Heterogeneity in Investor Reaction to MNE's ESG Incidents

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Abstract

We study whether investors react differently to multinational enterprises' (MNEs) ESG incidents across countries. We use a novel "Perception Index" to measure how domestic investors view other countries, based on their economic strength and legal power. Examining firms in 30 countries with the most ESG incidents for 2007-2022, we reveal heterogeneity in traders' reaction to such incidents through cumulative abnormal returns (CAR). Guided by the Institutional Theory, we show MNEs face up to 0.9% greater negative daily CAR when investors perceive the incident country as legally and economically superior to others, including their home country. These findings document limits to "home bias". Granular analyses indicate that neither severity and reach of incidents nor cultural aspects e.g., egalitarianism and trust, change investors' trading behavior while religion seems to be a significant factor, and such heterogenous reaction is particularly evident for recurring cases and human rights incidents.

Keywords: MNEs' ESG incidents; heterogeneity; investor reaction; investor perception.

JEL Classification: G11, G15, G41, M14

1. Introduction

The globalization of financial markets and the growth of MNEs have heightened investor scrutiny of firms' ESG performance across diverse institutional environments. The worldwide push to integrate Environmental, Social, and Governance (ESG) principles into corporate strategies highlights the growing significance of sustainability and ethical accountability in contemporary business practices. Over the past two decades, ESG considerations have moved from being peripheral concerns to important considerations for corporate strategy (UNGC, 2019). The violent removal of a passenger from United Airlines on April 12, 2017, amplified by media coverage, led to a 1.1% stock price drop, nearly $1 billion in market value loss[1]. In November 2022, JBS SA[2], a Brazilian multinational, faced a scandal in the U.S. after its subcontractor was found employing children as young as 13 for hazardous night shifts in meat-processing plants. The incident led to a $440 million reduction in market capitalization, a 12.65% stock drop in the subsequent three days. Such incidents not only threaten a company's operational stability but also reduce shareholder value, as numerous studies show that stock markets and equity analysts typically react negatively to ESG incidents (Krüger, 2015; Wong and Zhang, 2022; Kim et al., 2024). The increasing focus on ESG compliance highlights that these business practices are not just regulatory requirements but are also vital drivers of competitive advantage in the global economy.

In this paper, we examine global investor reactions to MNEs' ESG incidents, with a focus on the heterogeneity of responses to incidents in foreign jurisdictions, driven by growing awareness of environmental challenges, social inequalities, and the demand for stronger corporate governance (Tsang et al., 2023). Building on the notion that both formal and informal institutions or the "rules of the game" (North, 1990; Peng et al., 2008) shape not only firm strategy but also stakeholder interpretation, we investigate how domestic investors respond to ESG violations in countries perceived to have stronger legal and economic institutions. Such a study is particularly relevant because in today's interconnected global economy, MNEs frequently operate across multiple jurisdictions, subjecting them to varying societal expectations, legal frameworks, and cultural norms (Marano et al., 2024). Globalization enables companies to access new markets, diversify operations, and leverage cross-border opportunities. However, it also exposes firms to complex risks, particularly when ESG incidents arise. ESG incidents occurring in one country can have widespread repercussions,

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[1]https://www.theguardian.com/us-news/2017/apr/11/united-airlines-shares-plummet-passenger-removal-contro versy

[2] U.S. Department of Labor. (2022, November). *Wage and Hour Division: PSSI filings*. Retrieved fromshi

disrupt operations, tarnish global reputations, and impact financial performance on an international scale (Erragragui et al., 2023). Broader societal and economic changes, including the rise of socially responsible investing, heightened regulatory scrutiny, and the expanding focus on long-term value creation, substantially amplify the relevance of ESG (Cerqueti et al., 2021). Particularly in recent years, stakeholders including investors, consumers, and advocacy groups, exert more pressure on companies to uphold ESG standards (Moser and Martin, 2012). Global frameworks such as, the Principial of Responsible Investing (PRI), United Nations Global Compact and the Sustainable Development Goals (SDGs) also elevate ESG principles, making them integral to corporate agendas. Subsequently, negative ESG incidents such as, environmental disasters, human rights violations, and breaches of corporate governance may damage firm's reputation, increase litigation risks, and elevate operational and financial costs (Capelle-Blancard and Petit, 2019; Badawi and Partnoy, 2022). Adding to that, advancements in technology and data transparency empower stakeholders to closely monitor corporate behavior, exposing companies to significantly higher reputational and financial risks in the event of ESG incidents. Considering these significant implications of global ESG incidents, our study fills an important gap by researching how investors respond to such ESG misconducts around the world by internalizing those countries' economic and legal power.

Despite the global reach of businesses, ESG research remains largely country-specific, often focused on the U.S. or limited event samples (Farag et al., 2024; Gao et al., 2024; Erragragui et al., 2023). This narrow focus overlooks the complexities of firms operating across diverse regulatory and cultural landscapes, where investor responses to ESG incidents vary. ESG disclosures are crucial for investors, analysts, lenders, and regulators in assessing corporate sustainability, financial risk, and compliance (Dhaliwal et al., 2011; Schneider, 2011; Chen et al., 2018). Understanding how markets react to ESG incidents can reveal how investors balance local and global ESG concerns, helping firms mitigate reputational and financial risks. Analyzing stock market reactions to ESG incidents can offer valuable insights into how investors weigh local versus global ESG considerations. Given the wide variation in regulatory environments and cultural attitudes toward ESG compliance, identifying the conditions under which these factors most influence shareholder value is essential for mitigating financial and reputational risks. Scott's (1995, 2005, 2008) Institutional Theory provides a valuable lens for understanding how different institutional contexts shape investor responses to ESG incidents. While ESG violations occur globally, their impact on firms varies depending on the strength of legal systems, societal expectations, and investor perceptions. Prior International Business (IB) research has established that the regulatory and economic environments of host countries

significantly influence MNEs' strategies and financial outcomes (Xu and Shenkar, 2002; Kostova et al., 2008). Potential differences across host countries influence how stakeholders assess financial, reputational, and operational risks associated with ESG controversies. In countries with strong regulatory enforcement, investors react more strongly to ESG violations due to higher legal and financial consequences. Societal norms also play a crucial role, firms operating in regions with strong ESG expectations face greater reputational damage and market backlash. Additionally, investor perceptions are shaped by a country's global influence, with ESG violations in major economies often drawing more scrutiny. Understanding these institutional differences is essential for multinational firms, policymakers, and investors to navigate ESG risks effectively. For instance, incidents in countries with less established institutional frameworks may be discounted by investors, who may believe that their firms can "get away" with such misconducts with less punishment. Institutional Theory provides a nuanced framework for understanding the heterogeneity in investor responses to ESG incidents.

To effectively examine how domestic investors perceive ESG incidents occurring in foreign countries, we construct a novel "Perception Index" (P-Index) in this paper. The index integrates measures of economic strength and legal credibility to capture how these factors amplify or mitigate investor reactions to ESG incidents. The country-level data are collected from World Bank and International Monetary Fund datasets, including World Development Indicators, World Governance Indicators, and Global Financial Development. We use three proxies for economic strength: (1) the Financial Development Index (%), reflecting financial market sophistication; (2) a G20 dummy, indicating global economic prominence; and (3) normalized annual GDP per capita, adjusted to a 0–1 scale for comparability. Legal power is proxied by the Rule of Law Value (%) form capturing enforcement strength and institutional integrity. We create three indices through different combinations of these proxies: *P-Index 1*: Rule of Law Value and Financial Development Index, *P-Index 2*: Rule of Law Value and G20 Dummy, and *P-Index 3*: Rule of Law Value and the combined GDP per capita and G20 measure. We use ESG incident data from the RepRisk database covering the period from 2007 to 2022. The dataset includes incidents from 30 countries with most ESG misconducts, accounting for 95% of all reported cases. The final sample comprises 179,279 incidents from 6,723 firms, classified into 86,468 domestic and 75,306 foreign incidents while 17,782 incidents have both foreign and domestic dimensions. The classification of incidents enables a comparative analysis of investor responses to domestic and foreign ESG incidents.

Our results indicate that, on average, shareholders respond negatively to ESG incidents, with a stronger reaction to incidents by their firms occurring in home countries (-0.35% in CAR03) compared to foreign countries (-0.15% in CAR03) even after excluding US firms. These findings align with Gao et al., (2024) and Nardella et al., (2023), who document investor reaction is more pronounced for domestic ESG incidents. Focusing solely on foreign incidents, we show a heterogeneous reaction, with shareholders responding more negatively to ESG incidents in countries perceived as legally and economically stronger. Using all incidents (domestic and foreign) we document home markets react less negatively to ESG issues in foreign countries than to domestic incidents, but this "home country bias" diminishes when investors perceive the foreign country as economically stronger and legally more powerful. Higher P-Index values further amplify negative market responses, with cumulative abnormal returns (CAR) decreasing by up to -0.19% for a standard deviation increase in the P-Index. We than examine heterogeneity in market reactions to ESG incidents using the recurrence, severity, reach, and alignment with UNGC principles[3]. Findings reveal significant heterogeneity, with minimal reactions to first-time incidents but sharper negative responses to recurring incidents in countries with higher P-Index. To further underscore the relevance of the P-Index, we focus on less severe incidents and incidents with limited reach. These findings reveal that firms experience up to a -1.3% reduction in CAR when incidents occur in economically and legally more powerful foreign countries. These results highlight the relevant role of P-Index as we document significantly negative market reactions for foreign incidents, even when the severity or reach of the incident is relatively low. ESG violations linked to United Nations Global Compact (UNGC) Principles, such as those involving human rights or anti-corruption, elicit stronger reactions than environmental or broader governance issues. Interestingly, societal characteristics such as trust, egalitarianism, and religiosity have limited influence on investor behavior, except in specific contexts. For instance, ESG incidents in Christian-majority or common-law countries tend to provoke stronger negative reactions from investors in foreign countries.

Our findings remain robust across various CAR time windows, alternative constructions of the P-Index, and after accounting for overlapping incidents, additional firm-level controls, and potential country or industry biases. These results have significant implications for policymakers, regulators, and companies. Policymakers can leverage insights from this study

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[3] The Ten Principles of the UN Global Compact. https://unglobalcompact.org/what-is-gc/mission/principles. [Accessed 08 October 2024].

to design more effective ESG regulations that account for international investor behavior. Firms, particularly those operating in multiple jurisdictions, must recognize the importance of institutional contexts in shaping investor perceptions and implement proactive measures to mitigate the risks associated with ESG incidents. By fostering greater transparency and accountability, firms can build resilience against the adverse effects of negative ESG events.

