

The stakeholder orientation paradox: Implications for supplier sustainability risk and the role of institutional distance

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The Stakeholder Orientation Paradox: Implications for Supplier Sustainability Risk and the Role of Institutional Distance

Abstract

Purpose—Stakeholder orientation is a strategic approach to identify and mitigate supplier sustainability risk (SSR) across different institutional contexts. However, increased orientation may also alter stakeholder expectations and implied obligations, potentially exacerbating risk. We refer to this tension between opposing effects as the *stakeholder orientation paradox*. Drawing on stakeholder and expectancy theories, this study theorizes and empirically investigates the paradoxical relationship between a firm’s stakeholder orientation and SSR, moderated by the institutional distance between the firm’s home country and the country where the risk arises.

Design/methodology/approach—Econometric models are constructed and estimated using a unique panel dataset of 27,545 observations derived from multiple data sources from 2009 to 2023, encompassing 5,911 supply chain sustainability incidents across 170 countries and involving 811 buying firms headquartered in 44 countries.

Findings—Our findings reveal a paradoxical positive association between stakeholder orientation and SSR, amplified by institutional distance. Thus, notable evidence supports the need to integrate expectancy theory facets into stakeholder theory considerations as firms (re)shape their efforts to mitigate SSR.

Originality/value—This study contributes to the scarce empirical literature on SSR antecedents and advances understanding of counterintuitive stakeholder orientation outcomes. While prior research has highlighted the benefits of stakeholder orientation, our findings suggest that firms need to “walk the talk” to reduce SSR. Furthermore, by exploring the role of institutional distance, we extend the research on stakeholder orientation beyond its typical U.S.-centric scope.

Practical implications—As firms strengthen their stakeholder orientation, care must be exercised to avoid over-promising sustainability commitments and under-delivering on supply chain performance. Proactive engagement with diverse stakeholder groups, tailored to distant institutional contexts, can alert firms to emerging problems and prompt immediate action with suppliers before incidents escalate further.

Keywords — Sustainability Risk; Stakeholder Orientation; Institutional Distance; Global Supply Chain; Panel Data.

1. Introduction

Managing complex global supply chains that span developed and developing countries with varying environmental, economic, social, and legal standards poses numerous challenges and trade-offs for firms. One crucial challenge is *supplier sustainability risk* (SSR), whereby buying firms may become implicated in their suppliers' environmental or social misconduct, such as poor labor conditions or environmental violations (Foerstl *et al.*, 2010). This risk emerges when negative supplier sustainability incidents (*supplier incidents*, hereafter) are detected by concerned stakeholders, including activists and NGOs, and subsequently publicized through the media. The resulting exposure can trigger punishing reactions like protests, boycotts, or lawsuits from a wide range of stakeholders, including customers, communities, regulators, and employees, who perceive the suppliers' behavior as illegitimate (Busse *et al.*, 2016) and view the buying firm as complicit (Hajmohammad and Vachon, 2016). Such incidents can have detrimental effects on the buying firm's reputation, financial stability, competitive advantage, and even long-term viability (Bregman *et al.*, 2015, Mateska *et al.*, 2023, Schleper *et al.*, 2024).

Given that SSR manifests through stakeholder involvement and reactions—ranging from detection by affected or concerned stakeholders to exposure by information intermediaries and retaliatory actions from various groups—the intriguing question arises: how does a firm's quality of relationships with diverse stakeholder groups, termed *stakeholder orientation* (Bettinazzi and Zollo, 2017), influence the level of SSR the firm experiences? Studies grounded in stakeholder theory (Freeman, 1984) strongly support the benefits of stakeholder orientation, demonstrating outcomes such as improved sustainability performance, enhanced legitimacy, and a positive public image (Blome *et al.*, 2014, Cheng *et al.*, 2014). A firm with a strong stakeholder orientation tends to be proactive, adaptive, innovative, and socially and environmentally responsible along its supply

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3 chains (Harrison *et al.*, 2010). Furthermore, as stakeholder orientation increases, firms can
4
5 establish mechanisms that identify and mitigate adverse supplier incidents (Manetti and
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7 Toccafondi, 2012). Thus, stakeholder orientation might help reduce SSR and serve as an
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9 “insurance” that distances the buying firm from supplier misconduct, thereby decreasing potential
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11 negative consequences or mitigating adverse outcomes.
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15 Yet, Boohoo, a UK-based clothing retailer, presents a challenging and cautionary case. The
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17 firm sought to deepen its stakeholder orientation in multiple ways, such as *proactively* disclosing
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19 shortcomings and improving transparency efforts within its supply chain amid policies such as
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21 smarter manufacturing of clothes, better terms for suppliers, and a reduced carbon footprint
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23 (Douglass, 2024). Despite these efforts, investigations regarding serious failings in its supply chain
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25 have received growing attention from major media outlets since late 2021.
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29 Boohoo’s case highlights limitations to potential reputational benefits or “insurance” for
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31 supplier misconduct, as stakeholder expectations of the firm’s sustainability policies, practices,
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33 and performance played a critical role in shaping SSR (Bundy *et al.*, 2021). Stronger stakeholder
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35 orientation can raise stakeholders’ expectations, and greater transparency may intensify
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37 stakeholders’ scrutiny of the firm’s practices (DesJardine *et al.*, 2021). The expectancy theory of
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39 motivation (Vroom, 1964) suggests that concerned stakeholders, such as NGOs and activists, are
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41 more likely to take action against a firm when they anticipate their efforts will achieve a desired
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43 outcome—a perception that is closely tied to the firm’s stakeholder orientation. For example, when
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45 a firm actively engages with stakeholders but fails to meet their expectations, it risks being
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47 perceived as hypocritical or engaging in greenwashing, which can further fuel stakeholder
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49 discontent and attract greater scrutiny from information intermediaries (Hayibor and Collins, 2016,
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51 Acharya *et al.*, 2021), who can frame the narrative to identify the firm as a complicit party and
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3 ensure widespread dissemination (Lamin and Zaheer, 2012).
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5 These tensions between stakeholder and expectancy theories point to the theoretical
6 complexity and multifaceted nature of how stakeholder orientation influences SSR. Specifically,
7 they give rise to what we term *the stakeholder orientation paradox*: while proactive stakeholder
8 engagement may help identify and mitigate supplier incidents early, serving as a protective
9 mechanism, it can also simultaneously heighten transparency and elevate stakeholder expectations,
10 thereby intensifying their scrutiny and amplifying the negative impact of the incident news.
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19 Not all supplier incidents yield the same adverse impact; the level of risk depends on various
20 situational factors (Kim *et al.*, 2019). For instance, the framing and portrayal of supplier incidents
21 by media and NGOs can be shaped by broader institutional contexts surrounding each (Bitektine
22 and Haack, 2015). These information intermediaries both influence and are influenced by
23 stakeholders' perceptions, whether in the firm's home country or the supplier's country or region
24 (Mateska *et al.*, 2023). In the Boohoo case, for example, the supplier incidents occurred in the UK,
25 and there have been numerous types of media coverage, from reports to newspaper articles to
26 publicly available documentaries (Douglass, 2024). *Institutional distance* captures differences in
27 regulations, standards, and norms between a buying firm's home country and those of its suppliers
28 (Kostova *et al.*, 2020). Therefore, understanding how institutional distance affects sustainability
29 risk management is crucial for firms operating across both local and global supply chains. Despite
30 its significance, institutional distance and its implications for managing sustainability across
31 supply chains have received limited attention in the operations and supply chain management
32 literature (Busse *et al.*, 2016), although it warrants further research (Schleper *et al.*, 2024).
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51 Drawing these different perspectives together, this study addresses the following research
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3 ***RQ1: How does stakeholder orientation impact SSR?***
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5 ***RQ2. How do differing characteristics in global supply chains, as measured by institutional***
6 ***distance, affect the relationship between stakeholder orientation and SSR?***
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9 To address these questions, we construct and estimate econometric models using a unique
10 panel dataset spanning 2009 to 2023. This dataset is derived from five different sources: LSEG
11 Asset4 (stakeholder orientation), RepRisk (SSR), Worldwide Governance Indicators (WGI;
12 institutional distance), LSEG Eikon (firm-level controls), and Centre d'Etudes Prospectives et
13 d'Informations Internationales (CEPII; country-level controls). The dataset includes 27,545
14 observations involving 811 buying firms in the manufacturing, retail, and wholesale trade sectors
15 headquartered in 44 countries, with supplier incidents occurring in 170 countries.
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25 Our study makes three primary contributions. First, while existing research has extensively
26 examined the consequences of SSR, its antecedents remain largely unexplored. We address this
27 gap by identifying stakeholder orientation and institutional distance as critical antecedents,
28 offering new insights into factors influencing SSR. Second, while prior literature predominantly
29 highlights the benefits of engaging with stakeholders, we extend and deepen this discourse by
30 demonstrating that such engagement alone (i.e., stronger stakeholder orientation) does not
31 necessarily serve as an insurance and protective mechanism against supplier misconduct's
32 reputational and financial repercussions. By bridging stakeholder theory and expectancy theory,
33 our study integrates the complexities of stakeholder activism with firm-level efforts to enhance
34 supply chain sustainability. Third, expanding beyond the U.S.-centric focus of stakeholder
35 orientation research (e.g., Flammer and Kacperczyk, 2016, Bettinazzi and Zollo, 2017), we
36 examine how the institutional distance between buying firms and their global suppliers not only
37 directly affects SSR but also moderates the effect of stakeholder orientation on SSR. This broader
38 perspective provides a deeper understanding of the role of stakeholder orientation in the global
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3 supply chains in navigating cross-border sustainability challenges and demonstrates the
4 importance of adapting to diverse institutional contexts (Busse *et al.*, 2016).
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7 **2. Literature Review**

