), since in these models only the initial condition problem is taken into account. In fact, this positive coefficient becomes smaller and non-significant when within-subject averages are added in the fully specified model (Table 4, Model 5) to correct also for the endogenous covariate problem

In our models, *Firm's Size*, *Firm's Age*, *Firm's Risk* and *State-Owned Firm* are non-significant, suggesting that none of these variables explains, *ceteris paribus*, involvement of high-performing ECCs in HRCs. Regarding country specificities, we found that involvement in HRCs is less likely for Mexican firms compared to South African companies (reference group) but only in Model 4 in Table 4. Finally, we found that *Manufacturing* and *Services* industries firms are less likely to be involved in HRCs than firms in the reference *Extractive* industry group which is in line

[20] The difference between the average slope of these two lines is statistically significant at the 5% level.

with previous evidence and concerns about the serious and dangerous impact on society of the extractive industries (Giuliani & Macchi, 2014).

Robustness checks

We performed several robustness checks. To test whether the rapid development of international trade relations from the early 2000s (e.g. since China joined the WTO) is affecting our results, we re-estimated the econometric model using only data from 1999 onwards. Also, since Figure 1 shows a drop in the number of firms involved in at least one HRC event after 2010, we ran a separate analysis for the 1992-2010 cohort (Table 6 Models 4a-5a presents the results of Models 4-5, and Figures 7a-9a depicts the marginal plots to test our hypotheses). We also estimated the model excluding Chinese firms which represent 30% of the firms in our sample and might be driving the results (see Table 6 Models 4b-5b and Figures 7b-9c). We checked the robustness of the estimates using the World Bank Voice and Accountability Indicator rather than the Rule of Law Indicator as type of institutional pressure faced in the countries where firms have their operations; this captures perceptions of the level of citizen participation in selecting the government, as well as freedom of expression, freedom of association, and a free media. We ran an alternative model replacing our measure for intensity of adoption of CSR policies (i.e. *CSR Adoption*) by a dummy variable capturing only firm reporting on CSR in a separate document or in a section of its annual report. We control also for home country democracy (retrieved from the widely used Freedom House metrics) to account for the fact that different 'varieties of capitalism' might be influencing our findings. In all cases, the results (available on request) are consistent with our main findings.

Next, since our sample of ECCs was drawn from the 2012 Forbes Global 2000 rankings (thus excluding those ECCs not ranked in that particular year), we tested for possible sample selection and attrition bias (i.e. the fact that our panel is unbalanced since some firms were unlisted, not active, or changed ownership during our period of analysis) using inverse probability weights (IPWs) with a two-step procedure. In a first step we collected information on Forbes Global 2000 rankings for the previous three years (2011, 2010, 2009) and we estimated, for each ECCs, the

conditional probability of inclusion in these rankings using non parametric techniques (Li & Racine, 2007). In a second step, we computed IPWs using a similar procedure to Wooldridge (2007), and then re-ran the estimates using this weighting procedure (thus giving more 'importance' to ECCs more likely to be included 'by chance' in the Forbes ranking for a given year, and less 'importance' to ECCs more likely to be permanently included in the ranking). The results of these robustness checks (see Table 6 Models 4c-5c and Figures 7c-9c) provide strong evidence that neither selection nor attrition cause serious biases in our estimates which is in line with other similar analyses (Cheng & Trivedi, 2015).

Although our study focuses on social aspirations, we acknowledge that some readers might be interested in the extent to which historical aspirations (i.e. the difference between firms' ROA at time *t-1* and their past performance) might be driving our results since some of the earlier research examines both dimensions to explain strategic behavior and decisions related to organizational change (e.g. Greve, 1998), introduction of new products (e.g. Gaba & Joseph, 2013), entry into new markets, and firms' international expansion (Audia & Greve, 2006; Baum, Rowley, Shipilov, & Chuang, 2005; Iyer & Miller, 2015; Kumar, Dixit, & Francis, 2015). We ran the considering historical aspirations; these turn out to be less relevant than social aspirations in the context of ECCs competing worldwide, thus mitigating concerns about our focus.

Finally, we tested the robustness of our dependent variable. We codified *Human Rights Controversies* according to the salience of the controversy, in order to counter criticisms about the lack of a qualitative appreciation of the negative impacts of the abuses on the victims in our dependent variable. We define salience according to the definition in the UN Guiding Principles on Business and Human Rights which state that 'a company's salient human rights issues are those human rights that stand out because they are at risk of the *most severe negative impact* through the company's activities or business relationships'.[21] Using this definition, we created a dummy

[21] Salience is defined on the basis of risk generated by abuse of a victim, not the business. Thus, a HRC is considered to be salient if it has a severe effect on the victim i.e. how grave and how widespread is its impact.

variable that takes the value 1 if the firm is involved in at least one salient HRC at time *t*, and 0 otherwise. Moreover, although our coded HRCs refer to infringements that may generate direct or indirect economic gains for firms, similar to earlier research on this topic, we are not able to measure the magnitude of any gains. To counter criticisms about potential differences across HRCs in terms of their capacity to generate gains for the companies involved (which in turn would influence the extent of the firms' acceptance of risk), we conducted a further robustness check by recoding the dependent variable as a dummy which takes the value 1 if the firm at time *t* was involved in at least one HRC and this involvement was reported as generating significant economic gains according to Business and Human Rights Resource Center's sources. The results are presented in Table 6 Models 4d-5d and Figures 7d-9d, and are consistent with our main analysis. However, because this reduces the number of observed HRCs and the exploratory power of the model, and because other HRCs may lead to gains which are not reported explicitly by the source, we maintain our original dependent variable codification in the main estimates. In both cases, we find strong support for our hypotheses.

Insert Table 6 about here

Insert Figure 7 about here

Insert Figure 8 about here

Insert Figure 9 about here

DISCUSSION AND CONCLUSION

Discussion

Business-related human rights infringements are perhaps some of the most worrying grand sustainability challenges in need of a solution. Child labor, modern slavery, and human degradation at work, pollution-related health risks, and land grabbing are some of the ways that companies can

reduce enjoyment of universal human rights in the pursuit of legitimate economic goals. This is a global phenomenon often involving successful global players. Not anymore exclusively companies from advanced country, but also large ECCs, which have gained growing power and international reach (Marquis & Raynard, 2015) and whose behavioral mechanisms vis a vis wrongful decision making may differ from conventional models. Extant research predominantly considers financial distress and resource scarcity to be the main triggers of wrongdoing. However, using an original dataset including some of the largest public companies from eight emerging countries (observed over the period 1992-2012), we show that ECCs that are performing beyond their aspiration levels (i.e. high performers) are more likely to enact wrongful conduct and be involved in controversies over human rights. We explain our finding, accounting for the liability of origin from which ECCs suffer due to their origins in dysfunctional home country economic systems and suggest that 'best in class' firms (and their decision makers) will have deflected perceptions of their high performance due to their stigmatized origins. We have argued that this changes their propensity to take risks, and thus modifies the predictions of conventional performance feedback theory that high performers will be less keen to take risks (e.g., Baum et al., 2005; Greve, 1998, 2003; Xu et al., 2018). We suggest that in this particular context companies will not be satisfied only with current high performance and will take risks to ensure that they are future winners. This is a plausible explanation for why, all other things being equal, we observe a higher propensity among 'best in class' ECCs to enact wrongful conduct leading to HRCs. Also, in our view, 'best in class' companies will have slack resources and can afford some of the potential costs associated to involvement in HRCs, so financial risk does not undermine their willingness to abuse the low to achieve their aspirations.