Building on Gao et al., (2024), Nardella et al., (2023), who identifies that U.S. investors exhibit stronger reactions to domestic ESG incidents compared to those occurring abroad, our research expands this finding by situating it within a global framework. Specifically, we contribute to the understanding of shareholder behavior in the context of multinational ESG incidents by investigating how local and foreign market conditions shape investor responses. This distinction adds new depth to discussions on how country-level ESG norms and regulatory frameworks shape investor sentiment. Our study advances the literature on the liability of foreignness (Zaheer, 1995) by demonstrating that ESG incidents involving foreign firms are not penalized uniformly. Instead, we show that investor responses are conditioned by perceptions of the host country's institutional credibility. Notably, foreign ESG incidents attract greater investor punishment when they occur in countries viewed as institutionally superior, suggesting a *normative elevation effect* – investors impose higher expectations on firms operating in respected institutional environments, irrespective of their origin. These findings challenge a binary interpretation of home bias and highlight the role of institutional asymmetry in shaping cross-border ESG risk perception, offering a deeper understanding of how global investors interpret and react to ESG misconduct.

Moreover, this study contributes to research on institutional theory and the role of host-country institutions in shaping MNEs' behavior (Scott, 1995, 2005, 2008; Kostova et al., 2008). By constructing a novel Perception Index (P-Index) that integrates measures of economic strength and legal enforcement, we provide an empirical framework for evaluating how investors internalize home/foreign country institutional credibility when assessing ESG risks. This extends IB literature by demonstrating that institutional differences influence not only firm-level strategic responses but also capital market reactions to ESG misconduct. Furthermore, we expand the emerging IB literature on ESG and MNEs (e.g., Pisani et al., 2017; Aguilera et al., 2021) by illustrating how investor reactions to ESG controversies differ across home and foreign markets. The ESG literature in IB has largely focused on how MNEs adopt sustainability strategies to gain legitimacy in diverse institutional contexts (Marano et al., 2017; Surroca et al., 2013). Our study moves beyond this by revealing that financial markets assign

different levels of risk to ESG incidents depending on the incident location and the institutional credibility of the host country.

Beyond empirical contributions, we offer sevaral key theoretical contributions: Most prior research conceptualizes institutional distance as a symmetric, objective, and bidirectional construct and typically measured as the degree of difference between home and host countries across legal, political, or cultural dimensions (Kostova, 1999; Xu & Shenkar, 2002). In this traditional framing, the institutional distance from Country A to B is assumed to be equal to the distance from B to A, and the measurement is exogenous to the market actors themselves. Our findings challenge this assumption by introducing the concept of perceived institutional asymmetry. We show that institutional distance is not experienced or reacted to symmetrically by investors. Instead, investors assign greater salience and reactivity to ESG incidents occurring in countries they perceive as institutionally superior. We extend the institutional logics perspective of Thornton et al., (2012) by uncovering an *investor-level logic* whereby ESG violations are judged against the institutional standards of the host country, especially when those standards are high. This advances understanding of how global investors internalize institutional norms and evaluate firm behavior accordingly. We identify religion, rather than broader cultural values as a key influence shaping how investors interpret and evaluate ESG failures. This underscores the role of deep-seated belief systems in guiding investor responses to normatively charged events. Overall, our study shows how investors around the world respond differently to ESG incidents based on where they happen and how they view the country's institutions, offering new insights into global investor behavior and the role of institutions.

The remaining of the paper is structured as follows: Section 2 outlines the theoretical framework, and Section 3 presents the hypothesis. Section 4 describes the data while Section 5 examines stock market returns in relation to ESG incidents. Section 6 provides additional robustness checks, followed by further analysis in Section 7. Finally, Section 8 concludes the paper.

2. Theoretical Framework

Institutional Theory by Scott (1995, 2005, 2008) analyzes how economic, legal, and cultural institutions shape decisions and behavior of stakeholders e.g., investors. This framework helps us to understand ESG controversies across diverse contexts because its three core pillars i.e., regulative, normative, and cognitive serve as a structured lens to explore the dynamics of ESG incidents and its implications for multinational firms. The regulative pillar, which encompasses

laws, regulations, and enforcement mechanisms, provides a critical lens for understanding how official and regulatory frameworks influence investor reactions to ESG incidents. Investors tend to react more strongly to violations by their firms in countries with robust legal systems, where the likelihood of strict penalties and enforcement is higher. This is because strong regulatory environments amplify the financial and operational risks for those companies, associated with ESG violations such as, fines, litigation, and potential operational shutdowns. The anticipation of significant legal repercussions and heightened scrutiny in such jurisdictions increases the perceived cost of non-compliance, prompting investors to adjust their valuations accordingly. Furthermore, strong regulative frameworks often signal a commitment to long-term sustainability and corporate accountability, making violations more conspicuous and damaging. In contrast, countries with weaker enforcement mechanisms may not evoke similarly strong investor responses as the anticipated penalties are lower, and enforcement may be inconsistent or absent. This dynamic underscore the importance of regulatory transparency and predictability in shaping investor behavior.

The normative pillar, which reflects societal norms, values, and expectations, emphasizes the role of cultural and social dynamics in shaping stakeholder responses to ESG violations by their companies. In countries where ESG norms are deeply embedded in societal values, violations can lead to severe reputational fallout. This intensified scrutiny can escalate market reactions as investors factor in the long-term reputational damage and potential loss of market share. Such incidents can trigger boycotts, protests, demands for structural changes, and even economic sanctions on those firms, increasing operational challenges and amplifying negative investor sentiment. Conversely, in countries where ESG norms are less prominent or societal expectations are lower, similar violations may have a more muted impact.

The cognitive pillar, focusing on shared beliefs, perceptions, and investor interpretations, highlights the importance of institutional and economic strength and credibility in shaping how ESG violations are perceived. Investors often view ESG incidents in economically and legally influential countries as more severe due to the heightened visibility and global influence of such nations. Moreover, cognitive perceptions may influence how investors interpret the severity of an incident relative to the country in which it occurs. ESG controversies in countries perceived as global leaders in economic and political power may face disproportionately strong reactions, as violations can have more severe economic and legal consequences on those firms by these countries. In contrast, investors may overlook incidents in countries with weaker institutional frameworks, assuming that companies in those regions can "escape" with ESG violations without facing harsh repercussions. Together, the regulative, normative, and

cognitive pillars provide a nuanced framework for understanding the heterogeneity in investor responses to ESG incidents.

3. Literature Review and Hypothesis Development

The impact of ESG incidents on firms and stakeholders has been widely examined, particularly in light of increasing investor and regulatory scrutiny. ESG-related controversies, including governance failures, environmental violations, and unethical corporate practices, can have significant consequences for stakeholders. Investors, financial analysts, lenders, and regulators increasingly rely on ESG disclosures to inform their decision-making processes.

Investors use ESG information to assess corporate sustainability and align their portfolios with long-term ethical and financial goals (Dhaliwal et al., 2011). Similarly, financial analysts incorporate ESG disclosures to enhance the accuracy of earnings forecasts and reduce errors, thereby improving market efficiency (Dhaliwal et al., 2012; Tsang et al., 2023). Lenders and bondholders evaluate ESG performance to determine credit risk, often rewarding firms with strong ESG practices with lower borrowing costs (Schneider, 2011). Regulators and policymakers utilize ESG disclosures to ensure compliance with legal standards and to design effective regulations that promote corporate accountability (Chen et al., 2018). Additionally, non-investor stakeholders, such as community groups and non-governmental organizations (NGOs), use ESG information to advocate for transparency and sustainable practices (Dube and Zhu, 2021; Tsang et al., 2023).

Building on this foundation, recent research has explored how ESG-related incidents specifically impact investor decisions. ESG incidents often lead to negative media coverage, exacerbating corporate reputation risks and significantly affecting firm valuation. Wong and Zhang (2022) provide evidence that adverse ESG disclosures through media channels can erode investor confidence, leading to stock price declines. This reputational damage is particularly detrimental to firms where consumer trust is critical. Firms involved in ESG controversies frequently face heightened regulatory scrutiny, legal actions, and financial penalties. ESG failures, particularly those involving environmental damage or corporate misconduct, often result in lawsuits, fines, and operational restrictions that increase compliance costs and deter risk-averse investors (He et al., 2024; Chasiotis et al., 2024).

Beyond reputational and legal risks, ESG incidents can disrupt operational efficiency and increase financing costs. While acquirers' ESG misbehavior exposure disrupts the completion of cross-border acquisitions (Zhu et al., 2024), negative ESG events may lead to supply chain disruptions, declining employee morale, and higher borrowing costs as risk

premiums rise (Gillan et al., 2021; Tsang et al., 2023). Derrien et al. (2022) find that analysts frequently revise earnings forecasts downward following ESG-related controversies, anticipating future financial constraints and reduced cash flows. Investor responses to ESG controversies vary based on investor type and risk appetite. Institutional investors, particularly those with strong ESG mandates, tend to divest from firms with significant ESG failures. This aligns with findings from Nofsinger et al. (2019) and Chava (2014), which indicate that institutional ownership is negatively related to poor environmental and social scores. Li, Watts, and Zhu (2024) find that retail investors integrate ESG-related news into their portfolio allocation decisions, suggesting that they view ESG information as financially material rather than solely an ethical or value-based consideration. Furthermore, Burke (2022) documents that CEOs are more likely to be dismissed following ESG incidents.

The financial market's response to negative corporate news, particularly ESG-related controversies, is a well-documented phenomenon. Prior research has shown that ESG incidents tend to trigger negative stock market reactions (Krüger, 2015; Capelle-Blancard and Petit, 2019; Serafeim and Yoon, 2023; Gao et al., 2024; Erragragui et al., 2023). Despite the inherently global nature of business operations, much of the literature predominantly focuses on ESG incidents within specific countries, particularly the United States, while other studies examine a limited set of events within an international sample (Gao et al., 2024; Erragragui et al., 2023; Aouadi and Marsat, 2018). This limited perspective fails to consider the complexities of cross-border ESG issues, especially for MNEs dealing with varying regulatory frameworks, cultural norms, and investor expectations.

Surprisingly, Aouadi and Marsat (2018) find that ESG incidents can sometimes have a positive impact on firm value, while Erragragui et al. (2023) report mixed results. This divergence in findings suggests that investor reactions may be shaped by factors such as industry context, regulatory environment, and media framing. Whereas Gao et al. (2024) find that investors react more strongly to domestic incidents, the extent to which this pattern holds in a globalized economy remains uncertain. Addressing these gaps and improving our understanding of investor responses to ESG incidents are crucial for policymakers and multinational firms seeking to navigate societal expectations and legal obligations while mitigating reputational and financial risks. ESG incidents offer critical insights into a firm's sustainability, risks, and long-term prospects. A deeper analysis of stock market reactions to ESG incidents can reveal how price signals reflect global ESG conduct and how investors weigh the importance of local versus global contexts in their decision-making. Countries vary significantly in their regulatory frameworks, societal norms, and cultural expectations, which

influence how ESG violations are perceived by investors. Exploring these variations is essential for identifying conditions under which ESG compliance is most critical for safeguarding shareholder value. IB scholars have long recognized the importance of institutional frameworks in shaping MNEs' strategies and financial outcomes (Kostova et al., 2008; Xu and Shenkar, 2002). However, limited research has explored how home country investors react to ESG failures in foreign countries and how these reactions depend on the perceived institutional strength of those host countries.