8 *2.1. Stakeholder Orientation*

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10 Based on stakeholder theory, firms are embedded in a network of interdependent relationships
11 among multiple stakeholders, i.e., individuals, groups, or organizations, that can affect or be
12 affected by the firm and its strategic outcomes (Freeman, 1984). A firm's stakeholders can
13 typically be divided into two categories. Primary stakeholders—shareholders, customers,
14 employees, suppliers, and local communities—are central to the firm's operations and crucial to
15 its survival. As primary stakeholders contribute to the firm's ability to create value and generate
16 competitive advantage (Jones *et al.*, 2018), firms must reciprocate to maintain strong, beneficial
17 relationships (Freeman *et al.*, 2007). In contrast, secondary stakeholders, such as governmental
18 agencies, NGOs, second or third-tier suppliers, and the media, generally do not directly transact
19 with the firm. The power of secondary stakeholders lies in how they influence the firm's primary
20 stakeholders and regulatory policies, community infrastructure, and other contextual aspects that
21 affect the firm (Freeman *et al.*, 2007).
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40 Stakeholder orientation is defined as the extent to which a firm's management focuses on
41 and integrates the interests of different stakeholders in its decision-making processes (Harrison *et*
42 *al.*, 2010). Specifically, a firm with stronger stakeholder orientation has routines and capabilities
43 for creating and coordinating two-way relationships that allow stakeholders to share information
44 and contribute to the firm's strategic outcomes. In contrast, in firms with weaker stakeholder
45 orientation, stakeholders are kept at arms' length, and there is little exchange of information and
46 shared problem-solving (Jones *et al.*, 2018).
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3 In line with previous studies (e.g., Bettinazzi and Zollo, 2017), we focus on non-shareholding
4 stakeholder groups who directly interact with and are affected by a firm's sustainability strategy
5 and practices, namely employees, customers, suppliers, and local communities. Customer
6 orientation describes the extent to which the firm prioritizes comprehending and fulfilling market
7 or customer demands, expectations, and interests (Linder, 2019). Employee orientation captures
8 the emphasis placed on equitable treatment and well-being of employees and their involvement in
9 decision-making processes (Bode *et al.*, 2015). Supplier orientation reflects the firm's adoption of
10 a long-term perspective on supplier relationships, encompassing analysis, planning, coordination,
11 and control of supplier interactions (Kähkönen *et al.*, 2015). Lastly, community orientation
12 delineates the firm's engagement and contribution to its institutional environment, signifying its
13 concern for the welfare of the local community (Marquis *et al.*, 2007).
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28 Extensive research has demonstrated the manifold benefits of stakeholder orientation for
29 firms. For example, it strengthens financial performance (Choi and Wang, 2009), increases market
30 value (Gambeta *et al.*, 2019), decreases costs (Liu *et al.*, 2019), improves community reputation
31 (Jones *et al.*, 2007), and facilitates corporate acquisitions (Bettinazzi and Zollo, 2017) and
32 innovation (Flammer and Kacperczyk, 2016). These benefits accrue over time as firms develop
33 relational capabilities by catering to the interests of different stakeholder groups to create shared
34 value (Jones *et al.*, 2018). For example, strong relationships with employees enhance firm
35 performance by fostering a sense of belonging, loyalty, and identification (Bode *et al.*, 2015), while
36 collaborative relationships with suppliers optimize transaction costs and facilitate inter-firm
37 learning and knowledge sharing (Hoegl and Wagner, 2005).
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51 Other recent studies, however, point to several shortcomings and concerns related to
52 stakeholder orientation, suggesting that while it can foster positive outcomes, it may expose the
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3 firms to direct and indirect challenges. For example, diminishing marginal returns may arise when
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5 the costs of catering to stakeholder demands outweigh the benefits (Garcia-Castro and Francoeur,
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7 2016). Similarly, an overemphasis on satisfying existing stakeholders could lead to unprofitable
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9 loyalty, where firms remain committed to stakeholders who no longer contribute significantly to
10
11 value creation (Jones *et al.*, 2018). Furthermore, a strong stakeholder orientation might constrain
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13 firms' innovation capabilities by favoring incremental improvements over explorative or
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15 disruptive innovation (Gambeta *et al.*, 2019).
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19 2.2. *Supplier Sustainability Risk*

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21 Over the past few decades, the concept of SSR has emerged as a critical concern in supply chain
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23 management (Foerstl *et al.*, 2010, Hajmohammad and Vachon, 2016). The sustainability of a
24
25 buying firm's supply chain needs to be aligned with that of the firm, as suppliers at multiple tiers
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27 can undermine the broader network (Villena and Gioia, 2018). Buying firms increasingly find
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29 themselves being found "guilty by association" (Laufer and Wang, 2018) and are not only expected
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31 to improve their sustainability performance but also that of their suppliers (Reuter *et al.*, 2010,
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33 Castaldi *et al.*, 2023).
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38 More specifically, SSR encompasses supplier incidents across all sustainability dimensions,
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40 especially environmental concerns (e.g., oil spills) and social issues (e.g., human rights abuses),
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42 which can trigger adverse stakeholder reactions against the buying firm (Hofmann *et al.*, 2014).
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44 This risk emerges from suppliers' inadequate performance, misconduct, or inaction and
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46 materializes when such incidents are detected and reported by affected stakeholders or other
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48 concerned parties—such as activists and NGOs (Barnett, 2014)—and subsequently publicized
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50 through media or other information intermediaries (Mateska *et al.*, 2023). The resulting exposure
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52 can lead to severe consequences like protests, boycotts, or lawsuits (Mefford, 2011, Bregman *et*
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3 *al.*, 2015, Busse *et al.*, 2016) as stakeholders deem buying firms complicit in these incidents
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5 (Hajmohammad and Vachon, 2016). Notably, this risk persists regardless of the buying firm's
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7 level of culpability or its degree of control over suppliers (Hartmann and Moeller, 2014),
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9 potentially resulting in significant damage to the firm's reputation, financial stability, and
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11 competitive advantage (e.g., Bregman *et al.*, 2015, Petersen and Lemke, 2015, Kim *et al.*, 2019,
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13 Cousins *et al.*, 2020, Bundy *et al.*, 2021, Schleper *et al.*, 2024).
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17 Information intermediaries, such as media outlets that publicize supplier incidents, play a
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19 pivotal role in shaping the magnitude of materialized SSR and stakeholder reactions (Diego and
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21 Montes-Sancho, 2024). By ensuring that discussions related to supplier incidents extend beyond
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23 corporate boardrooms to become matters of widespread public concern, they significantly
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25 influence how such issues are perceived and addressed (Pollock and Rindova, 2003). In other
26
27 words, media reports serve as a catalyst for stakeholder awareness and action by illuminating
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29 supplier incidents and amplifying their consequences—ranging from consumer reactions and
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31 investor decisions to regulatory interventions (Mateska *et al.*, 2023). This amplification is
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33 particularly significant given the tendency for negative news to captivate audiences more than
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35 positive ones (Cousins *et al.*, 2020, Hartmann, 2021).
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40 The way supplier incidents are portrayed and framed by information intermediaries shapes
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42 their tangible effects on the firm, its stakeholders, and broader society. Consistent with recent
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44 studies on sustainability risk (Kölbel *et al.*, 2017, Wang and Li, 2019, Diego and Montes-Sancho,
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46 2024), we define materialized SSR as the degree of negative media coverage of a buying firm due
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48 to supplier incidents. The level of SSR experienced by firms varies across three key dimensions:
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50 frequency, severity, and reach. *Frequency* reflects the number of times a firm is reported in the
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52 media due to supplier incidents. A high frequency potentially signals systemic issues within the
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3 supply chain. *Severity* captures the perceived seriousness of the reported incidents, including the
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5 nature of the incidents (e.g., environmental damage, human rights abuses) and their impacts on
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7 stakeholders, the environment, and society. *Reach* represents the influence potential of the media
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9 outlets reporting an incident, which affects the level of public attention and scrutiny the incident
10
11 receives. This impact is determined by factors such as the media outlet's reputation, credibility,
12
13 and geographical outreach. Collectively, these dimensions characterize the dynamic nature of SSR,
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15 as media outlets not only uncover supplier incidents but also frame them within broader societal
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17 and environmental contexts, thereby shaping stakeholder perceptions and reactions.
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21 **3. Hypotheses Development**

22 *3.1. Stakeholder Orientation and SSR Frequency and Severity*

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24 Building on stakeholder theory (Freeman, 1984), a firm's stakeholder orientation serves as a
25
26 critical driver in mitigating SSR by reducing the frequency and severity of supplier incidents.
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28 Firstly, actively engaging with a diverse array of stakeholders fosters a culture of accountability
29
30 and transparency (Herremans *et al.*, 2016). Transparency ensures that the firm remains open about
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32 its sustainability practices, challenges, and performance, allowing stakeholders to monitor
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34 progress and encouraging the firm to remain vigilant in identifying and addressing emerging SSR
35
36 along its supply chain (Chen *et al.*, 2019, Diego and Montes-Sancho, 2024). This long-term
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38 commitment further translates into embedding stakeholder expectations into the firm's governance
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40 frameworks, driving strategic investments in supplier audits, certifications, and innovative
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42 sustainability practices. For instance, stakeholder-engaged companies demonstrate greater
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44 commitment to circular economy practices, carbon-neutral projects, and responsible sourcing
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46 initiatives (Saunders *et al.*, 2019, Esposito *et al.*, 2024, Song *et al.*, 2024). These actions enable
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48 the firm to take timely corrective measures when early signs of unfavorable sustainability
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3 conditions emerge along its supply chain and address systemic vulnerabilities, thereby proactively
4 mitigating the frequency and severity of supplier incidents (Manetti and Toccafondi, 2012,
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6 Gualandris *et al.*, 2015).
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10 Secondly, joint value-creation processes between a firm and its stakeholders facilitate the
11 co-development of sustainable practices that enhance the sustainability performance of its supply
12 chain partners (Blome *et al.*, 2014). Collaborative initiatives such as supplier training programs
13 and resource-sharing platforms address the root causes of sustainability risks. Furthermore, mutual
14 information-sharing mechanisms—such as stakeholder-led monitoring systems and
15 whistleblowing frameworks—serve as critical early-warning mechanisms, helping the firm detect
16 potential risks before they escalate into significant issues that attract media scrutiny (Huq and
17 Stevenson, 2020). These efforts collectively contribute to less frequent and less severe instances
18 of SSR by proactively and systematically addressing the sustainability issues in collaboration with
19 diverse stakeholder groups and enhancing overall sustainability practices across the supply chain.
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33 ***H1a:*** *As firm stakeholder orientation increases, the frequency of supplier sustainability risk*
34 *decreases.*
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36 ***H1b:*** *As firm stakeholder orientation increases, the severity of supplier sustainability risk*
37 *decreases.*
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40 3.2. Stakeholder Orientation and SSR Reach