In practical terms our results suggest that in principle, these companies with high returns could internalize the costs involved in avoiding harmful impacts (e.g. by ensuring minimum wages, monitoring and rewarding suppliers that do not use child labor, investing in low emission technologies, etc.) but rarely do so. A wealth of anecdotal evidence also quite powerfully

documents this. The Chinese Sanlu Group was not financially distressed when it was hit by the powder milk scandal, for having diluted it with melamine in order to increase production capacity and profits. The South African mining company AngloGold Ashanti had also performance steadily above the industry average over the period 2001-2004, and yet it was involved in gross human rights violations in 2005, when 25 of its employees had fatal accidents in South Africa due to lack of appropriate safety standards, as well as in connection to its Pompora Treatment Plant in Ghana, where 1,500 individuals among employees and local residents were diagnosed with various infections, allegedly connected to the chemical pollutants and contaminants emitted by the company's local operations.

However, the good news is that we found that this positive relationship between high performance and wrongdoing becomes less positive in a context of international regulatory pressure. We found that home country national regulation seems not to matter, but that if ECCs have operations via FDI in countries with perceived strong regulatory systems then this has an effect. The existence of a strong judiciary system may alleviate or even deter wrongdoing because of the higher expected sanctions imposed on misbehaving firms. On the other hand, high performing ECCs investing predominantly in countries with weak regulatory systems may take advantage of regulation gaps to enhance their performance. This result was expected but raises some interesting non trivial questions for ECCs about the significance of investment in institutionally weak and problematic countries. ECCs that invest and operate in vulnerable contexts are often viewed with suspicion, and there has been considerable discussion around the growing presence of Chinese investors in Africa, and accusations of ‘land grabbing’ and other dubious business practices. Hence, it is possible that in the foreseeable future these kinds of investments will increase scrutiny and that ECCs will be made accountable for their operations especially in poorly regulated countries. This has begun to happen to an extent, although the evidence is mainly anecdotal. For instance, Tata’s sourcing operations in the Democratic Republic of the Congo (D.R.C.) have provoked the declaration that the company is ‘committed to sourcing products and

materials from companies that share its values around human rights, ethics and environmental responsibility' and that it 'supports laws which aim to prevent the use of Conflict Minerals that directly or indirectly finance or benefit armed groups in the D.R.C. or other covered countries.'[22] These considerations open up interesting scenarios for future research, particularly around ECCs strategies with respect to human rights in the operations in institutionally weak countries where local standards – about e.g. labor safety, child labor, and toxic emissions - may be lower than those expected at the international level but close to these companies' home country regulations.

Finally, we show that the positive relationship between ECCs performance and involvement in HRCs decreases with more intensive adoption of CSR policies. This finding is in line with expectations and provides support for to the idea that ECCs are sensitive to their CSR commitments. Theoretically, we interpret this result as suggesting that CSR adoption focuses management attention on the relevance of the risks related to involvement in HRCs involvement due to the double-edge sword effect of CSR on monitoring and sanctions (Ashforth & Gibbs, 1990). Thus, it would seem that CSR functions as a firm-level voluntary institution, which is positive. However, it is possible also that the headquarters of companies that pursue CSR initiatives may have values or preferences that lead them to eschew misconduct; in other words, it is not fear of sanction that deters wrongdoing but the morals infused by industry leaders into the organization. Both interpretations are plausible and may co-exist at different levels in the organizational structure. Unfortunately, our data do not allow us to delve deeper into these mechanisms. However, our results provide more evidence related to the contentious and largely unresolved question about the effectiveness of CSR to curb misconduct. While earlier research suggests that firms' investment in CSR policies helps to offset the reputational damage caused by wrongdoing (e.g. Janney & Gove, 2011; Kang et al., 2016; Kotchen & Moon, 2012; Muller & Kraussl, 2011), or creates economic value for the firm (Eccles, Ioannou, & Serafeim, 2014; Kurucz, Colbert, & Wheeler, 2008, among

[22] See http://www.tata-daewoo.com/eng_new/company/conflict_minerals.php, last accessed June 28, 2018.

others), our results show that it mitigates occurrences of business-related human rights infringements.

In 2003, Joshua Margolis and James Walsh appealed to management scholars to 'understand the conditions under which a corporation's efforts benefit society' (Margolis & Walsh, 2003: 297). In our view, the prevention of business-related human rights abuses is an important means for corporations to benefit society, and we hope that this empirical work will stimulate further thinking and research around how the business sector can avoid doing harm.

Contributions

Our main intended contribution is to corporate wrongdoing theory through our investigation of the reasons why high performing firms enact wrongful conduct. While underperformance has been one of the main explanations for organizational wrongdoing, we would challenge this perspective. We are not the first to find a positive relationship between performance and misconduct (see e.g. Mishina et al., 2010). However, we contribute to this rather incipient debate with new insights. Our novel empirical evidence based on a unique longitudinal dataset on ECCs and a dynamic econometric model (as opposed to the static ones employed in previous empirical contributions) allow us to further examine the motivations for a positive relationship. The few studies so far that examine wrongdoing by successful companies explain it in terms of hubris, infallibility, and overconfidence (Krishnan & Kozhikode, 2015; Mishina et al., 2010), and drawing on intuitions related to prospect theory (Kahneman & Tversky, 1979). These authors suggest that high performers take more risks because they are loss averse: since 'losses loom larger than gains…individuals will fight harder to retain what they currently possess than they will to gain something they have never owned' (Mishina et al., 2010: 704). Based on our different context, we propose a different interpretation. Drawing on performance feedback theory, we acknowledge that companies can have multiple aspirations (Greve & Gaba, 2017). We focus on economic goals but recognize that ECCs' decision makers may consider their country of origin liabilities as a possible motivational trigger for high performers to take risky decisions. We suggest that these liabilities

deflect ECCs' perceptions of being successful. In the context of this study, we suggest that country-of-origin liability might interfere in high performers' behavior, and result in their engaging in 'problemistic search' when they outperform their aspirations. Hence, we propose that wrongdoing stems not necessarily from overconfidence but from a sense of inadequacy and of fear of being perceived as laggards.

This is an important finding in that it suggests that future research on corporate wrongdoing should account more explicitly for multiple goals, and should consider companies' aspirations to overcome their perceived (rather than real) liabilities. We contribute to theory also by suggesting that high performing companies are sensitive to different sets of pressures and are not blinded by their frenzied efforts to succeed.

Our study seeks to also contribute to the literature on performance feedback theory. In line with the behavioral theory of the firm, and prospect theory, one of the basic tenets of performance feedback theory is that firms take more risks when their performance is below their aspiration levels. This fundamental idea has been tested and is supported in numerous empirical contexts, and a wide range of outcomes including R&D and innovation (e.g. Gaba & Joseph, 2013; Greve, 1998, 2003), growth (e.g. Desai, 2008; Greve, 2008), and investments and acquisitions (e.g. Audia & Greve, 2006; Baum et al., 2005; Iyer & Miller, 2015; Kumar et al., 2015). Over the years, scholars have made several conceptual advances, for instance in the analysis of the temporal dynamics of different kinds of aspirations, and the role played by multiple aspirations (see Greve & Gaba, 2017 for a review). In addition, scholars have investigated why low performers may be less responsive and thus, less likely to take risks than conventionally is predicted based on the factors that reduce their sensitivity to failure (Audia & Greve, 2006; Jordan & Audia, 2012). In contrast to this body of work, we propose an explanation for why high performing firms may be more likely to take risks, by considering the general country of origin liabilities to which companies may be subject. We argue that these lead to their underestimation of their success, and constitute a motivation for risk-

taking. These findings suggest that future research should consider how companies' liabilities may affect managers' perceptions of success, and their decision making.

