Is There a Local Culture of Corruption in the U.S.?*

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Abstract

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Keywords: Corruption, Corporate Governance, Social Norms, Culture
JEL Codes: *D73, G34, Z10*

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Abstract

U.S. corporations headquartered in states with greater public corruption are prone to more unethical behavior, reflecting a state-level "culture-of-corruption". We test for state-level differences by exploiting the passage of Foreign Corrupt Practices Act (FCPA) that curtailed bribery of foreign officials. Firms in corrupt states, especially firms exporting to more corrupt countries, suffer greater value (*Tobin's Q*) and performance (ROA) decline following FCPA, indicating larger losses from restrictions on bribery. Culture-of-corruption is also manifest in greater agency problems: Firms in corrupt states are more likely to manage earnings, face securities fraud litigation, and be adversely affected by state-level anti-takeover laws.

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1. Introduction

Culture is an important social construct that helps explain the behavior of individuals and firms. The general finding in the economics literature is that certain cultural norms, such as attitudes toward corruption, persist even when individuals relocate to a culture with very different legal institutions and social norms. A challenge that the literature faces is the difficulty of isolating the effect of culture from the legal and economic environment in which it develops. An approach that addresses these concerns is to examine the behavior of individuals from different cultural backgrounds in a common socioeconomic and legal setting, such as in the U.S. (Fernández, 2011). Studies using this epidemiological approach show, for instance, that individuals with cultural ties to more corrupt countries exhibit a greater propensity to engage in unethical behavior even in the U.S. Several recent papers have utilized this approach to study unethical behavior, ranging from illegal parking by U.N. diplomats (Fisman and Miguel, 2007) to corporate tax evasion (DeBacker, Heim, and Tran, 2015) and accounting fraud (Liu, 2016).[1]

In this paper we build on the prior literature and examine whether there is a local, cultural component behind the predisposition of U.S. public corporations to engage in corrupt behavior. The notion is that there could be a local culture common to the population in a particular geographic area, in which corruption is a part of the social mores and norms. A corporate culture of corruption in these environments could be manifest in terms of corporate managers' willingness to act in unethical ways to maximize firm profits. For instance, these managers may be willing to offer bribes in order to win government contracts (Goldman, Rocholl, and So, 2013; Cohen and Malloy, 2016). In this case, corrupt behavior could actually create value for shareholders. In other instances, it could be manifest as self-serving behavior by corporate managers to the detriment of their shareholders.

We employ measures of state-level corruption of public officials that are commonly used in the literature: federal convictions of public officials and surveys on the perception of public corruption.

[1] In a similar vein, several studies have used measures of local geographic culture, such as religiosity, around a firm's headquarters to explain corporate behavior (e.g., Hilary and Hui, 2009; Grullon, Kanatas, and Weston, 2010; McGuire, Newton, Omer, and Sharp, 2012; and Parsons, Sulaeman, and Titman, 2016).

Our results indicate that there is a significant regional or state-level variation in terms of a "culture of corruption". Specifically, publicly-traded corporations that are headquartered in more corrupt states also exhibit a greater propensity for corrupt behavior. In our opinion, these findings are fairly surprising and novel. After all, it is by no means obvious that state-level variation in public corruption would tend to be internalized by publicly-listed firms in the state. First, the overall level of public corruption in the U.S. is relatively low, at least in comparison with the staggering degree of corruption in countries that rank high on corruption indices.[2] Second, many of the regulations and institutions that govern corporate behavior – such as stock exchanges, the SEC and other federal regulators, and institutional investors – are not typically restricted to the states. Despite this, our finding is that the *local* culture of corruption has economically meaningful effects.

To test whether firms participate in a common culture of corruption, the challenge is to separate the effects that can be reliably attributed to the local culture and not to the effect of various other local economic and institutional factors. For instance, firm policies could be affected by unobserved factors that affect both the level of public corruption and the policies of firms located in a state. Further, even if firms are not corrupt as such, they may choose firm policies, such as limited information disclosure, in response to the threat of expropriation from corrupt officials.[3] Hence, in line with the existing literature on the effects of corruption, we fashion a test in which corrupt activities occur strictly outside the local area and outside the direct influence of states and local authorities. However, we believe that, in a way, our test is more nuanced than those in the extant literature: we examine firms that, despite differences in the levels of local public corruption, are all situated in a relatively low corruption environment in the U.S., though some firms also have operations in highly corrupt foreign environments. The question is whether these differences in corruption across states in the U.S. result in economically significant effects in firm behavior, especially when they operate outside of their local environments.

[2]In part, this is due to long-standing efforts by the federal government to target corrupt public officials.
[3]Smith (2016), for instance, provides evidence suggesting that U.S. firms in more corrupt states adjust cash policies to protect shareholder value from possible expropriation.

Our primary test for the effects of local corruption is based on the passage of the Foreign Corrupt Practices Act (FCPA) in 1977. The FCPA was passed to curb the corrupt practices of U.S. firms when conducting business in foreign countries. Several studies suggest that FCPA had an economically significant effect and hurt U.S. business activity in bribery-prone countries (Beck, Maher and Tschoegl, 1991; Hines,1995; Windsor and Getz, 2000).[4] We test whether FCPA had a differential impact on firms located in states with more public corruption. The rationale is that if corruption is part of a common local culture, we would expect it to also influence managers' actions in a foreign country, i.e., even when these actions are outside the purview of local public officials. If state-level public corruption and surveys of corruption perception reflect a common local culture, we would expect firms from these states to be more willing to engage in corrupt practices, such as bribing foreign officials to win government contracts and/or to receive favorable treatment. Hence, to the extent that FCPA curtailed U.S. firms' ability to bribe abroad, its passage should have a more adverse impact on firms from more corrupt states.

For our empirical tests, we measure state-level public corruption using the Department of Justice's (DoJ's) data on corruption-related convictions of public officials. This measure of corruption has been used in the recent literature to study income equality (Glaeser and Saks, 2006) and the cost of borrowing for local governments (Butler, Fauver, and Mortal, 2009), among other things. Using data on publicly-listed firms, we estimate a difference-in-differences ('diff-in-diff') model to test for the effects of FCPA on firm value (measured by *Tobin's Q*) over a seven-year window around its passage in 1977. We find that the passage of FCPA hurts firm value if the firm is headquartered in a more corrupt state. These results are not only statistically significant but also economically meaningful: for example, our estimates indicate that, in three years following the passage of FCPA, firms in more corrupt states saw an 8.5% greater drop in their value relative to other firms. Our results are consistent with those reported by Zeume

[4]The evidence suggests that some U.S. corporations suffered economic costs due to FCPA, though the legal actions and penalties appear to have been scarce (Salbu, 2000). It is possible that compliance with the FCPA was driven by corporate concern about loss in firm reputation if there was a bribery charge, rather than the perceived likelihood of a significant fine. In addition to restrictions on bribery, the FCPA imposes costs by requiring corporations to adopt a system of internal accounting controls and maintaining accurate records of foreign transactions.

