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MNCs' corporate social irresponsibility and foreign subsidiary performance

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Abstract

Research Summary: Building on the cognitive view of stakeholder evaluation, we propose that multinational corporations' (MNCs') socially irresponsible acts transcend geographic boundaries and negatively affect foreign subsidiary performance. Moreover, we propose that foreign subsidiaries' product innovation and marketing campaigns create strategic noise in the information space that can mitigate the negative effect of MNCs' corporate social irresponsibility (CSI) incidents occurring elsewhere on the performance of their foreign subsidiaries. We test our arguments on 335 subsidiaries of 42 multinational grocery retailers from 18 different home countries. Our analyses, based on a sample of 2185 subsidiary-year observations over the period of 9 years (2012–2020), largely support our core argument that CSI incidents negatively influence the sales growth of foreign subsidiaries.

Managerial Summary: This research underscores the importance for MNC managers to be cognizant of the potential fallout from CSI incidents. With the global spread of information, MNCs' misconduct that occurs elsewhere can quickly impact the sales growth of foreign subsidiaries. The study found that product or service innovations are more effective than marketing campaigns in managing reputational damage, emphasizing the value

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of genuine, capability-enhancing strategies. Furthermore, the findings highlight the interconnectedness between socially responsible practices and innovation, suggesting that MNCs and their subsidiaries should focus on maintaining strong ethical standards while simultaneously fostering an environment conducive to innovation. This approach not only addresses the adverse effects of CSI but also strengthens the MNC's overall standing with its stakeholders.

KEYWORDS

corporate social irresponsibility, foreign subsidiaries, innovation, marketing campaign, multinational companies, reputation

1 | INTRODUCTION

Recent developments highlight the evolving role of multinational corporations (MNCs) in achieving the United Nations Sustainable Development Goals (UNSDGs) and the Business Roundtable's redefined corporate purpose. These shifts encourage organizations to prioritize broader stakeholder responsibilities over mere shareholder value creation (Harrison et al., 2020). In this context, the actions or inactions of MNCs related to socially responsible behavior significantly impact all stakeholders, including foreign affiliates. Studies demonstrate that markets and customers reward or penalize firms based on corporate behavior (Barnett, 2014; Kölbel et al., 2017). International business (IB) research further reveals that MNCs' pro-social behavior is an asset, aiding subsidiaries when competing in foreign markets (Jiang et al., 2020; Mukherjee et al., 2018). If an MNC's socially responsible behaviors help foreign subsidiaries achieve superior performance, could the irresponsible acts of the MNC and its global networks similarly harm these subsidiaries?

There is a growing interest to understand how MNC corporate social irresponsibility (CSI) affects foreign subsidiaries' strategy and organization. Recent work (Wang & Li, 2019; Zhou & Wang, 2020) suggests that CSI at the parent level impacts foreign subsidiaries' information control and likelihood of corporate social responsibility (CSR). These studies presumed that foreign stakeholders penalize MNC CSI, implying that misconduct in one location could adversely affect subsidiaries elsewhere (Nardella et al., 2023). However, empirical evidence linking CSI incidents in the home country or other international markets to foreign subsidiaries' performance is lacking, making it important to examine the effects of MNC parent CSI on affiliate performance and factors that can aggravate or limit CSI's cross-border impacts (Cuervo-Cazurra et al., 2021; Nardella et al., 2022; Nardella et al., 2023).

In this study, we adopt the cognitive view of stakeholders' evaluations (Barnett, 2014; Lange & Washburn, 2012) to understand the process behind stakeholder punishments for CSI in a multinational context. This view identifies three stages in stakeholders' punitive responses: recognition, assessment, and action. The engagement in these stages suggests that firms' CSIs are not uniformly punished, and there are limits to stakeholders' sanctions (Barnett, 2014).



To gain a deeper insight into cross-border stakeholders' punishment, we examine whether and how CSI incidents in the MNC home country or other international markets influence the performance of MNCs' subsidiaries as measured by their sales growth.

Furthermore, the cognitive perspective asserts that stakeholders do not evaluate a firm's misconduct in isolation (Barnett, 2007; Graffin et al., 2016; Jin et al., 2022; Nardella et al., 2023). In cross-border contexts, subsidiary-level events can create distracting "noise," thereby influencing local stakeholders' assessments. Thus, we investigate how subsidiary actions, especially product/service innovation and marketing campaigns, can mitigate the impact of MNCs' CSI on foreign subsidiaries. We focus on innovation and marketing campaigns because these two strategic actions are essential for subsidiaries to connect with their local stakeholders, especially consumers, and are key to gaining legitimacy in the host country (Frost, 2001; Hung et al., 2023). We elaborate on how these subsidiary-level events can shape local stakeholders' perceptions and reactions to MNC's CSI incidents.

We test our theoretical predictions on a sample of 335 subsidiaries from 42 multinational grocery retailers across 18 home countries, covering the 2012–2020 period, with 2185 subsidiary-year observations. It is important to acknowledge that the nature of international expansion in the grocery retail industry is market-seeking, which is more sensitive to consumers' perceptions and preferences. For this reason, foreign subsidiaries in the grocery retail industry may put greater emphasis on consumers than other groups of stakeholders.

We make two key contributions to IB literature. First, we evaluate the underlying assumption in the studies of the cross-border effect of CSI (Wang & Li, 2019; Zhou & Wang, 2020) by investigating the direct link between MNC's CSI incidents and foreign subsidiaries' performance. In doing so, we extend the cognitive view of stakeholders' punishment (Barnett, 2014; Lange & Washburn, 2012; Mishina et al., 2012) to the international setting of MNCs. Our insights on the mechanism by which MNC's CSI incidents affect the sales growth of foreign subsidiaries also contribute to the literature exploring the relationship between CSI and organizational performance (Kölbel et al., 2017; Nardella et al., 2023).

Second, we establish boundary conditions that can alter the negative effect of CSI in the context of multinational companies. Our contribution in this area departs from extant studies that focus on using CSR (Zhou & Wang, 2020) and internal control (Wang & Li, 2019) to protect foreign subsidiaries from MNCs' reputational damage associated with CSI. Although managers of foreign subsidiaries do not have control over the media coverage of parents' activities, they can design strategies to limit the negative effect CSI news associated with parent MNC or other foreign affiliates. We establish that foreign subsidiaries can use innovation as a buffer against the cross-border negative effect of CSI news. Our insights directly address the growing scholarly demand for exploring the varied nature of stakeholders' punitive responses.

2 | THEORY AND HYPOTHESES

2.1 | MNC reputational spillover

The concept of organizational reputation is broadly defined as collective perceptions, opinions, and beliefs held by various stakeholders concerning an organization (Barnett et al., 2006; Fombrun & Shanley, 1990). Organizational reputation represents the organization's image and credibility in the eyes of these stakeholders, forming over time through a synergy of the organization's actions, conduct, communication, and performance (Fombrun & Shanley, 1990; Mayer, 2006).

Reputational damage or crisis can occur if an organization fails to meet stakeholders' reputations, for example, when it engages in actions that are considered socially irresponsible (Kölbel et al., 2017; Wang & Li, 2019). When an organization faces a reputational crisis, its stakeholders face uncertainty in evaluating the causes and consequences. In an environment with imperfect information, stakeholders may evaluate the impact of a reputational crisis on a set of organizations, instead of only the focal organization, based on their perceived relatedness (Yu & Lester, 2008).

In the IB literature, the notion of cross-border organizational reputation spillover, notably from parent MNC or from other subsidiaries within the same network of MNC to a focal subsidiary, has only recently gained traction (Nardella et al., 2022; Wang & Li, 2019; Zhou & Wang, 2020). The difficulty in evaluating cross-border organizational reputation spillover could be attributed to the tacitness and socially constructed nature of reputation (Contractor et al., 2016; Mukherjee et al., 2021). Some research has suggested positive reputation spillover in the global context, such as a study by Li et al. (2021) which found that MNCs can leverage their home country reputation to gain favorable evaluation from foreign investors in cross-border M&A transactions.

Yet, a negative reputation may also spill over from an MNC global network to a subsidiary. One recent study (Zhou & Wang, 2020) indicated that "little research has examined how foreign subsidiaries might be negatively influenced by parent firm" (p. 1257). Specifically, we lack research that examines how the reputational risks of the MNC affect outcomes that are important to foreign subsidiaries, such as subsidiary performance. This study attempts to address this oversight by elaborating on the theoretical mechanisms to explain the process of negative reputational spillover in the cross-border context of MNC operations.

Furthermore, when examining the antecedents of subsidiary performance, past studies typically considered industry factors, headquarters control and relationship, ownership-specific advantages, and home-country effects (Meyer et al., 2020). These factors are typically either contextual (country and industry effects) or managed by the parent (headquarters control relationship). Recent research has begun to explore how subsidiaries respond to negative information about the parent and other subsidiaries, such as environmental incidents (e.g., polluting activities), social incidents (e.g., discrimination, child labor), and governance incidents (e.g., bribery, fraud). This research indicates that subsidiaries can engage in CSR in anticipation of or in response to CSI incidents (Zhou & Wang, 2020) and that CSI incidents can directly spillover from MNEs to subsidiaries (Li & Cuervo-Cazurra, 2023; Surroca et al., 2013), but does not indicate how those CSI incidents affect subsidiary-level outcomes such as performance or what factors can deter those effects. We argue that CSI incidents associated with the parent MNC and other foreign affiliates are likely to have a negative impact on the performance of foreign subsidiaries. In the next section, we develop our theoretical rationale for why this is likely, as well as potential actions that foreign subsidiaries can take.