Practical Implications

Our study has some implications for practice. Business-related human rights infringements are being contested globally more and more frequently, and especially since the implementation of soft law initiatives such as the U.N. Guiding Principles on Business and Human Rights which have introduced use of human rights language. Companies worldwide, and especially large firms in international markets are adopting sustainability jargon directed to human rights. While this shift was pioneered by some advanced country firms such as Unilever and Nestlé, ECCs are catching up. For instance, Tata Steel states that it works to respect and protect human rights 'both within and outside the workplace through the application of frameworks such as SA 8000 and the U.N. Global Compact based on the Universal Declaration of Human Rights and ILO conventions.' Similarly, China Minmetals 'faced an important human rights challenge in how to minimize the negative impact of resource development on the local communities and the environment, while enabling the Indigenous people to benefit from the company's operations, strengthening their indigenous capabilities, promoting sustainable development, and thus enabling the company and the local community to coexist in harmony in the long term,' while the Brazilian Vale S.A. in its 2016 CSR Report stated that 'it became a member of the Voluntary Principles on Security and Human Rights, as initiative that guides companies and governments on respect for human rights and safety activities, as well as a signatory of the United Nations Global Compact'. These commitments are welcome but need to be backed up by a focus on eradicating wrongful conduct leading to human rights infringements. Thus, we would counsel (especially high performing) companies to consider investing more of their slack resources in preventing human rights risks rather than mitigating the negative consequences of a HRC. This study suggests that companies have some financial freedom to introduce systematic practice of human rights due diligence as a risk management process to identify, prevent, mitigate, and account for how they address their adverse human rights impacts

(U.N. Guiding Principles Reporting Framework, OECD Guidelines on Business and Human Rights, etc.) We envisage two barriers to the achievement of this objective. The first is the still limited awareness of the meaning and significance of human rights at all organizational levels; it is only recently that managers have begun to understand this notion. The second is the limited capabilities accumulated by companies so far to deal with these complex issues. Similar to technological learning, accumulation of these capabilities takes time, which limits the impact that financial resources might have for preventing harm events. Regulators at both the national and international levels must play a role in facilitating these learning processes and increasing awareness.

Limitations and future research

Our study has some limitations that present opportunities for further research. First, our empirical analysis is based on a limited sample of large public companies from a set of emerging countries, and they are not representative of all ECCs. Hence, there is a need to consider external validity issues when interpreting the findings. Given the context of our research, we cannot rule out that smaller unlisted firms might enact wrongful conduct to escape their condition of underperformance (Merton, 1938). However, smaller firms' wrongdoings are seldom observed by NGOs or the press because of their minor economic relevance, and therefore an analysis of that context would have required a different research design, and the collection of primary data. Going 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 differ in size, ownership (e.g. private vs. public), and country of origin by considering differences between emerging and advanced country firms among other dimensions.

Second, to measure HRCs we considered alleged human rights infringements, regardless of whether they have been judged as such by a court, given that only a small minority of human rights violations result in lawsuits and receive a final judicial decision. Also, there is wide variety in how in how human rights' treaties are incorporated into the single country-legal system. Moreover, like other works on the same topic (e.g. Fiaschi et al., 2017; Marquis & Qian, 2014; Surroca et al.,

2013), we relied only on evidence of wrongful business conducts that have been reported, so we may be underestimating our dependent variable. However, this concern is mitigated by the fact that our aim was not to explain the intensity of corporate wrongdoing but rather to assess inter-firm differences in the probability of their being involved in a HRC. In this context, it could be problematic if some companies are more intensively observed (and therefore, their negative conducts receive more media attention) than others. This is the reason why we include media exposure among the control variables. However, we acknowledge that more research is needed to further refine the existing measures of corporate wrongdoing by large global players. Finally, our study does not adopt a firm-year-country multi-level approach for reasons of parsimony since such an approach would require additional assumptions to test the unidirectionality of the interaction effects within and across levels of analysis (Andersson, Cuervo-Cazurra, & Nielsen, 2014).

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FIGURES

Figure 1. Number of firms with at least one Human Rights Controversy, by year.
Source: Authors' own elaboration based on Business and Human Rights Resource Center data.

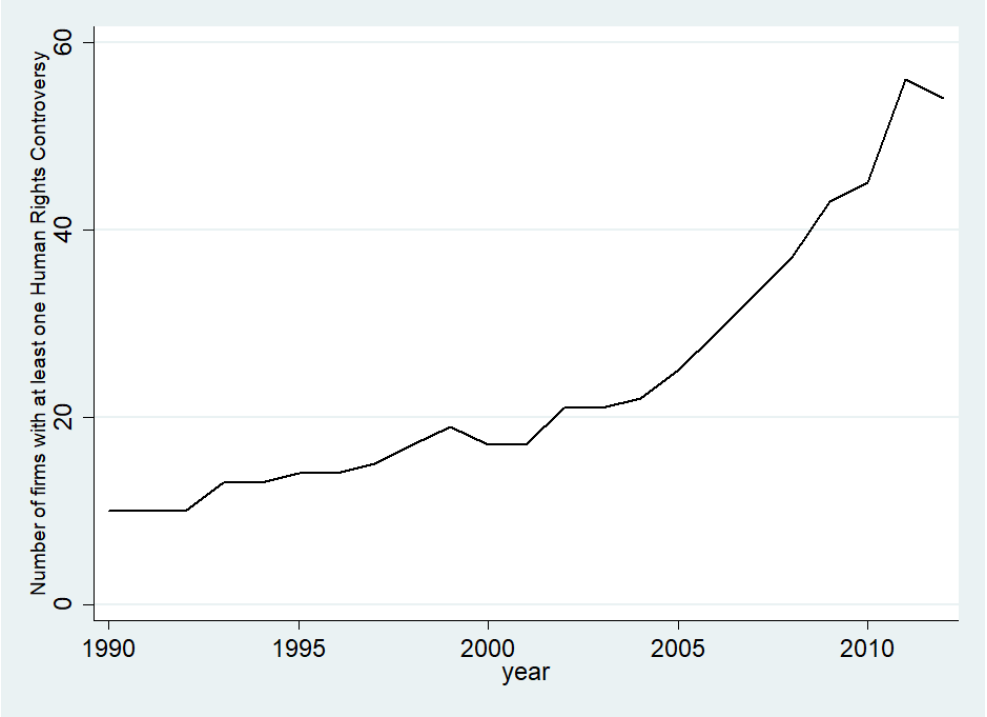


Figure 2. Predicted probability of being involved in at least one Human Rights Controversy for different values of Return on Assets.

Source: Authors' own elaboration based on Model 6 from Table 5 (with 95% confidence intervals).