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42 Vroom's expectancy theory of motivation (1964) suggests that individuals are driven to act when
43 they believe their efforts will lead to desired outcomes, based on three key components: (i)
44 expectancy, the belief that effort leads to performance; (ii) instrumentality, the belief that
45 performance will lead to specific outcomes; and (iii) valence, the value placed on those outcomes.
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47 This theory helps explain how stakeholders (including NGOs, activists, media, and other
48 information intermediaries) are motivated to act when they believe their efforts will result in
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3 meaningful change, and how firms with strong stakeholder orientation amplify these motivations
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5 by increasing the likelihood of visibility and scrutiny of their supplier incidents, thereby
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7 magnifying the reach of supplier incident news.
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10 Stakeholders often face significant challenges in scrutinizing and responding to
11
12 sustainability incidents across numerous supply chains due to their limited attention spans,
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14 constrained resources, and the complexity of assessing firms' actions (Barnett, 2014). A firm's
15
16 stakeholder orientation mitigates these barriers by boosting stakeholders' expectancy—their belief
17
18 that they can effectively scrutinize the firm and accurately identify supplier incidents—through
19
20 the transparency and accessibility provided by the firm's open communication, detailed
21
22 sustainability disclosures, and proactive engagement with external parties (Mallin *et al.*, 2013).
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24 This attracts greater attention from NGOs, activists, and the media and fosters their confidence in
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26 investigating firm practices and pinpointing deficiencies (Cheng *et al.*, 2014, Eccles *et al.*, 2014,
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28 DesJardine *et al.*, 2021), ultimately expanding the reach of supplier incident news.
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33 Furthermore, when firms enhance communication and information sharing with stakeholders
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35 and actively incorporate their input into decision-making processes, they signal a receptiveness to
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37 external influence and stakeholder concerns (Hayibor and Collins, 2016). This makes stakeholders
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39 more confident that their efforts—such as reporting incidents and running campaigns—will have
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41 tangible impacts (Den Hond and De Bakker, 2007). For instance, NGOs and activists often
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43 prioritize targeting reputable firms (McDonnell and King, 2013) with a high market value (Briscoe
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45 and Gupta, 2016), publicizing their supplier incidents because these firms are more likely to
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47 respond to public pressure and implement changes (McDonnell *et al.*, 2015). Similarly, media
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49 outlets find incidents involving these firms to be impactful and newsworthy, recognizing that their
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51 visibility and responsiveness amplify the reach of their coverage (Kölbel *et al.*, 2017).
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3 Lastly, stakeholder-oriented firms often align their goals with long-term environmental and
4 social priorities, which resonate with the values of socially and environmentally conscious
5 stakeholders (Acharya *et al.*, 2021). Therefore, when they fail to meet expectations, stakeholders
6 perceive these shortcomings as significant violations compared to firms with weak stakeholder
7 orientation (Zavyalova *et al.*, 2016). These perceived breaches of trust heighten concerns about
8 hypocrisy and greenwashing, intensifying stakeholders' desire to hold firms accountable (Marquis
9 *et al.*, 2016) and amplifying the supplier incident news reach.

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20 ***H1c:*** *As firm stakeholder orientation increases, the reach of supplier sustainability risk*
21 *increases.*

22 23 3.3. Institutional Context of Global Supply Chains

24 25 3.3.1. Institutional distance and SSR

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27 Institutions, as defined by North (1990, p. 477), are “humanly devised constraints that shape
28 human interaction.” Stakeholders' assessment of the conduct and legitimacy of a buying firm and
29 its suppliers does not occur in isolation but rather is considered within the institutional contexts in
30 which they are embedded (Bitektine and Haack, 2015). For international buying firms, various
31 institutional pressures and legitimacy standards faced in different contexts must shape what is
32 deemed appropriate sustainability-oriented behavior either at one extreme based on a common
33 universal basis or, at the other extreme, on a country-by-country basis (Manning *et al.*, 2012). The
34 heterogeneity of institutional pressures across countries results in varying stakeholder views on
35 the legitimacy of a firm and its suppliers, which, in turn, elicits diverse responses from firms at the
36 country level (Hotho and Pedersen, 2012). Thus, the broader context in supply chains—
37 particularly their institutional distance (Kostova *et al.*, 2020)—must be considered to understand
38 the interplay between firms and their stakeholders and SSR.

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55 We refer to institutional distance as the differences in the rules of the home country where

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3 the focal firm is headquartered and the incident country where a supplier incident occurs (Busse
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5 *et al.*, 2016). By examining institutional distance, we can gain insights into how disparities may
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7 condition firms' stakeholder orientation, supplier incidents, and stakeholders' assessments and
8
9 reactions to them. In global supply chains, institutional distance presents two critical challenges
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11 for buying firms: ambiguity and legitimacy.
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15 Firstly, while firms are familiar with the institutional framework of their home country and
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17 can easily comply with its requirements, they often encounter limited knowledge and increased
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19 uncertainty regarding the formal requirements in the countries where their global suppliers operate
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21 (Xu and Shenkar, 2002). Consequently, greater institutional distance introduces ambiguity into the
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23 relationships between firms and their supply chain members (Dyer and Nobeoka, 2000) arising
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25 from varied suppliers' institutional environments (Martinez and Dacin, 1999). This ambiguity can
26
27 confuse both parties involved, affecting their understanding of their respective responsibilities
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29 (Dong *et al.*, 2016) and impeding effective communication, even in cases where policies and
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31 expectations seem to be clearly defined (Yang *et al.*, 2012). As a result, enforcing acceptable
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33 supply chain practices across international boundaries becomes more complex (Chan *et al.*, 2008).
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35 The differences in exchange rules, legal frameworks, and judiciary systems complicate the firms'
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37 efforts to establish and enforce contractual requirements for sustainability responsibility among
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39 their supply chain members (Abdi and Aulakh, 2012), which increases the likelihood of frequent
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41 and severe supplier incidents as institutional distance grows. Notably, it has been widely observed,
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43 both empirically and anecdotally, that the adoption of robust social and environmental practices
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45 varies significantly in emerging markets and developing countries (Jamali *et al.*, 2017).
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52 ***H2a:*** *As the institutional distance between the firm home country and the incident country*
53 *increases, the frequency of supplier sustainability risk increases.*
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55 ***H2b:*** *As the institutional distance between the firm home country and the incident country*
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3 *increases, the severity of supplier sustainability risk increases.*
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5 Secondly, stakeholders closely examine and evaluate sustainability incidents within complex
6 institutional contexts of a firm's home country and its suppliers (Busse *et al.*, 2016). As a result,
7 stakeholders' responses to these incidents are influenced by institutional differences, which shape
8 their perception of the legitimacy of the firm's actions and their willingness to impose appropriate
9 ramifications (Dorobantu *et al.*, 2017). Legitimacy, defined as the generalized perception that a
10 firm's actions are desirable, proper, or appropriate within a certain institutional environment
11 (Suchman, 1995), is essential for maintaining constructive relationships with stakeholders.
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21 Institutional distance makes it challenging for a firm to obtain legitimacy in a new
22 institutional context (i.e., being socially accepted by the local stakeholders), such as the country
23 where its supplier operates, because the stakeholders do not know or trust the firm (Kostova and
24 Zaheer, 1999). Due to the "liability of foreignness," stakeholders tend to scrutinize the firm's
25 actions more rigorously (Zaheer, 1995, p. 341). In addition, these stakeholders are often less
26 inclined to accept transferred business practices by the firm or handle conflicts collaboratively
27 when incidents occur at the firm's supplier facilities (Kostova *et al.*, 2020). This legitimacy deficit
28 exacerbates conflicts, making resolution less cooperative and more adversarial. As a result, such
29 incidents are more likely to attract the attention of external observers, including NGOs, activists,
30 media, and other information intermediaries who seek to amplify the issue and pressure the firm
31 to take accountability. The contentious nature of these incidents further contributes to their
32 visibility and the likelihood of being publicized and widely reported (i.e., SSR reach).
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49 Moreover, a significant institutional distance can make the firm an attractive target for media
50 attention, amplifying the visibility and coverage of its supplier incidents. News of such incidents
51 can have a far-reaching impact as they resonate with a larger customer base, generate extensive
52 and broader media coverage, and provide stakeholders with an international platform to mobilize
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3 collective action against the firm (Daudigeos *et al.*, 2020). In cases where the firm is headquartered
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5 in a country with a robust institutional context and has significant institutional distance from the
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7 country where the incidents occur, stakeholders can leverage public opinion and institutional
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9 forces to push for greater accountability (McDonnell *et al.*, 2015) and demand substantive actions
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11 from the firm to drive long-term change (Herepath and Kitchener, 2016).
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15 **H2c:** *As the institutional distance between the firm home country and the incident country*
16 *increases, the reach of supplier sustainability risk increases.*
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18 3.3.2. Stakeholder orientation, SSR, and the moderating effect of institutional distance

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20 The ambiguity resulting from substantial institutional distance with supplier countries can
21
22 diminish the potential positive outcomes of stakeholder orientation in reducing the SSR frequency
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24 and severity (H1a and H1b), despite the firm's efforts to align with the interests of diverse
25
26 stakeholder groups. Firstly, institutional distance introduces diverse sustainability challenges,
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28 complicating the implementation of stakeholder-oriented initiatives, such as transparency
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30 practices, collaborative value creation, and information-sharing mechanisms (Busse *et al.*, 2016,
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32 Jamali *et al.*, 2017). While these initiatives aim to align interests and enforce accountability,
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34 institutional variability makes consistent standards harder to achieve, reducing their effectiveness
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36 in mitigating the incident frequency.
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40 Secondly, institutional distance affects how supplier incidents are perceived and addressed.
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42 In high-distance contexts, discrepancies in sustainability standards and expectations can delay risk
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44 identification or lead to misinterpretation. For example, a supplier's failure to meet labor standards
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46 may be perceived as acceptable locally but flagged as a serious breach by stakeholders in the firm's
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48 home country (Yang *et al.*, 2012). Such misalignment weakens the firm's ability to address risks
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50 before they escalate, ultimately increasing the incident severity.
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54 Thirdly, larger institutional distance exacerbates the operational and informational barriers
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3 to monitoring and enforcing sustainability practices. A stakeholder-oriented firm relies on
4 mechanisms such as supplier audits, whistleblowing frameworks, and collaborative initiatives to
5 proactively address supplier incidents. However, in contexts with significant institutional distance,
6 challenges such as language barriers, inconsistent reporting practices, and fragmented
7 accountability structures hinder the timely and effective implementation of these mechanisms
8 (Chan *et al.*, 2008). These barriers also reduce the efficacy of the firm's stakeholder engagement
9 in building trust and cooperation with suppliers. For instance, a firm requiring sustainability
10 disclosures from its suppliers may find that in high institutional distance contexts, suppliers
11 provide incomplete, non-standardized, or misleading disclosures due to differing norms around
12 transparency and weak regulatory oversight. This hampers the firm's ability to identify risks early
13 and implement corrective measures, increasing the SSR frequency and severity.
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29 ***H3a:*** *A higher institutional distance between the firm home country and the incident country*
30 *attenuates the negative relationship between stakeholder orientation and frequency of*
31 *supplier sustainability risk.*
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33 ***H3b:*** *A higher institutional distance between the firm home country and the incident country*
34 *attenuates the negative relationship between stakeholder orientation and severity of supplier*
35 *sustainability risk.*
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38 Legitimacy challenges resulting from institutional distance can exacerbate the negative
39 outcomes of stakeholder orientation, increasing the reach of the news about supplier incidents
40 (H1c). Firstly, greater institutional distance expands the diversity of stakeholders involved in
41 monitoring a firm's supply chain, such as local NGOs, global activists, and international media.
42 These groups bring distinct perspectives, resources, and networks, magnifying the incident
43 visibility. For example, a firm operating in high-distance contexts may face scrutiny both locally
44 and globally, with stakeholders leveraging cross-border networks to amplify news reach (Huq and
45 Stevenson, 2020).
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3 Secondly, institutional distance introduces disparities in local and international media
4 coverage, which amplifies the SSR reach for stakeholder-oriented firms. In high-distance contexts,
5 incidents may gain traction as global media outlets frame them as emblematic of broader issues,
6 such as corporate exploitation or environmental harm in developing regions (McDonnell and King,
7 2013), contrasting the firm's sustainability commitments with the local realities (Hawn, 2021).
8 This contrast makes incidents more newsworthy and impactful, which amplifies their reach.
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12 Thirdly, institutional distance increases the likelihood of incidents being framed as breaches
13 of trust or hypocrisy. The gaps between a firm's publicly stated commitments and actual practices
14 become more pronounced in high-distance contexts, leading stakeholders to question the sincerity
15 of the firm's efforts and to interpret the gaps as deceptive impression-management tactics or
16 greenwashing strategies aimed at concealing irresponsible behaviors along its supply chain
17 (Marquis *et al.*, 2016). These perceptions motivate stakeholders to publicize incidents more
18 aggressively (Zavyalova *et al.*, 2016).
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22 Lastly, institutional distance complicates a firm's ability to manage narratives surrounding
23 supplier incidents. While stakeholder orientation enhances transparency, institutional distance
24 introduces variability in how these narratives are interpreted across regions, limiting the firm's
25 ability to contain or redirect incident news. This allows stakeholders in high-distance contexts to
26 independently amplify the news of incidents through diverse platforms and networks (Yang *et al.*,
27 2012).
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31 **H3c:** *A higher institutional distance between the firm home country and the incident country
32 amplifies the positive relationship between stakeholder orientation and reach of supplier
33 sustainability risk.*