2.2 | Cognitive view on CSI

We apply and extend the cognitive view of stakeholder punishment (Barnett, 2014) to explain how the MNC's CSI incidents influence the operational performance of focal foreign subsidiaries. The cognitive view of CSI focuses on the cognitive method of observation to help explain the process in which stakeholders punish firms for their socially irresponsible practices. This perspective defines CSI as firm actions that may be considered irresponsible by observers



(Kölbel et al., 2017; Lange & Washburn, 2012). This definition suggests that firm actions may not be irresponsible per se, but observers may judge the action as irresponsible and, therefore, attribute such socially irresponsible practices to the firm (Lange & Washburn, 2012). Such a perspective also makes an important distinction between CSI and CSR with regard to the way information is created and distributed. While CSI is a third-party evaluation, CSR is self-reported by firms and distributed in annual or CSR reports. Furthermore, as this definition views CSI as a third-party evaluation (Nardella et al., 2023), it also puts stakeholders as central actors that explain the link between CSI and firm performance.

2.3 | CSI incidents and foreign subsidiaries' sales growth

MNC's reputation as an intangible firm-specific advantage (FSA) can be harnessed to enhance cross-border transactions (Contractor et al., 2016; Hawn, 2021; Musteen et al., 2013). However, a reputation-based FSA can be damaged when news about MNC's CSI incidents emerge. Drawing from the cognitive-based view (Barnett, 2014), we describe stakeholders' cognitive process to explain how news about CSI incidents damages reputation-based FSA and, subsequently the sales growth of foreign subsidiaries. This perspective helps explain the inconsistencies in why stakeholders, such as customers, sometimes punish firms for engaging in CSI (e.g., by stopping purchasing from that firm) and sometimes they do not.

The first cognitive process is *recognition*, in which stakeholders are made aware of potential CSI incidents through media, which has become the main source of information for stakeholders to monitor firms' activities (Kölbel et al., 2017). Due to bounded rationality and cognitive limitations (Tversky & Kahneman, 1974), it is difficult for a stakeholder to directly observe firms' behavior all the time. When media publish news about a firm's CSI, such news often attracts more attention from stakeholders than news about CSR, because people often spend more time thinking and searching about negative actions than positive actions (Fiske & Taylor, 2013). In a globalized world with more advanced information and communication technologies, news about an MNC's CSI in one location can easily be recognized by stakeholders in foreign locations. A global survey by Price Waterhouse Coopers (2016) found that 66% of its respondents consume cross-border news. An increase in cross-border media accessibility means that news about a firm's CSI can reach overseas stakeholders with little difficulty. This is consistent with research on the availability heuristic, which suggests that information that is more readily accessible is paid attention to and acknowledged (Tversky & Kahneman, 1974). Furthermore, stakeholders abroad are inclined to attribute CSI news by an MNC—whether occurring within its home country or other global markets—to its local affiliates due to their organizational ties or shared attributes, such as the company's name or brand. The attribution of parent MNC's or other foreign affiliates' CSI to the focal subsidiary in the host country initiates the spillover of reputational damage (Yu & Lester, 2008).

The second cognitive process is the *assessment*, in which stakeholders evaluate the news or report on the firm's CSI incidents. The assessment process may not be free of cognitive bias. Past studies have argued that people tend to interpret events in ways that confirm their prior beliefs (Einhorn & Hogarth, 1986; Fazio & Williams, 1986). For example, stakeholders often consider a firm's past actions (good vs. bad) when assessing the news about current CSI (Barnett, 2007). The assessment follows cognitive appraisal theories (Smith & Lazarus, 1990) that suggest that once individuals become aware of a CSI incident, they evaluate it based on the severity of harm, blame, unethicity, and unintentionality. Moreover, past studies also suggest

that CSI news often triggers stronger emotions than news about CSR (McGuire et al., 2003; Muller & Kräussl, 2011; Pfarrer et al., 2010). Research on reputation suggests that attention to organizations, such as that which occurs when they engage in CSI, may lead to emotional responses and negative assessment that is activated upon appraisal of the event (Zavyalova et al., 2017). Stakeholders' evaluation of CSI news can also be biased because of other factors, such as the credibility of the firm's spokesperson and the number of CSI events that happen at the same time (Barnett, 2014).

The recognition of an MNC's CSI incidents through news coverage and its attribution to foreign subsidiaries are a pre-condition of global stakeholders' assessment of foreign subsidiaries. News about CSI in other locations stimulates overseas stakeholders to assign negative evaluations to MNC's local subsidiaries. Furthermore, past studies found that stakeholders tend to under-evaluate the positive social performance of MNC's local affiliates vis-à-vis that of comparable domestic firms (Crilly et al., 2016), suggesting that the *foreignness* status can further intensify the negative evaluation of foreign subsidiaries associated with the MNC's CSI news.

The final process is *action*, in which stakeholders decide whether to punish firms for their involvement in, or in this case association with, CSI incidents. Barnett (2014) argues that there are often inconsistencies in stakeholders' punishment, such that stakeholders decided to punish the firm for its CSI in some instances but not in others. The inconsistency suggests the cognitive limitations of stakeholders (Barnett, 2014). Using this cognitive view, Kölbl et al. (2017) have explained how CSI can have a negative effect on a firm's financial risk. Moreover, Gamache and McNamara (2019) find that CSI is likely to have a greater effect on a firm's reputation than CSR because negative news (like CSI) is more likely to influence the evaluation of the firm than positive information (like CSR). This is consistent with research on organizational infamy, which suggests that high levels of attention and negative emotional responses, like those that occur with CSI, lead to actions of opposition against the organization (Zavyalova et al., 2017), including consumer responses that influence sales (Kim, 2015).

After recognizing and assessing a firm's CSI, stakeholders may decide to initiate punishments that can adversely impact the sales of the subsidiary. There are various ways in which a stakeholder or a group of stakeholders in the host country can punish foreign subsidiaries. Consumers, for example, may decide to boycott the product sold by the MNC's local affiliates. A documented example of such punishment was the boycott of Shell's Brent Spar by environmental activists (Zyglidopoulos, 2002). Moreover, local suppliers may decide to stop providing local products to foreign subsidiaries as they may not want to associate their brands with MNC's CSI incidents in foreign locations. In the global retail industry, such punishment from local suppliers could be detrimental to foreign subsidiary's sales in the host country because the unavailability of local products could disincentivize consumers from buying products from foreign retailers (Cortsjens & Lal, 2012). In the worst-case scenario, the host country's government may ban foreign subsidiary products in local markets.

We argue that because of the advancement of information and communication technology and increased cross-border interactions, news coverage about CSI incidents in the home country (associated with the parent MNC) and other international markets (other foreign affiliates of MNC) are being *recognized* not only by stakeholders in respective locations but also by overseas stakeholders in the host country of focal subsidiaries. It is important to note that our mechanism lies in the notion that the global media plays a role as an intermediary between the firm (including subsidiaries) and its stakeholders rather than a stakeholder itself. Stakeholders often make associations between subsidiaries, the parent MNC, and other foreign affiliates. Therefore, local stakeholders in the focal subsidiary's host country may *assess* the CSI incidents



associated with the MNC that occurred in foreign locations and attribute the incident to subsidiaries in their respective countries.

In summary, our proposed theoretical mechanism resides on the premise that negative news now spreads globally, enabling local stakeholders to become aware of CSI incidents involving the MNC, whether originating in its home country or other international markets. Consequently, local stakeholders proceed to attribute or associate CSI incidents that occurred elsewhere with the focal subsidiary, instigating a process of evaluating the ensuing impact of these CSI incidents. After their assessment, local stakeholders determine a course of action, which often involves punitive measures directed at the implicated focal subsidiary. Within the context of market-seeking subsidiaries of the global retail industry, these punitive actions from local stakeholders typically manifest as a deliberate avoidance or termination of purchasing goods or services from the implicated focal subsidiary. For this reason, we hypothesize that the CSI incidents that occurred in (i) home country or (ii) other international markets are likely to negatively influence the sales growth of MNC's foreign subsidiaries. Hence,

Hypothesis 1a. CSI incidents in home country are negatively associated with the sales growth of foreign subsidiaries.

Hypothesis 1b. CSI incidents in other international markets are negatively associated with the sales growth of foreign subsidiaries.

2.4 | Noise and stakeholders' evaluation of CSI

The cognitive view further suggests that stakeholders do not evaluate a firm's misconduct in isolation (Barnett, 2007). Past studies in impression management have shown that stakeholders evaluate a firm's action relative to its other actions (Graffin et al., 2016; Jin et al., 2022). In the context of cross-border reputational effect, the emergence of positive confounding events at the subsidiary level creates noise that can intervene in the cognitive process of host country stakeholders' evaluations. Research delving into the dynamics between the MNC headquarters and subsidiaries often highlights the role of the headquarters in the control, coordination, transfer, and flow of knowledge and information within MNCs (Kostova et al., 2016). In these studies, little agency is afforded to the subsidiaries themselves in managing their perceptions, informational environment, and performance. As Meyer et al. (2020) suggest, "subsidiaries abroad are important organizations in their own rights" (p. 538). Subsidiaries have their own processes and initiatives and, when given autonomy, are more likely to adapt to local needs and determine strategy (Beugelsdijk & Jindra, 2018; Wang et al., 2014). Engaging in their own initiatives to create noise gives agency to the subsidiary in managing their perceptions in the host country.

Scholars have pointed out that confounding events can shape stakeholders' perceptions of, and responses to, focal events (Graffin et al., 2011; Graffin et al., 2016). The confounding event (or noise) does not clarify the focal event, nor is it directly related to the focal event. The confounding event can simply distract stakeholders' attention away from a focal event (Graffin et al., 2011). Past studies have found that confounding events that occurred before the focal event can either amplify the positive impact or minimize the negative effect of the focal event (Graffin et al., 2011; Graffin et al., 2016), whereas

confounding events that occur after the negative focal event can reduce the severity of the focal event (Jin et al., 2022).