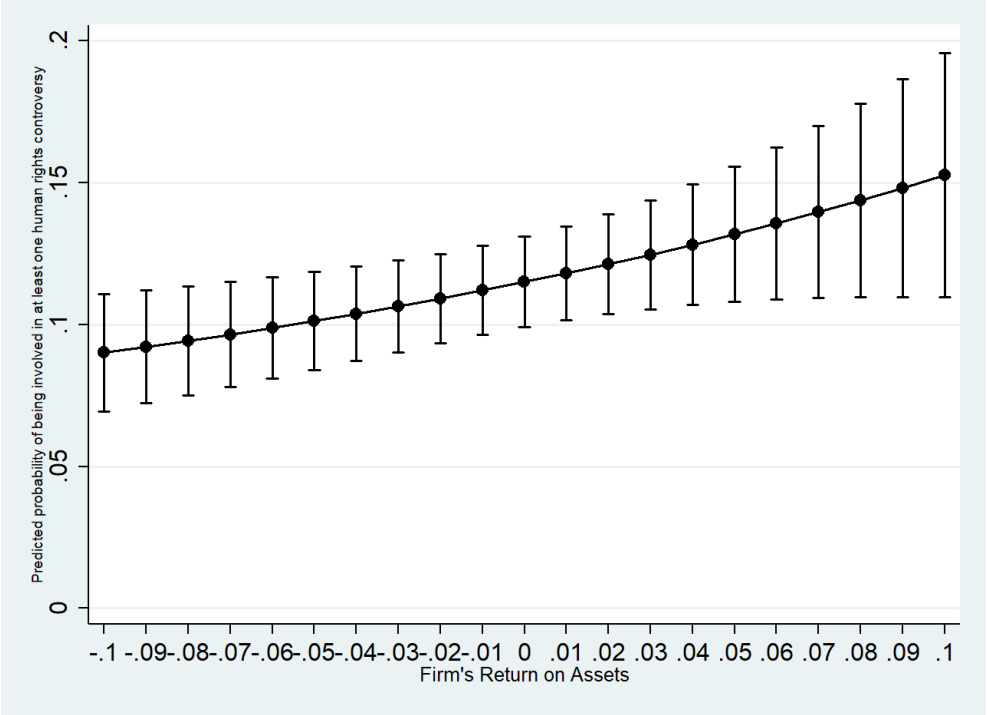


Figure 3. Moderating effects of Home and Host Rule of Law.
Source: Authors' own elaboration based on Model 7 from Table 5 (with 95% confidence intervals).

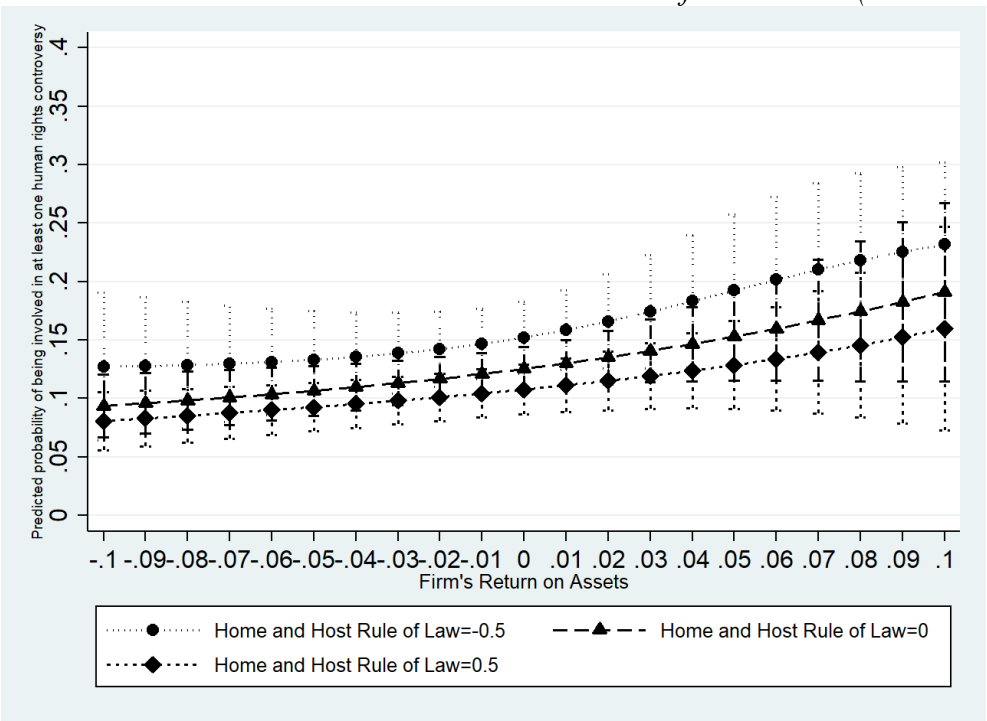


Figure 4. Moderating effects of Home Rule of Law.
Source: Authors' own elaboration based on Model 7 from Table 5 (with 95% confidence intervals).

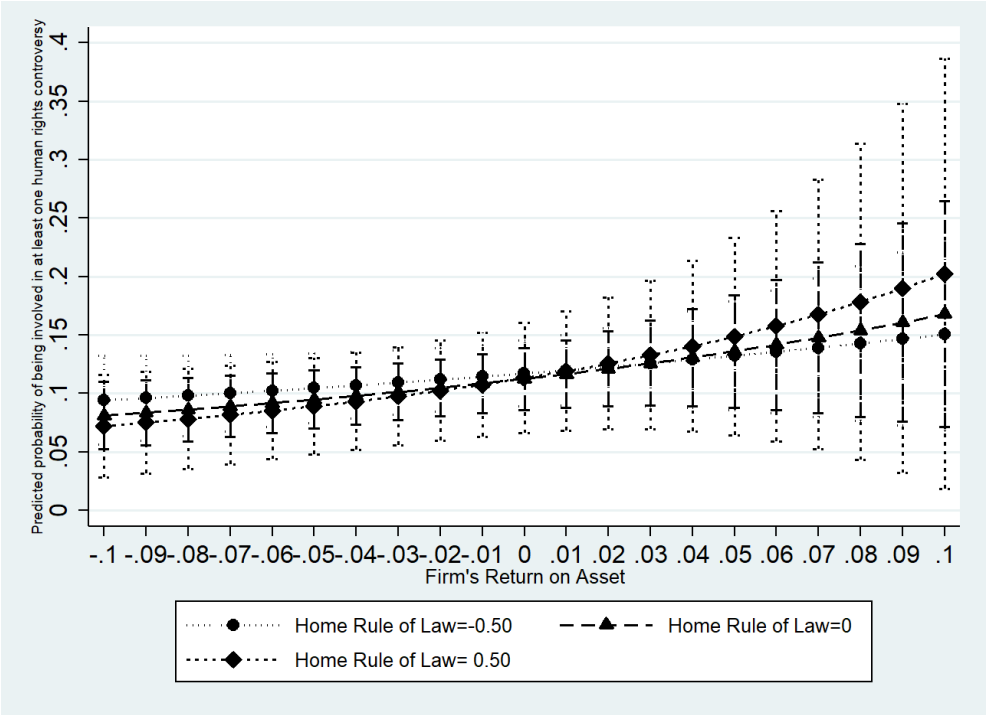


Figure 5. Moderating effects of Host Rule of Law.
Source: Authors' own elaboration based on Model 7 from Table 5 (with 95% confidence intervals).

