Global Firms and Global Sheriffs? Why Territory Matters for Extraterritorial Enforcement of Regulatory Regimes

IPES 2021 Annual Meeting

Lorenzo Crippa

23 October, 2021
Motivation

1. 1997: “Smith & Nephew PLC” (UK) allegedly pays $9.4 million in bribes to have Greek doctors purchase their products.
Motivation

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2. 2012: “Royal Imtech NV” (NL) allegedly pays $150,000 in bribes for projects at the new Berlin-Brandenburg airport.
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Why did US authorities investigate the first case and not the second one?
Intuition

Smith & Nephew PLC in the US:
Intuition

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

Fort Worth, Texas (among many of its offices)
Intuition

Royal Imtech NV in the US:
Intuition

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<td>120.34</td>
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<td>23.90</td>
<td>+12.3%</td>
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<td>5.34</td>
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Listed on NYSE Euronext
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Why do authorities select certain foreign companies over others?
 Authorities have bureaucratic and career incentives to conduct cases against foreign subjects (DeHaan et al., 2015)
Theory

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- By offering cooperation with prosecutors they frame misconduct as a “bad apple” (Garrett, 2014) and can minimize damage.

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
  - US “instrumental” means
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→ 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

Coefficient estimates and 95% confidence intervals

(1) No controls \hspace{0.5cm} (2) Global reach \hspace{0.5cm} (3) Parent controls \hspace{0.5cm} (4) Country FE \hspace{0.5cm} (5) Industry FE
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

 WHY DO JUDICIAL AUTHORITIES APPLY EXTRATERRITORIAL REGULATORY PROVISIONS AGAINST CERTAIN SUSPECTED COMPANIES OVER OTHERS?
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- Argument: Authorities are more likely to prosecute foreign companies that have a presence in their country
- Case: US investigation of non-US companies under extraterritorial anti-bribery provisions
- Novel data on non-US bribery cases DOJ and SEC enforced/did not enforce
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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!

Lorenzo Crippa
l.crippa@essex.ac.uk
Comparison: OLS results and regression imputation

![Graph comparing OLS results and regression imputation](image-url)
Matching balance and estimated ATET
Sensitivity analysis of OLS full model: Point estimates
Sensitivity analysis of OLS full model: t-statistics