We argue that positive events that occur in foreign subsidiaries create noises that can distort the host country stakeholders' evaluation of MNC CSI incidents. We submit that the subsidiary's new product/service innovation and the subsidiary's marketing campaign are two positive confounding events that can limit the negative effect of MNC's CSI incidents on the subsidiary's performance. We are interested in the role played by the subsidiary-level innovation and marketing campaigns in shaping the cognitive process of local stakeholders for several reasons. First, both innovations and marketing activities are formal channels through which subsidiaries establish connections and communicate or signal their capabilities to local stakeholders, especially consumers (Birkinshaw & Hood, 1998; Cantwell & Mudambi, 2005; Nuruzzaman et al., 2019). Second, both innovations and marketing activities are the means through which subsidiaries gain legitimacy from local stakeholders in the host country (Frost, 2001; Hung et al., 2023). Hence, we argue that both subsidiary innovations and marketing activities can interfere with the way local stakeholders evaluate and respond to CSI incidents involving the focal MNC.

2.5 | The moderating role of product/service innovation

Product innovation is defined as the introduction of a new or enhanced product (Goulding, 1983), while service innovation is defined as the introduction of a new or enhanced method of delivery (Scheuing & Johnson, 1989). The introduction of a new product or service allows firms to provide new solutions to meet consumers' needs and demands (Dotzel et al., 2013). Product and service innovation can enhance the customer experience as well as customer trust in firms, which eventually improves customer satisfaction (Dotzel et al., 2013). Extant studies found that new product introduction sends a positive signal to different stakeholders about the capabilities and performance of the firm (Lee & Chen, 2009), creating a positive impression on stakeholders.

There are two ways in which a new product or service introduction can alter the stakeholders' evaluation of CSI incidents associated with the parent and other MNC affiliates. First, the introduction of a new product or service distorts the *recognition* process of an MNC's CSI news. The introduction of a new product or service by a foreign subsidiary crowds out CSI information in the local markets. The introduction of a new product or service diverts the stakeholders' attention away from the MNC's CSI incidents, which can also prevent stakeholders from attributing MNC's CSI incidents to foreign subsidiaries.

Second, the introduction of a new product or service distorts the *assessment* process of stakeholders' evaluation. The introduction of a new product or service creates a positive experience for the customers. Customers recall the positive experience associated with a foreign subsidiary's new product or service when assessing the news of an MNC's CSI incidents. A positive perception of a foreign subsidiary associated with the product or service innovation creates a cognitive bias that distorts the way subsidiaries' customers attribute and evaluate an MNC's CSI incidents that occurred elsewhere. Such cognitive bias reduces the likelihood of stakeholders, especially customers, taking action to punish the foreign subsidiary for CSI incidents that occurred in the parent MNC's home country or other international markets.



In summary, we argue that a foreign subsidiary's product or service innovation creates noise in the information space of the subsidiary that distorts host country stakeholders' recognition, assessment, and punishment of MNC's CSI incidents that occurred elsewhere. Hence,

Hypothesis 2a. Foreign subsidiary's product or service innovation weakens the negative relationship between CSI incidents in the home country and the sales growth of foreign subsidiaries.

Hypothesis 2b. Foreign subsidiary's product or service innovation weakens the negative relationship between CSI incidents in other international markets and the sales growth of foreign subsidiaries.

2.6 | The moderating role of the subsidiary's marketing campaign

Another noise that can distort the stakeholders' evaluation of MNC's CSI incidents is a subsidiary-level marketing campaign. Marketing or promotional campaigns are often designed to induce potential exchange partners (e.g., consumers) to conduct an exchange immediately (Van Waterschoot & Van den Bulte, 1992). In the context of the retail industry, promotional campaigns can take many forms (Van Waterschoot & Van den Bulte, 1992), such as product promotion mix (e.g., 2-for-the-price-of-1 deals), price promotion mix (e.g., temporary discounts, end of season sales), distribution promotion mix (e.g., temporary increase in the number of distribution points), mass communication promotion mix (e.g., trade shows, contests), and personal communication promotion mix (e.g., sales demonstration).

A marketing or promotional campaign is a positive event that diverts the stakeholders' attention away from MNC's CSI incidents that occurred elsewhere. The release of promotional campaigns distorts the *recognition* process of news about MNC's CSI incidents in the home country or other international markets. Moreover, we argue the release of a marketing or promotional event distorts stakeholders' *assessment* of MNC's CSI incidents. A marketing or promotional event offers economic benefits to customers in the form of monetary savings or the possibility to afford higher-quality products with the same costs (Blattberg & Neslin, 1990; Chandon et al., 2000). Moreover, past studies also found that promotion activities can generate psychological benefits for customers. Customers can receive additional happiness (Ashworth & McShane, 2012; Chandon et al., 2000), either from saving money (in the context of a price promotion mix) or entertainment value (in the context of a personal or mass communication promotion mix). Participation in the promotional campaign can also induce consumers' positive self-perception as smart shoppers (Schindler, 1998), providing another positive psychological benefit for customers.

Similar to the cognitive effect of a new product or service introduction, the creation of economic and psychological benefits from promotional campaigns can prevent customers from attributing MNC's CSI incidents that happened elsewhere to the focal foreign subsidiaries. As a result, marketing and promotional campaigns may decrease the extent of stakeholders' punishment in the event of MNC's CSI. Hence,

Hypothesis 3a. Foreign subsidiary's marketing campaign weakens the negative relationship between CSI incidents in the home country and the sales growth of foreign subsidiaries.

Hypothesis 3b. Foreign subsidiary's marketing campaign weakens the negative relationship between CSI incidents in other international markets and the sales growth of foreign subsidiaries.

Figure 1 illustrates the research framework in this study.

3 | DATA AND METHODOLOGY

3.1 | Sample selection and data sources

We test our hypotheses in the global grocery retailer industry. There are several benefits of using global grocery retailers as the context of this study. First, the primary motive of international expansion in this industry is homogenous. Most, if not all, grocery retailers expand to foreign countries to seek new customers. The homogeneity of motive in international expansion allows us to make a fair comparison of the sales growth across subsidiaries. Second, multinational grocery retailers are relatively more visible than other industries, given their proximity to end consumers. Such relatively high visibility implies that the activities of grocery retailers are likely to be monitored closely by media, NGOs, or other stakeholders, and therefore reduce the likelihood of error in measuring the CSI news incidents.

We obtained the list of multinational grocery retailers from Deloitte's report on global retailing (2019). Because our objective is to measure the cross-border reputation effect, we select grocery retailers that have operations in more than one country. From Deloitte's list (2019), we obtained 42 multinational grocery retailers that originated from 18 countries. Appendix S1 (available online) presents the distribution of multinational retailers in our samples by their country of origin. The primary unit of analysis in this study, however, is foreign subsidiaries of these multinational retailers. From these 42 multinational retailers, we obtained 327 foreign

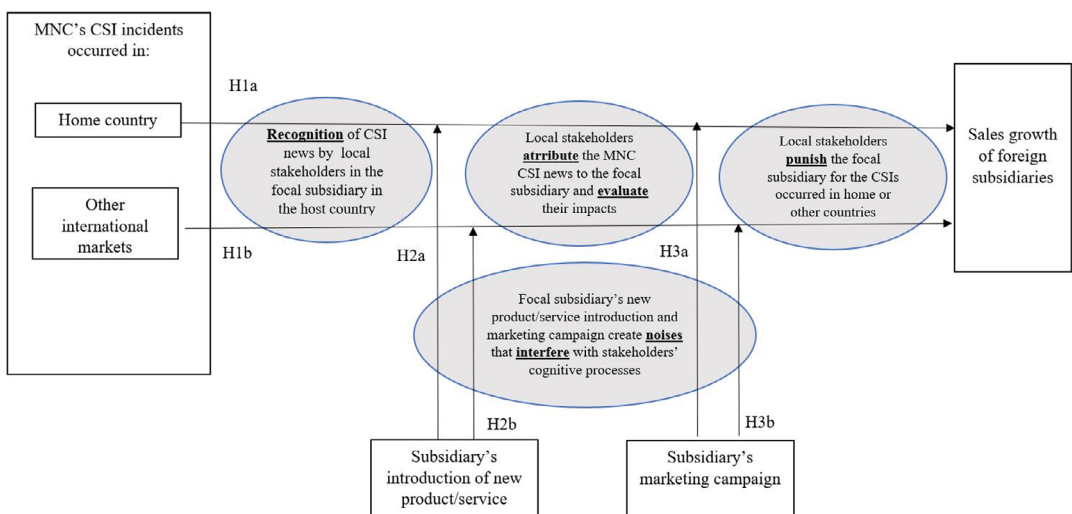


FIGURE 1 Research framework. Rectangle-shaped nodes reflect observed empirical measures, while oval-shaped nodes reflect the underlying theoretical mechanisms to explain the relationships among measurements.



subsidiaries that collectively operate in 109 (host) countries. In our datasets, the 42 multinational grocery retailers have only one subsidiary per country. Our data covers the period from 2012 to 2020. Our final sample consists of 2185 subsidiary-year observations.

We use several databases to obtain information firm-level and the host country variables. We obtain data on MNC's CSI incidents from *RepRisk*, which monitors more than “80,000 media, stakeholder, and third-party sources, including print and online media, NGOs, government bodies, regulators, think tanks, newsletters, social media, and other online sources at the international, national and local level in 15 languages” (*RepRisk*, 2017, p. 25). In addition to providing information about the number and categories (e.g., environmental, social, governance) of CSI incidents, *RepRisk* also provides information on the locations or countries associated with the CSI incidents. The location information allows us to separate between the CSI incidents that occurred in the home country and CSI incidents that occurred in other locations. Past studies on corporate reputation and CSI (Kölbel et al., 2017; Wang & Li, 2019; Zhou & Wang, 2020) have used data from *RepRisk*.

We use *Retail Analysis*, a database provided by the Institute of Grocery Distribution, to obtain data about foreign subsidiaries of multinational retailers. *Retail Analysis* provides both quantitative information at the subsidiary level (e.g., sales and number of stores) and qualitative information, such as the introduction of new products, services, and processes. To obtain data on the parent MNC, we use *S&P Capital IQ* if the parent is a public firm or Bureau van Dijk' *Amadeus* if the parent MNC is a private firm. Lastly, we obtained information about the host country from the *World Economic Forum* and the *World Bank Development Indicators*.