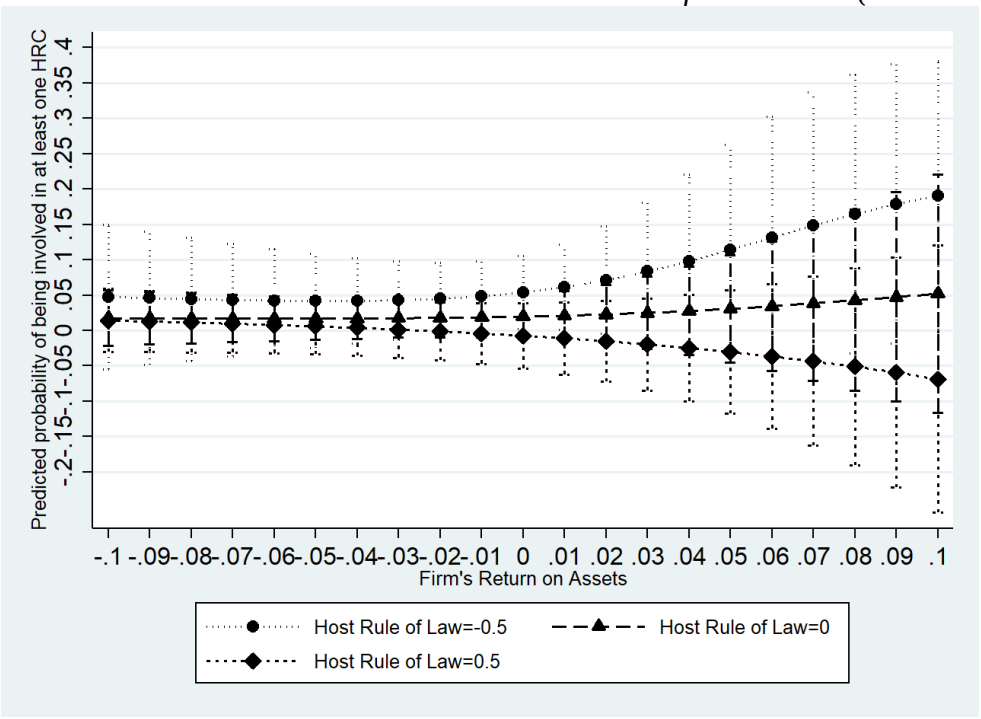


Figure 6. Moderating effects of CSR Adoption.

Source: Authors' own elaboration based on Model 8 from Table 5 (with 95% confidence intervals).

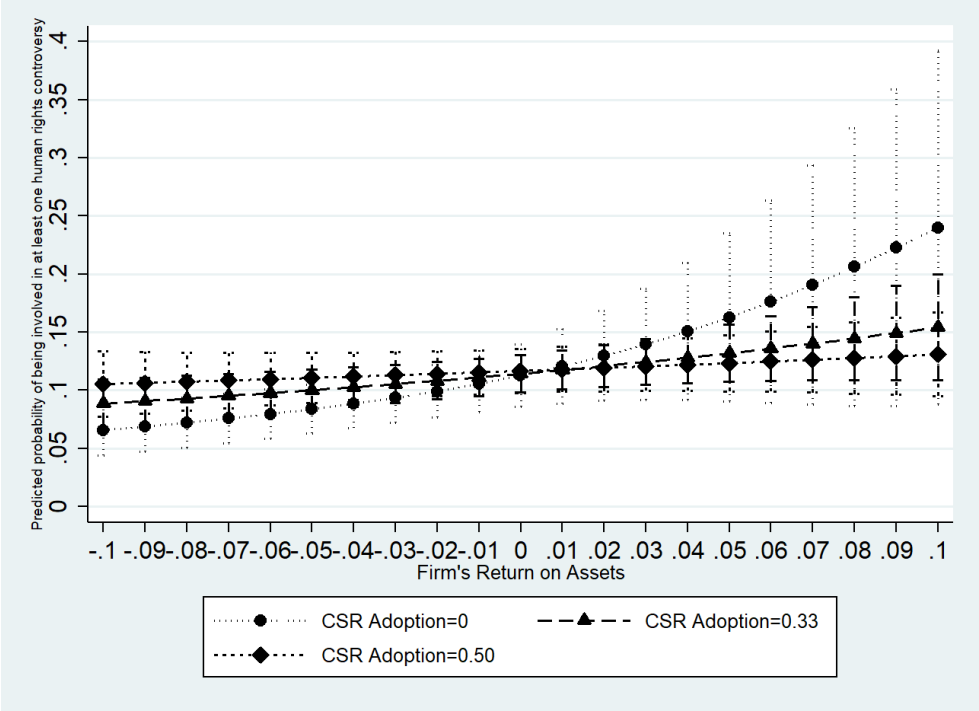


Figure 7. Robustness checks for the predicted probability of being involved in at least one Human Rights Controversy for different values of Return on Assets.
Source: Authors' own elaboration (with 95% confidence intervals).

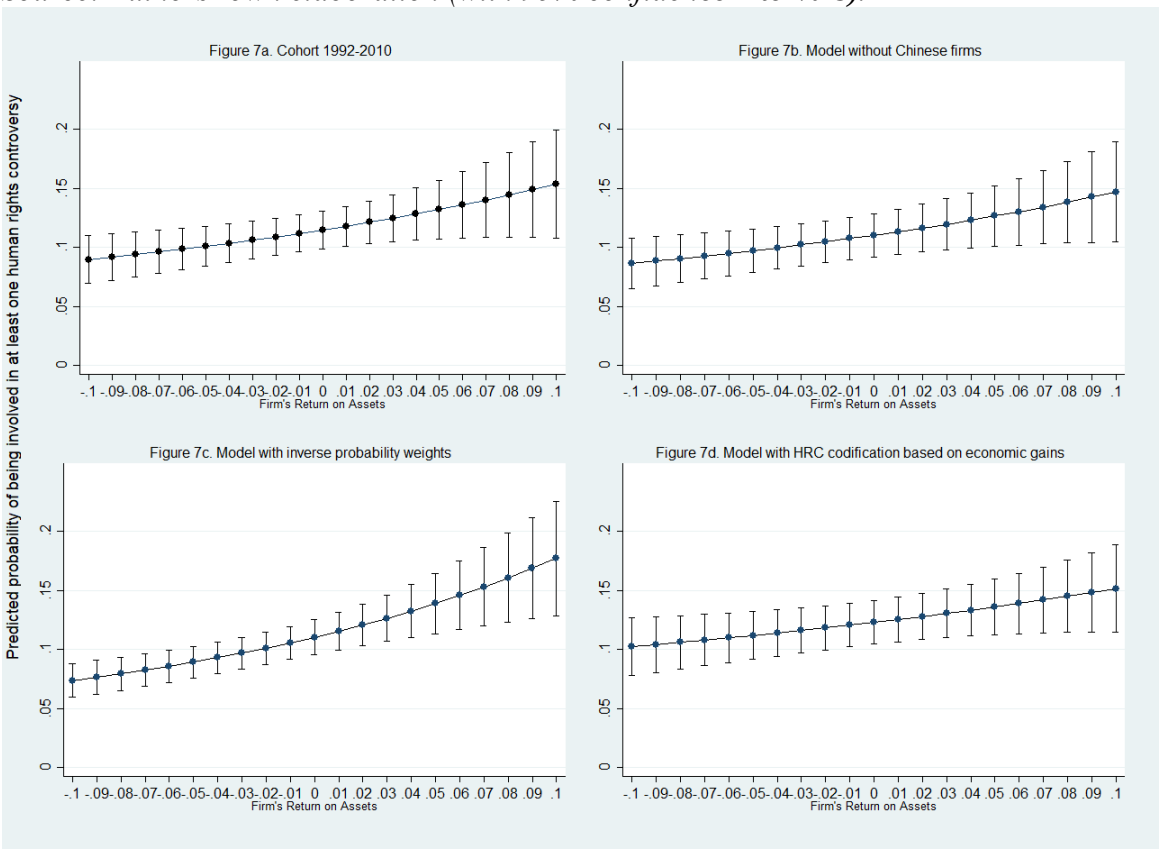


Figure 8. Robustness checks for the moderating effects of Host Countries Rule of Law.
Source: Authors' own elaboration (with 95% confidence intervals).