Institutional Theory (Scott, 1995, 2005, 2008) provides a robust framework for understanding these heterogeneous investor reactions. Institutional Theory posits that organizations and their stakeholders operate within a structured set of formal and informal rules, norms, and expectations that influence behavior. It consists of three key pillars: regulative, normative, and cognitive dimensions. The regulative pillar explains how stronger legal enforcement and institutional frameworks create greater expectations for compliance, leading to harsher market reactions when firms fail to meet those standards (North, 1990; Aguilera et al., 2008). Countries with robust legal systems and well-enforced corporate governance regulations tend to impose stricter penalties on firms for misconduct, reinforcing compliance incentives (La Porta et al., 1998). The normative pillar highlights the role of societal norms and ethical expectations, wherein investors from regions with high ESG awareness penalize firms more severely for governance failures (Matten and Moon, 2008; Ioannou and Serafeim, 2012). Socially responsible investing (SRI) and ESG-conscious investors are more likely to react negatively to firms that violate ethical standards, reflecting broader institutional pressures (Dyck et al., 2019). The cognitive pillar accounts for investor perceptions, where ESG incidents in economically and legally dominant nations are viewed as more damaging due to their broader reputational and financial implications (Suchman, 1995; Zuckerman, 1999). Firms from countries with stronger institutions and global influence face higher reputational risks when involved in ESG controversies, as these incidents undermine perceived legitimacy and trustworthiness (Barnett, 2007; Chin, Hambrick, and Treviño, 2013).

Through Institutional Theory, we can gain a deeper understanding of why domestic investors respond differently to ESG incidents, depending on the country in which they happen and the institutional legitimacy of the impacted MNEs (Meyer and Rowan, 1977; DiMaggio and Powell, 1983). This study extends the existing literature by systematically examining whether domestic investors react more negatively to ESG incidents in foreign countries that are perceived as economically and legally superior compared to other foreign or their home countries. We propose that investors may perceive ESG failures in such environments as

particularly alarming due to the higher standards of regulatory enforcement and governance expectations. Thus, our hypothesis is:

H1: Investors react more negatively to MNEs' ESG incidents in foreign countries perceived as economically and legally superior to their home or other foreign countries

In Figure 1, we propose the associated theoretical framework. It depicts how MNEs' ESG incidents are related to their shareholders' market response that is moderated by a "Perception Index" based on countries' economic strength and legal power, shaped by institutional contexts of regulative, normative, cognitive pillars of the Institutional Theory.

[Figure 1]

4. Sample and Variables

We obtain data on ESG incidents (2007-2022) from RepRisk for 30 countries corresponding to 95% of all incidents. We exclude "unspecified" observations, reducing the sample from 706,567 to 672,499 and then to 324,572 incidents after we drop missing ISIN. We collect data on publicly listed firms, market index, legal power, and GDP per capita from COMPUSTAT, CRISP, COMPUSTAT Global, World Governance Indicators and IMF IFS statistics, respectively. After we merge these datasets and check official holidays, our final sample has a 161,774 incidents (86,468 domestic and 75,306 foreign) across 6,634 firms in 30 countries[4].

Compared to relevant studies (e.g., Li and Wu, 2020; Lohre et al., 2023; Alves et al., 2024), our sample size appears to be smaller. We would like to draw attention on the fact that, unlike those papers, we focus only on publicly listed firms with an ISIN number and actually use each individual market index of every country in our sample. More importantly, we conduct a daily event study and examine *only the incidents*, while other studies incorporate time periods with no incidents and include a full timescale, e.g. all months or weeks in a year, inflating the sample size as a result.

In Panel A of Figure 2, incidents in the U.S. (43.2%) and Korea (7.5%) make about the half of the sample, followed by the UK, Japan, Germany, Canada, China, India, France, Australia, Switzerland, Brazil, Spain, Russia, Italy, and other countries, respectively. Panel B

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[4] 2.3% of all firms cause ESG incidents only once; and in our sample, countries (ISO3 codes) with most to least incidents are USA, KOR, GBR, JPN, DEU, CAN, CHN, IND, FRA, AUS, CHE, BRA, ESP, RUS, ITA, TWN, SWE, ZAF, HKG, NOR, MYS, IDN, SGP, NLD, MEX, PHL, CHL, FIN, DNK, NGA.

shows Finance (15.5%), Energy (15.1%), and Manufacturing (11.5%) are the top three sectors with MNEs' ESG misconducts in the sample.

[Figure 2]

We construct a novel "perception index" to measure how domestic investors perceive other countries, where their MNEs' misconduct happen. It is vital to incorporate the opinion of traders on other countries as they rely on such factors in their investment decision. Following the Institutional Theory framework by Scott (1995, 2005), we specifically consider two main elements i.e., the economic strength and the legal power of a country. We proxy the former through i) the annual "financial development index" in % (IMF, 2022), ii) a G20-country dummy, and iii) a combination of normalized annual GDP per capita and the G20 dummy. First, we normalize the annual GDP per capita of each country by the largest value per year across all countries, so that it becomes between zero and one, comparable to our other economic factors. Because this measure is biased towards the population of each country such as, depicting Luxembourg economically stronger than the U.S., we correct this bias by constructing an equally weighted average of that measure and the G20 dummy. Next similar to Bhagat and Hubbard (2022), we proxy each country's legal power through the annual "rule of law value" in % (World Bank, 2024). Lastly, we obtain three perception indices by calculating an equally-weighted average of "rule of law value" and each of the three economic factors per country per year, respectively. In our sample, the same incident can impact multiple foreign countries simultaneously. By taking an equally-weighted average of perception index value of all affected countries per incident, we finally calculate P-Index 1, 2, and 3, respectively, with values can range from zero to one.

Following Tosun et al. (2024) and Gao et al. (2024), we measure the investor reaction through cumulative abnormal returns between the incident date and three days after i.e., *CAR03*, where the abnormal returns are the excess returns i.e., stock return minus the associated country's market index return. We identify foreign incidents with a binary variable *Foreign*, equal to one for foreign incidents and zero for domestic incidents. We also control for firm size through market value (*MValue*) as common shares outstanding multiplied by share price; *Severity* as the extent of the incident's impact from less severe (one) to very severe (three); *Reach* as the reach of the information source from limited (one) to high (three) reach; *Novelty* as whether this is a recurring (one) or a first time incident (zero) for the MNE; three binary variables (*Env, Gov,* and *Soc*) regarding the theme of the incident i.e., environmental, governance, and social, respectively, all described by RepRisk. Appendix Table A.1 gives all definitions.

One can question the necessity of constructing a new index on perception given the abundance of publicly available indices. We argue that our P-Index brings a unique aspect on investor perception – combining the economic strength and political power of countries – which may not be represented in full with the existing indices. In Appendix Table A.2, we examine the correlation between our P-Index and some well-known indices i.e., Political Corruption Index (PCI), Democracy Index (DI), Economic Inequality Index (EII), and Economic Freedom Index (EFI), from Our World in Data and Heritage Foundation websites. Low correlation to P-Indices (15% – 40%) indicates that the most common indices cannot represent investor perception completely, and we try to fill that gap in empirical research with our P-Index.

In Table 1, about 47% of our sample contains foreign incidents only (Panel A). On average, the reaction to ESG incidents is negative with -0.26% CAR while this is stronger for domestic incidents (-0.35% in Panel B) versus foreign incidents (-0.15% in Panel C). Average P-Index values ranging from 0.61 to 0.71 imply that MNEs' shareholders perceive countries economically and legally rather powerful. Average firm size is about $3.5 Billion while incidents are rather less severe (1.3), non-recurring (0.4), and they have a rather medium reach in news (1.8). Most incidents have a social theme (0.5), followed by governance (0.4) and environment (0.3) in our sample.

<div align="center">[Table 1]</div>

5. Results

5.1 Initial Findings

We start by examining the simple investor reaction to incidents where we compare CAR to domestic versus foreign ESG incidents by MNEs. In Table 2 markets respond more negatively to incidents in home countries relative to the ones in foreign countries even 10 days after incident announcements. CAR can be up to 0.26% worse when their firms cause ESG related issues. These results align with existing literature, such as Nardella et al., (2023) and Gao et al., (2024), which highlight greater sensitivity to local ESG issues. The Institutional Theory explains this pattern by emphasizing the reliance of investors on domestic institutions, such as banks and stock exchanges. This local dependency fosters trust and familiarity, making ESG incidents in home countries more disruptive and intensifying negative market reactions.

<div align="center">[Table 2]</div>

To study whether domestic shareholders react differently across their MNEs' ESG incidents in foreign countries, we estimate a set of panel regressions of the following form:

$$CAR03_{i,n,t} = \alpha + \beta_{m,t}\,P\text{-}Index1_{m,t} + \sum_{k=1}^{7}\gamma_k controls_{i,n,t,k} + \delta_i + \theta_n + \mu_t + \varepsilon_{i,n,t}$$

(1)

where $CAR03_{i,n,t}$ is the cumulative abnormal returns for firm i in country n at date t; $P\text{-}Index1_{m,t}$ is the perception index for country m at date t; $controls_{i,n,t,k}$ is a set of control variables; δ_i, θ_n, and μ_t are firm, country and time fixed effects, respectively. Standard errors are clustered at the firm level. We also run the same model with *P-Index2* and *P-Index3*, as main independent variables.

Table 3 provides the results for heterogeneity in investor reaction across different foreign incidents. Statistically significant and negative estimates for *P-Index1, P-Index2* and *P-Index3* imply that markets in home countries do not respond similarly to their MNEs' ESG incidents in different foreign countries. There is a heterogeneity in how investors react to these foreign cases! Specifically, one standard deviation increase in *P-Index1* leads to a decrease in CAR by -0.033% (= -0.138 × 0.241) or -3.3bps. Similar drops in CAR are also evident regarding *P-Index2* and *P-Index3*, -0.051% (= -0.187 × 0.272) and -0.048% (= -0.222 × 0.218), respectively. These findings indicate that traders react more negatively to ESG incidents in foreign countries that are perceived legally more powerful and economically stronger than others. This is an insightful initial analysis revealing differentiation in shareholder responses across foreign incidents. Nevertheless, it is preliminary as it excludes a comparison to the ESG incidents in home countries.