34 35 36 **4. Methodology**

37 38 39 *4.1. Measures and Data Sources*

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3 We tested our hypotheses by combining data from three main sources: LSEG Asset4 (stakeholder
4 orientation), RepRisk (SSR), and WGI (institutional distance). Specifically, we selected 3,590
5 firms from the manufacturing, retail, and wholesale trade sectors for which the stakeholder
6 orientation data were reported in the LSEG Asset4 database. We matched this data with RepRisk
7 and included firms with at least one supplier incident reported from 2009 to 2023. This resulted in
8 a final sample of 1,650 firms. Furthermore, we used data from LSEG Eikon and CEPII for firm-
9 level and country-level controls, respectively. Matching across and dropping observations with
10 missing data resulted in 5,911 supplier incidents occurring in 170 countries, which implicated 811
11 buying firms headquartered in 44 countries. The unit of analysis is triple-indexed at the buying
12 firm-incident country-year level, and the dataset comprises 27,545 observations.
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26 *4.1.1. Stakeholder orientation*

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28 We used LSEG Asset4 database, which has been widely used in management research (e.g., Eccles
29 *et al.*, 2014), as a proxy for multiple dimensions of stakeholder orientation, i.e., employee, supplier,
30 customer, and community orientation (Online Supplementary Table S-III). Methodologically, we
31 endeavored to follow Bettinazzi and Zollo (2017) and summed a set of dichotomous items annually
32 to form a scale for each stakeholder group. We selected the items that most closely aligned with
33 those used in their study and validated our selection by referring to Asset4's descriptions and by
34 relying on the collective expertise of the research team (exact replication was not possible due to
35 Asset 4's change of data items in 2016).
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47 We used 10 items in the Workforce and Human Rights categories to measure employee
48 orientation, 10 items from the Resource Use, Workforce, Human Rights, and Product
49 Responsibility categories for supplier orientation, seven items from the Product Responsibility,
50 Community, and Innovation categories for customer orientation, and seven items from the
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3 Community and Human Rights categories for community orientation. After calculating the sums,
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5 we normalized each scale and averaged the four normalized scales to estimate the overall annual
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7 stakeholder orientation, similar to the approach by Bettinazzi and Zollo (2017).
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10 In addition, we used the MSCI database to develop measures of stakeholder orientation;
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12 however, this database was restricted to U.S. firms. Our analysis using this more limited data
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14 yielded similar results to those reported in this study.
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17 4.1.2. *Supplier sustainability risk*

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19 To calculate our SSR measures, we collected data from RepRisk, a Swiss-based firm that screens,
20
21 collects, and assesses daily news on corporate social and environmental incidents from 80,000
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23 media and news sources in 20 languages, including traditional news outlets, social media, and
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25 newsletters. The RepRisk database is increasingly used in the academic literature for measures of
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27 corporate social irresponsibility (Kölbel *et al.*, 2017, Wang and Li, 2019), negative ESG incidents
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29 (Li and Wu, 2020), and sustainability-related transgressions (Mateska *et al.*, 2023) and has
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31 maintained a consistent algorithmic methodology over the years. Our data was limited to “supply-
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33 chain incidents” as a specific category of such news. These incidents, referred to as overall, can be
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35 further subdivided as environmental or social incidents (Online Supplementary Table S-I: Panel
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37 A). We should stress that environmental and social incidents are truly distinct, i.e., the former
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39 affecting the natural environment and the latter affecting such people. Each incident can be scored
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41 for severity and reach on a three-point categorical scale as low, medium, or high (Section 2.2).
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46 Consistent with our hypotheses, we assessed SSR frequency, severity, and reach separately
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48 for each type of incident (overall, environmental, and social). Multiple approaches were considered
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50 to measure the severity and reach of incidents from the RepRisk database, for example, using the
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52 annual maximum, annual mean, or multiple categorical variables to capture different levels of each
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3 measure. Like Kölbel et al. (2017), severity and reach were each assigned 1 for low, 2 for medium,
4 and 3 for high levels. Given the stakeholders' selective attention (Barnett, 2014), we used the
5 maximum annual level of each dimension to account for stakeholders' tendency to emphasize and
6 recall the most serious or the most widely publicized incidents rather than an overall annual
7 average of severity or reach across multiple incidents. As an alternative, we also used annual
8 average measures for severity and reach, similar to the approach employed by Kölbel et al. (2017),
9 which yielded qualitatively similar results (Online Supplementary Table S-II).

10
11 Thus, if at least one incident occurred in the supply chain of firm f in incident country c in
12 year y (triple-indexed unit of analysis), the incident severity would be equal to the annual
13 maximum of all incidents for that unit of analysis, representing the maximum level of incident
14 exposure that a firm had in a country-year. Analogous measures were constructed for severity and
15 reach. By way of numerical example with incident characteristics denoted by (frequency, severity,
16 reach): if firm f experienced *two* environmental incidents, the first with severity 3 and reach 2 and
17 the second with severity 2 and reach 1; as well as *one* social incident with severity 2 and reach 2;
18 in country c in year y , then $E_{fcy} = (2,3,2)$, $S_{fcy} = (1,2,2)$, $overall_{fcy} = (3,3,2)$.

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4.1.3. *Institutional distance*

Institutional distance encompasses several dimensions. The regulatory dimension pertains to the
disparity between the formal regulatory institutions of the two countries. The cognitive dimension
refers to the differences in established mental models and structures ingrained in different
societies, such as decision-making processes. The normative dimension involves diverging social
values, cultures, and norms, including political systems, across countries (Kostova *et al.*, 2020).
In this study, we focus on the regulatory dimension for two reasons. First, inadequate practices in
global supply chains can be traced back to weakly developed standards and enforcement

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3 institutions (regulatory institutional voids). Secondly, a substantial body of literature exists on the
4 private regulation of global supply chains (Donaghey and Reinecke, 2018), employing tools such
5 as corporate codes of conduct, which attempt to address the inadequacy of country-level
6 enforcement of laws and regulations in developing sustainable supply chains. We operationalized
7 regulatory institutional distance for each year as the absolute difference between institutional
8 profiles of the home and incident countries, where institutional profile refers to the average of all
9 six WGI items (Online Supplementary Table S-I: Panel B) (Beugelsdijk *et al.*, 2017).

19 4.1.4. Control variables

21 We controlled for several variables reported as influencing sustainability practices (Eccles *et al.*,
22 2014), including firm size (log of market value), cash ratio (cash and cash equivalents divided by
23 current liabilities), and return on assets—all obtained from LSEG Eikon. We also controlled for
24 the degree of economic development (constant PPP GDP per capita) of the home and incident
25 countries (Meinlschmidt *et al.*, 2018), as well as the geographic distance between them, as media
26 development and freedom can be intertwined with economic development (Abdi and Aulakh,
27 2012). We added dummy variables for (i) the common language spoken by at least 9% of the
28 populations of the home and incident countries and (ii) incidents happening in the firm's home
29 country rather than abroad: both might influence the frequency, severity, and reach of SSR. We
30 obtained this data from the CEPII database. Lastly, we controlled for each firm's home country,
31 industry, and the year of each incident, given that industry is a significant predictor of SSR
32 (Mateska *et al.*, 2023) and that SSR likely changes with various conditions prevalent in a particular
33 year, and firms are likely to be targeted based on their home country. For example, previous
34 research (e.g., Matten and Moon, 2008) suggests that European companies engage in less explicit
35 sustainability practices than their American counterparts, as many practices are enshrined in
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European law, while the U.S.'s more "laissez-faire" market approach often leaves sustainability to the discretion of individual firms.

4.2. Model Specification

To formally test our hypotheses, we estimated regression models of the form:

$$SSR_{f,c,y} = \beta SO_{f,y-1} + \gamma ID_{f,c,y-1} + \theta SO_{f,y-1} \cdot ID_{f,c,y-1} + \delta x_{f,c,y-1} + \tau z_{f,c} + \epsilon_{f,c,y} \quad (E1)$$

We estimated equation (E1) for frequency using negative binomial regressions for the count of incidents implicating firm f in country c in year y . We used ordered logistic regressions with home country-, industry-, and year-fixed effects for severity and reach of incidents. Standard errors were clustered at the firm-incident country level because several incidents might have implicated a buying firm in a given country. In line with previous research (Bettinazzi and Zollo, 2017), we explored between-firm variation and excluded firm-fixed effects because the panel was relatively short, and within-firm changes in stakeholder orientation were very small. In addition, estimating (E1) for severity and reach using an ordered probit model yielded qualitatively similar results. Finally, no evidence was found that the model violated the proportional odds assumption for the variables of interest, i.e., stakeholder orientation and institutional distance.