(2016), where the passage of the UK Bribery Act in 2010 adversely affected the value for UK firms operating in high-corruption regions of the world. An important difference is that while Zeume (2016) studies the effect of foreign corruption, we examine whether *local* public corruption is symptomatic of a local culture of corruption that induces corrupt behavior abroad by private individuals, such as firms' managers. Our results also show that firms located in corrupt states experienced a significantly greater decline in operating performance and firm growth after the passage of FCPA.

We conduct additional tests to ensure that the decline in firm value is driven by FCPA and not by other confounding events. First, we perform a placebo test to ensure that the parallel-trend assumption prior to FCPA is not violated and that it is indeed the passage of FCPA that results in the drop in firm value. Second, we show that these value effects are also evident in the short term after the passage of FCPA. The cumulative abnormal return (CAR) over a 7-day window around the passage of FCPA is significantly more negative for firms located in corrupt states. Third, since FCPA curbs firms' ability to bribe foreign officials, we contend that firms that are in more export-oriented industries should experience a greater decline in firm value. Further, if the passage of FCPA constrained the ability of managers to bribe abroad, then the relative ease of bribery in different foreign countries should have a bearing on our results. Hence, we estimate the differential effects of FCPA on firms operating in different industries across different countries. We identify industries that export to foreign countries in the two years prior to the passage of FCPA and the list of countries to which these industries export. Using LaPorta, Lopez-de-Silanes, Shleifer, and Vishny's (1998) corruption index as a proxy for the ease of bribery in a foreign country, we calculate the average corruption index of these "destination" countries, weighted by the proportion of the given industry's exports to the respective country.

Our regression estimates suggest that the negative effects of FCPA-passage on firm value are greater among firms that are headquartered in more corrupt states and operate in more export-oriented industries, and the effects are even greater if the destination countries are more

corrupt. For example, we find that firms from more corrupt states and in exporting industries experienced a 12% drop in firm value after the passage of FCPA; firms that export to more corrupt foreign countries (with the average corruption level of the export destination countries being in the top decile) experienced an additional 7% drop in their value, when compared with firms whose industries export to less corrupt foreign countries. These results show that it is the adoption of FCPA, and not other confounding events during that period, that caused a decline in value for firms located in corrupt states.

We perform further tests to show that the differential effects of FCPA reflect the local culture of corruption. First, the diff-in-diff estimates are robust to the inclusion of industry $\times$ year fixed effects. Thus, even within the same industry (e.g., an export-oriented industry), firms located in corrupt states are more affected by the legal ban on foreign bribery activities. Second, our main results are also generally robust to alternative measures of corruption that are derived from surveys that ask about state level corruption (e.g., Boylan and Long, 2003; Dincer and Johnston, 2013). Overall, the above results support our hypothesis that public corruption is indicative of a local culture of corruption that is also reflected in the actions of private individuals such as managers of publicly listed firms.

A more recent anti-corruption rule, the Cardin-Lugar Amendment, was passed in 2010 as part of the Dodd-Frank Act and provides a supplementary test of our culture hypothesis.[5] The amendment required firms in extractive industries, like oil, gas, and mining companies, to disclose payments made to foreign governments for licenses or permits for development. As with FCPA, we investigate whether the passage of Cardin-Lugar more adversely affected extractive industry firms in corrupt states. Our results, based on both short-term and longer-term market reactions show that these firms were more negatively affected, suggesting that they engaged in greater foreign bribery activity prior to the regulation, which is again consistent with our culture hypothesis.

The loss in firm value following the passage of FCPA suggests that foreign corrupt practices

[5]On Jan 31, 2017, this rule was revoked by the U.S. Congress.

of firms prior to FCPA appear to have benefited their shareholders. In other contexts, however, a culture of corruption may correspond to greater agency problems and self-dealing among firm managers, which may hurt shareholder value. We provide evidence in support of this agency-based argument by again utilizing a diff-in-diff approach, but one that exploits an exogenous variation in the level of agency problems. Specifically, following the existing literature, we use the staggered passage of anti-takeover laws by states and analyze their effect on firms' operating performance, depending on whether they are located in more or less corrupt states.

It has been argued in the literature (e.g., Bertrand and Mullainathan, 2003) that the Business Combination (BC) Law is the most restrictive of all anti-takeover laws. Therefore, we first conduct tests using the passage of BC laws. These laws restrict the functioning of the market for corporate control and its ability to engender beneficial changes at firms. Hence, we would expect the passage of BC Laws to be more detrimental for shareholders if managers in corrupt states are also more prone to agency problems. We follow the literature (e.g., Bertrand and Mullainathan, 2003; Giroud and Mueller, 2011) to examine the effect of BC Laws on the operating performance of firms in corrupt states using the diff-in-diff approach. The results reveal that firms in corrupt states are more adversely affected by the passage of BC Laws. For example, firms located in states with an above-median level of corruption experienced an 8% greater drop in ROA after the adoption of BC Law in their state of incorporation, compared to other firms incorporated in the same state but located in states with lower corruption.

Further, we show that other indicators of agency problems may also be more severe in states with higher public corruption. First, we find that firms located in corrupt states are more likely to engage in earnings management through discretionary accruals. Second, among larger and older firms, the ones located in more corrupt states are more likely to be subject to a securities class action. These results suggest that the local culture of corruption manifests in managers' opportunistic behavior in financial reporting, which results in erroneous statements and increased litigation risk. Overall, our evidence shows that the local culture of corruption is also associated with greater agency problems

and self-dealing among firm managers, which is detrimental to shareholder value.