[Table 3]

5.2 Main Findings

To examine any heterogeneity in domestic markets' responses to MNEs' ESG incidents across all countries, home and foreign alike, we run the following form of panel OLS regression:

$$CAR03_{i,n,t} = \alpha + \beta_{m,t}\,P\text{-}Index1_{m,t} \times Foreign_{m,t} + \delta_{m,t}\,P\text{-}Index1_{m,t}$$

$$+ \theta_{m,t}\,Foreign_{m,t} + \sum_{k=1}^{7}\gamma_k controls_{i,n,t,k} + \pi_i + \rho_n + \mu_t + \varepsilon_{i,n,t}$$

(2)

where $CAR03_{i,n,t}$ is the cumulative abnormal returns for firm i in country n at date t; $P\text{-}Index_{m,t}$ is the perception index for country m at date t; $Foreign_{m,t}$ is foreign incident indicator; $controls_{i,n,t,k}$ is a set of control variables; π_i, ρ_n, and μ_t are firm, country, and time fixed effects, respectively. Standard errors are clustered at the firm level.

Table 4 presents findings for heterogeneity in investor responses to MNEs' ESG misconducts. Shareholders react more negatively as these incidents are recurring, more severe, have a wider reach and caused by larger firms, indicated with statistically significant and negative coefficient estimates, while the theme of cases does not influence traders' responses significantly. Statistically significant and positive results for *Foreign* indicate that domestic markets don't react to MNEs' ESG incidents in foreign countries as negatively as such misconducts at home, as supported by the literature (e.g., Nardella et al., 2023; Gao et al., 2024). However, this changes when we consider investors' perception of home and foreign countries through the interaction between *Foreign* and *P-Index*. Statistically significant estimates at 1% level indicate that MNEs' shareholders respond more negatively to incidents in a foreign country when they believe that country is economically stronger and legally more powerful than other countries, regardless of home or other foreign countries[5]. In other words, "home country bias" is corrected when investors' perception and judgements are taken into account! Particularly, one standard deviation increase in *P-Index1* leads to a drop in CAR by -0.191% (= -0.794 × 0.241) or -19bps. We observe similar decrease in CAR for the interaction terms including *P-Index2* and *P-Index3,* -0.150% (= -0.552 × 0.272) and -0.188% (= -0.862 × 0.218), respectively. These results are in with our predication and demonstrate that economic, legal, and cultural institutions significantly influence the heterogeneity of investor responses to their MNEs' ESG incidents in foreign jurisdictions.

[Table 4]

The findings in Table 4 can be broadly understood through the lens of the Institutional Theory by Scott (1995, 2005), which highlights regulative, normative, and cognitive dimensions of institutional contexts that shape investor behavior. The regulative pillar explains how strong legal and regulatory frameworks in certain countries amplify the perceived risks and accountability, as well as, the legal consequences of ESG incidents on MNEs, driving stronger negative reactions. While the normative pillar emphasizes the role of societal expectations and cultural norms influencing how reputational risks and long-term impacts are perceived, the cognitive pillar highlights the importance of shared perceptions as investors respond more severely to their MNEs' misconducts in countries perceived as economically and politically influential due to possible economic and legal sanctions on MNEs.

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[5] We obtain similar and robust results even after we exclude incidents that we move to next trading date as they occur originally during official holidays.

To the best of our knowledge, we are the first to document such findings in current literature. We don't only evidence heterogeneity in investor reaction across foreign ESG incidents but also show that traders' perception of countries influences their investment decisions in such a way that it can correct the "home bias". These findings shall guide corporations in developing ESG-related policies and caution them in their decisions which may lead to ESG incidents.

6. Further Analyses

We conduct the following analyses (Tables 5 – 11) and confirm the robustness of our findings. First, we construct CAR[-3 ; +3] where we focus +/-3 days around the incidents to incorporate abnormal returns before such ESG accidents. We also expand the time interval of CAR from the incident date up to 15 days (three trading weeks) to further investigate whether shareholder's response differs as time progresses after the announcements. Moreover, we dissolve our P-Index into its four factors (see Section 4) and repeat our tests with those factors instead. In other analyses, we replace "rule of law" factor in our P-Index with "voice and accountability value" in % as another proxy for the power of law (e.g., Stolbov and Shchepeleva, 2020; Barman and Mahkud, 2024) which represents the transparency, equality, and accountability of firms by the law. Further, – instead of equal weights – we allocate double (single) weight for the power of law (economic strength) factor in new indices giving legal power (economic strength) more (less) emphasis. In another set of indices, we reverse that giving more emphasis on the economic strength. In new analyses, we exclude 44,631 overlapping incidents which occur within the three-day period after a previous incident while we separately examine 17,782 "mixed incidents" affecting both the domestic and a foreign country simultaneously. Following the literature on market reaction to negative news and ESG-incidents (e.g., Gao et al., 2024; Tosun and Lucey, 2023; Yu et al., 2023; Tosun, 2021; Li et al., 2019), we control for additional firm characteristics i.e., corporate leverage, return on assets, Tobin's Q, dividend payments, capital expenditures and cash ratio. Furthermore, to rule out alternative explanations through mandatory ESG reporting (Krueger et al., 2024), effect of foreign investors, and market efficiency (Fama, 1970 and Beaver, 1981), we repeat our main analyses for the following subsamples: countries with and without ESG disclosure requirements, MNEs with less than 7% (top quartile) foreign investments versus the rest, and fully versus partially efficient markets, based on "financial market efficiency" measure from IMF IFS. To eliminate any country and industry bias, we exclude incidents in the U.S. and Korea (51% of whole sample), as well as, misconducts in finance, energy, and manufacturing

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sectors (42% of the sample). We also replace firm fixed effects with industry fixed effects in our model. Lastly, we acknowledge that some national events or accomplishments e.g., winning world cup in football, may temporarily heighten nationalistic sentiment among domestic investors which in return impacts their reaction to any news, including ESG incidents. We address that through country×year fixed effects in untabulated analyses.

[Tables 5 – 11]

To study whether heterogeneity in investor reaction to MNEs' ESG misconducts holds for different characteristics of such incidents, we test our conjecture for several subsamples in Table 12. The statistically insignificant results for *P-Index × Foreign* reveal that shareholders are mostly indifferent to first-time ESG misconducts while the heterogeneity is quite stark for recurring incidents, implying markets' forgiveness towards "first-timers" and no-tolerance for "repeat offenders" (e.g., Chu et al., 2000). It is interesting to observe that MNEs still suffer up to -1.3% reduction in CAR despite those ESG controversies are less severe or they have limited reach, indicating the persistence of reaction heterogeneity across incident characteristics. Categorizing ESG controversies according to UNGC principles reveals that investors respond negatively and rather strongly to MNEs' misconducts related to human rights (-1.3%) and anti-corruption (-2.3%) principles when MNEs engage in such incidents in economically and legally superior foreign countries. These misconducts include violation of internationally proclaimed human rights, human rights abuse, and corruption including, extortion and bribery (Principles 1, 2, 10 – UNGC). However, they show no heterogeneity among countries' economic and legal power when it comes to incidents on labor and environmental issues.

[Table 12]

Literature suggests that investors' trading decisions are influenced by social and cultural environment (e.g., Chang and Lin, 2015; Hoepner et al., 2021; Barbi et al., 2023; Todea and Harin, 2024). Houser et al., (2010), Olsen (2012) and Ang et al., (2015), among others, discuss that the notion of trust has deep roots in investors' trading behavior. Siegel et al., (2012) establish the link between investments and cultural egalitarianism, a belief in the moral equality of all citizens showing a society's level of intolerance for abuses of political and economic power. Several research show that religion and religiosity are closely linked to investment decisions (e.g., Pantzalis and Ucar, 2014; Gutsche, 2019; Kim et al., 2021). Furthermore, La Porta et al., (2000) and Coffee (2006) discuss that common (civil) law countries have the strongest (weakest) protection of investors. Subsequently, MNEs' shareholders may incorporate the effect of legal environment in investment decisions. Relying on these studies, we construct the following subsamples: more versus less trusting and egalitarian societies

based on the median value of World Value Survey's "Trust" measure and "Egalitarianism Distance" value (Siegel et al., 2012), respectively; religious countries with the majority of population does not respond "no religion" in national census surveys; Christian versus non-Christian countries; and countries with common law versus non-common law countries. Findings in Table 13 are rather intriguing that indicate social and cultural characteristics such as, trust and egalitarianism do not alter the heterogeneity in investor reaction. Across all groups in Panel A, our original results persist robustly. We further document that heterogeneity persists if investors live in Christian countries while non-Christian investors do not alter their responses due to countries' political and economic power. Expectedly, investors of common law countries punish MNEs more negatively (up to -1.2% in CAR) due their misconducts in legally powerful and economically stronger countries, a reaction that isn't present in non-common law countries. Protection of investor rights seem to be an important criterion for MNEs' shareholders in their investment decisions.

[Table 13]

7. Conclusion

This study contributes to IB and ESG literature by providing a comprehensive, cross-border analysis of investor reactions to MNEs' ESG misconducts. Using a novel Perception Index, we explore how economic strength and legal credibility of foreign markets amplify the negative financial impact of ESG controversies. We document heterogenous investor responses to MNEs' ESG incidents depending on foreign countries' economic and legal power. These strongly negative reactions hold even when the incidents are less severe or have limited reach. They are particularly robust to human rights or anti-corruption violations. Social and cultural norms including trust, egalitarianism, and religion don't alter investors' perception of economic and political power in decision making.

These findings extend Institutional Theory and Liability of Foreignness research by integrating geographic and institutional factors into the analysis of ESG incidents, offering a global framework for understanding variations in investor behavior. By situating ESG controversies within diverse regulatory, cultural, and economic contexts, our study emphasizes the critical role of cross-border considerations in shaping shareholder value. By introducing the P-Index and highlighting its influence on investor responses, our study offers a deeper understanding of the interplay between ESG practices, institutional contexts, and corporate valuation. This study advances the literature on ESG incidents and provides actionable insights for navigating the complex dynamics of global sustainability.

MNEs must recognize that ESG compliance expectations vary across institutional environments. MNEs operating in legally and economically strong foreign markets must adopt proactive ESG risk management strategies, as investors react more negatively to ESG incidents in these jurisdictions. These insights have significant implications for policymakers, firms, and investors. Policymakers can use these findings to design more effective ESG regulations that reflect global investor behavior. Firms operating across multiple jurisdictions must proactively address institutional contexts and implement transparency measures to mitigate risks associated with ESG incidents. For investors, understanding the geographic and institutional dimensions of ESG incidents is essential for assessing financial risks and aligning investment strategies with sustainability objectives.

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Tables and Figures

Table 1: Descriptive Statistics

This table reports descriptive statistics for *Foreign, CAR03, P-Index1, P-Index2, P-Index3, MValue, Severity, Reach, Novelty, Env, Gov,* and *Soc*. The mean, standard deviation, and quartiles are reported. Panel A describes the whole sample while Panels B and C focus on the sample with domestic incidents and foreign incidents, respectively.