Recall that SSR might be considered for overall, environmental, or social incidents, each of which must be measured by frequency, severity, or reach. Thus, $SSR_{f,c,y}$ is one of the nine measures of SSR for firm f in country c in year y . Similarly, $SO_{f,y-1}$ expresses overall stakeholder orientation of firm f ; $ID_{f,c,y-1}$ is the regulatory institutional distance between the home country of firm f , and the incident country c ; $x_{f,c,y-1}$ denotes time-varying control variables; $z_{f,c}$ denotes time-invariant control variables and $\epsilon_{f,c,y}$ is the error term. All time-varying independent variables were lagged by one year to limit reverse effects, particularly where an incident could affect firm-level variables. The results remained consistent when independent variables were lagged by more

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3 than one year, as the variables of interest on the right-hand side of equation (E1) tended to change
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5 little in the short run.
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7 **5. Results**

8 *5.1. Descriptive Statistics*

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11 Of the 27,545 observations in our sample, 17,104 and 26,624 were related to E and S incidents,
12
13 respectively. These categories were not mutually exclusive, with some incidents falling into both
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15 categories (e.g., an environmental spillage causing health problems for the community). In the E
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17 category, the distribution of SSR severity was 22% low, 65% medium, and 13% high, and its reach
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19 was 67% low, 31% medium, and 2% high. In the S category, SSR severity was distributed as 27%
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21 low, 61% medium, and 12% high, with reach levels of 67% low, 29% medium, and 4% high.
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26 To facilitate interpretation, we standardized stakeholder orientation and institutional distance
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28 measures. After these transformations, we calculated the means, standard deviations, and pairwise
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30 correlations for the main variables of the model, as presented in Table I. One observed pattern
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32 from Table I is that each respective severity-reach bivariate correlation across the overall,
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34 environmental, and social categories is negative. This indicates that combining or multiplying
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36 these variables could potentially mask or attenuate meaningful underlying relationships, further
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38 justifying the analysis of severity and reach separately. Moreover, bivariate correlations among
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40 the four measures of stakeholder orientation (i.e., customer, employee, supplier, and community
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42 orientation) ranged from 0.456 to 0.551, only slightly higher than those reported by Bettinazzi and
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44 Zollo (2017).
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49 [Table I here]

50 *5.2. Main Effects*

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52 Table II presents the incidence rate ratio (IRR) for the count of SSR incidents, indicating
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3 significant positive relationships between stakeholder orientation and both overall and social
4 incident frequency. For instance, a one-standard-deviation increase in stakeholder orientation
5 above the home country, industry, and year means is associated with a 7.2% increase in the rate of
6 overall incidents. These results contradict H1a, which proposed a negative association between a
7 firm's stakeholder orientation and the frequency of SSR.
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12 Institutional distance is also positively and significantly associated with SSR frequency for
13 overall and social categories. For instance, a one-standard-deviation increase in institutional
14 distance is associated with a 6% increase in the rate of overall incidents. However, the results for
15 environmental incidents are negative but significant only at the 10% level ($p = 0.062$). These
16 results generally support H2a, indicating that higher institutional distance increases the frequency
17 of social (but not environmental) incidents.
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22 The results shown in Table II also indicate consistent positive and significant relationships
23 between stakeholder orientation and SSR severity across all models. For example, a one-standard-
24 deviation increase in stakeholder orientation above the home country, industry, and year means is
25 associated with a rise in the firm's likelihood of experiencing a peak environmental incident of at
26 least medium severity (compared to low severity) by 9.4%. These results contradict H1b, which
27 proposed a negative association between a firm's stakeholder orientation and the severity of its
28 SSR. Instead, the findings indicate that higher stakeholder orientation is associated with an
29 increase in SSR severity for overall, environmental, and social categories.
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34 However, our results provide strong statistical support for H1c, suggesting that higher
35 stakeholder orientation is associated with increased reach of reported incidents across all SSR
36 categories. For instance, a one-standard-deviation increase in stakeholder orientation above the
37 home country, industry, and year means is associated with a rise in a firm's likelihood of
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3 experiencing a peak social incident of at least medium reach (compared to low reach) by 25.7%.
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5 Furthermore, the results indicate that institutional distance is positively associated with all
6 categories of SSR severity and reach, except for environmental reach. For instance, a one-standard-
7 deviation increase in institutional distance is associated with a 13.6% (7.7%) increase in the
8 likelihood of a more severe environmental (social) incident of at least medium severity (compared
9 to low severity). Similarly, a one-standard-deviation increase in institutional distance is associated
10 with a 5.3% increase ($p=0.08$) in the possibility of a social incident being reported by a media
11 outlet with at least medium reach (compared to low reach). Thus, the results fully support H2b and
12 generally support H2c, which proposed a positive relationship between institutional distance and
13 SSR severity and reach, respectively.
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26 Regarding the control variables, firm size generally correlates positively with incident
27 frequency, severity, and reach. The findings also suggest that incidents occurring in home
28 countries tend to be less severe but have higher frequency and reach than in other countries.
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33 [Table II here]
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35 5.3. Moderation Effects 36

37 The estimates of moderation effects are presented in Table III, which includes an interaction term
38 for stakeholder orientation and institutional distance. The main effects remain similar to those
39 reported in Table II, except for the impact of institutional distance on social reach. The effect is
40 now significant, as predicted by H2c. Hypothesis 3a is not statistically supported, as the interaction
41 effects when the outcome is the incident frequency are insignificant throughout all models.
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49 The results indicate that the interaction term is positive and significant for SSR severity
50 across environmental, social, and overall categories. These findings suggest that, contrary to H3b,
51 rather than attenuating the “hypothesized negative” relationship between stakeholder orientation
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3 and SSR severity, institutional distance amplifies the “observed positive” relationship. As Figure
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5 1 (Panel A) illustrates, firms with higher stakeholder orientation are likely to experience greater
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7 SSR severity, with this effect being more pronounced in contexts of high institutional distance.
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10 Lastly, the results reveal a negative and significant effect of the stakeholder orientation and
11
12 institutional distance interaction on SSR reach. Contrary to H3c, higher institutional distance
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14 weakens (rather than amplifies) the positive relationship between stakeholder orientation and SSR
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16 reach. As illustrated in Figure 1 (Panel B), firms with higher stakeholder orientation experience
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18 greater SSR reach, but this is more pronounced when their suppliers operate in institutional
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20 contexts similar to their own. The results are summarized in Table IV.
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24 [Tables III and IV, and Figure 1 here]
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26 5.4. *Additional Analyses and Robustness Checks*

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28 To better understand the distinct roles of various stakeholder groups in the dynamics of the study,
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30 we decomposed stakeholder orientation into its four categories (i.e., customers, community,
31
32 employees, and suppliers) and re-estimated the ordered logistic regressions. Although the
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34 correlations among the four stakeholder groups were relatively high (Table I), the estimates for
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36 VIF were below 3. Table V shows that firms with higher customer orientation generally tend to be
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38 implicated at a higher rate in supplier incidents, which tend to be picked up by higher-reach media.
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40 However, community and employee orientations heighten the severity of reported incidents.
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42 Lastly, estimates for supplier orientation are positive and statistically significant for SSR reach.
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44 For example, a one-standard-deviation increase in supplier orientation increases the probability of
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46 environmental and social incidents being reported more broadly (i.e., higher reach compared to
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48 medium and low reach) by 19.7% and 22.0%, respectively.
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54 [Table V here]
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3 The hypotheses did not differentiate between environmental and social SSR. Thus, it is
4 possible that these two dimensions are interpreted as different operationalizations of the same
5 dataset. If so, it might be prudent to re-interpret the results using a Bonferroni correction to adjust
6 the p-values by a factor of two (García-Pérez, 2023). This correction does not change the
7 interpretation of the results summarized in Table IV.
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14 6. Discussion and Conclusion

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16 In many areas, our results align with hypotheses derived from expectancy theory. Specifically, a
17 buying firm that engages with stakeholders raises their expectations, and when these expectations
18 are unmet, the firm is likely to be implicated in its supplier's misconduct by higher-reach media.
19 However, the hypothesized main effects for frequency and severity, grounded in stakeholder
20 theory, are not supported. On the contrary, the results indicate the opposite: firms with higher
21 stakeholder orientation experience significantly more supplier incidents, which are also more
22 severe. We propose a few possible explanations for this finding, which warrant further
23 investigation. Firstly, it is plausible that strong stakeholder orientation diverts resources toward
24 enhancing stakeholders' perception of the firm's outreach initiatives rather than directly improving
25 its supplier practices. This resource allocation imbalance may inadvertently increase the likelihood
26 of supplier incidents. Secondly, while the frequency and severity of incidents are objectively
27 measurable, stakeholder perceptions play a major role in determining which incidents are reported
28 and which are overlooked by the media and other information intermediaries. Hence, firms with
29 high stakeholder orientation may attract more scrutiny, making incidents more likely to be reported
30 and assessed as severe.
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34 As expected, greater institutional distance between a buying firm's home country and the
35 incident country increases SSR frequency, severity, and reach, although these effects are more
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3 muted statistically for environmental incidents. With regards to interaction effects, even though
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5 institutional distance moderates the stakeholder orientation-SSR reach relationship, its effect is
6
7 contrary to the hypothesized direction. Specifically, firms with higher stakeholder orientation
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9 experience greater SSR reach, but this effect is more pronounced when their suppliers operate in
10
11 institutional contexts similar to their own, rather than in countries with higher institutional distance.
12
13 This unexpected result could be attributed to the fact that supplier incidents occurring in
14
15 institutionally distant countries are often perceived as less surprising to stakeholders, including
16
17 information intermediaries (Mateska *et al.*, 2023). Given the higher expected sustainability risk
18
19 associated with these countries, such incidents may be viewed as common practice (Reinerth *et*
20
21 *al.*, 2019). Consequently, prominent media outlets may be less inclined to report on every incident,
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23 focusing instead on more serious incidents that deviate from expectations. Yet, it is noteworthy
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25 that the observed effect size is small, indicating that while stakeholder orientation may provide
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27 some level of insulation against reputational risks in distant markets, it does not fully protect firms
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29 from the consequences of their supplier incidents.
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35 The following sections address how these findings contribute to both academic and practical
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37 knowledge and provide insights into future research.

38 39 40 6.1. *Theoretical Contributions*

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42 This study empirically investigates the stakeholder orientation paradox by examining how
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44 stakeholder orientation influences SSR, aiming to unpack the inherent tension between stakeholder
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46 orientation's protective function (i.e., reducing SSR frequency and severity through proactive
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48 engagement) and its potential detrimental function (increased SSR reach through amplified
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50 exposure to negative scrutiny). Our findings offer partial empirical support for the theorized
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52 tension, but more importantly, they uncover a more nuanced and unanticipated form of the
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3 paradox. On one hand, as expected, firms with strong stakeholder orientation indeed experience
4 significantly broader media dissemination of their supplier environmental or social misconduct,
5 indicating elevated stakeholder scrutiny. On the other hand, and more strikingly, our results
6 challenge the anticipated protective benefits of stakeholder orientation. Contrary to the predictions
7 of stakeholder theory, we observe that greater stakeholder orientation is associated with higher
8 frequency and greater severity of supplier incidents. This empirical evidence reveals a stark and
9 more complex paradox than previously theorized: the very firms committed to stakeholder
10 engagement are also those implicated in a higher number of more severe supplier incidents. Rather
11 than functioning as a reputational shield or “insurance,” strong stakeholder orientation appears to
12 increase firms’ exposure to risk, thereby undermining one side of the theoretical paradox we
13 initially proposed.