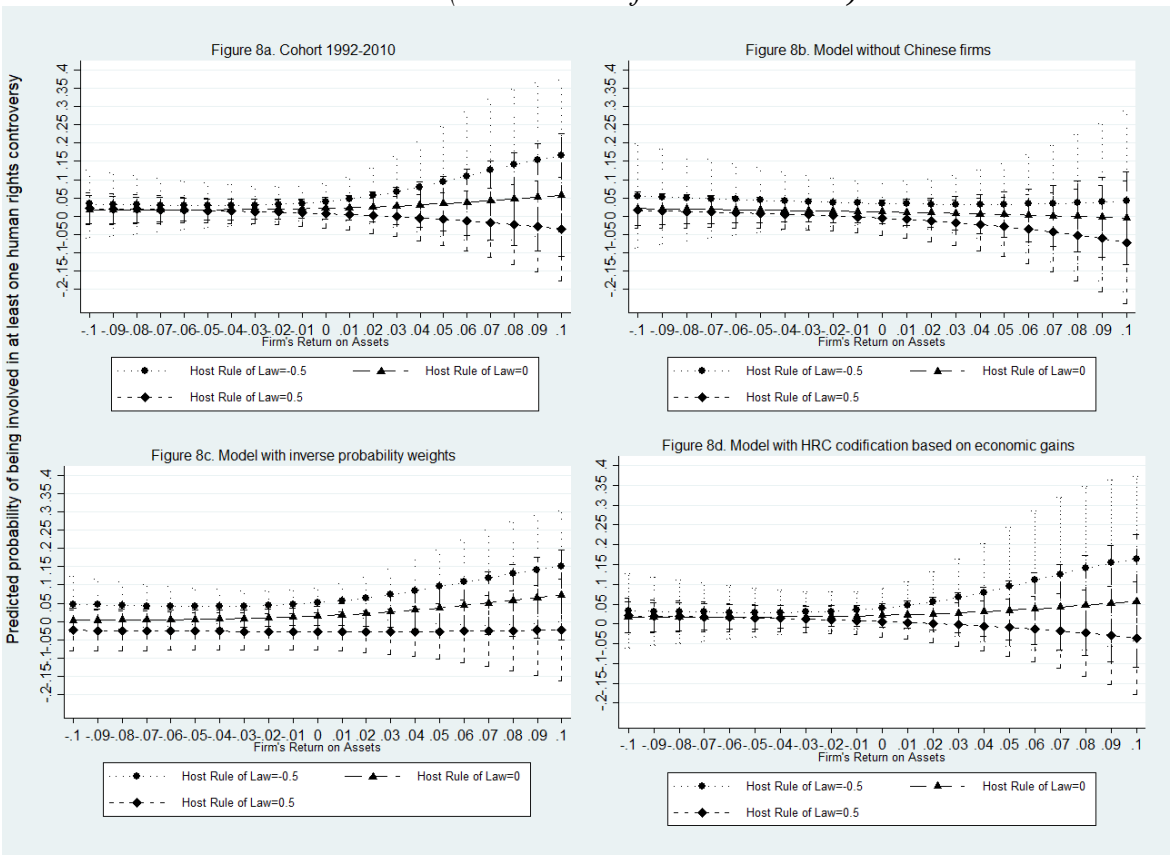
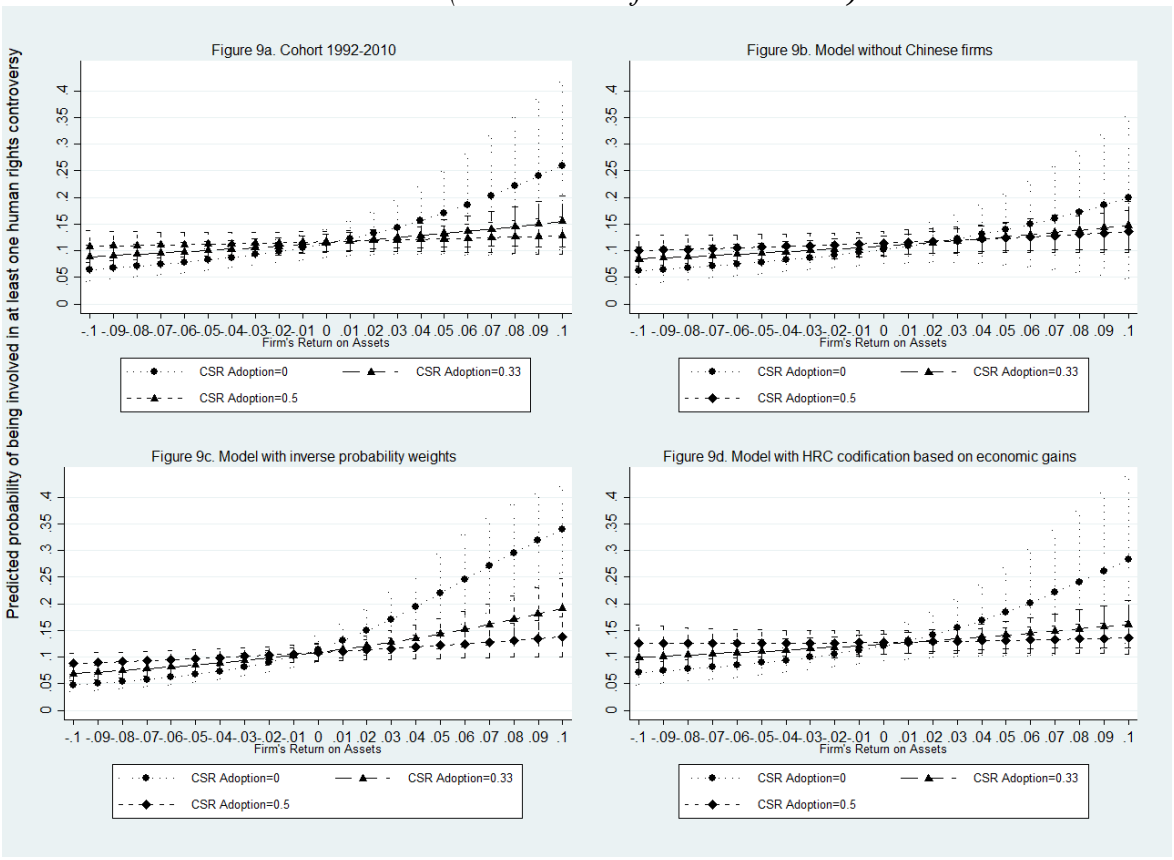


Figure 9. Robustness checks for the moderating effects of CSR Adoption.
Source: Authors' own elaboration (with 95% confidence intervals).