Panel A: All Incidents					
	Mean	**StDev.**	**25th**	**Median**	**75th**
Foreign	0.466	0.499	0.000	0.000	1.000
CAR03 (%)	-0.256	5.570	-1.689	-0.076	1.360
P-Index1	0.707	0.241	0.517	0.838	0.906
P-Index2	0.747	0.272	0.633	0.919	0.952
P-Index3	0.605	0.218	0.467	0.715	0.784
MValue ($Billion)	3.448	2.578	0.001	0.019	0.159
Severity	1.342	0.513	1.000	1.000	2.000
Reach	1.778	0.681	1.000	2.000	2.000
Novelty	0.381	0.486	0.000	0.000	1.000
Env	0.315	0.465	0.000	0.000	1.000
Gov	0.396	0.489	0.000	0.000	1.000
Soc	0.498	0.500	0.000	0.000	1.000
Panel B: Sample of Domestic Incidents					
CAR03 (%)	-0.351	5.974	-1.834	-0.145	1.405
P-Index1	0.803	0.172	0.816	0.897	0.906
P-Index2	0.864	0.163	0.782	0.945	0.955
P-Index3	0.696	0.146	0.607	0.775	0.790
MValue ($Billion)	3.826	2.782	0.001	0.007	0.236
Severity	1.282	0.471	1.000	1.000	2.000
Reach	1.816	0.680	1.000	2.000	2.000
Novelty	0.299	0.458	0.000	0.000	1.000
Env	0.267	0.442	0.000	0.000	1.000
Gov	0.423	0.494	0.000	0.000	1.000
Soc	0.439	0.496	0.000	0.000	1.000
Panel C: Sample of Foreign Incidents					
CAR03 (%)	-0.148	5.071	-1.532	-0.001	1.317
P-Index1	0.600	0.261	0.382	0.576	0.885
P-Index2	0.613	0.308	0.377	0.700	0.943
P-Index3	0.501	0.238	0.345	0.495	0.771
MValue ($Billion)	3.013	2.319	0.001	0.033	0.118
Severity	1.410	0.549	1.000	1.000	2.000
Reach	1.734	0.681	1.000	2.000	2.000
Novelty	0.473	0.499	0.000	0.000	1.000
Env	0.371	0.483	0.000	0.000	1.000
Gov	0.365	0.481	0.000	0.000	1.000
Soc	0.565	0.496	0.000	1.000	1.000

Table 2: T-Test of CAR between Domestic Incidents and Foreign Incidents

This table presents the cumulative abnormal returns with different time intervals for domestic and foreign incidents. Cumulative abnormal returns from the incident date up to 10 days, as well as, +/- 10 days around the incident date are calculated. The abnormal returns are the excess returns i.e., stock return minus the associated country's market index return. The differences in CAR values between domestic and foreign incidents are reported separately along with the statistical significance. * $p <$ 0.10, ** $p < 0.05$, *** $p < 0.01$.

	Domestic Incidents	Foreign Incidents	*Difference*
CAR01	-0.29%	-0.10%	*-0.19%****
CAR03	-0.35%	-0.15%	*-0.20%****
CAR05	-0.40%	-0.21%	*-0.19%****
CAR010	-0.55%	-0.31%	*-0.24%****
CAR(-1 ; +1)	-0.34%	-0.14%	*-0.20%****
CAR(-3 ; +3)	-0.50%	-0.25%	*-0.25%****
CAR(-5 ; +5)	-0.63%	-0.39%	*-0.24%****
CAR(-10 ; +10)	-0.88%	-0.62%	*-0.26%****

Table 3: Analysis on Reaction Heterogeneity among Foreign Incidents Only

This table reports regression estimates for *P-Index1, P-Index2,* and *P-Index3* along with *MValue, Severity, Reach, Novelty, Env, Gov,* and *Soc* as control variables. The dependent variable is *CAR03* between the incident date and three days after, where the abnormal returns are the excess returns i.e., stock return minus the associated country's market index return. *P-Index1, P-Index2,* and *P-Index3* are independent variables. Variable definitions are available in Table A.1, Appendix. Country, time, and firm fixed effects are included. Standard errors are clustered by firms and given in parentheses. The *** indicates statistical significance at the 1% level.

	CAR03		
	I	**II**	**III**
P-Index1	-0.138*		
	(0.079)		
P-Index2		-0.187***	
		(0.061)	
P-Index3			-0.222***
			(0.084)
MValue	-1.993***	-2.493***	-2.682***
	(0.745)	(0.763)	(0.814)
Severity	-0.070*	-0.072**	-0.072**
	(0.036)	(0.034)	(0.034)
Reach	-0.058**	-0.068**	-0.067**
	(0.029)	(0.027)	(0.027)
Novelty	0.002	-0.010	-0.010
	(0.039)	(0.037)	(0.038)
Env	-0.025	-0.011	-0.011
	(0.046)	(0.043)	(0.043)
Gov	-0.029	-0.018	-0.019
	(0.062)	(0.056)	(0.057)
Soc	0.002	-0.006	-0.006
	(0.045)	(0.042)	(0.042)
Constant	0.195	0.273*	0.267*
	(0.158)	(0.150)	(0.151)
Country, Firm, Time FEs	YES	YES	YES
Observations	68,614	75,306	75,028
Adj. R^2	0.072	0.070	0.070

Table 4: Analysis on Reaction Heterogeneity among Domestic and Foreign Incidents

This table reports regression estimates for the interaction between *P-Index1, P-Index2, P-Index3* and *Foreign* along with control variables. The dependent variable is *CAR03* between the incident date and three days after, where the abnormal returns are the excess returns i.e., stock return minus the associated country's market index return. *Foreign* is a binary variable equal to one for only foreign incidents, and zero for only domestic incidents. *P-Index1×Foreign, P-Index2×Foreign,* and *P-Index3×Foreign* are the main independent variables. Variable definitions are available in Table A.1, Appendix. Country, time, and firm fixed effects are included. Standard errors are clustered by firms and given in parentheses. The *** indicates statistical significance at the 1% level.

	CAR03		
	I	II	III
P-Index1×Foreign	-0.794***		
	(0.254)		
P-Index1	0.703***		
	(0.249)		
P-Index2×Foreign		-0.552**	
		(0.222)	
P-Index2		0.427*	
		(0.221)	
P-Index3×Foreign			-0.862***
			(0.279)
P-Index3			0.722***
			(0.277)
Foreign	0.789***	0.588***	0.727***
	(0.210)	(0.197)	(0.204)
MValue	-5.398***	-4.644***	-4.718***
	(0.766)	(0.703)	(0.717)
Severity	-0.125***	-0.107***	-0.110***
	(0.034)	(0.031)	(0.031)
Reach	-0.091***	-0.102***	-0.101***
	(0.022)	(0.021)	(0.021)
Novelty	-0.056*	-0.056*	-0.053*
	(0.033)	(0.032)	(0.032)
Env	0.040	0.051	0.047
	(0.036)	(0.034)	(0.034)
Gov	-0.071	-0.070*	-0.064
	(0.046)	(0.042)	(0.042)
Soc	0.063*	0.040	0.044
	(0.033)	(0.031)	(0.031)
Constant	-0.392	-0.188	-0.321
	(0.249)	(0.251)	(0.246)
Country, Firm, Time FEs	YES	YES	YES
Observations	146,691	162,752	161,774
Adj. R^2	0.093	0.093	0.092

Table 5: Analyses on CAR with Different range and Time Intervals

This table reports regression estimates for the interaction between *P-Index1, P-Index2, P-Index3* and *Foreign*. All controls and a constant are included in the models, but not reported for brevity. In Panel A, the dependent variable is *CAR[-3;+3]* with a range of +/-3 days around the incident date. In Panels B, C, and D, the dependent variables are *CAR01, CAR03, CAR05, CAR010,* and *CAR015* from the incident date up to 15 trading days where the abnormal returns are the excess returns i.e., stock return minus the associated country's market index return. In those panels, the main independent variables are the interaction between *P-Index1, P-Index2, P-Index3* and *Foreign,* respectively. Variable definitions are available in Table A.1, Appendix. Country, time, and firm fixed effects are included. Standard errors are clustered by firms and given in parentheses. The *** indicates statistical significance at the 1% level.

Panel A: Analyses on CAR with a Different Range

	CAR[-3 ; +3]		
P-Index:	**1**	**2**	**3**
P-Index×Foreign	-0.763**	-0.503*	-0.755**
	(0.345)	(0.285)	(0.378)
P-Index	0.742**	0.446	0.723*
	(0.336)	(0.293)	(0.386)
Foreign	0.802***	0.595**	0.700**
	(0.286)	(0.254)	(0.277)
Controls and FEs	YES	YES	YES
Observations	146,696	162,757	161,779
Adj. R^2	0.106	0.104	0.103

Panel B: Analyses with P-Index1

	CAR01	CAR03	CAR05	CAR010	CAR015
P-Index1×Foreign	-0.388*	-0.794***	-0.767**	-0.221	0.316
	(0.207)	(0.254)	(0.344)	(0.489)	(0.614)
P-Index1	0.427**	0.703***	0.657**	0.183	-0.416
	(0.204)	(0.249)	(0.323)	(0.475)	(0.602)
Foreign	0.469***	0.789***	0.745***	0.362	-0.125
	(0.172)	(0.210)	(0.281)	(0.400)	(0.515)
Controls and FEs	YES	YES	YES	YES	YES
Observations	146,396	146,691	146,693	146,693	146,693
Adj. R^2	0.087	0.093	0.080	0.095	0.103

Panel C: Analyses with P-Index2

	CAR01	CAR03	CAR05	CAR010	CAR015
P-Index2×Foreign	-0.365**	-0.552**	-0.571**	-0.635	-0.079
	(0.180)	(0.222)	(0.251)	(0.477)	(0.541)
P-Index2	0.328*	0.427*	0.399*	0.503	-0.127
	(0.178)	(0.221)	(0.242)	(0.470)	(0.530)
Foreign	0.442***	0.588***	0.575***	0.681	0.147
	(0.160)	(0.197)	(0.217)	(0.433)	(0.489)
Controls and FEs	YES	YES	YES	YES	YES
Observations	162,430	162,752	162,754	162,754	162,754
Adj. R^2	0.088	0.093	0.080	0.093	0.099

Panel D: Analyses with P-Index3

	CAR01	CAR03	CAR05	CAR010	CAR015
P-Index3×Foreign	-0.494**	-0.862***	-0.947***	-0.593	0.008
	(0.218)	(0.279)	(0.350)	(0.482)	(0.572)
P-Index3	0.476**	0.722***	0.762**	0.478	-0.233
	(0.216)	(0.277)	(0.332)	(0.459)	(0.546)
Foreign	0.485***	0.727***	0.762***	0.569	0.090
	(0.160)	(0.204)	(0.253)	(0.356)	(0.421)
Controls and FEs	YES	YES	YES	YES	YES
Observations	161,452	161,774	161,776	161,776	161,776
Adj. R^2	0.088	0.092	0.079	0.092	0.098

Table 6: Analyses with Separate P-Index Factors

This table reports regression estimates for the interaction between *RL-Factor, FD-Factor, G20-Factor, G20GDP-Factor,* and *Foreign* along with control variables. The dependent variable is *CAR03* between the incident date and three days after, where the abnormal returns are the excess returns i.e., stock return minus the associated country's market index return. *Foreign* is a binary variable equal to one for only foreign incidents, and zero for only domestic incidents. *RL-Factor, FD-Factor, G20-Factor,* and *G20GDP-Factor* are the factors used in construction of *P-Index1, P-Index2,* and *P-Index3*. Variable definitions are available in Table A.1, Appendix. Country, time, and firm fixed effects are included. Standard errors are clustered by firms and given in parentheses. The *** indicates statistical significance at the 1% level.

