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Abstract

Institutional investors, pital markets are increasingly investing in international markets, including emerging markets, in an effort to capitalize on the rapid growth rates of these markets. But investment in far-flung jurisdictions carries with it risk and uncertainty, particularly when the corporate standards of firms in emerging markets are below those found in these investors' home countries. In order to mitigate the risks posed by poor corporate standards of behaviour, institutional investors increasingly apply nonfinancial criteria not only to individual firms in emerging markets, but to the corporate practices of whole countries. Though countries and their regulatory regimes are central to external capital-investment decisions, we find convergence to global standards occurs when key actors in the investment value chain demand levels of corporate and social behavior greater than those currently consistent with countries' own regulatory frameworks. We test this hypothesis using the decision of the California Public Employees Retirement System to screen out several emerging-market countries from their investment portfolio on the basis of a variety of nonfinancial criteria.

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