TABLES

Table 1. Transition matrix

Human Rights Controversies$_{t-1}$	*Human Rights Controversies* $_t$ 0	1	Total
0	2,474	92	2,566
	96.41%	3.59%	100%
1	59	330	389
	15.17%	84.83%	100%
Total	2,533	422	2,955
	85.72%	14.28%	100%

Table 2. Descriptive statistics

Variables	***Min***	***Max***	***Mean (Proportion)***	***Standard Deviation***
Human Rights Controversies	0	1	0.14	0.35
Return on Assets	-0.19	0.34	0.02	0.06
Home and Host Rule of Law	-1.13	1.43	0.08	0.52
Firm's Internationalization	0	1	0.48	0.50
CSR Adoption	0	1	0.28	0.25
Firm's Age	0.69	5.32	3.45	0.88
Firm's Size	-12.30	13.40	9.68	1.67
Firm's Risk	0.00	1.38	0.10	0.19
Media Exposure	0	8.53	2.74	1.92
State-Owned Firm	0	1	0.41	0.49
Extractive	0	1	0.15	0.35
Manufacturing	0	1	0.32	0.47
Services	0	1	0.54	0.50
Brazil	0	1	0.13	0.34
China	0	1	0.24	0.43
India	0	1	0.22	0.41
Malaysia	0	1	0.10	0.30
Mexico	0	1	0.07	0.26
Russia	0	1	0.08	0.27
South Africa	0	1	0.09	0.29
Thailand	0	1	0.06	0.24

Table 3. Correlation matrix

	Variables	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**
1	*Return on Assets*	1							
2	*Home and Host Rule of Law*	0.08	1						
3	*Firm's Internationalization*	0.03	0.48	1					
4	*CSR Adoption*	0.03	0.12	0.30	1				
5	*Firm's Age*	-0.01	0.24	0.10	0.17	1			
6	*Firm's Size*	-0.09	0.00	0.28	0.21	0.05	1		
7	*Firm's Risk*	-0.03	-0.05	-0.08	-0.01	0.03	-0.04	1	
8	*Media Exposure*	0.01	0.20	0.36	0.27	0.01	0.33	0.04	1
9	*State-Owned Firm*	-0.18	-0.17	-0.12	-0.11	-0.05	0.11	-0.08	0.09

Table 4. Dynamic correlated random effect probit baseline model results

Independent variables	Model (1)	Model (2)	Model (3)	Model (4)	Model (5)	Marg.Eff. (5)
Human Rights Controversies$_{t-1}$		2.05**	1.85**	1.82**	1.71**	0.12**
		(0.21)	(0.18)	(0.17)	(0.18)	(0.02)
Return on Assets	5.02***	2.32*	1.79†	2.37*	3.24*	0.23*
	(1.22)	(0.93)	(0.91)	(1.00)	(1.41)	(0.10)
Home and Host Rule of Law	-0.49*	-0.30*	-0.34*	-0.35*	-0.30†	-0.02†
	(0.19)	(0.14)	(0.14)	(0.14)	(0.16)	(0.01)
Firm's Internationalization	0.39†	0.03	0.04	0.04	0.09	0.01
	(0.21)	(0.15)	(0.14)	(0.15)	(0.17)	(0.01)
CSR Adoption	0.47	0.19	0.21	0.30	0.28	0.02
	(0.33)	(0.26)	(0.26)	(0.27)	(0.42)	(0.03)
Firm's Age	0.53**	0.12	0.11	0.11	0.10	0.01
	(0.19)	(0.09)	(0.08)	(0.09)	(0.10)	(0.01)
Firm's Size	0.11	0.08	0.06	0.06	0.06	0.00
	(0.08)	(0.05)	(0.05)	(0.05)	(0.05)	(0.00)
Firm's Risk	-0.92*	-0.44	-0.49	-0.51	-0.77	-0.05
	(0.46)	(0.35)	(0.36)	(0.38)	(0.47)	(0.03)
Media Exposure	0.34***	0.16**	0.13**	0.12**	0.11	0.01
	(0.06)	(0.04)	(0.04)	(0.04)	(0.07)	(0.01)
State-Owned Firm	0.21	0.06	-0.05	-0.07	-0.12	-0.01
	(0.31)	(0.15)	(0.14)	(0.14)	(0.17)	(0.01)
Manufacturing	-1.10*	-0.36†	-0.38†	-0.40†	-0.42†	-0.03†
	(0.50)	(0.21)	(0.20)	(0.21)	(0.24)	(0.02)
Services	-2.55***	-1.01**	-0.81**	-0.82**	-0.85**	-0.06**
	(0.48)	(0.24)	(0.19)	(0.20)	(0.23)	(0.02)
Brazil	0.18	0.01	-0.02	-0.05	-0.21	-0.01
	(0.72)	(0.30)	(0.28)	(0.30)	(0.35)	(0.02)
Mexico	-0.88	-0.43	-0.55	-0.64†	-0.60	-0.04
	(0.86)	(0.36)	(0.34)	(0.38)	(0.42)	(0.03)
China	0.02	-0.18	-0.03	-0.04	-0.08	-0.01
	(0.68)	(0.29)	(0.27)	(0.28)	(0.32)	(0.02)
Malaysia	-1.11	-0.51	-0.27	-0.25	-0.46	-0.03
	(0.86)	(0.37)	(0.34)	(0.35)	(0.42)	(0.03)
Thailand	-0.57	-0.22	0.00	-0.01	-0.19	-0.01
	(0.93)	(0.39)	(0.35)	(0.36)	(0.43)	(0.03)
India	0.10	-0.00	0.12	0.18	0.20	0.01
	(0.65)	(0.27)	(0.25)	(0.26)	(0.30)	(0.02)
Russia	-0.23	-0.40	-0.28	-0.29	-0.28	-0.02
	(0.76)	(0.32)	(0.30)	(0.31)	(0.35)	(0.02)
Human Rights Controversies$_0$			1.98**	2.09**	2.41**	0.17**
			(0.37)	(0.39)	(0.45)	(0.03)
$\boldsymbol{X}_0$				YES	YES	YES
$\bar{\boldsymbol{X}}_{t-1}$					YES	YES
Constant	-4.87***	-2.91**	-2.70**	-2.66**	-3.03**	
	(1.20)	(0.62)	(0.57)	(0.58)	(0.68)	
Time dummies	YES	YES	YES	YES	YES	
Mean Variance Inflation Factor(VIF)	1.71	1.71	1.73	1.74	2.61	
Number of observations	2,955	2,955	2,955	2,796	2,796	

†p <0.10; *p < 0.05; **p < 0.01; standard errors in parenthesis.