	CAR03			
	I	**II**	**III**	**IV**
RL-Factor×Foreign	-0.560**			
	(0.222)			
RL-Factor	0.500**			
	(0.221)			
FD-Factor×Foreign		-0.556**		
		(0.272)		
FD-Factor		0.595**		
		(0.248)		
G20-Factor×Foreign			-0.201*	
			(0.118)	
G20-Factor			0.154	
			(0.127)	
G20GDP-Factor×Foreign				-0.485**
				(0.247)
G20GDP-Factor				0.412*
				(0.231)
Foreign	0.594***	0.588***	0.284**	0.389**
	(0.188)	(0.219)	(0.123)	(0.154)
MValue	-4.654***	-10.320***	-8.257***	-8.311***
	(0.703)	(0.812)	(1.262)	(1.285)
Severity	-0.104***	-0.110***	-0.094***	-0.098***
	(0.031)	(0.037)	(0.033)	(0.033)
Reach	-0.103***	-0.099***	-0.110***	-0.109***
	(0.021)	(0.026)	(0.023)	(0.024)
Novelty	-0.053*	-0.045	-0.048	-0.046
	(0.031)	(0.035)	(0.033)	(0.033)
Env	0.050	0.047	0.056	0.052
	(0.034)	(0.037)	(0.034)	(0.034)
Gov	-0.068	-0.059	-0.059	-0.054
	(0.042)	(0.046)	(0.042)	(0.042)
Soc	0.046	0.059*	0.035	0.038
	(0.031)	(0.033)	(0.031)	(0.031)
Constant	-0.226	-0.292	0.044	-0.053
	(0.226)	(0.249)	(0.195)	(0.205)
Country, Firm, Time FEs	YES	YES	YES	YES
Observations	162,752	147,501	163,634	162,657
Adj. R^2	0.093	0.087	0.087	0.086

Table 7: Analyses with Alternative P-Indices

This table reports regression estimates for the interaction between *Foreign* and alternative P-Indices. In *P-Index4, P-Index5,* and *P-Index6* "rule of law value" is replaced by "voice and accountability value" in % as another proxy for the power of law (e.g., Barman and Mahkud, 2024). Instead of equal weights, a double (single) weight is assigned for the power of law (economic strength) factor in the construction of *P-Indices(law)* while a double (single) weight is assigned for the economic strength (power of law) factor in the construction of *P-Indices(econ).* All fixed effects, controls and a constant are included. Standard errors are clustered by firms and given in parentheses. The *** indicates statistical significance at the 1% level.

Panel A: Analyses using P-Indices with a New Proxy for "Power of Law"

	CAR03		
P-Index4×Foreign	-0.012***		
	(0.004)		
P-Index4	0.040***		
	(0.014)		
P-Index5×Foreign		-0.010**	
		(0.004)	
P-Index5		0.028**	
		(0.012)	
P-Index6×Foreign			-0.009**
			(0.004)
P-Index6			0.030**
			(0.013)
Foreign	0.595***	0.497***	0.484***
	(0.174)	(0.169)	(0.169)
Observations	147,501	163,634	162,657
Adj. R^2	0.087	0.087	0.086

Panel B: Analyses using P-Indices with More Emphasis on "Power of Law"

P-Index1(law)×Foreign	-0.772***		
	(0.247)		
P-Index1(law)	0.689***		
	(0.242)		
P-Index2(law)×Foreign		-0.716***	
		(0.251)	
P-Index2(law)		0.593**	
		(0.251)	
P-Index3(law)×Foreign			-0.806***
			(0.271)
P-Index3(law)			0.693**
			(0.269)
Foreign	0.775***	0.724***	0.725***
	(0.205)	(0.219)	(0.208)
Observations	146,693	162,752	161,775
Adj. R^2	0.093	0.093	0.092

Panel C: Analyses using P-Indices with More Emphasis on "Economic Strength"

P-Index1(econ)×Foreign	-0.785***		
	(0.258)		
P-Index1(econ)	0.693***		
	(0.252)		
P-Index2(econ)×Foreign		-0.392**	
		(0.184)	
P-Index2(econ)		0.272	
		(0.183)	
P-Index3(econ)×Foreign			-0.812***
			(0.275)
P-Index3(econ)			0.655**
			(0.272)
Foreign	0.779***	0.454***	0.656***
	(0.212)	(0.167)	(0.191)
Observations	146,693	162,752	161,775
Adj. R^2	0.093	0.093	0.092

Table 8: Analyses Excluding Overlapping Incidents and Including Mixed Incidents

This table reports regression estimates for the interaction between *P-Index1, P-Index2, P-Index3,* and *Foreign* and *Mixed*. All controls and a constant are included in the models, but not reported for brevity. In Panel A, the subsample excludes additional ESG incidents from the announcement of a previous incident up to three days due to the time interval of *CAR03*. In Panel B, the subsample has *Mixed,* replacing *Foreign,* as a binary variable equal to one for incidents affecting both foreign and home countries, and zero for only domestic incidents. The dependent variable is *CAR03* between the incident date and three days after, where the abnormal returns are the excess returns i.e., stock return minus the associated country's market index return. Variable definitions are available in Table A.1, Appendix. Country, time, and firm fixed effects are included. Standard errors are clustered by firms and given in parentheses. The *** indicates statistical significance at the 1% level.

Panel A: Analyses Excluding Overlapping Incidents			
	CAR03		
	I	II	III
P-Index1×Foreign	-0.613**		
	(0.290)		
P-Index1	0.636**		
	(0.277)		
P-Index2×Foreign		-0.458*	
		(0.241)	
P-Index2		0.376	
		(0.235)	
P-Index3×Foreign			-0.717**
			(0.308)
P-Index3			0.659**
			(0.298)
Foreign	0.611***	0.476**	0.596***
	(0.235)	(0.209)	(0.219)
Controls and FEs	YES	YES	YES
Observations	103,568	112,383	111,670
Adj. R^2	0.094	0.092	0.092
Panel B: Analyses with Mixed Incidents			
P-Index1×Mixed	-0.492		
	(0.364)		
P-Index1	0.451		
	(0.328)		
P-Index2×Mixed		-0.619**	
		(0.285)	
P-Index2		0.455*	
		(0.254)	
P-Index3×Mixed			-0.610*
			(0.362)
P-Index3			0.507
			(0.334)
Mixed	0.509*	0.592**	0.502*
	(0.294)	(0.235)	(0.261)
Controls and FEs	YES	YES	YES
Observations	94,734	105,045	104,363
Adj. R^2	0.110	0.110	0.109

Table 9: Analyses with Additional Controls

This table reports regression estimates for the interaction between *P-Index1, P-Index2, P-Index3* and *Foreign* along with control variables. A constant is included in the models, but not reported for brevity. Additional control variables are *Leverage* is the sum of short- and long-term debt over total assets; *ROA* is cashflow from operations over total assets; *Cash Ratio* is the cash holdings over total assets; *CAPEX Ratio* is capital expenditures over total assets; *Tobin's Q* is book value of assets plus market value minus book value of common equity, over total assets; and *Dividend* is a binary variable equal to one for firms paying dividends, and zero otherwise. Variable definitions are available in Table A.1, Appendix. Country, time, and firm fixed effects are included. Standard errors are clustered by firms and given in parentheses. The *** indicates statistical significance at the 1% level.

	CAR03		
	I	II	III
P-Index1×Foreign	-0.737**		
	(0.328)		
P-Index1	0.593*		
	(0.328)		
P-Index2×Foreign		-0.641**	
		(0.282)	
P-Index2		0.494*	
		(0.281)	
P-Index3×Foreign			-0.987***
			(0.361)
P-Index3			0.817**
			(0.354)
Foreign	0.712**	0.645**	0.798***
	(0.278)	(0.256)	(0.268)
MValue	-6.032***	-5.682***	-5.773***
	(1.170)	(1.184)	(1.198)
Leverage	-0.586*	-0.418	-0.409
	(0.347)	(0.322)	(0.324)
ROA	0.994	1.106*	1.159**
	(0.651)	(0.573)	(0.578)
Cash Ratio	0.779*	0.913**	0.884**
	(0.454)	(0.416)	(0.417)
CAPEX Ratio	-2.957**	-2.651**	-2.749**
	(1.226)	(1.109)	(1.115)
Tobin's Q	0.261***	0.207***	0.209***
	(0.054)	(0.048)	(0.049)
Dividend	-0.087	-0.051	-0.052
	(0.075)	(0.068)	(0.068)
Severity	-0.120***	-0.104***	-0.105***
	(0.039)	(0.035)	(0.035)
Reach	-0.074***	-0.084***	-0.082***
	(0.023)	(0.022)	(0.022)
Novelty	-0.059*	-0.049	-0.044
	(0.035)	(0.034)	(0.034)
Env	0.076*	0.085**	0.079**
	(0.041)	(0.038)	(0.038)
Gov	-0.136***	-0.126***	-0.125***
	(0.051)	(0.047)	(0.047)
Soc	0.069*	0.044	0.046
	(0.037)	(0.034)	(0.035)
Country, Firm, Time FEs	YES	YES	YES
Observations	110,223	122,852	122,072
Adj. R²	0.091	0.090	0.089

Table 10: Analyses on Alternative Explanations

This table reports regression estimates for the interaction between *P-Index1, P-Index2, P-Index3* and *Foreign* in Panels A – C testing the effects of mandatory ESG reporting, foreign investors in home country, and efficiency of domestic markets through subsamples, respectively. Variable definitions are available in Table A.1, Appendix. All controls, as well as, country, time, and firm fixed effects are included. Standard errors are clustered by firms and given in parentheses. The *** indicates statistical significance at the 1% level.