3.2 | Dependent variable

The dependent variable in this study is the subsidiary's sales growth. We use sales growth as the dependent variable because in the context of market-seeking international expansion, sales growth reflects the ability of foreign subsidiaries to acquire new customers in host countries. Sales growth also implies the ability of MNCs to grow in foreign countries, which is an essential corporate objective (Tan et al., 2020). In the global retail industry, sales growth rates have a significant impact on the retailers' profit margin as another indicator of performance (Cortsjens & Lal, 2012). Data on sales and sales growth of foreign subsidiaries are available in *Retail Analysis*.

3.3 | Explanatory and moderating variables

There are two key explanatory variables: (i) the number of MNC CSI incidents that occurred in the home country and (ii) the number of MNC CSI incidents that occurred in other international markets (locations other than the home country and the country of focal subsidiaries). The two measures are based on the CSI incidents data provided by *RepRisk*. The *RepRisk* data on CSI incidents (not data on CSI news) provide information on the location or country associated with the incidents, thus allowing us to separate the incidents based on their locations (the home country vs. other international markets vs. the host country of focal subsidiaries).

The first moderating variable is the subsidiary product and service innovation, which is measured by the count of new products or services introduced by the foreign subsidiaries in a given year. Product innovation refers to the introduction of new or modified goods being sold

in foreign subsidiaries, while service innovation refers to the introduction of a new way/method of delivering goods to consumers. Service innovation in the grocery retail industry may include the introduction of online service, the introduction of vending machines for heated ready meals, or the opening of micro-stores to serve customers in distant areas. Detailed qualitative information about new products or services introduced by multinational retailers and their foreign subsidiaries is available in the *Retail Analysis* database. We also include subsidiary product and service innovation as a control variable to capture its direct effect on the subsidiary's sales growth.

The second moderating variable is the subsidiary marketing campaign, which is measured by the count of promotional events undertaken by foreign subsidiaries in a given year. Promotional events include temporary discounts, seasonal sales events, charity or community events, and trade shows. Detailed qualitative information about the marketing campaign undertaken by multinational retailers and their foreign subsidiaries is also available in the *Retail Analysis* database. We also include a subsidiary's marketing campaign as a control variable, to capture its direct effect on the subsidiary's sales growth.

3.4 | Control variables

The cross-border spillover of negative reputation may be influenced by various subsidiary-, parent-, and host country-level factors. At the subsidiary level, we first control for the number of CSI incidents that occurred in the host country of the focal subsidiary. Second, we control for the subsidiary's process innovation, measured as the number of new methods of production or supply chains introduced at the subsidiary level. Subsidiary process innovation, along with subsidiary product and process innovation, captures the capability of a subsidiary, which influences its sales growth. Third, we control the proportion of subsidiary stores to total stores. This variable accounts for the relative size of the focal subsidiary within the network of multinationals. We expect that the greater the proportion of subsidiary stores, the higher the importance of the subsidiary within the network of multinationals and, therefore, the greater the chance of reputation spillover to the subsidiary. Fourth, we include subsidiary sales in the previous year as the control variable (measured in US\$ million). We predict that the sales level in the previous year has a negative association with the sales growth in the current year. Lastly, we control the subsidiary's market share to account for the subsidiary's market power in the host country. We estimate the subsidiary market share as a ratio of subsidiary sales to the total market size (total all revenue of grocery retail firms) in the host country. We obtained data on the total market size in the host country from Euromonitor—Passport.

We also control for various factors at the parent MNC level. First, we include the international presence and marketing aggressiveness that can influence the media exposure of the parent MNC. To measure the international presence of parent MNC, we use the proportion of foreign sales to total sales. We use marketing expenditure to capture the marketing aggressiveness of the parent MNC. These three factors increase parent MNC's visibility in the media, which then influences the likelihood of CSI news. They can also influence the sales growth of foreign subsidiaries. Second, we control for various measures of the financial performance of parent MNC, which can influence both the likelihood to engage in unethical activities and the sales growth of foreign subsidiaries. Thus, controlling them is necessary to avoid bias. We include return on assets (ratio of net income to total assets) to measure the profitability, current ratio (ratio of current assets to current liabilities) to measure the financial liquidity, and the

ratio of liability to total assets to measure the solvency of parent MNC. Lastly, we control parent innovative capability through the number of new products, processes, and services introduced at the parent level.

Last, we include host-country level controls. Given the importance of local media, we include the freedom of press in the host market, which is measured by the World Press Freedom Index issued by *Reporters Without Borders*. The index ranges from 0.00 (no freedom of press) to 100 (the best). Second, we include the score of the host country ethical value, which is drawn from the *Global Competitiveness Index* of the World Economic Forum. Stakeholders from a country with a high score of ethical value are more likely to punish firms' CSI incidents, and therefore we expect this score to influence the relationship between parent MNC CSI news and the sales growth of subsidiary. We also include the host country per capita income growth, drawn from the World Bank's World Development Indicators.

3.5 | Methodology

We employ a panel regression estimation technique, using two-way fixed effects at the subsidiary and annual level to control a wide range of firm- and year-specific unobserved variables (Cameron & Trivedi, 2005). Based on the result of Hausman test (chi-squared = 133.89; p -value = .000), the fixed-effects model is appropriate for our data. Given that the values of CSI exhibit sufficient variance over time, we can include firm-level fixed effects, and therefore our models control for any time-constant firm-specific property. Similarly, we include year fixed effects to account for shocks that possibly affected the sales/sales growth of subsidiary and news counts simultaneously. Given that our sample period includes the 2020 COVID-19 global pandemic, controlling for year fixed-effects are necessary to absorb such shocks. We apply robust clustered standard error, in which the standard errors of estimated parameters are clustered in the parent MNC level. The robust clustered standard error allows us to account for possible correlation across observations within each parent MNC, assuming that observations across foreign subsidiaries under the same parent MNC are not independently distributed.

4 | RESULTS

4.1 | Descriptive statistics and correlation

Table 1 presents the descriptive statistics and correlation matrix. The average growth of subsidiary sales is 9.075%. Table 1 also shows that the mean value of MNC's CSI incidents in the home country is 24.09, while the mean value of MNC's CSI incidents in other international markets is 29.17. The average number of CSI incidents in the host country of focal subsidiaries is much lower at 1.01.

There is a moderate correlation between MNC's CSI incidents in the home country and CSI incidents in other international markets (0.40) and between CSI incidents in the home country (0.51). Given they are all similar constructs that measure the number of CSI incidents, it is no surprise that they have a moderate pairwise correlation. Furthermore, we also find a moderate correlation between the subsidiary service and product innovation and the number of subsidiary marketing campaigns (0.42). There is also a moderate correlation between the proportion of subsidiary stores and the previous year of subsidiary sales (0.50) and between the previous year

TABLE 1 Descriptive statistics and correlation matrix.

No	Variable	Mean	SD	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	
(1)	Subsidiary sales growth _t	9.07	71.43	1.00																		
(2)	CSI incidents in home country _{t-1}	24.09	42.30	0.15	1.00																	
(3)	CSI incidents in other international markets _{t-1}	29.17	73.45	0.03	0.40	1.00																
(4)	CSI incidents in host country _{t-1}	1.01	3.64	0.05	0.51	0.20	1.00															
(5)	Subsidiary service/product innovation _t	0.05	0.28	0.03	0.18	0.04	0.20	1.00														
(6)	Subsidiary marketing event _t	0.01	0.08	0.00	0.08	0.05	0.06	0.42	1.00													
(7)	Subsidiary process innovation _t	0.00	0.06	0.00	0.00	-0.01	0.01	-0.01	0.00	1.00												
(8)	Proportion of subsidiary store _t	0.04	0.08	-0.02	-0.06	-0.06	0.07	0.01	0.00	0.08	1.00											
(9)	Subsidiary sales (in Billion USD) _{t-1}	2.81	5.71	-0.05	0.13	0.11	0.32	0.11	0.05	0.27	0.50	1.00										
(10)	Subsidiary market share _t	4.76	7.00	-0.04	0.06	0.11	0.10	0.00	0.01	0.01	0.31	0.46	1.00									
(11)	Parent MNC's foreign sales proportion _t	43.81	26.40	0.00	-0.24	-0.17	-0.08	-0.02	-0.01	0.04	0.07	0.09	0.12	1.00								
(12)	Parent MNC's return on assets _t	0.15	2.04	0.00	-0.03	-0.02	-0.01	-0.01	-0.01	0.00	0.00	-0.02	-0.01	-0.07	1.00							
(13)	Parent MNC's current ratio _t	0.88	0.36	0.03	0.04	-0.01	0.04	0.02	0.00	-0.02	-0.05	-0.07	-0.17	-0.22	0.53	1.00						



TABLE 1 (Continued)

No	Variable	Mean	SD	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	
(14)	Parent MNC's liability to total assets _t	0.97	2.35	-0.01	-0.03	-0.04	-0.01	0.01	0.00	0.00	0.00	-0.01	-0.04	-0.03	-0.06	-0.02	-0.05	1.00				
(15)	Parent MNC's marketing expenditure _t	6.30	6.76	0.01	-0.20	-0.28	-0.13	-0.05	-0.03	0.07	0.09	0.03	0.03	0.35	0.07	-0.01	0.10	1.00				
(16)	Parent MNC's total innovation _t	0.05	0.21	0.03	0.50	0.08	0.27	0.33	0.14	-0.01	-0.01	0.06	0.05	-0.09	-0.01	0.03	0.00	-0.07	1.00			
(17)	Host country freedom of press score _t	27.82	16.68	0.06	0.12	0.03	0.15	0.00	-0.04	-0.02	-0.06	-0.04	-0.23	-0.16	-0.03	0.04	0.10	-0.06	0.05	1.00		
(18)	Host country ethical value score _t	4.39	0.97	-0.02	-0.04	-0.06	0.04	0.10	0.06	0.04	0.05	0.14	-0.01	0.05	-0.01	0.06	-0.06	-0.01	0.01	-0.43	1.00	
(19)	Host country income per capita growth _t	2.14	2.76	0.05	-0.02	0.04	0.04	0.01	-0.04	-0.01	-0.05	-0.08	-0.04	-0.09	-0.03	-0.02	0.01	0.00	-0.04	0.26	-0.09	

Note: Correlation coefficients > |0.3| are statistically significant at a 90% level of confidence.

of subsidiary sales and subsidiary market share (0.46). While multicollinearity does not reduce the explanatory power of the overall model or causes biases in the estimation, it may reduce the statistical power of individual independent variables. To monitor for the potential multicollinearity problems in the overall model, we present the mean VIF score for each model in our regression.