Our paper contributes to several different strands of the literature. First, our paper is related to the literature that has shown corruption to be a social norm (see, e.g., Manski, 1993; Guiso, Sapienza, and Zingales, 2006; and Fisman and Miguel, 2007). Unlike the direct social costs of public corruption, which may be limited to the government's economic activities in the local area, a broader culture of corruption emanating from shared social norms can shape individuals' behavior across wider geographies and adversely affect various aspects of economic activity. We provide additional insights into the role of social norms by showing that firms located in higher-corruption states also tend to engage in bribery in foreign countries. Our findings relate to those of Parsons, Sulaeman, and Titman (2016), who show that a firm's likelihood of engaging in financial misconduct is related to other unethical behavior in the same locale. Unlike Parsons et al. (2016), we rely on the passage of an exogenous federal law. Since FCPA affects firms' activities outside the purview of their own local environment, the test provides evidence that can be more reliably tied to cultural rather than other local social or economic effects. Therefore, our study also contributes to the broader literature on culture and finance.[6]

Second, our paper is related to recent studies in the finance literature that examine the impact of bribery enforcement on public firms (e.g., Serafeim, 2013; Karpoff, Lee, and Martin, 2015; Hong and Liskovich, 2015; Zeume, 2016). Consistent with Karpoff et al.'s (2015) finding that bribery has positive value for shareholders, we show that the passage of FCPA results in a reduction in market value, particularly for firms in export-driven industries that export to more bribery-prone countries. Hence, the value reduction reflects market's anticipation about the loss in value from the prohibition on foreign bribery.

Finally, our paper contributes to the literature by highlighting the role of corporate governance mechanisms when the surrounding economic environment is corrupt. We find that

[6]See, e.g., Stulz and Williamson (2003); Chui, Titman, and Wei (2010); Li et al. (2011 and 2013); Eun, Wang, and Xiao (2015); Pevzner, Xie, and Xin, (2015); Griffin et al. (2017), among others. See Aggarwal et al. (2016) and Karolyi (2016) for surveys on the literature.

stronger governance mechanisms are especially beneficial for the firms' shareholders when there is more corruption in the local area. The choice of superior corporate governance can help firms distinguish themselves from other firms in more corrupt areas. This suggests that corporate governance mechanisms can at least partially overcome the problems of a corrupt corporate culture. This result is also consistent with other findings in the international finance literature whereby firms cross-list on foreign exchanges in order to signal their superior corporate governance (e.g., Stulz, 1999; Coffee, 2002).

The rest of the paper is structured as follows. Section 2 presents our hypotheses and Section 3 explains the construction of the data sample as well as the variables we use. Section 4 presents evidence on the negative impact of corruption on firm value and presents various other tests that point toward a culture that incorporates both public and private corruption. Section 5 presents further tests, which indicate that the culture of corruption is also associated with greater agency problems within firms, though regulatory changes can affect their impact. Finally, Section 6 concludes the paper.

2. Hypotheses

As the studies of corruption suggest, it is not straightforward to explain why some societies have high levels of public corruption, while others do not. However, there are some generally accepted facts about corruption patterns. First, corruption tends to be persistent, i.e., history is important in explaining current levels of corruption. Tirole (1996) argues that generations that are born into corrupt environments will learn to be corrupt and cause it to persist. It is also argued that there may be a "tipping point" in terms of corruption. Hence, once the level of corruption is sufficiently high, even individuals who would have preferred to not be corrupt may have little choice since, for instance, their careers may be jeopardized if they are unwilling to accept and share bribes with co-workers or superiors (Bardhan, 1997). Therefore, even if it is not apparent as to where corruption may take root, once it does, it tends to persist.

Second is that corrupt behavior can be shaped by social norms and curtailed by stronger legal enforcement. Culture, which has been defined as a "social control system based on shared norms and values" (O'Reilly and Chatman, 1996), influences individuals' behavior in a way common to the population in a particular geographic area. We hypothesize that there is a culture of corruption in certain regions of the U.S., where local individuals in public and private sectors share a common belief about whether it is acceptable to engage in unethical behavior for private benefit. Under this hypothesis, "private corruption" may exist alongside public corruption in these regions. What we term private corruption is the notion that corporate managers engage in corrupt behavior to acquire business for the firm and/or extract private benefits. Admittedly, it is not obvious that state-level variation in corrupt culture would have an economically meaningful impact on corporate managers' behavior and firm value, especially with the federal regulations and institutions that are uniformly strong across states. However, private corrupt behavior, as a manifestation of local culture, can be conducted outside of the local areas. It is possible that differences in corruption across states may be significantly amplified if these firms operate in foreign countries with weaker institutions and law enforcement. Hence laws that aim to restrict corrupt activities abroad could have a more significant impact on firms located in corrupt states.

An example of persistence of corrupt cultural norms is the finding in Fisman and Miguel (2007) that instances of parking violations by U.N. diplomats in New York City are strongly correlated with the level of corruption in the diplomats' home nations. Fisman and Miguel (2007) also show that improvements in legal enforcement are effective and may be necessary in curtailing corrupt behavior. Our setting is similar, though the firms are based in a relatively low corruption environment in the U.S. and largely subject to the same federal regulation. We analyze the effect of legal enforcement (as reflected in the passage of FCPA in 1977) on the behavior of firms with different cultural norms about corruption. Our main prediction is that the effect of legal enforcement would be stronger for firms that are more deeply embedded in a culture of corruption. If public corruption is symptomatic of a broader culture of corruption, then managers of firms that are located in states with greater

public corruption will also tend to engage in corrupt practices such as bribing officials in foreign countries. Thus, these firms should be more affected by the passage of FCPA.

Hypothesis 1 (H1): *Legal bans of foreign corrupt activities will have a greater detrimental effect on firms in states with high public corruption.*

The propensity of managers to engage in corrupt practices abroad could enhance firm value and benefit shareholders. In general, however, a culture of corruption is also likely to be associated with greater agency problems and self-dealing among firm managers – leading to a more significant loss in firm value. Consistent with this idea, Davidson et al. (2015) and Liu (2016) find that firms with corrupt corporate culture are more likely to engage in accounting fraud and option backdating. Under this hypothesis, stronger corporate governance may be especially valuable in corrupt environments, by restricting agency problems and diversion of resources by corrupt managers. Specifically, an exogenous improvement (deterioration) in governance of all firms will benefit (harm) the investors more if these firms are located in more corrupt states. Therefore, we hypothesize:

Hypothesis 2 (H2): *Exogenous (legislative) changes in corporate governance will more strongly affect firms in states with high public corruption.*

3. Data and Description of Variables

We start with all U.S. public firms covered in the CRSP/COMPUSTAT Merged Database and listed on the NYSE, NASDAQ, and AMEX. We exclude firms operating in financial and regulated industries (SIC 6000-6999 and SIC 4900-4999). We also exclude firms with total assets less than $1 million and firms with zero or negative reported sales. For the analysis based on FCPA, we use a seven-year window around the passage of FCPA in 1977; this sample includes 3,576 firms and 19,161 firm-year observations. For the analysis on state antitakeover laws, we follow Bertrand and Mullainathan (2003) and include observations from 1976 to 1995. This sample includes 7,881 firms and 61,051 firm-year observations. We use data over the 1990–2011 period to examine the

relation between state public corruption and corporate misconduct. Our historical data on firms' (headquarter) location are only available from 1991 onwards; therefore, we use the headquarter location in 1991 for prior years.