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These findings shed additional light on the dynamics of stakeholder activism directed at firms and their supply chains. Building on expectancy theory, we emphasize that stakeholder orientation, while valuable for enhancing transparency and accountability, may not serve as an effective insurance mechanism for buying firms seeking to shield themselves from the reputational and operational consequences of their supplier incidents. When firms adopt stakeholder orientation primarily as an impression management tool, focusing on signaling their commitment to sustainability rather than implementing substantive changes, they risk creating a false sense of security. This approach can lead to complacency, where firms prioritize external perceptions over meaningful internal reforms, ultimately leaving them vulnerable to heightened scrutiny and reputational damage when incidents occur. Furthermore, treating stakeholder orientation as a protective buffer rather than an integral part of sustainability strategy can weaken firms' resilience. Instead of proactively addressing supply chain vulnerabilities, firms may become reactive,

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3 responding only when supplier incidents attract public attention. This reactive stance limits the
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5 potential of stakeholder engagement to drive meaningful improvements and increases the
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7 likelihood of recurring supplier incidents. Ultimately, our findings suggest that stakeholder
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9 orientation should be leveraged as a strategic tool to drive genuine improvements in supply chain
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11 sustainability, rather than as a superficial mechanism to manage perceptions or mitigate short-term
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13 reputational risks.
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17 In addition, our study expands initial work on institutional distance in global supply chains
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19 (e.g., Busse *et al.*, 2016) to consider how variance among the countries might influence the
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21 relationship between stakeholder orientation and SSR. In doing so, this study also extends beyond
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23 earlier work that considered stakeholder orientation primarily in the U.S. context (e.g., Flammer
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25 and Kacperczyk, 2016, Bettinazzi and Zollo, 2017), offering a broader, more global perspective
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27 on how firms navigate sustainability challenges across diverse institutional contexts. Our findings
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29 reveal that institutional distance plays a dual role in moderating the impact of stakeholder
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31 orientation on SSR. On one hand, the positive moderation effect of institutional distance on the
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33 relationship between stakeholder orientation and severity suggests that when a buying firm has a
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35 high stakeholder orientation, its supplier incidents in institutionally distant countries are reported
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37 as more serious and result in more severe consequences. On the other hand, the negative
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39 moderation of institutional distance for reach introduces a more complex dynamic. While buying
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41 firms with high stakeholder orientation are generally more likely to attract attention from higher-
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43 reach media, their supplier incidents occurring in institutionally distant countries are less likely to
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45 be covered by high-reach and prominent media outlets.
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51 Collectively, stakeholder orientation might act as a partial buffer or insurance mechanism in
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53 these contexts, as incidents in institutionally distant countries may be perceived as less surprising
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3 or inevitable, leading to lower media attention and reduced reputational exposure. Hence, a one-
4 size-fits-all approach to stakeholder orientation may be insufficient, as institutional distance can
5 significantly alter the way supplier incidents are perceived, reported, and scrutinized. In sum, while
6 stakeholder theory considers both the context and type of stakeholders, less attention has been paid
7 to the nature of actions and how they might vary across settings with relative institutional
8 differences. These relative differences, not absolute levels, must be factored into firms' strategies
9 as pressures mount to increase stakeholder orientation.

19 Lastly, existing research has extensively examined the consequences of SSR, such as damage
20 to the firm's reputation, financial stability, competitive advantage, and long-term viability (e.g.,
21 Petersen and Lemke, 2015, Kim *et al.*, 2019, Cousins *et al.*, 2020, Bundy *et al.*, 2021). Stepping
22 back, as detailed by Schleper *et al.* (2024), supply chain risk encompasses well-studied "traditional"
23 risks—such as operational problems, geopolitical changes, natural disasters, and other
24 catastrophes—as well as reputational risks and societal risks. The supplier incidents examined in
25 this study, measured by the frequency, severity, and reach of media and third-party reports (e.g.,
26 RepRisk), might initially appear to focus solely on reputational risk. Yet, by including community
27 among stakeholder groups in the primary construct of stakeholder orientation, this study begins to
28 explore the overlap between reputational *and* societal risk, at least in the context of sustainability.
29 Furthermore, we contribute to the study of antecedents of SSR by considering stakeholder
30 orientation and institutional distance as critical drivers, offering new insights into the factors
31 influencing three dimensions, namely frequency, severity, and reach.

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6.2. Managerial Implications

The findings of this study provide several important managerial implications that can guide firms
in effectively managing stakeholder orientation and institutional distance to mitigate their SSR.

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3 First, firms that prioritize stakeholder orientation, as evidenced by adopting policies that address
4 the interests of non-shareholding stakeholders, might *apriori* expect improvements in their
5 operational performance as those stakeholders see the value of their sustainability-related
6 programs, initiatives, and processes. However, this engagement can implicitly draw attention to
7 the firm and inadvertently increase SSR, as activist stakeholders and high-reach media gain greater
8 access to firm data and might be motivated to identify and expose discrepancies between the firm's
9 policies and practices. Thus, as firms strengthen their stakeholder orientation, care must be
10 exercised to avoid over-promising sustainability commitments and under-delivering on supply
11 chain performance to avoid creating a false sense of security that may lead to complacency.
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24 Second, management teams must carefully manage their efforts to expand stakeholder
25 orientation to avoid over-promising and under-delivering. Transparent reporting and credible
26 third-party verifications can help firms balance demonstrating commitment and managing
27 reputational exposure. However, short-term negative attention might be unavoidable, as was
28 evident with Boohoo, described earlier. While the temptation is to view these higher stakeholder
29 expectations negatively, their scrutiny can be potentially leveraged to the firm's benefit. In
30 essence, strong stakeholder orientation can "crowdsource" the examination of global supply chains
31 for small- to medium-sized firms with scarce resources. Auditing every supplier on a frequent
32 basis is costly and doesn't necessarily ensure compliance; thus, other stakeholders, such as
33 communities where distant suppliers operate, can indirectly monitor suppliers for a smaller buying
34 firm and guide steps toward better sustainability practices. This approach requires management to
35 quickly respond to these stakeholder reports, or risk further eroding credibility.
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51 Finally, firms operating across diverse settings should recognize that high stakeholder
52 orientation can increase scrutiny and amplify the severity and reach of reported supplier incidents
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3 to varying degrees based on differing regulations, long distances, and disparate cultures. Therefore,
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5 proactive engagement with local stakeholders must be accompanied by robust internal
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7 sustainability practices to withstand heightened scrutiny. Since sustainability incidents in
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9 institutionally distant countries are less likely to be widely reported in high-reach media, these
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11 firms might perceive a lower reputational risk. However, this reduced visibility should not lead to
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13 complacency, as local stakeholders and advocacy groups can still escalate issues through
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15 alternative channels. Hence, firms should adopt localized risk management strategies that account
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17 for varying media dynamics.
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21 *6.3. Limitations and Future Research*

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23 This study has several limitations that present opportunities for future research. Firstly, our
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25 analysis primarily focused on the regulatory dimension of institutional distance. However,
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27 institutional distance also encompasses cognitive and normative dimensions, which may play a
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29 role in shaping sustainability outcomes. Future research could explore these dimensions to
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31 understand their effects better and examine how they interact with stakeholder orientation to affect
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33 sustainability risks. Second, we focused on sustainability incidents in the supply chain without
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35 distinguishing between different tiers or types of suppliers. Also, our data only captures supplier
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37 incidents that are detected by a third party, not those discovered but not disclosed by the firm itself,
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39 which, in turn, might translate into future environmental, societal, or reputational damage if not
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41 addressed. Future research could investigate the positioning of suppliers within the supply chain
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43 and utilize transactional data to gain a deeper understanding of the specific activities that contribute
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45 to supplier incidents, as well as the importance of time lags between latent incidents occurring and
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47 later being detected by third parties. Finally, while RepRisk is a valuable tool for tracking
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49 incidents, it predominantly relies on media reports, which may be significantly constrained in
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3 countries with limited press freedom. Although potential measurement biases will likely attenuate
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5 the effect sizes rather than reverse our study's conclusions, the evolving capabilities of large
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7 language models present opportunities for enhancing the detection of incidents and improving the
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9 comprehensiveness of sustainability risk assessments.

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Table I. Means, standard deviations, and pairwise correlations (Source: Authors' own work)

	Mean	SD	1	2	3	4	5	6	7	8	9
1. Overall Frequency	1.427	1.689									
2. Environmental Frequency	1.270	1.231	0.760								
3. Social Frequency	1.385	1.523	0.971	0.625							
4. Overall Severity	1.840	0.602	0.186	0.143	0.185						
5. Environmental Severity	1.914	0.582	0.073	0.124	0.062	0.947					
6. Social Severity	1.850	0.602	0.182	0.139	0.184	0.997	0.937				
7. Overall Reach	1.364	0.568	0.388	0.282	0.393	-0.037	-0.185	-0.034			
8. Environmental Reach	1.349	0.517	0.271	0.286	0.249	-0.169	-0.190	-0.164	0.907		
9. Social Reach	1.368	0.558	0.381	0.257	0.393	-0.036	-0.184	-0.038	0.982	0.859	
10. Stakeholder Orientation ^a	0	1	0.074	0.062	0.076	0.038	0.079	0.038	0.080	0.054	0.085
11. Community Orientation ^a	0	1	0.047	0.041	0.048	0.041	0.077	0.044	0.028	0.003	0.030
										[0.712]	
12. Customer Orientation ^a	0	1	0.059	0.070	0.056	0.042	0.082	0.045	0.066	0.037	0.069
13. Employee Orientation ^a	0	1	0.023	0.022	0.022	0.051	0.087	0.050	0.039	0.007	0.044
										[0.343]	
14. Supplier Orientation ^a	0	1	0.101	0.058	0.108	-0.003	0.017	-0.007	0.112	0.105	0.118
							[0.029]	[0.246]			
15. Institutional Distance ^a	0	1	0.025	0.007	0.033	0.082	0.096	0.072	-0.028	0.017	-0.014
				[0.390]						[0.023]	
16. Size (Market Value) ^b	10.178	1.545	0.118	0.082	0.122	0.057	0.032	0.058	0.095	0.042	0.096
17. Cash Ratio	0.536	0.760	-0.014	-0.028	-0.009	-0.075	-0.026	-0.078	-0.027	-0.008	-0.030
			[0.022]		[0.126]					[0.293]	
18. Returns on Assets %	7.396	7.024	0.069	0.051	0.072	-0.065	-0.037	-0.068	0.049	0.054	0.050
19. Firm Country GDP/capita ^b	10.641	0.628	0.049	0.036	0.052	-0.017	-0.012	-0.018	0.031	0.027	0.028
						[0.005]	[0.102]	[0.004]			
20. Incident Country GDP/capita ^b	8.765	1.386	-0.012	-0.014	-0.018	-0.078	-0.088	-0.067	0.035	-0.019	0.019
			[0.040]	[0.068]	[0.003]					[0.013]	[0.002]
21. Geographic Distance ^b	8.642	1.005	-0.005	0.016	-0.002	0.037	0.014	0.032	-0.047	0.018	-0.035
			[0.449]	[0.033]	[0.733]		[0.077]			[0.021]	
22. Common Language	0.231	0.422	-0.054	-0.039	-0.050	0.007	-0.039	0.011	-0.037	-0.024	-0.041
						[0.255]		[0.061]		[0.002]	
23. Incidents in Home Country	0.057	0.233	0.090	0.068	0.086	-0.061	-0.076	-0.056	0.160	0.102	0.146