4.2 | Test of hypotheses

Table 2 shows the results of fixed-effect panel regression. Model 1 in Table 2 presents the baseline results when we include only control variables. The following control variables are statistically significant at least at 90% confidence level: subsidiary service/product innovation ($\beta = 10.175$; $p = .077$), the proportion of subsidiary store ($\beta = 85.693$; $p = .002$), subsidiary sales from the previous year ($\beta = -2.217$; $p = .011$), subsidiary market share ($\beta = 4.107$; $p = .000$), host country income per capita growth ($\beta = .778$; $p = .059$). The mean VIF for Model 1 is 2.97, which is below the common threshold of 5.00, suggesting that multicollinearity does not cause further concern in the structure of the baseline model.

Model 2 in Table 2 presents the results when we add MNC's CSI incidents in (i) the home country and (ii) other international markets to the baseline Model 1. The number of MNC's CSI incidents in the home country has a significant negative effect ($\beta = -.235$; $p = .036$). This result supports Hypothesis 1a. The number of MNC's CSI incidents in other international markets also has a negative and significant effect ($\beta = -.038$; $p = .027$), supporting Hypothesis 1b. Taken together, we find support for the cross-border spillover of negative reputational effects.

Table 3 presents the moderating effects of subsidiary innovation and subsidiary marketing events. In Model 1, the coefficient of MNC's CSI incidents in the home country remains negative and significant ($\beta = -.240$; $p = .032$). Similarly, the coefficient of MNC's CSI incidents in other international markets is negative and significant ($\beta = -.034$; $p = .041$). The direct effect of subsidiary service and product innovation is positive, but not significant ($\beta = 5.323$; $p = .324$). The interaction between MNC's CSI incidents in the home country and the number of subsidiary service and product innovation has a positive and significant coefficient ($\beta = .123$; $p = .003$). Therefore, we find support for Hypothesis 2a that the negative effect of MNC's CSI incidents in the home country on subsidiary's sales growth is weaker when the subsidiary engages in product or service innovation. In contrast, we do not find support for Hypothesis 2b that the negative effect of MNC's CSI incidents in other international markets on subsidiary's sales growth is weaker when the subsidiary engages in product or service innovation.

Model 2 in Table 3 presents the results when we add the interaction between MNC's CSI incidents (in the home country and other international markets) and the number of subsidiary marketing events. The coefficient of MNC's CSI incidents in the home country remains negative and significant ($\beta = -.233$; $p = .038$). Similarly, the coefficient of MNC's CSI incidents in other international markets is negative and significant ($\beta = -.038$; $p = .021$). The direct effect of subsidiary marketing events is positive, but not significant ($\beta = 1.671$; $p = .826$). The interaction between MNC's CSI incidents in the home country and the number of subsidiary marketing events has a negative coefficient but is not significant ($\beta = -.294$; $p = .370$). Therefore, we do not find support for Hypothesis 3a. The interaction between MNC's CSI incidents in other international markets and the number of subsidiary marketing event is positive but not significant ($\beta = .044$; $p = .455$). Therefore, we do not find support for Hypothesis 3b.

TABLE 2 Results from the fixed-effect panel regression.

Dependent variable: Subsidiary sales growth	Model 1			Model 2		
	Coeff.	SE	p-value	Coeff.	SE	p-value
CSI incidents in home country _{t-1}				-0.235	0.109	.036
CSI incidents in other international markets _{t-1}				-0.038	0.016	.027
CSI incidents in host country _{t-1}	-0.308	0.201	.134	0.568	0.592	.344
Subsidiary service/product innovation _t	10.175	5.601	.077	9.136	6.264	.152
Subsidiary marketing events _t	-15.517	12.021	.204	-12.350	12.428	.326
Subsidiary process innovation _t	7.357	5.074	.155	5.618	5.067	.274
Proportion of subsidiary store _t	85.693	25.557	.002	80.529	27.175	.005
Subsidiary sales (in Billion USD) _{t-1}	-2.217	0.828	.011	-1.829	0.849	.037
Subsidiary market share _t	4.107	0.859	.000	4.073	0.972	.000
Parent MNC's foreign sales proportion _t	-0.365	0.361	.318	-0.406	0.436	.358
Parent MNC's return on assets _t	0.697	1.243	.578	0.534	1.301	.684
Parent MNC's current ratio _t	-7.424	9.864	.456	-6.917	10.490	.513
Parent MNC's liability to total assets _t	0.154	0.116	.190	0.074	0.099	.462
Parent MNC's marketing expenditure _t	0.989	1.085	.367	1.193	1.339	.378
Parent MNC's total innovation _t	-4.122	4.097	.320	-3.272	3.087	.295
Host country freedom of press score _t	-0.227	0.211	.288	-0.170	0.240	.484
Host country ethical value score _t	5.548	9.684	.570	5.558	9.653	.568
Host country income per capita growth _t	0.778	0.401	.059	0.866	0.453	.063
Mean VIF	2.97			3.00		
R-squared within	4.28%			4.75%		
R-squared between	1.29%			5.16%		

Note: We include firm- and time-specific fixed-effects, but for the sake of brevity the results are not presented in this table. We implemented robust clustered standard errors (the basis for clustering: parent MNCs) to account for potential correlation among subsidiaries under the same parent MNC.

Model 3 in Table 3 presents the results when we add all interaction variables. The coefficient of MNC's CSI incidents in the home country remains negative and significant ($\beta = -.240$; $p = .030$). Similarly, the coefficient of MNC's CSI incidents in other international markets is negative and significant ($\beta = -.035$; $p = .030$). The direct effect of subsidiary services and product innovation is positive, but not significant ($\beta = 4.413$; $p = .340$). The direct effect of subsidiary marketing event is positive, but not significant ($\beta = 4.361$; $p = .523$). The coefficients of other interaction terms are also similar to what we earlier reported.

4.3 | The analysis of effect sizes

We discuss the economic significance of our results to further facilitate the understanding of the cross-border reputational effects. We use margins command (especially the derivative

TABLE 3 Results from the fixed-effect panel regression—moderating effects of subsidiary innovation and marketing events.

Dependent variable: Subsidiary sales growth	Model 1			Model 2			Model 3		
	Coeff.	SE	p-value	Coeff.	SE	p-value	Coeff.	SE	p-value
CSI incidents in home country _{<i>t-1</i>}	-0.240	0.108	.032	-0.233	0.109	.038	-0.240	0.107	.030
CSI incidents in other international markets _{<i>t-1</i>}	-0.034	0.016	.041	-0.038	0.016	.021	-0.035	0.016	.030
CSI incidents in home country _{<i>t-1</i>} × Subsidiary service/product innovation _{<i>t</i>}	0.123	0.039	.003				0.161	0.073	.033
CSI incidents in other international markets _{<i>t-1</i>} × Subsidiary service/product innovation _{<i>t</i>}	-0.102	0.013	.000				-0.087	0.013	.000
CSI incidents in home country _{<i>t-1</i>} × Subsidiary marketing events _{<i>t</i>}				-0.294	0.325	.370	-0.411	0.466	.383
CSI incidents in other international markets _{<i>t-1</i>} × Subsidiary marketing events _{<i>t</i>}				0.044	0.058	.455	0.059	0.081	.468
CSI incidents in host country _{<i>t-1</i>}	0.488	0.586	.410	0.540	0.620	.389	0.446	0.637	.488
Subsidiary service/product innovation _{<i>t</i>}	5.323	5.328	.324	11.035	7.908	.170	4.413	4.574	.340
Subsidiary marketing events _{<i>t</i>}	-13.676	14.715	.358	1.671	7.542	.826	4.361	6.772	.523
Subsidiary process innovation _{<i>t</i>}	4.295	5.216	.415	5.977	5.282	.264	4.990	5.649	.382
Proportion of subsidiary store _{<i>t</i>}	79.070	27.034	.006	81.732	27.540	.005	79.298	27.337	.006
Subsidiary sales (in Billion USD) _{<i>t-1</i>}	-1.777	0.781	.028	-1.884	0.895	.041	-1.848	0.835	.032
Subsidiary market share _{<i>t</i>}	4.041	0.957	.000	4.092	0.984	.000	4.056	0.965	.000
Parent MNC's foreign sales proportion _{<i>t</i>}	-0.403	0.433	.358	-0.399	0.435	.365	-0.393	0.435	.372



TABLE 3 (Continued)

Dependent variable: Subsidiary sales growth	Model 1			Model 2			Model 3		
	Coeff.	SE	p-value	Coeff.	SE	p-value	Coeff.	SE	p-value
Parent MNC's return on assets _{<i>t</i>}	0.582	1.291	.655	0.497	1.310	.706	0.555	1.294	.670
Parent MNC's current ratio _{<i>t</i>}	-7.230	10.394	.491	-6.623	10.575	.535	-6.984	10.452	.508
Parent MNC's liability to total assets _{<i>t</i>}	0.069	0.101	.501	0.084	0.100	.402	0.079	0.101	.434
Parent MNC's marketing expenditure _{<i>t</i>}	1.206	1.320	.366	1.161	1.345	.393	1.167	1.327	.384
Parent MNC's total innovation _{<i>t</i>}	-3.376	3.008	.268	-3.224	3.107	.306	-3.348	3.003	.271
Host country freedom of press score _{<i>t</i>}	-0.179	0.235	.451	-0.175	0.241	.474	-0.185	0.236	.437
Host country ethical value score _{<i>t</i>}	5.677	9.683	.561	5.658	9.680	.562	5.872	9.755	.551
Host country income per capita growth _{<i>t</i>}	0.849	0.446	.064	0.864	0.453	.063	0.844	0.446	.066
Mean VIF	3.15			3.02			3.23		
R-squared within	4.86%			4.78%			4.92%		
R-squared between	5.37%			5.11%			5.39%		