3.1. Measures of Local Corruption

We collect the number of corruption-related convictions by each local United States Attorney's Office district from 1976 to 2011; these data are available from the U.S. Department of Justice's (DoJ's) Public Integrity Section Reports. The Public Integrity Section focuses on "crimes involving abuses of the public trust by government officials" (Public Integrity Section, 2007). These data provide an ex post measure of local public corruption and have been used in the literature on political economy (e.g., Fisman and Gatti, 2002; Glaeser and Saks, 2006) and finance (e.g., Butler, Fauver, and Mortal, 2009; Dass, Nanda, and Xiao, 2016). Glaeser and Saks (2006) provide a detailed discussion for these conviction data; as they point out, an advantage of using these data is that, unlike the survey-based data or data on peoples'/firms' *perception* of corruption, the convictions-based data provide an *objective* measure of public corruption.[7] For robustness, we also test our hypotheses using two alternative survey based measures of state level corruption.

Starting from 1976, when the DoJ data on corruption cases first became available, we calculate the ratio of the number of corruption-related convictions to state population in millions for each state-year. We then take the time-series average of the state-level corruption over our sample period (1976-2011) and use the rank of the average state-level corruption as the main measure for our empirical analysis. We conduct the analysis using the rank of corruption based on time-series average instead of the actual number of convictions each year to minimize the effect of measurement error. Also, the relative level of corruption has been argued to be stable over time (Tirole, 1996).[8] For example, Glaeser and Saks find that historical factors such Congregationalism in 1890 can

[7] See Svensson (2005) for a description of various measures of corruption that have been used in the literature.

[8] The correlation in the level (rank) of conviction-based corruption between the first half (1976-1993) and the second half (1994-2011) of our sample is 0.98 (0.74), thus the relative level of corruption in the U.S. is persistent over time.

explain the heterogeneity of corruption across states. Johnson, LaFountain, and Yamarik (2011) also find that state political characteristics in 1970 are correlated with the relative level of corruption in recent years. As an alternative measure of corruption in our empirical analysis, we also use a binary variable – *High Corruption* – that equals one if the time-series average number of convictions in the state is ranked above the median.

One concern with this measure is that the number of convictions might reflect variation in the level of law enforcement across states. However, as previous studies point out (e.g., Fisman and Gatti, 2002; Butler, Fauver, and Mortal, 2009), the DoJ data cover cases that involve federal prosecutions. Thus, there should be no significant variation in the level of enforcement across states. In support of this argument, Fisman and Gatti (2002) show that there is no significant relation between these conviction data and cross-state variation in law enforcement. Further, if higher number of convictions indicate stronger enforcement (Acemoglu and Jackson, 2017) and, hence, lower levels of corruption, then it should bias the estimates against our proposed hypotheses. Finally, we show that our empirical results are robust to using alternative measures of corruption based on surveys, such as those by Boylan and Long (2003) and Dincer and Johnston (2014).

3.2. Dependent Variables

The main dependent variable in our study is firm's market value and operating performance. We measure firm's market value using *Tobin's Q*, which is defined as the sum of total assets and the difference between market value and book value of common equity, divided by total assets. We also examine three other measures of firm performance: *ROA* is the ratio of earnings before interest, taxes, depreciation and amortization (EBITDA) to lagged assets; *Assets Growth* is current total assets divided by lagged total assets minus one; *Sales Growth* is current total revenue divided by lagged total revenue minus one. In addition, we use firms' discretionary accruals as the dependent variable when studying the relation between state public corruption and earnings management. We estimate firms' discretionary accruals using the Modified Jone's Model (see Dechow, Sloan, and Sweeney, 1995, for details). We report detailed definitions of all these variables in the Appendix.

3.3. Other Independent Variables

Besides the level of public corruption, we control for a number of firm characteristics that are known to affect firm value; these control variables are defined as follows. *Ln(Assets)* is the natural logarithm of total assets; *Firm Age* is the age of the firm in years based on CRSP; *Leverage* is defined as the sum of long term debt and debt in current liabilities divided by total assets; *Tangibility* is the total value of net property, plant, and equipment, divided by total assets; *HHI* is the Hirfindahl-Hirschman Index of the 3-digit SIC industry. In addition to firm and industry characteristics, in the regressions we also control for current economic condition of the state, as proxied by *State GDP Growth* (Wang, Winton, and Yu, 2010).

3.4. Summary Statistics

In Table 1, we provide summary statistics of variables used in the empirical analysis. All the firm and industry characteristics are winsorized at the 1st and 99th percentiles. In Table 2, we report each state's number of public-corruption related convictions per million population, averaged over 1976 to 2011. There is substantial variation in the level of corruption across states. As per these figures in Table 2, the least corrupt state (on average) is Oregon (with 0.850 convictions per million population), whereas the most corrupt state (excluding Washington D.C.) is Alaska (with 6.326 convictions per million population). Washington D.C. is an outlier, with an average of 54.452 convictions per million population. However, our empirical results are not affected by outliers because we use the conviction-based ranking of each state (ranging between 1 and 51) in our empirical analyses. We also present state-level corruption in Figure 1, which again shows that there is a significant variation in corruption across the United States and there are no obvious geographic clusters that may bias our interpretation.