Table 5. Dynamic correlated random effect probit interaction model results

Independent variables	Model (6)	Model (7)	Model (8)
Human Rights Controversies$_{t-1}$	1.70**	1.72**	1.71**
	(0.19)	(0.20)	(0.19)
Return on Assets	5.53	8.21	16.52*
	(3.77)	(7.75)	(7.34)
Firm's Aspirations	-0.26	-0.14	-0.78**
	(0.17)	(0.34)	(0.30)
Firm's Aspirations x *Return on Assets*	-1.37	-2.58	-9.38
	(4.06)	(8.09)	(7.59)
Home and Host Countries Rule of Law	-0.30†	-0.84	-0.30†
	(0.16)	(0.75)	(0.16)
Firm's Internationalization	0.10	0.27	0.09
	(0.17)	(0.39)	(0.17)
Firm's Internationalization x *Return on Assets*		15.17*	
		(7.43)	
Firm's Internationalization x *Firm's Aspirations*		0.16	
		(0.35)	
Firm's Internationalization x *Firm's Aspirations* x *Return on Assets*		-13.87†	
		(7.81)	
Firm's Internationalization x *Home and Host Rule of Law*		0.15	
		(0.83)	
Firm's Aspirations x *Home and Host Rule of Law*		1.30	
		(0.87)	
Firm's Internationalization x *Firm's Aspirations* x *Home and Host Rule of Law*		-0.20	
		(0.44)	
Return on Assets x *Home and Host Rule of Law*		5.10	
		(17.46)	
Firm's Internationalization x *Return on Assets* x *Home and Host Rule of Law*		-23.76*	
		(11.54)	
Firm's Aspirations x *Return on Assets* x *Home and Host Rule of Law*		0.68	
		(18.89)	
Firm's Internationalization x *Firm's Aspirations* x *Return on Assets* x *Home and Host Rule of Law*		30.87**	
		(11.88)	
CSR Adoption	0.32	0.38	-0.75
	(0.42)	(0.43)	(0.74)
Firm's Aspirations x *CSR Adoption*			1.61*
			(0.76)
Return on Assets x *CSR Adoption*			-31.72†
			(17.43)
Firm's Aspirations x *Return on Assets* x *CSR Adoption*			22.71
			(18.27)
Firm's Age	0.10	0.12	0.09
	(0.10)	(0.10)	(0.10)
Firm's Size	0.06	0.04	0.07
	(0.05)	(0.05)	(0.06)
Firm's Risk	-0.82†	-0.84†	-0.88†
	(0.48)	(0.49)	(0.50)
Media Exposure	0.11	0.11	0.12
	(0.07)	(0.07)	(0.07)
State-Owned Firm	-0.12	-0.19	-0.12
	(0.18)	(0.18)	(0.18)
Manufacturing	-0.40	-0.45†	-0.43†

	(0.24)	(0.24)	(0.24)
Services	-0.84**	-0.88**	-0.88**
	(0.23)	(0.24)	(0.24)
Brazil	-0.25	-0.14	-0.17
	(0.36)	(0.36)	(0.36)
Mexico	-0.64	-0.54	-0.56
	(0.43)	(0.43)	(0.44)
China	-0.12	0.08	-0.08
	(0.33)	(0.33)	(0.33)
Malaysia	-0.48	-0.38	-0.41
	(0.42)	(0.42)	(0.42)
Thailand	-0.21	-0.19	-0.14
	(0.44)	(0.44)	(0.45)
India	0.17	0.21	0.25
	(0.31)	(0.31)	(0.31)
Russia	-0.31	-0.18	-0.29
	(0.36)	(0.37)	(0.36)
Human Rights Controversies$_0$	2.47**	2.55**	2.49**
	(0.46)	(0.47)	(0.46)
$\boldsymbol{X}_0$	YES	YES	YES
$\overline{\boldsymbol{X}}_{t-1}$	YES	YES	YES
Constant	-2.86**	-2.98**	-2.65**
	(0.71)	(0.75)	(0.73)
Time dummies	YES	YES	YES
X^2 *LR Test for joint significance of interactions*		23.18***	7.23**
Mean Variance Inflation Factor (VIF)	3.14	11.91	5.67
Number of observations	2,796	2,796	2,796

†p <0.10; *p < 0.05; **p < 0.01; standard errors in parenthesis.

Table 6. Robustness checks of the dynamic correlated random effect probit baseline model

Independent variables	*Model (4a)*	*Model (5a)*	*Model (4b)*	*Model (5b)*	*Model (4c)*	*Model (5c)*	*Model (4d)*	*Model (5d)*
Human Rights Controversies$_{t-1}$	1.74**	1.74**	1.86**	1.68**	1.65**	1.61**	1.96**	1.88**
	(0.19)	(0.20)	(0.21)	(0.23)	(0.13)	(0.13)	(0.19)	(0.20)
Return on Assets	2.02†	2.98*	3.09*	4.50**	3.45**	3.37**	1.76†	2.60†
	(1.11)	(1.43)	(1.24)	(1.72)	(0.78)	(0.82)	(1.07)	(1.45)
Home and Host Rule of Law	-0.22	-0.21	-0.19	-0.20	-0.17	-0.18	-0.33*	-0.25
	(0.16)	(0.16)	(0.18)	(0.21)	(0.11)	(0.11)	(0.15)	(0.17)
Firm's Internationalization	0.09	0.09	-0.00	0.07	-0.19	-0.07	0.06	0.05
	(0.17)	(0.17)	(0.18)	(0.22)	(0.12)	(0.12)	(0.16)	(0.17)
CSR Adoption	0.35	0.33	0.25	0.63	0.18	0.35†	0.74*	0.56
	(0.30)	(0.42)	(0.31)	(0.53)	(0.21)	(0.21)	(0.30)	(0.43)
Firm's Age	0.08	0.08	0.14	0.15	0.55**	0.20*	0.10	0.08
	(0.10)	(0.10)	(0.12)	(0.16)	(0.09)	(0.08)	(0.10)	(0.11)
Firm's Size	0.05	0.05	0.04	0.04	0.23**	0.13**	0.06	0.06
	(0.05)	(0.05)	(0.05)	(0.07)	(0.05)	(0.05)	(0.05)	(0.06)
Firm's Risk	-0.46	-0.67	-0.41	-0.72	-0.50	-0.40	-0.58	-0.89†
	(0.41)	(0.48)	(0.44)	(0.56)	(0.31)	(0.31)	(0.42)	(0.49)
Media Exposure	0.16**	0.15*	0.08†	0.03	0.13**	0.12**	0.15**	0.15*
	(0.05)	(0.07)	(0.05)	(0.09)	(0.03)	(0.03)	(0.05)	(0.07)
State-Owned Firm	-0.04	-0.06	0.05	-0.05	-0.31*	-0.24†	-0.02	-0.06
	(0.17)	(0.17)	(0.19)	(0.25)	(0.13)	(0.13)	(0.17)	(0.19)
Industry dummies	YES	YES	YES	YES	YES	YES	YES	YES
Country dummies	YES	YES	YES	YES	YES	YES	YES	YES
Human Rights Controversies$_0$	2.33**	2.35**	1.91**	2.42**	1.77**	2.11**	2.40**	2.69**
	(0.45)	(0.45)	(0.45)	(0.57)	(0.25)	(0.27)	(0.52)	(0.57)
$\boldsymbol{X}_0$	YES	YES	YES	YES	YES	YES	YES	YES
$\bar{\boldsymbol{X}}_{t-1}$	YES	YES	YES	YES	YES	YES	YES	YES
Time dummies	YES	YES	YES	YES	YES	YES	YES	YES
Constant	-2.55**	-2.50**	-2.59**	-3.26**	-5.90**	-3.55**	-2.57**	-2.82**
	(0.65)	(0.65)	(0.71)	(0.92)	(0.65)	(0.56)	(0.68)	(0.76)
Number of observations	2,715	2,715	2,232	2,104	2,955	2,955	2,955	2,796

†p <0.10; *p < 0.05; **p < 0.01; standard errors in parenthesis.

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