

Global Firms and Global Sheriffs? Why Territory  
Matters for Extraterritorial Enforcement of  
Regulatory Regimes  
IPES 2021 Annual Meeting

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# Motivation

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**Why did US authorities investigate the first case and not the second one?**

# Intuition

**Smith & Nephew PLC** in the US:

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Fort Worth, Texas (among many of its offices)



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**Royal Imtech NV** in the US:

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12.84	+3.56%	▲	120.34	300,000
23.90	+12.3%	▲	543.23	120,000
15.89	+5.34%	▲	254.23	320,000
5.34	-7.89%	▼	321.56	430,000
7.34	+5.97%	▲	100.08	120,000
4.89	+2.13%	▲	564.23	900,000
4.45	+6.43%	▲	765.90	600,000
1.67	-11.6%	▼	120.34	380,000
64	+23.1%	▲	893.23	120,000
39	+5.56%	▲	128.98	320,000
8	-3.67%	▼	432.12	750,000
7	+11.3%	▲	765.23	150,000
	+2.54%	▲	432.24	120,000

Listed on NYSE Euronext

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**Why do authorities select certain foreign companies over others?**



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**Authorities are more likely to investigate suspected companies if they are present in the country (foreign investment)**

# Problem

We cannot observe cases that authorities of a country chose not to prosecute.  
How do we study selection?



## Case: US extraterritorial prosecution for foreign bribery

- ▶ US lead the construction of the global anti-bribery regime (1990s): criminalization of international bribe payments
- ▶ Countries adopted anti-bribery policies similar to the US one
- ▶ US DOJ and SEC apply Foreign Corrupt Practices Act (FCPA) on non-US companies present in the country or not
  - Stock exchanges
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    - Stock exchanges
    - US “instrumental” means
- **Allow to observe non-US cases that DOJ or SEC investigated and similar cases they did not investigate** (as long as some authorities from other countries did)

# Data collection

## Anti-bribery data:

- ▶ Web-scrape 841 documents from the TRACE Compendium (collection of worldwide anti-bribery actions)
- ▶ Bribes paid by 774 companies (from 76 countries). I keep 428 non-US companies
- ▶ **DV:** I measure whether the US ever investigated them (binary, *Investigation*)

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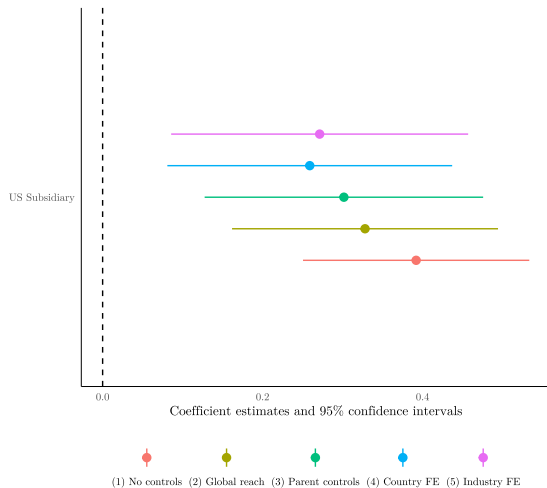
## US exposure data:

- ▶ Orbis data for activity of 402 of these companies around the world
- ▶ **IV:** I measure whether they are present in the US through a majority-owned subsidiary (binary, *US Subsidiary*)

# Empirical model

- ▶ A simple linear probability model of *Investigation*
- ▶ Inclusion of controls for:
  - Global reach
  - Size of parent firm
  - Home country FE
  - Industry FE

# Results



# Robustness tests

- ▶ Estimation of a narrower causal quantity (ATT)
  - ▶ Mahalanobis matching
  - ▶ Regression imputation estimator (Lin, 2013)
- ▶ Alternative functional forms specification
  - ▶ Logit models
  - ▶ Random effects model (linear and logit)
- ▶ Alternative operationalization of DV and IV

# Conclusion

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- ▶ Novel data on non-US bribery cases DOJ and SEC enforced/did not enforce

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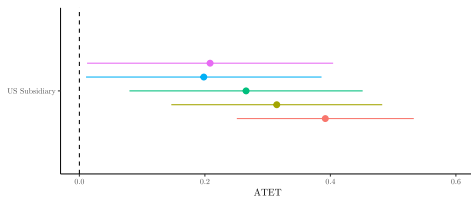
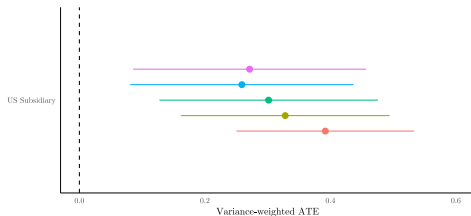
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- ▶ Novel data on non-US bribery cases DOJ and SEC enforced/did not enforce
- ▶ Findings: Probability of being investigated by US authorities increases of about .26 for non-US companies with at least one investment in the US

Thank you!

Thank you, I look forward to your comments!

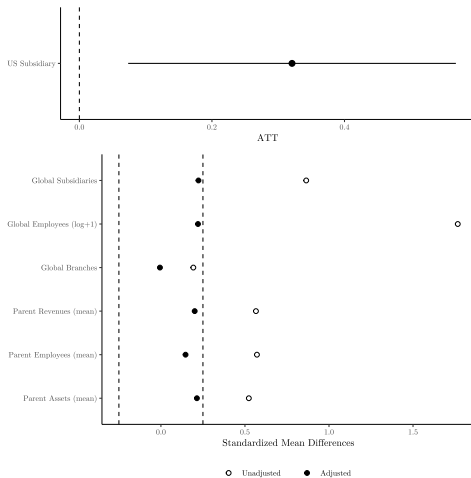
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# Comparison: OLS results and regression imputation



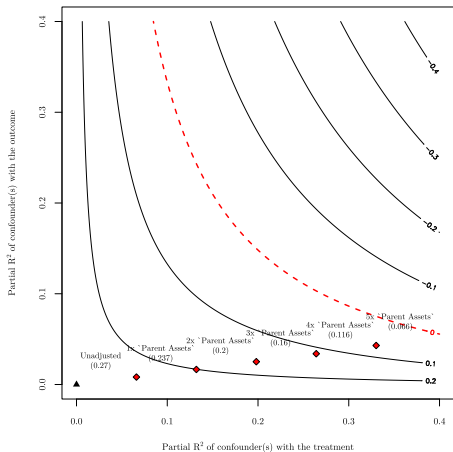
- (1) No controls    (2) Global reach    (3) Parent controls    (4) Country FE    (5) Industry FE

# Matching balance and estimated ATET

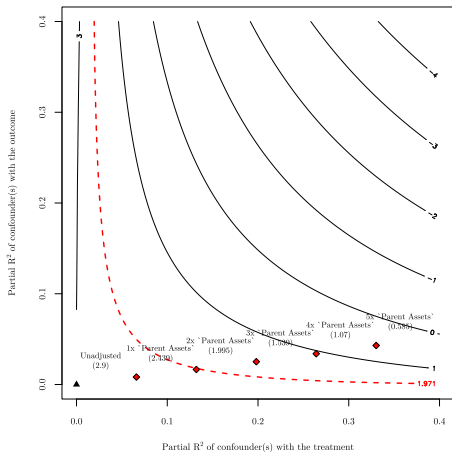




# Sensitivity analysis of OLS full model: Point estimates



# Sensitivity analysis of OLS full model: t-statistics



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