4. Is Public Corruption Reflective of a Broader Culture of Corruption?

4.1. The Foreign Corrupt Practice Act of 1977

The FCPA was enacted in 1977 as a response to the Watergate scandal and to a Securities and Exchange Commission (SEC) investigation that disclosed widespread questionable practices by U.S. firms in foreign countries. An SEC report in 1976 documented that more than 500 U.S. corporations disclosed bribes or other questionable payments they had made to foreign officials, including some of the largest public companies such as Boeing, Exxon Mobil, Lockheed Martin, among others. The sum of questionable payments totaled more than $300 million.[9] There were two main provisions in FCPA: The first is the accounting provision that requires corporations that have stock registered with the SEC to adopt a system of internal accounting controls and maintain accurate records of foreign transactions; the second is the anti-bribery provision that prohibits U.S. corporations and their agents from making payments to a foreign official for "obtaining or retaining business".[10]

Critics of FCPA argued that anti-bribery legislation would put U.S. companies at a competitive disadvantage in dealing with corrupt foreign governments. Supportive of this argument, several empirical studies indicate that FCPA imposed significant costs on U.S. businesses. Beck, Maher and Tschoegl (1991), for instance, show that in the three years subsequent to its enactment, FCPA negatively affected the U.S. share of international imports in bribery-prone countries. Hines (1995) examines four indicators of U.S. business activity in foreign countries: FDI, capital-labor ratio, joint venture activity, and aircraft export, and shows that, by all four measures, the U.S. business activity in corrupt countries exhibited a significant decline since 1977. A report by U.S. Department of Commerce valued alleged foreign bribery in 180 commercial contracts over three years at around $80 billion (Windsor and Getz, 2000).

Despite the estimated economic costs of FCPA, the legal actions taken under the law have

[9] https://www.sec.gov/spotlight/fcpa/sec-report-questionable-illegal-corporate-payments-practices-1976.pdf

[10] https://www.gpo.gov/fdsys/pkg/STATUTE-91/pdf/STATUTE-91-Pg1494.pdf

been relatively few (Salbu, 2000). In the 1978-1990 period, for instance, there were only eight enforcement actions. It is noteworthy, however, that six of these eight cases involved firms located in the top-fifteen corrupt states based on our corruption measure. The relatively few enforcement actions could suggest either that the law was being lightly enforced or that, despite costs, firm compliance with FCPA was high enough to ward off prosecution. There are several reasons to believe that firm's tended to comply with FCPA. First, as noted, there is empirical evidence on the costs of compliance and on U.S. firms' losing business in corrupt foreign markets. Despite these costs, it is plausible that firms chose to comply with FCPA rather than face the risk of being prosecuted and penalized under the law, along with a significant loss of reputation capital. For instance, since FCPA required a strengthening of accounting systems, an enforcement action under the FCPA could reduce investor confidence in the quality of the firm's reporting and, possibly, expose the firm to shareholder lawsuits. Consistent with such a loss of reputation and other costs, Karpoff et al. (2015) find that firms subject to FCPA enforcement suffer a loss in market value that averages 5.1% of market capitalization, well in excess of any specific penalties imposed on firms.

Furthermore, studies suggest that FCPA imposes significant cost on U.S. firms not only through actual enforcement, but also through the reporting requirements and distortion of firms' business strategies (Lambsdorff, 1999). Our empirical analysis focuses on the change in the market value of U.S. public firms. To the extent that firms forgo foreign business opportunities due to their inability to bribe, their market value could be compromised even without facing an actual enforcement. Moreover, the change in market value also reflects the market's *expected* (rather than ex-post) costs of the enforcement *threat*. Finally, we test our cultural hypothesis by examining the geographical distribution of firm-value change in response to the passage of FCPA. Even if U.S. firms do not suffer losses on average (or even benefit) from stronger governance over foreign bribery activities, we could still identify firms that may have previously benefited more from foreign bribery activities and became relatively worse off due to FCPA.

4.2. FCPA, Local Public Corruption, and Firm Value

We start with a graphical representation of the effects that we hypothesize. In Figure 2, we plot the average Tobin's Q for firms located in states with high vs. low local public corruption over the seven-year period around the passage of FCPA. The graph shows that both groups experienced an increase after the passage of FCPA, though the increase was weaker for firms in high-corruption states. This suggests that FCPA may have increased firm value due to its effect on stronger governance and transparency. In Figure 3, where we adjust Tobin's Q by the industry average, we find that the adjusted firm value of the two groups started to diverge in the year of passage. After the passage of FCPA, the value of firms in less corrupt states started to increase relative to the industry mean while that of the firms in more corrupt states decreased. This graph suggests that within an industry, firms located in less corrupt states tend to benefit from the legal ban of foreign bribery by FCPA, while firms located in more corrupt states suffered from this restriction and lost value.

Next, we analyze this relation with a more thorough empirical test of our hypothesis that higher public corruption in a state is reflective of a broader culture of corruption, which will also encompass private corruption at firms that are located in that state. As per our hypothesis, firms rooted in a culture of corruption are more likely to engage in bribery overseas, and the enactment of strong legal enforcement in the form of FCPA will hurt their value more negatively, when compared with firms from a relatively less corrupt culture. To test our prediction, we estimate the following difference-in-differences (diff-in-diff) model in a seven-year window around the passage of FCPA in 1977:

$$\begin{aligned}\text{Tobin's Q}_{i,t} = \alpha + \beta_1 \text{FCPA}_t \times \text{Corruption}_s + \gamma_1 FIRM_{i,t-1} \\ + \beta_2 \text{State GDP Growth}_{s,t} + FirmFE + YearFE + \epsilon, \end{aligned} \quad (1)$$

where FCPA_t is a binary variable that equals one for observations after the passage of FCPA, and zero otherwise. $FIRM_{i,t-1}$ denotes a vector of lagged firm characteristics including *Ln(Assets)*,

Firm Age, *Leverage*, *Tangibility*, *ROA*, and *HHI*. Corruption_s denotes the level of public corruption for state s, which is measured either by the rank of state corruption or a binary variable that equals one for states with average corruption above the median (i.e., states whose rank by average corruption is above 25). As discussed earlier, we measure state corruption based on the number of public corruption convictions since 1976. A firm's location is proxied by the location of its headquarters, and our data on headquarter location go as far back as 1991. Therefore, there is no time-series variation either in headquarter location or state corruption in the test window spanning 1974–1980. Corruption_s is thus a time-invariant factor that is absorbed by firm fixed effects and is dropped from the regression.[11] Similarly, FCPA_t is constant within years and is thus absorbed by year fixed effects. We cluster standard errors by the headquarter state to prevent serial correlation and within-state correlation of the outcome variable from inflating the statistical significance of the diff-in-diff estimates (Bertrand, Duflo, and Mullainathan, 2004).