Note: We include firm- and time-specific fixed-effects, but for the sake of brevity the results are not presented in this table. We implemented robust clustered standard errors (the basis for clustering: parent MNCs) to account for potential correlation among subsidiaries under the same parent MNC.

operation or $dydx$) in Stata to analyze the marginal effect of CSI incidents. The average marginal effect of MNC's CSI incidents in the home country on the sales growth of the subsidiary is -0.214 ($p = .006$; a 95% confidence interval between -0.365 and -0.063). This result indicates that one new CSI incident in the home country is associated with a reduction in subsidiary sales growth by 0.21 percentage points, assuming all factors remain constant. The average marginal effect of MNC's CSI incidents in other international markets on the sales growth of the subsidiary is -0.036 ($p = .008$; a 95% confidence interval between -0.062 and -0.009). This result indicates that one new CSI incident in other international markets is associated with a reduction in subsidiary sales growth by 0.036 percentage points, assuming all factors remain constant. The analysis of marginal effect also indicates that CSI incidents in the home country are associated with a greater negative effect on foreign subsidiaries' sales growth than CSI incidents in other international markets.

We also simulate the average marginal effect of MNC's CSI incidents in the home country on the sales growth of subsidiaries under different scenarios of services/product introductions. First, under the assumption that all factors are at the mean value and a subsidiary does not introduce a new product/service, one new CSI incident in the home country is associated with an average change in sales growth by -0.221 percentage ($p = .004$; with 95% confidence interval of -0.370 to -0.072 percentage points). However, when a subsidiary introduces one new product/service, one new CSI incident in the home country is associated with an average change in sales growth by -0.059 percentage ($p = .624$; 95% confidence interval between -0.296 and 0.178 percentage points). This marginal effect shows that the reduction in subsidiary sales growth associated with a CSI incident in the home country is less negative when a subsidiary introduces a new service or product than when a subsidiary does not introduce any new service or product.

Furthermore, when a subsidiary introduces two new products/services, a CSI incident in the home country is associated with an average change in sales growth by 0.103 percentage ($p = .579$; 95% confidence interval between -0.260 and 0.465 percentage points). When a subsidiary introduces three new products/services, a CSI incident in the home country is associated with an average change in sales growth by 0.264 percentage ($p = .298$; 95% confidence interval between -0.234 and 0.763 percentage points). Overall, the marginal analysis shows that an increase in new product introduction is associated with a weakening negative impact of CSI incidents in the home country on the subsidiary's sales growth. We plot the relationship between parent MNC's CSI news and the average sales growth of subsidiaries for different scenarios of product/service introduction in Figure 2.

4.4 | Additional analysis: Accounting for severity and reach of the CSI incidents

Our theoretical model argues that host country stakeholders' punishment over MNC's CSI incidents in foreign locations depends on the degree of stakeholders' recognition and assessment of the news. Factors that affect the recognition and assessment of MNC's CSI incidents are the severity of the incidents and the reach of the news outlets (Kölbel et al., 2017). To account for factors that affect the recognition and assessment, we construct a variable that measures the cumulative value of (i) CSI incidents' severity and (ii) reach of CSI news. To do so, we rely on the severity and reach/influence score of CSI news assigned by *Reprisk*. The severity and reach of CSI news are categorized into three levels: high, medium, and low.

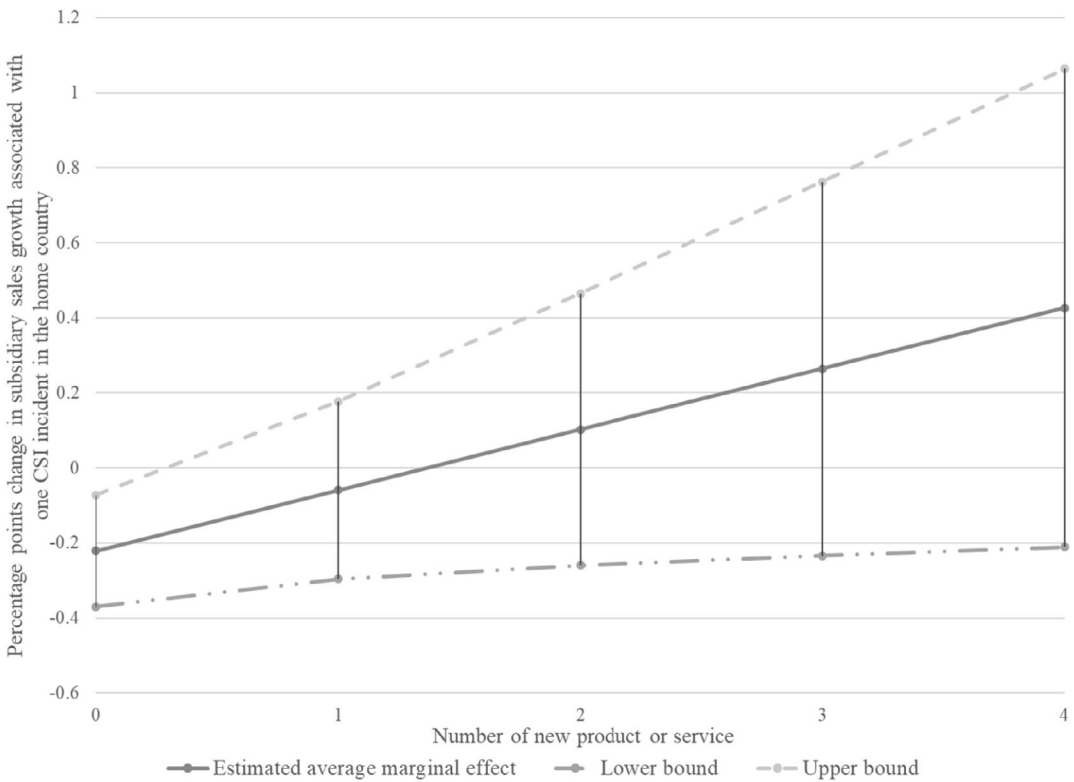


FIGURE 2 Marginal effect of parent MNC's CSI news on subsidiary's sales growth. Using *margins dydx* in STATA, we calculate marginal effects based on the results from Model 3 in Table 5.

The cumulative value of CSI news reach is the sum of severity or reach scores of CSI incidents occur in home country, other international markets, and host country in a given year. We expect that cumulative score of severity or reach of CSI incidents have negative impact on subsidiaries' sales growth. Table 4 presents the regression results when we replace variables measuring the number of CSI incidents (in home country, other international markets, and host countries) with the cumulative score of CSI incidents' severity or influence/reach.

As expected, the coefficient for the cumulative severity score of MNC's CSI incidents in home country is negative and significant at 95% confidence level ($\beta = -.189$; $p = .036$). The coefficient for the cumulative severity score of MNC's CSI incidents in other international markets is negative and significant at 95% confidence level ($\beta = -.027$; $p = .047$). Model 2 in Table 4 presents the results with interaction terms. The coefficient for the cumulative severity score of MNC's CSI incidents in home country is negative and significant at 95% confidence level ($\beta = -.200$; $p = .028$). The coefficient for the cumulative severity score of MNC's CSI incidents in other international markets is negative and significant at 95% confidence level ($\beta = -.026$; $p = .042$). The interaction between the severity score of CSI incidents in home country and the number of subsidiary service/product innovation is positive and significant at 90% level of confidence ($\beta = .155$; $p = .075$). The interaction between the cumulative severity score of CSI incidents in other international markets and the number of subsidiary service/product innovation is surprisingly negative and significant at 99% level of confidence ($\beta = -.054$; $p = .000$). The interaction between the cumulative severity score of CSI incidents

TABLE 4 Cumulative severity or influence/reach score of CSI as primary independent variables.

Dependent variable: Subsidiary sales growth	Cumulative severity of CSI news				Cumulative influence/reach of CSI news							
	Coeff.	SE	p-value	SE	Coeff.	SE	p-value	SE	p-value			
CSI in home country _{t-1}	-0.189	0.087	.036	-0.200	0.087	.028	-0.086	0.029	.005	-0.092	0.029	.003
CSI in other international markets _{t-1}	-0.027	0.013	.047	-0.026	0.012	.042	-0.020	0.008	.015	-0.019	0.007	.011
CSI in home country _{t-1} × Subsidiary service/product innovation _t		0.155	0.085	.075						0.073	0.043	.096
CSI in other international markets _{t-1} × Subsidiary service/product innovation _t		-0.054	0.008	.000						-0.046	0.008	.000
CSI in home country _{t-1} × Subsidiary marketing event _t		-0.435	0.426	.313						-0.190	0.240	.433
CSI in other international markets _{t-1} × Subsidiary marketing event _t		0.057	0.062	.361						0.020	0.038	.610
MNC's CSI in host country _{t-1}	0.865	3.655	.814	0.787	3.679	.832	0.832	3.597	.818	0.717	3.611	.844
Subsidiary service/product innovation _t	8.638	6.618	.199	2.163	4.953	.665	9.215	6.084	.138	5.281	4.182	.214
Subsidiary marketing event _t	-13.779	12.103	.262	5.023	6.547	.447	-13.838	11.998	.255	3.758	7.139	.601
Subsidiary process innovation _t	6.651	4.641	.159	6.204	5.235	.243	6.537	4.710	.173	5.662	5.041	.268
Proportion of subsidiary store _t	80.318	28.447	.007	78.558	28.860	.009	79.718	27.451	.006	79.125	27.468	.006
Subsidiary sales (in Billion USD) _{t-1}	-1.829	0.926	.055	-1.873	0.906	.045	-1.777	0.862	.046	-1.819	0.849	.038
Subsidiary market share _t	4.076	0.946	.000	4.041	0.933	.000	4.117	0.965	.000	4.090	0.963	.000
Parent MNC's foreign sales proportion _t	-0.385	0.414	.357	-0.367	0.411	.377	-0.442	0.431	.311	-0.427	0.427	.324
Parent MNC's return on assets _t	0.628	1.357	.646	0.642	1.344	.636	0.693	1.389	.620	0.683	1.370	.621
Parent MNC's current ratio _t	-7.630	11.052	.494	-7.578	10.958	.493	-8.244	11.387	.473	-8.054	11.246	.478
Parent MNC's liability to total assets _t	0.074	0.100	.469	0.079	0.102	.440	0.095	0.103	.361	0.102	0.105	.336