	10	11	12	13	14	15	16	17	18	19	20
11. Community Orientation ^a	0.779										
12. Customer Orientation ^a	0.832	0.599									
13. Employee Orientation ^a	0.777	0.456	0.546								
14. Supplier Orientation ^a	0.824	0.508	0.551	0.509							
15. Institutional Distance ^a	0.084	0.045	0.038	0.053	0.121						
16. Size (Market Value) ^b	0.515	0.406	0.433	0.343	0.464	0.037					
17. Cash Ratio	-0.193	-0.133	-0.139	-0.204	-0.144	-0.008	-0.061				
18. Returns on Assets %	0.033	0.012	-0.010	-0.032	0.116	0.030	0.285	0.020			
		[0.046]	[0.102]								
19. Firm Country GDP/capita ^b	0.290	0.227	0.250	0.083	0.348	0.212	0.290	0.025	0.025		
20. Incident Country GDP/capita ^b	0.032	0.026	0.047	0.039	-0.004	-0.741	0.031	-0.011	-0.017	0.015	
					[0.471]			[0.067]	[0.006]	[0.016]	
21. Geographic Distance ^b	-0.009	0.040	-0.005	-0.076	0.012	0.374	0.053	0.038	0.031	0.087	-0.371
	[0.140]		[0.446]		[0.048]						
22. Common Language	-0.014	0.044	0.004	-0.087	-0.003	-0.029	0.079	-0.011	0.046	0.105	-0.029
	[0.023]		[0.456]		[0.645]			[0.063]			
23. Incidents in Home Country	-0.066	-0.038	-0.031	-0.056	-0.079	-0.409	-0.060	-0.012	0.011	-0.076	0.300
								[0.049]	[0.077]		
	21	22									
22. Common Language	0.046										
23. Incidents in Home Country	-0.587	-0.135									

Note: The number of observations is 27,545 in most cases. When environment frequency/severity/reach is mentioned, N drops to 17,014; when social frequency/severity/reach is mentioned, N drops to 26,624; when environment frequency/severity/reach and social frequency/severity/reach are mentioned, N drops to 16,183. All reported pairwise correlations have a p-value < 0.001, unless otherwise indicated in square brackets.

^a Standardized scale.

^b Log-transformed scale.

Table II. Direct effects of stakeholder orientation and institutional distance on SSR frequency, severity, and reach (Source: Authors' own work)

	Overall SSR			Environmental SSR			Social SSR		
	Frequency	Severity	Reach	Frequency	Severity	Reach	Frequency	Severity	Reach
Stakeholder Orientation	1.072 [0.000]	1.064 [0.004]	1.222 [0.000]	1.030 [0.130]	1.103 [0.001]	1.192 [0.000]	1.072 [0.000]	1.094 [0.000]	1.257 [0.000]
Institutional Distance	1.060 [0.002]	1.080 [0.000]	1.064 [0.032]	0.976 [0.062]	1.136 [0.000]	1.024 [0.471]	1.063 [0.001]	1.077 [0.001]	1.053 [0.080]
Size (Log of MV)	1.094 [0.000]	1.035 [0.031]	1.103 [0.000]	1.058 [0.000]	1.090 [0.000]	1.040 [0.091]	1.091 [0.000]	1.026 [0.118]	1.105 [0.000]
Cash Ratio	1.003 [0.783]	0.925 [0.000]	0.954 [0.097]	0.992 [0.523]	1.014 [0.469]	1.066 [0.103]	1.008 [0.439]	0.926 [0.000]	0.912 [0.006]
Return on Assets %	1.001 [0.598]	0.993 [0.005]	1.010 [0.000]	1.001 [0.524]	1.006 [0.088]	1.003 [0.459]	1.001 [0.703]	0.993 [0.009]	1.012 [0.000]
Firm Country GDP/capita	0.688 [0.302]	1.226 [0.721]	53.538 [0.000]	0.562 [0.113]	8.705 [0.015]	1095.177 [0.000]	0.646 [0.160]	1.055 [0.927]	50.329 [0.000]
Incident Country GDP/capita	1.005 [0.732]	0.948 [0.000]	1.048 [0.019]	0.977 [0.037]	0.928 [0.000]	1.005 [0.838]	1.005 [0.721]	0.955 [0.002]	1.021 [0.308]
Geographic Distance	1.062 [0.011]	1.031 [0.095]	1.134 [0.000]	1.059 [0.049]	0.972 [0.216]	1.144 [0.000]	1.055 [0.009]	1.030 [0.109]	1.136 [0.000]
Common Language	0.862 [0.000]	1.002 [0.964]	0.915 [0.052]	0.899 [0.001]	0.842 [0.000]	1.000 [0.995]	0.881 [0.000]	1.015 [0.682]	0.886 [0.011]
Incidents in Home Country	1.882 [0.000]	0.841 [0.062]	5.229 [0.000]	1.462 [0.001]	0.769 [0.019]	3.692 [0.000]	1.812 [0.000]	0.855 [0.101]	4.967 [0.000]
Home Country FE	Y	Y	Y	Y	Y	Y	Y	Y	Y
Industry FE	Y	Y	Y	Y	Y	Y	Y	Y	Y
Year FE	Y	Y	Y	Y	Y	Y	Y	Y	Y
Pseudo R-squared	0.035	0.094	0.105	0.023	0.129	0.195	0.033	0.103	0.111
Observations	27545	27545	27545	17104	17104	17104	26624	26624	26624

Note 1: For frequency, Incidence Rate Ratios (IRRs) are reported from negative binomial regressions, where values greater than 1 indicate an increase in the rate of occurrence, and values less than 1 indicate a decrease in the rate of occurrence. For severity and reach, Odds Ratios (ORs) are reported from ordered logistic regressions, where values greater than 1 indicate a higher likelihood of being in a higher category relative to the lower categories of severity/reach.

Note 2: P-values, based on standard errors clustered at the firm-incident country pair, are reported in square brackets.

Table III. Moderation effect of institutional distance on stakeholder orientation – SSR relationship (Source: Authors' own work)

	<u>Overall SSR</u>			<u>Environmental SSR</u>			<u>Social SSR</u>		
	Frequency	Severity	Reach	Frequency	Severity	Reach	Frequency	Severity	Reach
Stakeholder Orientation (SO)	1.072	1.130	1.168	1.029	1.239	1.173	1.072	1.161	1.194
	[0.000]	[0.000]	[0.000]	[0.139]	[0.000]	[0.000]	[0.000]	[0.000]	[0.000]
Institutional Distance (ID)	1.060	1.096	1.076	0.978	1.157	1.038	1.063	1.091	1.065
	[0.002]	[0.000]	[0.007]	[0.077]	[0.000]	[0.237]	[0.001]	[0.000]	[0.021]
SO X ID	0.999	1.025	0.963	0.983	1.070	0.913	1.002	1.023	0.958
	[0.906]	[0.039]	[0.019]	[0.116]	[0.000]	[0.000]	[0.820]	[0.064]	[0.011]
Home Country FE	Y	Y	Y	Y	Y	Y	Y	Y	Y
Industry FE	Y	Y	Y	Y	Y	Y	Y	Y	Y
Year FE	Y	Y	Y	Y	Y	Y	Y	Y	Y
Pseudo R-squared	0.035	0.077	0.081	0.023	0.102	0.160	0.033	0.085	0.085
Observations		27545			17104			26624	

Note 1: For frequency, Incidence Rate Ratios (IRRs) are reported from negative binomial regressions, where values greater than 1 indicate an increase in the rate of occurrence, and values less than 1 indicate a decrease in the rate of occurrence. For severity and reach, Odds Ratios (ORs) are reported from ordered logistic regressions, where values greater than 1 indicate a higher likelihood of being in a higher category relative to the lower categories of severity/reach.

Note 2: P-values, based on standard errors clustered at the firm-incident country pair, are reported in square brackets.

Note 3: **Control variables included but not reported:** firm size, cash ratio, return on assets, home country GDP/capita, incident country GDP/capita, geographic distance, common language spoken between firm and incident countries, and incidents in the home country.

Table IV. Results summary (Source: Authors' own work)

Hypothesis Description	Results
H1a. As firm stakeholder orientation increases, the frequency of supplier sustainability risk decreases.	Contradicted: Overall and social SSR (<i>Stakeholder orientation increases the frequency of overall and social SSR.</i>) Not supported: Environmental SSR
H1b. As firm stakeholder orientation increases, the severity of supplier sustainability risk decreases.	Contradicted: All SSR categories (<i>Stakeholder orientation increases the severity of overall, environmental, and social SSR.</i>)
H1c. As firm stakeholder orientation increases, the reach of supplier sustainability risk increases.	Supported: All SSR categories
H2a. As the institutional distance between the firm home country and the incident country increases, the frequency of supplier sustainability risk increases.	Supported: Overall and social SSR Not supported: Environmental SSR
H2b. As the institutional distance between the firm home country and the incident country increases, the severity of supplier sustainability risk increases.	Supported: All SSR categories
H2c. As the institutional distance between the firm home country and the incident country increases, the reach of supplier sustainability risk increases.	Supported: Overall and social SSR (Social SSR at 10% significance level) Not supported: Environmental SSR
H3a. A higher institutional distance between the firm home country and the incident country attenuates the negative relationship between stakeholder orientation and frequency of supplier sustainability risk.	Not supported: All SSR categories
H3b. A higher institutional distance between the firm home country and the incident country attenuates the negative relationship between stakeholder orientation and severity of supplier sustainability risk.	Contradicted: All SSR categories (<i>Institutional distance amplifies the "observed" positive relationship between stakeholder orientation and SSR severity.</i>)
H3c. A higher institutional distance between the firm home country and the incident country amplifies the positive relationship between stakeholder orientation and reach of supplier sustainability risk.	Contradicted: All SSR categories (<i>Institutional distance attenuates the positive relationship between stakeholder orientation and SSR reach.</i>)

Table V. Direct effects of stakeholder orientation components and institutional distance on SSR (Source: Authors' own work)