Table 3 reports the estimates of Model (1). The coefficient for $\text{FCPA}_t \times \text{Corruption}_s$ in both columns is negative and significant at 5% level. In column 2, the estimates show that the change in Tobin's Q after the passage of FCPA is significantly lower for firms located in states with above-median level of public corruption. The coefficient magnitude (–0.079) suggests that, relative to firms located in low-corruption states, those located in high-corruption states experienced a 8.5% greater loss in firm value, when measured against the median firm's Tobin's Q (0.932). This result indicates that the restrictions on foreign bribery had an economically significant impact on firms located in states with more severe public corruption. The finding is consistent with our hypothesis that firms rooted in a *local* culture of corruption will also tend to engage in *foreign* bribery activities, and these firms are more hurt by the introduction of a strong enforcement device that deters foreign bribery.

We argue that the significant estimate of β_1 in Table 3 is evidence of corruption being a cultural norm. This is because our measure of corruption reflects corruption among *local* public officials,

[11] As Pirinsky and Wang (2006) show, relocation of corporate headquarter is a rare event. Any omitted relocation during the sample period would induce noise in our estimate and create bias against our proposed hypotheses.

which should not really be related to firms' tendency to bribe *foreign* officials, unless both local public corruption and firms' corrupt activities originate from shared beliefs and norms, or a common "culture of corruption". The fact that the passage of FCPA negatively affected the market value of firms located in more corrupt states suggests that these firms were likely to be benefitting from foreign bribery, and the clampdown due to FCPA eliminated those benefits.

We also examine changes in firm performance and policies after FCPA. First, we ask whether FCPA more negatively affected firms in high-public-corruption states in terms of operating performance. We estimate a model similar to Model (1), but replace the dependent variable with *ROA*. The results in columns 1 and 2 of Table 4 show that firms in corrupt states tend to have more negative changes in operating performance relative to those in less corrupt states after the passage of FCPA.

Next, we examine whether firms in corrupt states experienced lower growth after the legal ban on foreign bribery. In columns 3 to 6 of Table 4, we present the estimated effect of FCPA on firm growth for firms in corrupt states. The estimates show that firms in corrupt states experienced lower growth, both in terms of assets growth and sales growth. This result suggests that, as FCPA restricts firms in corrupt states from getting business through bribery, they tend to cut investment in fixed assets and experience lower growth in revenue.

4.3. Alternative Explanations and Robustness

In this subsection, we address a number of alternative explanations to the above effect of FCPA and check the robustness of the main results.

4.3.1. Confounding Events

It is possible that some confounding events around 1977, rather than FCPA, drive the observed value reduction for firms located in high-public-corruption states. To address this concern, we look further into the timing and the cross-sectional variation of the effect. First, an important assumption for the diff-in-diff estimate is that the treated group and the control group followed

a parallel trend prior to the treatment (FCPA). The pattern shown in Figure 3 appears to be consistent with the assumption, as the firm value of the two groups did not diverge until the passage of FCPA. To formally test the parallel trend assumption, we conduct a placebo test by estimating a diff-in-diff model over a seven-year window *prior to* the passage of FCPA, with a pseudo shock that took place four years before FCPA (1973). Table 5 reports the estimates of the placebo test. It shows that the diff-in-diff estimator is not significant in the pre-FCPA period, suggesting that there is no significant difference in the trend of value between firms in less/more corrupt states until the passage of FCPA. This result confirms the parallel-trend assumption and the validity of our empirical setting.[12]

We also examine the short-term market reaction to FCPA. We compute the market-adjusted cumulative abnormal return (CAR) over different windows around May 5, 1977, when FCPA passed the Senate, and regress CARs on measures of state corruption. Table 6 reports the estimates of the CAR regressions. As columns 1 and 2 show, there is no significant difference between stock returns of firms in more/less corrupt states over the 30-day window prior to the passage of FCPA. This again confirms the parallel-trend assumption. Importantly, we find that firms in states with above-median level of public corruption received a more negative market reaction in the 7-day and 11-day windows around the passage of FCPA. We also find significantly negative market reaction in the subsequent 120 days. This is consistent with our main result that FCPA significantly reduced value for firms located in corrupt states. Thus, our results on short-term and longer-term market response show that the value decline took place precisely after the passage after FCPA.

Further, we ask what industries are more likely affected by FCPA. If firms in corrupt states experienced a decline in value after the passage of FCPA because of the restriction on foreign bribery, then we expect the effect to be stronger for firms in export-oriented industries, particularly

[12] One possible confounding event that might have driven the observed changes in firm value is the presidential election in 1976. States that voted for (against) Jimmy Carter might have been economically better (worse) off due to the election outcome. In an unreported test, we check the robustness of our result to the inclusion of an interaction term between *Post FCPA* and a binary variable indicating states that had voted for Jimmy Carter. Our result shows that the added interaction term is insignificant, while the diff-in-diff estimator for FCPA and state corruption remains significantly negative and similar in magnitude as in the baseline model.

when they sell to corrupt countries.[13] We therefore examine the heterogeneity across industries based on whether and where they export.

We collect the U.S. export value at the 4-digit SIC industry level in 1974 and 1975, and define export-oriented industries as those with non-zero value of export in the 1974-1975 period.[14] Further, among the export-oriented industries, we measure the average level of corruption for the export destinations. Specifically, we use the corruption index from La Porta, Lopez-de-Silane, Shleifer, and Vishny (1998, LLSV hereafter) to compute the average level of corruption for the export destination countries, weighted by export value, for each 4-digit SIC industry. We then define an industry as exporting to corrupt countries if the average corruption score of the destination countries is in the bottom decile of the sample.[15]

Based on the information on industry export value and export-destination corruption, we split the diff-in-diff estimator $\text{FCPA}_t \times \text{Corruption}_s$ in Model (1) into three groups: firms in non-export industries, firms in industries exporting to low-corruption countries, and firms in industries exporting to high-corruption countries. Our prediction is that if firms in high-public-corruption states experienced a decline in market value around 1977 because of the legal ban on foreign bribery activities, then the effect should be stronger in export-oriented industries. Further, firms located in corrupt states and in industries that export to corrupt countries should be the most vulnerable to the legal ban of foreign bribery imposed by FCPA.