Panel A: Effect of Mandatory ESG Reporting

	CAR03					
	Mandatory ESG Reporting in Place			**No Mandatory ESG Reporting**		
P-Index1×Foreign	-1.276***			-0.723**		
	(0.462)			(0.314)		
P-Index1	1.213***			0.617**		
	(0.468)			(0.302)		
P-Index2×Foreign		-0.475*			-0.915***	
		(0.282)			(0.345)	
P-Index2		0.407			0.749**	
		(0.286)			(0.343)	
P-Index3×Foreign			-1.010**			-1.054***
			(0.437)			(0.401)
P-Index3			0.978**			0.862**
			(0.438)			(0.395)
Foreign	1.060***	0.452*	0.749**	0.768***	0.935***	0.893***
	(0.370)	(0.233)	(0.303)	(0.263)	(0.314)	(0.300)
Observations	45,568	52,545	52,272	100,644	109,690	109,018
Adj. R^2	0.126	0.128	0.128	0.082	0.080	0.079

Panel B: Effect of Foreign Investors

Foreign Ownership:	**Less than 7% (Q1)**			**More than 7%**		
P-Index1×Foreign	-1.716***			-0.516*		
	(0.643)			(0.271)		
P-Index1	1.375**			0.440*		
	(0.615)			(0.264)		
P-Index2×Foreign		-1.287**			-0.400*	
		(0.525)			(0.230)	
P-Index2		1.221***			0.278	
		(0.474)			(0.230)	
P-Index3×Foreign			-1.717**			-0.598**
			(0.684)			(0.296)
P-Index3			1.584**			0.455
			(0.624)			(0.295)
Foreign	1.331***	1.141***	1.222***	0.567**	0.456**	0.537**
	(0.504)	(0.437)	(0.462)	(0.224)	(0.205)	(0.216)
Observations	30,073	33,961	33,665	115,601	127,682	127,023
Adj. R^2	0.151	0.154	0.152	0.084	0.082	0.081

Panel C: Effect of Market Efficiency

	Fully Efficient Markets			**Partially Efficient Markets**		
P-Index1×Foreign	-1.109**			-0.831**		
	(0.495)			(0.335)		
P-Index1	0.955**			0.797**		
	(0.487)			(0.322)		
P-Index2×Foreign		-0.880**			-0.599*	
		(0.422)			(0.320)	
P-Index2		0.714*			0.572*	
		(0.413)			(0.315)	
P-Index3×Foreign			-1.133**			-1.099***
			(0.441)			(0.417)
P-Index3			0.925**			1.065***
			(0.424)			(0.405)
Foreign	1.078**	0.910**	0.949***	0.734***	0.593**	0.825***
	(0.425)	(0.385)	(0.328)	(0.253)	(0.264)	(0.275)
Observations	94,016	94,344	94,187	50,956	51,088	50,988
Adj. R^2	0.097	0.096	0.097	0.111	0.111	0.111

Table 11: Testing the Country and Industry Bias

This table reports regression estimates for the interaction between *P-Index1, P-Index2, P-Index3* and *Foreign*. In Columns I-III, the incidents in the U.S. and Korea are excluded from the sample while in Columns IV-VI firm FE is replaced with industry FE. In Columns VII-IX, incidents in top three sectors i.e., finance, energy, and manufacturing, are excluded. Variable definitions are available in Table A.1, Appendix. All controls, as well as, country, time, and firm fixed effects are included. Standard errors are clustered by firms and given in parentheses. The *** indicates statistical significance at the 1% level.

	Excluding the U.S. and Korea CAR03			Industry Fixed Effects CAR03			Excluding Finance, Energy and Manufacturing Sectors CAR03		
	I	II	III	IV	V	VI	VII	VIII	IX
P-Index1×Foreign	-0.681**			-0.816**			-1.314***		
	(0.318)			(0.279)			(0.409)		
P-Index1	0.593*			0.794**			1.085***		
	(0.317)			(0.309)			(0.407)		
P-Index2×Foreign		-0.397*			-0.767**			-0.735**	
		(0.233)			(0.298)			(0.295)	
P-Index2		0.300			0.729**			0.600**	
		(0.239)			(0.336)			(0.292)	
P-Index3×Foreign			-0.745**			-0.974**			-1.550***
			(0.343)			(0.381)			(0.414)
P-Index3			0.612*			0.917*			1.352***
			(0.348)			(0.436)			(0.407)
Foreign	0.747***	0.518***	0.690***	0.921***	0.910***	0.925***	1.160***	0.713***	1.184***
	(0.235)	(0.196)	(0.227)	(0.243)	(0.264)	(0.290)	(0.345)	(0.263)	(0.305)
Constant	-0.312	-0.091	-0.230	-0.412	-0.414	-0.432	-0.491	-0.108	-0.547
	(0.281)	(0.270)	(0.281)	(0.416)	(0.468)	(0.467)	(0.382)	(0.308)	(0.340)
Firm FE	YES	YES	YES	NO	NO	NO	YES	YES	YES
Industry FE	NO	NO	NO	YES	YES	YES	NO	NO	NO
Country, Time FEs	YES	YES	YES	YES	YES	YES	YES	YES	YES
Observations	84,027	94,036	93,148	150,322	166,721	165,646	84,039	94,083	93,424
Adj. R²	0.107	0.107	0.106	0.004	0.004	0.004	0.100	0.102	0.100

Table 12: Analyses on Incident Characteristics

This table reports regression estimates for the interaction between *P-Index1*, *P-Index2*, *P-Index3* and *Foreign*. In Panel A subsamples with different incident features are tested while in Panel B subsamples of incidents on different UNGC principles are examined. Variable definitions are available in Table A.1, Appendix. All controls, a constant, as well as, country, time, and firm fixed effects are included. Standard errors are clustered by firms and given in parentheses. The *** indicates statistical significance at the 1% level.

Panel A: Subsamples of Incidents with Different Characteristics

	First-Time Incidents			Recurring Incidents			Less Severe Incidents			Limited Reach Incidents		
	CAR03	CAR03	CAR03	CAR03	CAR03	CAR03	CAR03	CAR03	CAR03	CAR03	CAR03	CAR03
P-Index1×Foreign	-0.817*			-0.792*			-0.815**			-1.305***		
	(0.419)			(0.434)			(0.317)			(0.460)		
P-Index1	0.793**			0.613			0.771**			1.160**		
	(0.401)			(0.422)			(0.306)			(0.474)		
P-Index2×Foreign		-0.287			-0.718**			-0.351*			-0.410	
		(0.325)			(0.322)			(0.210)			(0.340)	
P-Index2		0.215			0.556*			0.203			0.262	
		(0.330)			(0.315)			(0.212)			(0.342)	
P-Index3×Foreign			-0.555			-1.046***			-0.689**			-0.876**
			(0.445)			(0.402)			(0.328)			(0.446)
P-Index3			0.465			0.851**			0.560*			0.710
			(0.449)			(0.401)			(0.321)			(0.468)
Foreign	0.792**	0.326	0.478	0.813**	0.781***	0.904***	0.794***	0.391**	0.590**	1.135***	0.392	0.663*
	(0.343)	(0.293)	(0.332)	(0.362)	(0.283)	(0.296)	(0.264)	(0.189)	(0.237)	(0.400)	(0.306)	(0.341)
Observations	91,552	101,895	101,498	53,194	58,673	58,125	97,236	109,448	108,768	51,545	57,336	57,181
Adj. R²	0.091	0.089	0.089	0.181	0.184	0.182	0.109	0.108	0.107	0.134	0.139	0.139

Panel B: Subsamples of Incidents on UNGC Principles

	Human Rights Principles			Labor Principles			Environment Principles			Anti-Corruption Principles		
P-Index1×Foreign	-1.251***			-1.677			-0.414			-1.215		
	(0.407)			(1.769)			(0.461)			(1.020)		
P-Index1	0.873**			1.567			0.263			0.792		
	(0.391)			(1.755)			(0.433)			(1.037)		
P-Index2×Foreign		-0.771*			-0.639			-0.216			-2.228***	
		(0.441)			(1.268)			(0.285)			(0.815)	
P-Index2		0.532			0.630			0.074			1.874**	
		(0.435)			(1.268)			(0.272)			(0.785)	
P-Index3×Foreign			-1.193**			-0.746			-0.380			-2.298***
			(0.516)			(1.607)			(0.439)			(0.890)
P-Index3			0.840*			0.758			0.187			1.854**
			(0.504)			(1.591)			(0.421)			(0.874)
Foreign	1.081***	0.757*	0.914**	1.279	0.523	0.505	0.385	0.213	0.295	1.162	2.034***	1.732***
	(0.330)	(0.393)	(0.374)	(1.565)	(1.184)	(1.225)	(0.385)	(0.243)	(0.313)	(0.862)	(0.716)	(0.644)
Observations	32,559	36,436	36,274	12,807	14,024	13,974	42,606	46,787	46,556	18,520	19,799	19,688
Adj. R²	0.117	0.121	0.120	0.152	0.148	0.148	0.099	0.097	0.097	0.143	0.136	0.135

Table 13: Analyses on Social and Cultural Characteristics

This table reports regression estimates for the interaction between *P-Index1, P-Index2, P-Index3* and *Foreign*. In Panel A subsamples are created based on above/below yearly median values of "Trust" (World Values Survey) and "Egalitarianism Distance" (Siegel et al., 2012) while in Panel B subsamples are formed based on the countries' religion category per year. In Panel C, subsamples are based on the countries' legal systems. Variable definitions are available in Table A.1, Appendix. All controls, a constant, as well as, country, time, and firm fixed effects are included. Standard errors are clustered by firms and given in parentheses. The *** indicates statistical significance at the 1% level.
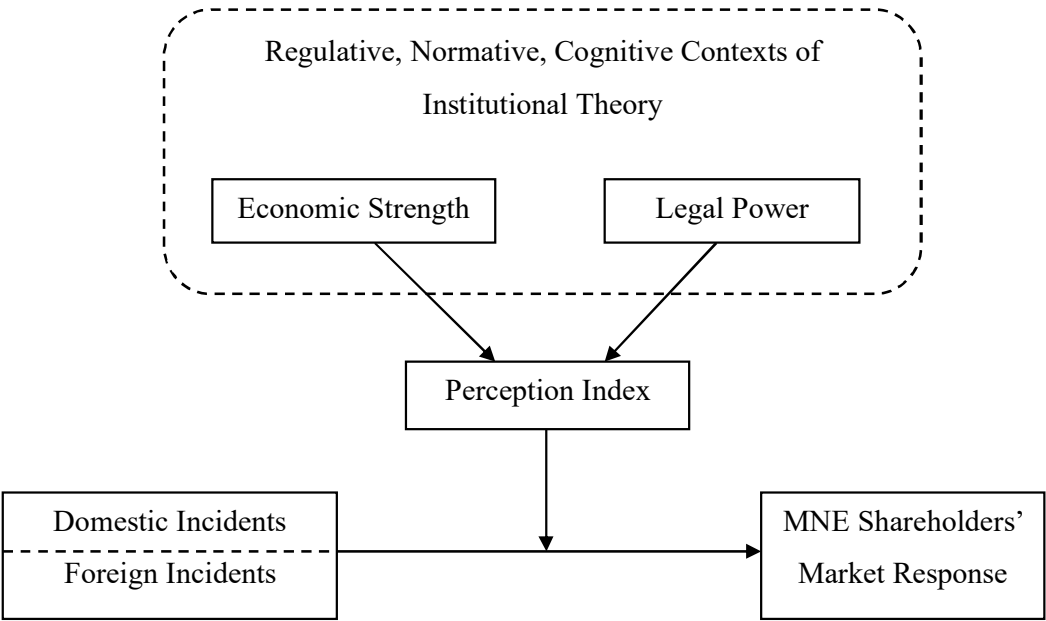
Panel A: Analyses on Cultural Characteristics