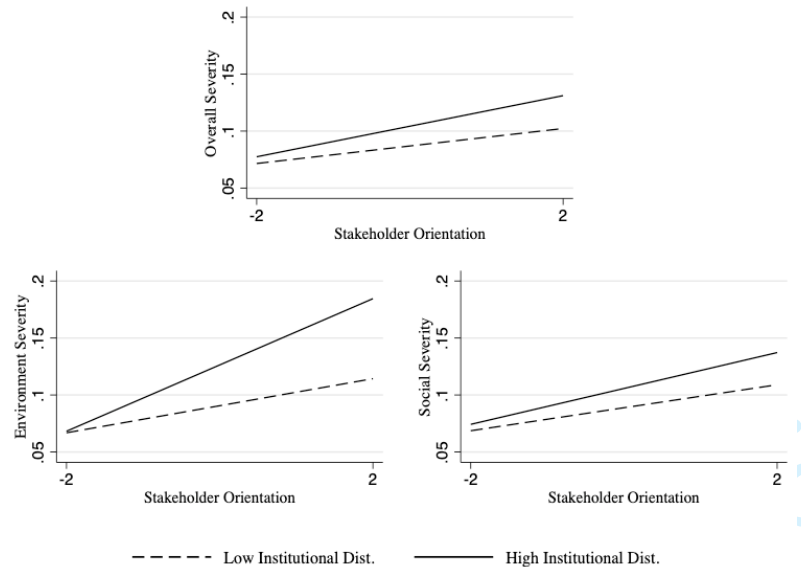
	<u>Overall SSR</u>			<u>Environmental SSR</u>			<u>Social SSR</u>		
	Frequency	Severity	Reach	Frequency	Severity	Reach	Frequency	Severity	Reach
Community Orien.	1.012 [0.320]	1.046 [0.030]	1.003 [0.900]	0.995 [0.655]	1.118 [0.000]	1.045 [0.174]	1.013 [0.237]	1.060 [0.006]	0.996 [0.855]
Customer Orien.	1.046 [0.005]	1.020 [0.370]	1.098 [0.000]	1.044 [0.011]	1.083 [0.007]	1.123 [0.001]	1.040 [0.006]	1.031 [0.180]	1.120 [0.000]
Employee Orien.	0.999 [0.984]	1.048 [0.033]	0.980 [0.461]	1.008 [0.699]	1.098 [0.001]	0.894 [0.001]	0.997 [0.919]	1.054 [0.020]	0.983 [0.538]
Supplier Orien.	1.033 [0.136]	0.963 [0.096]	1.196 [0.000]	0.992 [0.728]	0.849 [0.000]	1.197 [0.000]	1.041 [0.062]	0.969 [0.172]	1.220 [0.000]
Institutional Dist.	1.060 [0.002]	1.078 [0.000]	1.067 [0.026]	0.976 [0.063]	1.131 [0.000]	1.026 [0.450]	1.063 [0.001]	1.075 [0.001]	1.056 [0.065]
Home Country FE	Y	Y	Y	Y	Y	Y	Y	Y	Y
Industry FE	Y	Y	Y	Y	Y	Y	Y	Y	Y
Year FE	Y	Y	Y	Y	Y	Y	Y	Y	Y
Pseudo R-squared	0.035	0.095	0.106	0.023	0.131	0.196	0.033	0.103	0.112
Observations	27545			17104			26624		

Note 1: For frequency, Incidence Rate Ratios (IRRs) are reported from negative binomial regressions, where values greater than 1 indicate an increase in the rate of occurrence, and values less than 1 indicate a decrease in the rate of occurrence. For severity and reach, Odds Ratios (ORs) are reported from ordered logistic regressions, where values greater than 1 indicate a higher likelihood of being in a higher category relative to the lower categories of severity/reach.

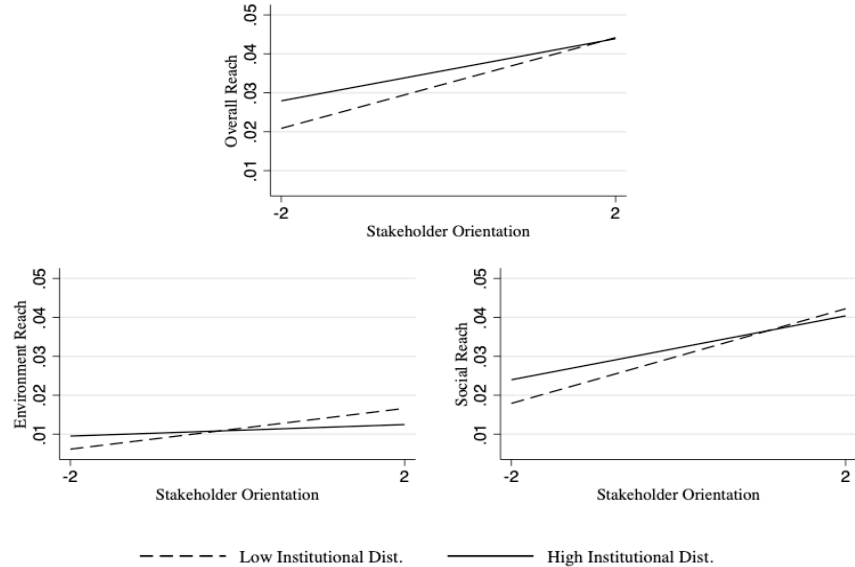
Note 2: P-values, based on standard errors clustered at the firm-incident country pair, are reported in square brackets.

Note 3: **Control variables included but not reported:** firm size, cash ratio, return on assets, home country GDP/capita, incident country GDP/capita, geographic distance, common language spoken between firm and incident countries, and incidents in the home country.

Figure 1. Moderation effect of institutional distance (Source: Authors' own work)



Panel A- Stakeholder orientation and SSR severity



Panel B- Stakeholder orientation and SSR reach

ONLINE SUPPLEMENTARY TABLES

Table S-I. Supplier sustainability risk and country institutional profile measures (Sources: RepRisk & WGI)**Panel A: RepRisk categorization of sustainability incidents**

Environment Issues	Social Issues
Impact on landscapes, ecosystems, and biodiversity	Impact on communities
Local pollution	Human Rights abuses and corporate complicity
Climate change, GHG emissions, and global pollution	Occupational health and safety issues
Waste issues	Local participation issues
Overuse and wasting of resources	Social discrimination
Animal mistreatment	Poor employment conditions
	Freedom of association and collective bargaining
	Forced labor
	Child labor
	Discrimination in employment

Panel B: Worldwide Governance Indicators

Rule of law
Control of corruption
Government effectiveness
Voice and accountability
Political stability and absence of violence
Regulatory quality

Note: Definitions of each Environmental and Social issue can be found at:

<https://www.reprisk.com/content/static/reprisk-esg-issues-definitions.pdf>. [Accessed on 08/12/2020]

Table S-II: OLS results for SSR severity/reach, measured as the average of incidents (Source: Authors' own work)**Panel A: Direct effects of stakeholder orientation and institutional distance**

	<u>Overall SSR</u>		<u>Environmental SSR</u>		<u>Social SSR</u>	
	Severity	Reach	Severity	Reach	Severity	Reach
Stakeholder Orientation	0.009	0.012	0.007	0.009	0.014	0.017
	[0.000]	[0.000]	[0.031]	[0.002]	[0.000]	[0.000]
Institutional Distance	0.007	0.006	0.005	-0.001	0.011	0.008
	[0.001]	[0.019]	[0.057]	[0.814]	[0.000]	[0.006]
Home Country FE	Y	Y	Y	Y	Y	Y
Industry FE	Y	Y	Y	Y	Y	Y
Year FE	Y	Y	Y	Y	Y	Y
R-squared	0.091	0.117	0.116	0.160	0.100	0.121
Observations	27545	27545	17104	17104	26624	26624

Panel B: Interaction effects of stakeholder orientation and institutional distance

	<u>Overall SSR</u>		<u>Environmental SSR</u>		<u>Social SSR</u>	
	Severity	Reach	Severity	Reach	Severity	Reach
Stakeholder Orientation (SO)	0.009	0.011	0.007	0.009	0.014	0.017
	[0.000]	[0.000]	[0.028]	[0.003]	[0.000]	[0.000]
Institutional Distance (ID)	0.007	0.005	0.005	-0.000	0.011	0.008
	[0.001]	[0.021]	[0.062]	[0.860]	[0.000]	[0.007]
SO X ID	0.001	-0.003*	0.003	-0.005	0.002	-0.003
	[0.639]	[0.017]	[0.050]	[0.002]	[0.185]	[0.058]
Home Country FE	Y	Y	Y	Y	Y	Y
Industry FE	Y	Y	Y	Y	Y	Y
Year FE	Y	Y	Y	Y	Y	Y
R-squared	0.091	0.118	0.116	0.160	0.100	0.122
Observations	27545	27545	17104	17104	26624	26624

Note 1: All control variables reported in Table II are included in these models but not shown for parsimony.

Note 2: P-values, based on standard errors clustered at the firm-incident country pair, are reported in square brackets.

TABLE S-III. Stakeholder orientation measures (Source: LSEG Asset4)

Asset4 Pillar	Asset4 Category	Item Description (Yes/No)
Employee Orientation		
Social	Workforce	Day Care Services
Social	Workforce	Employees Health & Safety Team
Social	Workforce	Flexible Working Schemes
Social	Workforce	Training & Career Development Processes/Policy Career Development
Social	Workforce	Diversity Opportunity Processes/Policy Diversity & Opportunity
Social	Workforce	Employee Health & Safety Processes/Policy Employee Health & Safety
Social	Workforce	Training & Career Development Processes/Policy Skills Training
Social	Human Rights	Policy Freedom of Association
Social	Workforce	Targets Diversity & Opportunity
Social	Workforce	Management Training
Supplier Orientation		
Social	Product Responsibility	Policy Fair Trade
Social	Workforce	Policy Supply Chain Health & Safety
Social	Workforce	Supply Chain Health & Safety Progress Surveys
Social	Workforce	Supplier ESG Training
Environment	Resource Use	Environmental Supply Chain Selection Management
Environment	Resource Use	Environmental Supply Chain Monitoring
Environment	Resource Use	Policy Environmental Supply Chain
Environment	Resource Use	Environmental Supply Chain Partnership Termination
Social	Human Rights	Human Rights Suppliers
Social	Human Rights	Human Rights Breaches Suppliers
Customer Orientation		
Social	Product Responsibility	Product Responsibility Processes/Policy Customer Health & Safety
Social	Product Responsibility	Policy Data Privacy
Social	Product Responsibility	Policy Responsible Marketing
Social	Product Responsibility	Product Responsibility Monitoring
Social	Community	Policy Fair Competition
Environment	Innovation	Product Environmental Responsible Use
Social	Product Responsibility	Retailing Responsibility
Community Orientation		
Social	Community	Policy Community Involvement
Social	Community	Employees Community Work
Social	Community	Whistleblower Protection
Social	Community	Improvement Tool/Business Ethics
Social	Community	Policy Business Ethics
Social	Community	Policy Bribery & Corruption
Social	Human Rights	Policy Human Rights