In Table 7 we present the new diff-in-diff estimates. Note that the binary variables for the industry groups are again dropped from the regression because we fix the definition in 1974 and hence it is time-invariant over the sample period. The result shows that the diff-in-diff estimator is significantly negative for firms in export industries, but less so for other firms. Moreover, industries that export to corrupt countries were more adversely affected by the enactment of

[13] However, we do not argue that only firms that export are affected by FCPA. For example, firms that do not export products or services can still be constrained by FCPA if they have foreign subsidiaries where they directly produce and sell products in the foreign markets. Our underlying assumption is that, ceteris paribus, firms that export to corrupt countries are more subject to the legal ban on foreign bribery activities by FCPA.

[14] Data is available at `http://faculty.som.yale.edu/peterschott/sub_international.htm`. The underlying data is collected from the U.S. Census Bureau. We thank Peter Schott for making the data available.

[15] A lower corruption score in LLSV indicates higher corruption.

FCPA. The difference in the diff-in-diff estimator between each group is both statistically and economically significant. For instance, the coefficient estimates in column 2 suggest that, while firms in export-oriented industries and located in states with above-median level of corruption have a 12% decrease in firm value from the sample median after the passage of FCPA, the value of firms in industries exporting to the most corrupt countries decreased by an additional 7%. This is consistent with our conjecture that firms in corrupt states are affected by FCPA due to the constraints imposed on foreign bribery. Thus, this finding reflects the link between local public corruption and corporate private corruption.

Lastly, we examine firms' growth in foreign sales after the passage of FCPA. The COMPUSTAT Segment data on foreign sales first become available in 1976 and start having reasonable coverage in 1977, hence we are able to measure firms' foreign sales growth starting from 1978. We test whether firms located in corrupt states experienced slower growth in foreign sales over the nine-year period from 1978 to 1986. We split the sample into three subperiods: $1978-80$, $1981-83$, and $1984-86$, and use $1978-80$ as the benchmark period. The independent variables of interest are the interaction between subperiod dummies and state corruption measures. The results in Table 8 show that firms located in states with high corruption experienced slower foreign sales growth over the nine-year period post FCPA, and this difference is significant during the 1981-83 subperiod.

Overall, our results suggest that FCPA drives the decline in market value for firms in corrupt states. While one may still be concerned about confounding events around 1977 that drive the results, we believe that this is unlikely to be the case. Given the evidence in Tables 7 and 8, any omitted confounding event should also have a greater negative effect on industries that export to corrupt countries.

4.3.2. Industry Effects

Another concern that arises, particularly with evidence in Table 7, is that the result may be entirely driven by certain industries. Specifically, industries that are more prone to soliciting business through bribery may be more concentrated in states with higher public corruption. However, our

hypothesis predicts that, even within industry, firms located in corrupt states should be more affected by FCPA because they are more likely to bribe in foreign countries due to local corrupt culture. To distinguish the local cultural effect from the industry effect, we re-estimate Model (1) after controlling for industry × year fixed effects. The results in Table 9 show that the diff-in-diff estimator remains significantly negative after controlling for industry × year fixed effects. This result suggests that, among firms in the same industry (e.g., an export-oriented industry), those located in corrupt states are more likely to benefit from foreign bribery prior to the passage of FCPA. Thus, our main finding is consistent with the culture hypothesis ($H1$), and cannot be explained merely as an industry effect.

4.3.3. Imperfect Measure of Local Public Corruption

Despite advantages of our conviction-based corruption measure (discussed in Section 3), we check the robustness of our main result to alternative measures of corruption. We adopt two alternative measures based on surveys. The first one is based on Boylan and Long (2003), who surveyed State House reporters to compare the level of corruption across states. In Question 6 of the survey, the authors asked: "Suppose you were to rank all states in terms of level of corruption of their government employees (including elected officials, political appointees, and civil servants). Where would your state rank?". 293 reporters from 47 states responded to this question. We use the ranking based on the responses to Question 6 to measure the level of corruption.[16,17]

The second measure is based on another survey conducted by Dincer and Johnston in 2013.[18] They surveyed news reporters covering state politics as well as investigative reporters covering issues related to corruption. Further, they construct two survey-based indices to measure two different forms of corruption in American states: *Legal corruption* refers to "political gains in the form of campaign contributions or endorsements by a government official, in exchange for providing

[16]There was no response for Massachusetts, New Hampshire, and New Jersey, and thus these three states are not included in Boylan and Long's measure.

[17]The Spearman correlation between the convictions-based measure and the Boylon-Long measure is 0.44 and statistically significant.

[18]The survey results are available at: `http://ethics.harvard.edu/blog/measuring-illegal-and-legal-corruption-american-states-some-results-safra`.

specific benefits to private individuals or groups, be it by explicit or implicit understanding"; *Illegal corruption* refers to "private gains in the form of cash or gifts by a government official, in exchange for providing specific benefits to private individuals or groups." Their survey identifies states that are most subject to legal or illegal corruption.[19] We follow their survey result and use two binary variables to indicate states that are perceived as legally or illegally corrupt. Note that these surveys were conducted after the sample period of our empirical test and hence they may not properly reflect the relative level of corruption during the period around FCPA. However, any measurement error should bias against finding results consistent with our hypothesis.

We repeat the estimation of Model (1) using the survey-based measures and report the estimates in Table 10. When using Boylan and Long's measure or the legal corruption measure by Dincer and Johnston, we find consistent results that firms located in corrupt states suffered from greater value reduction after passage of FCPA. Hence our main finding is not driven by any specific way of measuring state public corruption.

4.3.4. Cardin-Lugar Amendment

Finally, we examine the adoption of a more recent anti-corruption statute as a supplementary test for our culture hypothesis. The Cardin-Lugar Amendment, which passed in 2010 as Section 1504 of the Dodd-Frank Act, required the SEC to develop rules for extractive industry corporations, like oil, gas and mining companies, to disclose payments they make to foreign governments for licenses or permits for development. Following our hypothesis, if firms located in corrupt states are more likely to engage in questionable dealings with corrupt foreign governments for access to natural resources, we would expect these firms to be more adversely affected by this regulation. We therefore perform empirical tests similar to those for FCPA to check whether Cardin-Lugar had a stronger negative effect on firms in extractive industries, headquartered in more corrupt states.