TABLE 4 (Continued)

Dependent variable: Subsidiary sales growth	Cumulative severity of CSI news				Cumulative influence/reach of CSI news							
	Coeff.	SE	p-value	SE	Coeff.	SE	p-value	SE	Coeff.	SE	p-value	
Parent MNC's marketing expenditure _t	1.224	1.404	.388	1.167	1.374	.401	1.326	1.477	.374	1.272	1.448	.385
Parent MNC's total innovation _t	-3.349	3.066	.281	-3.461	2.965	.250	-3.534	3.320	.293	-3.579	3.211	.272
Host country freedom of press score _t	-0.183	0.237	.444	-0.197	0.232	.401	-0.180	0.235	.449	-0.195	0.232	.405
Host country ethical value score _t	5.441	9.604	.574	5.825	9.690	.551	5.286	9.707	.589	5.620	9.858	.572
Host country income per capita growth _t	0.855	0.439	.058	0.835	0.432	.060	0.862	0.447	.061	0.842	0.440	.063
Mean VIF	2.98			3.20			2.97			3.17		
R-squared within	4.74%			4.95%			4.62%			4.81%		
R-squared between	4.63%			5.01%			4.22%			4.60%		

Note: We include firm- and time-specific fixed-effects, but for the sake of brevity the results are not presented in this table. We implemented robust clustered standard errors (the basis for clustering: parent MNCs) to account for potential correlation among subsidiaries under the same parent MNC.

in home country and the number of subsidiary marketing event is negative but not significant ($\beta = -.435$; $p = .313$). The interaction between the cumulative severity score of CSI incidents in other international markets and the number of subsidiary marketing event is positive but not significant ($\beta = .057$; $p = .361$). Therefore, we do find support that more severe CSI incidents are associated with lower sales growth. These findings indicate that CSI incidents that attract more attention from stakeholders (due to high severity) are more likely to lead to greater punishments.

Model 3 and 4 in Table 4 presents the regression results when we replace variables measuring the number of CSI incidents (in home country, other international markets, and host countries) with the cumulative score of CSI incidents' reach. The regression results with cumulative influence/reach score of CSI news are qualitatively similar to results with cumulative severity score of CSI news. Therefore, we do find support that more CSI incidents reported in high-reach news outlets are associated with lower sales growth. These findings may indicate that CSI incidents that attract more attention from stakeholders (due to the influence or reach of the news outlet) are associated with greater punishments.

4.5 | Additional analysis: Lingering effects of CSI incidents

We run additional analysis to test for the possibility of lingering effects of CSI incidents in the past that could influence subsidiary performance at a given year. To do so, we construct a new variable that measures the cumulative number of CSI incidents in the past. We then use the cumulative number of CSI incidents (in home country, other international markets, and host country) in the past as independent variables to replace the number of CSI incidents. The results of the regression are presented in Appendix S2 (available online).

The coefficient for the cumulative number of past MNC's CSI incidents in home country is positive but not significant ($\beta = .004$; $p = .849$). The coefficient for the cumulative number of past MNC's CSI incidents in other international markets is positive but not significant ($\beta = .014$; $p = .360$). The coefficient for the cumulative number of past MNC's CSI incidents in host country is negative but not significant ($\beta = -.292$; $p = .332$). These nonsignificant results do not support the notion of the lingering effects of CSI incidents in the past.

4.6 | Robustness checks

We run several robustness check to ensure the integrity of our results. First, we explore two potential sources of endogeneity: reverse causality and selection bias. Reverse causality describes the possibility that instead of MNC's CSI driving the sales growth of foreign subsidiaries, collective strong sales performance in the subsidiaries level may facilitate the creation of slack resources in the aggregate MNC level, which in turn prevent parent MNC from engaging in unethical behavior for cost-reduction purpose. However, reverse causality in this study is unlikely for two reasons. First, we use the one-year lag of CSI news count. It is highly unlikely that the sales growth of foreign subsidiaries influences the CSI incidents of the MNC in the previous year. Second, the occurrence and the news about CSI incidents in the home country and other international markets is not under direct control of foreign subsidiaries. A foreign subsidiary does not have direct control on the activity of parent MNCs as well as other subsidiaries. Furthermore, past studies have found that controlling negative news of CSI incidents

through public relations is difficult (Westphal & Deephouse, 2011). In the era of the internet, it is very difficult to censor negative stories (Besiou et al., 2013). For this reason, we believe that reverse causality is not a significant concern in our research.

However, due to the nature of our data, which is based on media reporting of CSI incidents, media selection might be another source of bias (Earl et al., 2004; Kölbel et al., 2017). For instance, the media may focus on large firms, firms with positive past reputation, or some other unobserved criteria. To address the issue of selection bias, we performed a Heckman Selection Model. The Heckman model requires us to have exclusionary restriction variable or an instrument, which must not have direct effect on the sales growth of subsidiary yet correlated with the likelihood of media attention to the MNC. For this reason, we use the three exclusionary restriction variables: (i) number of parent's employees, (ii) average of reputational rating for parent MNC's home country peers, and (ii) the perceptual score of home country ethical value. Large parent MNCs (measured through the number of employees at parent level) may attract the media attention. Similarly, the average reputational rating of home country peers influences the reputation of the parent MNC, which may influence the media attention to it. Whereas the home country ethical value influences the stakeholder attention to parent MNC's potential unethical behavior, which then influences the likelihood of CSI news coverage. These three variables, however, do not have a direct influence on the sales growth of foreign subsidiaries. Data on number of parent's employees are available through S&P Capital IQ. Data on average reputational rating of parent MNC's home country peers are available at *RepRisk*, while data on home country ethical value score are available in *Global Competitiveness Index*. We first create a binary variable to measure the likelihood of media attention in the parent level. To create such construct, we assign the value of 1 to MNCs with the total number of CSI incidents in all locations above or equal to the mean value of total CSI incidents, and 0 to MNCs with the total number of CSI incidents less than the average value. We then run a probit estimation of likelihood of media attention on the three exclusionary restrictions, along with control variables. The first stage regression (not reported) shows that the relationships between the three exclusionary restrictions and the likelihood of media attention are statistically significant, indicating that the three instruments are correlated with the parent MNC's CSI coverage. We then calculate the inverse Mills Ratio to be included in the baseline models.

The results of Heckman Selection Model are presented in Table 5. Model 2 in Table 5 shows that the coefficient of MNC's CSI incidents in the home country remains negative and is significant ($\beta = -.263$; $p = .027$). Similarly, the coefficient of MNC's CSI incidents in other international markets is negative and significant ($\beta = -.047$; $p = .009$). The direct effect of subsidiary services and product innovation is positive, but not significant ($\beta = 4.326$; $p = .413$). The direct effect of subsidiary marketing events is positive but not significant ($\beta = 11.600$; $p = .375$). The interaction between MNC's CSI incidents in the home country and the number of subsidiary service and product innovations has a positive coefficient and is significant at a 95% level of confidence ($\beta = .161$; $p = .032$). Therefore, we find support for Hypothesis 2a. In contrast, we find the interaction between MNC's CSI incidents in other international markets and the number of subsidiary service and product innovations is negative and significant ($\beta = -.083$; $p = .000$). Hypothesis 2b is not supported. The interaction between MNC's CSI incidents in the home country and the number of subsidiary marketing events has a negative coefficient that is not significant ($\beta = -.469$; $p = .336$). Therefore, we do not find support for Hypothesis 3a. The interaction between MNC's CSI incidents in other international markets and the number of subsidiary marketing events has a positive coefficient that is not significant ($\beta = .064$; $p = .443$). Therefore, we do not find support for Hypothesis 3b.

TABLE 5 Robustness checks #1—Results from Heckman selection model.