Investors' Country:	More Trusting			Less Trusting			More Egalitarian			Less Egalitarian		
	CAR03			CAR03			CAR03			CAR03		
P-Index1×Foreign	-0.907*			-0.805***			-1.048**			-0.774***		
	(0.550)			(0.290)			(0.492)			(0.300)		
P-Index1	0.851			0.657**			0.971**			0.679**		
	(0.554)			(0.271)			(0.490)			(0.289)		
P-Index2×Foreign		-0.497**			-0.788*			-0.612**			-0.745*	
		(0.251)			(0.468)			(0.277)			(0.385)	
P-Index2		0.421			0.595			0.540**			0.562	
		(0.258)			(0.475)			(0.274)			(0.390)	
P-Index3×Foreign			-0.969**			-0.856**			-1.028**			-0.934**
			(0.427)			(0.380)			(0.407)			(0.395)
P-Index3			0.882**			0.630*			0.932**			0.743*
			(0.427)			(0.374)			(0.402)			(0.396)
Foreign	0.880*	0.551**	0.816***	0.796***	0.782*	0.698**	0.938**	0.587**	0.792***	0.798***	0.770**	0.791***
	(0.452)	(0.223)	(0.302)	(0.238)	(0.429)	(0.282)	(0.391)	(0.236)	(0.283)	(0.251)	(0.352)	(0.297)
Observations	71,938	80,292	79,461	74,753	82,460	82,313	53,486	58,939	58,833	93,205	103,813	102,941
Adj. R²	0.094	0.098	0.096	0.092	0.087	0.087	0.104	0.094	0.094	0.087	0.092	0.091

Panel B: Analyses on Religion

Investors' Country:	Religion Fixed Effects			Religious Countries			Christian Countries			Non-Christian Countries		
	CAR03			CAR03			CAR03			CAR03		
P-Index1×Foreign	-0.676***			-0.925***			-0.835***			0.148		
	(0.178)			(0.259)			(0.310)			(0.568)		
P-Index1	0.657***			0.801***			0.717**			-0.175		
	(0.168)			(0.251)			(0.300)			(0.581)		
P-Index2×Foreign		-0.725***			-0.610***			-0.665**			-0.004	
		(0.168)			(0.231)			(0.277)			(0.356)	
P-Index2		0.702***			0.466**			0.520*			-0.089	
		(0.159)			(0.229)			(0.278)			(0.349)	
P-Index3×Foreign			-0.871***			-0.942***			-0.809**			-0.215
			(0.194)			(0.289)			(0.345)			(0.522)
P-Index3			0.818***			0.776***			0.650*			0.106
			(0.183)			(0.283)			(0.341)			(0.535)
Foreign	0.756***	0.839***	0.806***	0.896***	0.623***	0.770***	0.749***	0.595**	0.605**	0.224	0.314	0.474
	(0.144)	(0.146)	(0.138)	(0.215)	(0.203)	(0.210)	(0.264)	(0.251)	(0.257)	(0.423)	(0.290)	(0.351)
Observations	150,322	166,721	165,646	119,776	133,083	132,154	93,663	102,966	102,792	53,028	59,786	58,982
Adj. R²	0.003	0.003	0.003	0.102	0.101	0.100	0.093	0.087	0.087	0.092	0.097	0.096

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Table 13: Analyses on Social and Cultural Characteristics (continued)

Panel C: Analyses on Legal Systems

| Investors' Country:	Law Fixed Effects			Common Law Countries			Non-Common Law Countries		
	CAR03			CAR03			CAR03		
P-Index1×Foreign	-0.911***			-1.169***			-0.151		
	(0.211)			(0.393)			(0.388)		
P-Index1	0.885***			1.087***			0.041		
	(0.191)			(0.390)			(0.390)		
P-Index2×Foreign		-0.569***			-1.201***			-0.043	
		(0.182)			(0.377)			(0.292)	
P-Index2		0.496***			1.083***			-0.098	
		(0.168)			(0.368)			(0.294)	
P-Index3×Foreign			-1.006***			-1.230***			-0.101
			(0.222)			(0.426)			(0.422)
P-Index3			0.917***			1.141***			-0.111
			(0.202)			(0.416)			(0.435)
Foreign	0.952***	0.695***	0.902***	1.052***	1.115***	0.956***	0.385	0.286	0.317
	(0.169)	(0.155)	(0.155)	(0.346)	(0.349)	(0.326)	(0.286)	(0.237)	(0.277)
Observations	148,857	164,393	164,111	75,746	82,645	82,539	70,945	80,107	79,235
Adj. R^2	0.002	0.002	0.002	0.101	0.097	0.097	0.088	0.091	0.089

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Figure 1: Theoretical Framework

Figure 2: Classification of Incidents in the Sample

Figure 1 shows the classification of incidents in the sample. Specifically, Panel A shows the distribution of incidents across top 15 countries while Panel B gives the sector distribution of those firms with incidents.

Panel A: Distribution of Incidents across Countries
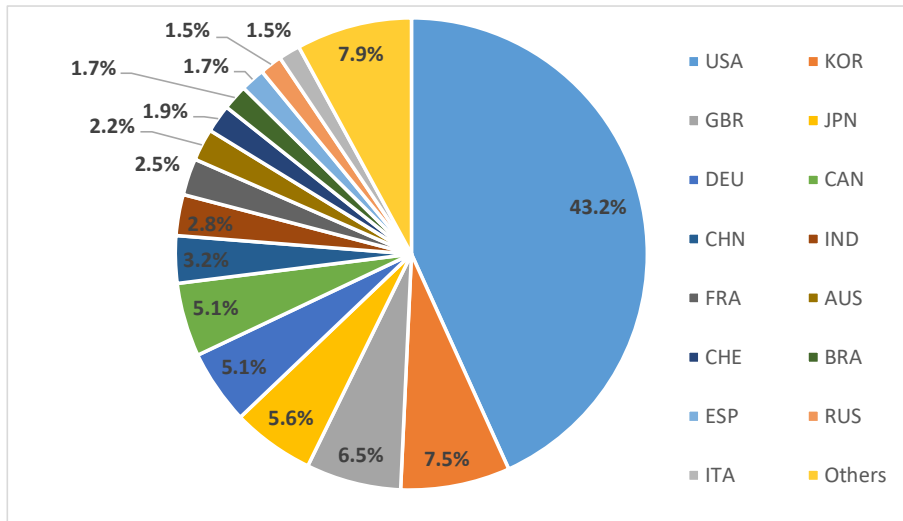
Panel B: Industry Distribution of Firms
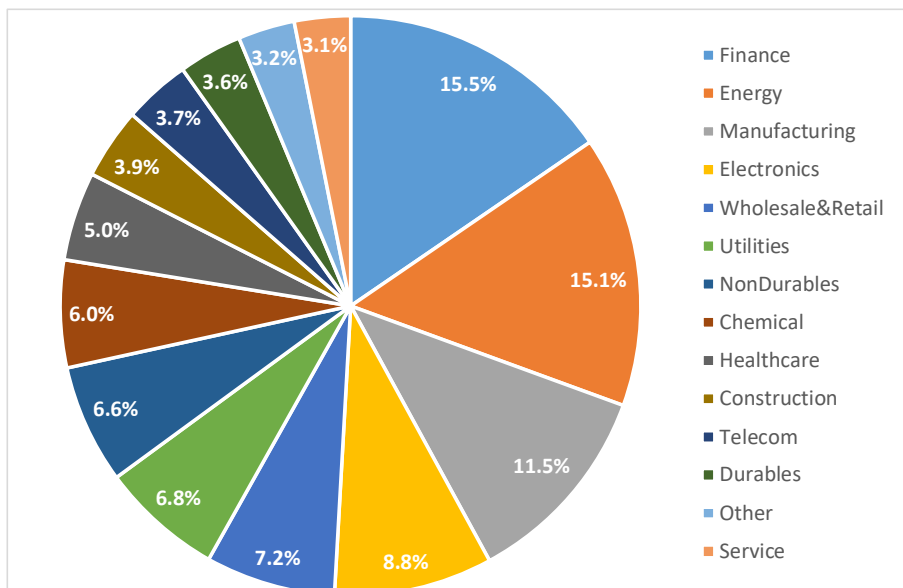
Appendix

Table A.1: Definition of Variables

This table presents the description of the variables used in main analyses.

Variable	Description
CAR03	Cumulative abnormal returns between the incident date and three days after, where the abnormal returns are the excess returns i.e., stock return minus the associated country's market index return.
P-Index1	Perception Index 1, ranging from zero to one: An equally-weighted average of "rule of law value" (%) and "financial development index" (%) per country per year. In case, that the same incident affects multiple foreign countries simultaneously, we take an equally-weighted average of perception index value of all affected countries per incident.
P-Index2	Perception Index 2, ranging from zero to one: An equally-weighted average of "rule of law value" (%) and a binary variable for G20 countries per country per year. In case, that the same incident affects multiple foreign countries simultaneously, we take an equally-weighted average of perception index value of all affected countries per incident.
P-Index3	Perception Index 3, ranging from zero to one: An equally-weighted average of "rule of law value" (%) and a combination of normalized annual GDP per capita and the G20 dummy, per country per year. First, we normalize the annual GDP per capita of each country by the largest value per year across all countries. Then, we calculate an equally-weighted average of that measure and the G20 dummy. In case, that the same incident affects multiple foreign countries simultaneously, we take an equally-weighted average of perception index value of all affected countries per incident.
Foreign	Binary variable equal to one for only foreign incidents and zero for only domestic incidents.
MValue	Common shares outstanding multiplied by share price.
Severity	The extent of the incident's impact from less severe to very severe, described by RepRisk with a value between one and three, respectively.
Reach	The reach of the information source according to their readership and circulation from limited reach to high reach, described by RepRisk with a value between one and three, respectively.
Novelty	Binary variable equal to one for recurring issues, and zero for a first-time incident by the company, described by RepRisk.
Env	Binary variable equal to one for incidents with an environment theme, and zero otherwise.
Gov	Binary variable equal to one for incidents with a governance theme, and zero otherwise.
Soc	Binary variable equal to one for incidents with a social theme, and zero otherwise.

Table A.2: Correlation between Indices

This table gives the correlation between the P-Indices and other publicly available perception indices.

	PCI	DI	EII	EFI	P-Index1	P-Index2	P-Index3
PCI	1						
DI	-0.413	1					
EII	-0.102	-0.075	1				
EFI	-0.307	0.198	0.279	1			
P-Index1	-0.253	0.166	0.374	0.296	1		
P-Index2	-0.408	0.386	0.189	0.323	0.597	1	
P-Index3	-0.346	0.362	0.205	0.392	0.623	0.741	1