Dependent variable: Subsidiary sales growth	Model 1			Model 2		
	Coeff.	SE	p-value	Coeff.	SE	p-value
MNC's CSI incidents in home country _{t-1}	-0.256	0.116	.033	-0.263	0.115	.027
MNC's CSI incidents in other international markets _{t-1}	-0.049	0.018	.009	-0.047	0.017	.009
MNC's CSI incidents in home country _{t-1} × Subsidiary service/product innovation _t				0.161	0.072	.032
MNC's CSI incidents in other international markets _{t-1} × Subsidiary service/product innovation _t				-0.083	0.012	.000
MNC's CSI incidents in home country _{t-1} × Subsidiary marketing events _t				-0.469	0.482	.336
MNC's CSI incidents in other international markets _{t-1} × Subsidiary marketing events _t				0.064	0.082	.443
MNC's CSI incidents in host country _{t-1}	0.639	0.541	.244	0.497	0.595	.409
Subsidiary service/product innovation _t	8.989	6.536	.177	4.326	5.234	.413
Subsidiary marketing events _t	-9.653	13.720	.486	11.600	12.931	.375
Subsidiary process innovation _t	5.961	5.601	.294	5.298	6.161	.395
Proportion of subsidiary store _t	75.666	25.272	.005	74.542	25.366	.005
Subsidiary sales (in Billion USD) _{t-1}	-1.883	1.016	.071	-1.931	1.012	.064
Subsidiary market share _t	4.273	1.045	.000	4.272	1.044	.000
Parent MNC's foreign sales proportion _t	-0.683	0.502	.181	-0.674	0.497	.183
Parent MNC's return on assets _t	18.741	31.900	.560	31.687	33.379	.348
Parent MNC's current ratio _t	-12.071	14.224	.401	-12.152	14.160	.396
Parent MNC's liability to total assets _t	0.040	0.101	.696	0.037	0.105	.727
Parent MNC's marketing expenditure _t	1.596	1.607	.327	1.586	1.587	.324
Parent MNC's total innovation _t	-3.215	3.025	.294	-3.270	2.939	.272
Host country freedom of press score _t	-0.245	0.311	.436	-0.270	0.306	.384
Host country ethical value score _t	7.902	10.477	.455	8.407	10.676	.436
Host country income per capita growth _t	1.066	0.470	.029	1.048	0.466	.030
Inverse Mills Ratio	0.000	0.000	.080	0.000	0.000	.102
Mean VIF	3.41			3.61		
R-squared within	4.96%			5.13%		
R-squared between	4.14%			4.28%		

Note: We include firm- and time-specific fixed-effects, but for the sake of brevity the results are not presented in this table. We implemented robust clustered standard errors (the basis for clustering: parent MNCs) to account for potential correlation among subsidiaries under the same parent MNC.



Last, to ensure that our findings are not driven by extreme values of sales reduction, we exclude closing subsidiaries (those with sales growth of -100%) from our samples. The number of observations drops to 2143 after we exclude closing subsidiaries. The results remain consistent with our baseline results, in which we find support for Hypothesis 1a, 1b, and 2a. The results of regressions without closing subsidiaries are presented in online Appendix S3.

5 | DISCUSSION AND CONCLUSION

Does irresponsible behavior by MNCs in their home country and other international markets detrimentally affect the performance of their foreign subsidiaries? How can subsidiaries mitigate such negative effects of cross-border reputational damage? In this article, we use the theoretical perspectives of the cognitive view of stakeholders and strategic noise to examine the effect of MNC's CSI incidents on their foreign subsidiary performance outcomes. We propose that an MNC's socially irresponsible acts in the home country and other international markets transcend geographic boundaries and serve as a cue for stakeholders to hold subsidiaries accountable, which in turn negatively affects subsidiary performance. We test this relationship in a sample of 2185 subsidiary-year observations. The cognitive view of stakeholders' punishment suggests the recognition, assessment, and actions stakeholders take in response to an MNC's CSI incidents and helps explain why negative subsidiary performance may occur.

Moreover, we also provide evidence that such negative effects on subsidiary performance are substantially mitigated when the subsidiary is engaged in strategic noise activities, such as the release of product and service innovations. In other words, such innovation activities act as distractions for the stakeholders. Nevertheless, such negative effects are not alleviated by marketing campaigns undertaken by subsidiaries—in simple words, we find that parental misdeeds cannot be glossed over by superficial promotional campaigns. Our consideration of CSI incidents is important in this regard. CSI takes stakeholder perceptions into account and differs from studies on CSR, which is often self-reported by the company.

5.1 | Contributions and theoretical implications

These findings contribute to literature on CSI and reputation in many ways. First, we extend research on reputational spillover (Mayer, 2006; Yu & Lester, 2008) to the context of cross-border operations of MNCs. While MNCs, by definition, cross geographical boundaries, whether damage to their reputation gets spilled over internationally and has an effect on their subsidiaries remains an open question (Borda et al., 2017; Mukherjee et al., 2021). Through this study, we elaborate on the process of cross-border reputational spillover through the cognitive view process of stakeholders. Our argument lies on the assumption that globalization of media allows stakeholders to recognize news about MNCs' CSI incidents that occurred elsewhere and associate the CSI incidents with the local subsidiary due to shared similarities or attributes (e.g., brand name). This has implications for broadening the use of the cognitive-based view in today's global economy of shared information and news. The recognition, attribution, and actions taken by customers and other stakeholders after CSI incidents span international boundaries and can have a negative impact on organizations. Further investigating the cognitive underpinnings of CSI and differentiating it from CSR will be important for future research, as well as understanding when and how CSI incidents will be punished or not punished.

Second, our study contributes to the growing literature on MNCs' misbehavior (Cuervo-Cazurra et al., 2021; Li & Cuervo-Cazurra, 2023; Nardella et al., 2022; Wang & Li, 2019; Zhou & Wang, 2020) by examining the direct effects of MNC's CSI on the performance of foreign subsidiaries. Relatedly, recent reviews on MNC-subsidary relationships suggest that how parent MNC behavior affects subsidiary performance is worthy of further attention (Meyer et al., 2020). We attend to this call and build upon research that suggests buffers of negative effects of parent MNCs on subsidiaries (Zhou & Wang, 2020).

We also highlight the importance of subsidiary agency in mitigating reputational damage from an MNC parent CSI. In doing so, we build upon research that demonstrates the importance of credibility when using capability reputation (Chandler et al., 2020; Mishina et al., 2012; Mukherjee et al., 2021) to mitigate reputational damage. In particular, we find that the subsidiary's product or service innovations serve as a credible noise that mitigates the effects of parent reputational damage through CSI on subsidiary performance. Yet, we find that a subsidiary's marketing campaigns do not act as a credible noise in the same way. Perhaps the marketing campaigns are perceived as hollow promises that do not alleviate concerns associated with the CSI news. On the other hand, because innovation is more costly, it may create a stronger positive impact on the way stakeholders perceive and assess the actions of the foreign subsidiaries. This argument is consistent with a study by Srivastava (2001), who found that the credibility of a signal depends on its cost.

Our study also has implications for managerial practices. Our findings show that managers of MNCs, both at the headquarters and foreign subsidiaries, should be aware of the potential adverse impacts of CSI incidents that happen in the parent MNC's home country. It is interesting that these actions in the home country have a negative impact on subsidiary sales growth, while irresponsible conduct in foreign locations only modestly influences an MNC's reputation. Yet this is consistent with research indicating that foreign status can intensify negative evaluations (Crilly et al., 2016). With the advancement of information and communication technologies, negative news about an MNC can be readily accessible by local stakeholders and may lead to punishment. The findings from this study indicate that actions that damage the reputation of MNCs can influence the performance of subsidiaries within its global network, suggesting that care and thought must be paid to behaviors that are considered socially irresponsible. Given the adverse impact of CSI on their global performance, as shown in this study, MNCs should try their best to uphold and implement strong ethical and social responsibility standards throughout their global operations. Moreover, MNCs should prioritize transparent communications with their subsidiaries so that they can quickly mitigate the negative impact of socially irresponsible activities reported in other foreign locations.

Moreover, we demonstrate that subsidiaries can mitigate risk after CSI incidents that cause reputational damage, but MNCs must be intentional in their approach to responding. Our findings indicate that innovation is more effective than marketing campaigns in mitigating the potential adverse effect of MNC's CSI incidents that occurred elsewhere. This demonstrates that customers care greatly about the quality of the product and implies choosing strategies that focus on the capabilities of product and service innovations and highlighting credible signals. These findings also highlight the interconnectedness between socially responsible practices and innovation. MNCs and their subsidiaries uphold their commitment to responsible practices and, at the same time, promote an environment conducive to innovation. In so doing, MNCs and their subsidiaries can bolster their standing in the eyes of their stakeholders.

Lastly, our findings about the moderating effect of subsidiary innovations indicate that stakeholders do not always punish MNCs' misconduct. However, this finding does not imply that MNCs should resort to impression management in dealing with the repercussions of CSI incidents. Indeed,



our findings underscore the importance of MNCs' self-regulation to avoid repercussions of CSI. MNCs can strengthen their governance and monitoring, not only in the headquarters but also in their foreign affiliates. Moreover, MNCs should develop comprehensive codes of conduct that clearly outline ethical standards and expectations for all employees in headquarters and foreign subsidiaries (Nardella et al., 2023). More importantly, firms must enforce these codes rigorously and consistently, ensuring that violations are addressed promptly and effectively.

5.2 | Limitations and future research

While this study provides relevant information on MNCs and subsidiary performance in relation to reputational damage through CSI, it also has limitations and raises questions that we hope will be addressed by future research. For instance, we focus on overall reputational risk, but it would be interesting to examine whether different types of reputational risks affect subsidiary performance and outcomes in a variety of ways. Perhaps social risks have a greater impact than environmental or governance-related reputational risks.

In addition, although the cognitive view of stakeholder punishment provides a sound theoretical rationale for our arguments, we do not have data on the actual cognitions of stakeholders during the recognition and assessment. Future studies could examine the cognitive processes of recognition and assessment of stakeholders to determine the underlying assumptions and biases related to CSI incidents and over time. Moreover, future studies should examine the institutional and cultural barriers that influence the recognition and assessment process of CSI incidents. For example, understanding how certain norms and values of foreign stakeholders influence the way they assess MNCs' CSI incidents in foreign countries would be valuable.

Our context of multinational grocery retailers has many advantages, yet future research should consider other industries to evaluate the generalizability of our results. In addition, the signals we highlight indicate that a reputation for capabilities matters in mitigating the MNC's reputational damage on subsidiary performance, but there may be other ways to signal capabilities that are more credible than innovation.

6 | CONCLUSION

This study contributes to research on MNC misbehavior by demonstrating the effects of reputational damage through CSI on subsidiary performance. It also indicates that strategic noise, such as the release of product and service innovation, is more likely to mitigate these negative effects than marketing campaigns. Future research that continues to explore these relationships can highlight the ways MNC parents and foreign subsidiaries can address reputational risks.

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SUPPORTING INFORMATION

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