[19] The most legally corrupt states include Kentucky, Illinois, Nevada, Mississippi, New Jersey, Alabama, New Mexico, New York, Georgia, Pennsylvania, and Wisconsin; The most illegally corrupt states include Arizona, California, Kentucky, Alabama, Illinois, New Jersey, Georgia, New Mexico, Pennsylvania, Florida, Indiana, Rhode Island, and Texas. Among these states, 11 out 17 have above-median level of corruption based on the number of convictions. Among states that are considered both legally and illegally corrupt, all are ranked above median in terms of the number of convictions.

For our tests, we find all the firms in extractive industries (SIC 1000-1499 and 4900-4999) and first conduct an event study to examine whether there was any short-term market reaction to the passage date of Dodd-Frank. While the content of such legislation would be actively debated for several weeks in congress, we might expect a stock-market reaction if the final version of a bill contained some surprises. The results in Panel A of Table 11 indicate that extractive-industry firms in states with higher public corruption have a more significant negative market reaction in the 120-day window following the passage of Dodd-Frank, though there is no significant finding for shorter windows. It is possible that the potential value implications of the Cardin-Lugar Amendment were regarded as worse than anticipated, after the SEC rule-making process got underway. This is suggested by the initial SEC rules (August, 2012) that were challenged and subsequently vacated by the U.S. District Court for the District of Columbia. A modified rule was adopted by the SEC in June, 2016.

In Panel B of Table 11, we present the diff-in-diff estimate over a seven-year window around the passage of Dodd-Frank, and find that the market value of extractive-industry firms located in more corrupt states changed more negatively than other firms in the same industry. The market value decline is consistent with extractive industry firms in corrupt states being more adversely affected by the transparency requirements: this suggests that these firms had more to lose if their arrangements with corrupt governments are coming to light. Note that this observed effect reflects the anticipated effects of the rule, because reporting by firms was to begin only by the end of 2018. On Jan 31, 2017, this rule was revoked by the Congress.[20]

5. Is Local Corrupt Culture Associated with Agency Problems?

5.1. State Antitakeover Law and Firm Performance

In the section above, we show that a legal ban on foreign bribery has a more negative impact on firms located in states with high public corruption. This supports our corrupt culture hypothesis

[20]The revocation is well covered in the media. See e.g., `https://www.theatlantic.com/international/archive/2017/02/exxon-mobil-tillerson-state-corruption-russia-sec/515244/`

that these firms were more inclined to offer bribes in foreign countries, leading to greater value reduction after the ban. Prior to the ban, this corrupt behavior on the part of corporate managers from corrupt states appears to have contributed to shareholder value. This is consistent with the study of FCPA enforcement cases by Karpoff, Lee, and Martin (2015), who show that foreign bribery has positive ex ante net present value.

In other contexts, however, we would expect corrupt behavior by corporate managers to come at the expense of shareholders. We next investigate whether managers in a corrupt environment have the tendency to pursue personal interests at the expense of shareholders. Our test consists of examining whether exogenous changes in the strength of corporate governance have a differential impact on firms in corrupt environments. The notion is that if a corrupt culture tends to exacerbate agency problems, exogenous shocks that weaken corporate governance will tend to have a more negative value impact on firms in corrupt environments, compared to those in less corrupt environments.

For our test we exploit exogenous changes in state-level antitakeover laws. State antitakeover laws that protect firms from becoming takeover targets weaken the role of the market for corporate control in curbing agency problems. The extant literature suggests that passage of state antitakeover laws resulted in lower operating performance, lower investment, and lower technological innovation (Bertrand and Mullainathan, 2003; Giroud and Mueller, 2010; Atanassov; 2013). Under our hypothesis, if firms in corrupt environments are subject to more severe agency problems, then these firms should be more negatively affected by the adoption of state antitakeover protection. We follow the aforementioned studies (Bertrand and Mullainathan, 2003; Giroud and Mueller, 2010) and test our prediction using the following model:

$$\begin{aligned}\text{ROA}_{i,t} = \alpha + \beta_1 \text{Antitakeover Law}_{c,t} + \beta_2 \text{Antitakeover Law}_{c,t} \times \text{Corruption}_s + \beta_3 \text{Corruption}_s \\ + \gamma_1 FIRM_{i,t-1} + \beta_4 \text{State GDP Growth}_{s,t} + FirmFE + YearFE + \epsilon. \qquad (2)\end{aligned}$$

Antitakeover $\text{Law}_{c,t} \times \text{Corruption}_s$ is the interaction between a binary variable indicating the passage of an antitakeover law in state c, where the firm is incorporated, and the level of public corruption for

state s, where the firm's headquarter is located.[21] Note that firms are affected by the antitakeover legislation of the state of incorporation rather than the state of headquarter location, which may be correlated with the local economic condition. To take into account the correlation in firm performance within state of incorporation, we follow the literature and estimate standard errors with state of incorporation clustering (Bertrand and Mullainathan, 2003; Giroud and Mueller, 2010). We use the same set of control variables, including *Ln(Assets)*, *Firm Age*, *Leverage*, *Tangibility*, *ROA*, *HHI*, and *State GDP Growth*. The stand-alone variable *Corruption* is estimated in the model because we have the historical headquarter location from 1991 onwards and some firms change their headquarter location over the sample period (1976 to 1995). The binary variable *Antitakeover Law* can also be estimated because these laws are passed in a staggered fashion across states and thus the variable is not perfectly collinear with time effects.

We first focus on one specific antitakeover law – the Business Combination Law (BC Law), which is considered as being one of the most restrictive of antitakeover laws. The BC Law imposes a three to five year moratorium on transactions such as mergers and asset sales between the firm and a large shareholder who obtains more than a specified percentage of the shares. This moratorium hinders a potential acquirer from using the target's assets to repay the acquisition debt, making acquisition more costly. Therefore, BC Law reduces the threat of hostile takeover as a form of corporate governance and thus induces managerial slack (Bertrand and Mullainathan, 2003; Giroud and Mueller, 2010).

Table 12 reports the estimates of Model (2). The results show that BC $\times$ Corruption is significantly negative, suggesting that firms located in corrupt states experienced a greater decline in operating performance than those located in less corrupt states after the passage of BC Law in the state of incorporation. Giroud and Mueller (2010) find that, on average, there was a 0.60 percentage point drop in ROA after the passage of BC Law. We find that while there was no

[21] When interacting *Antitakeover Law* with the state rank of corruption, we subtract the median rank (25) from the corruption measure so that the stand-alone variable *Antitakeover Law* captures the effect of antitakeover law on an average firm in a state with the median level of corruption.

significant change in ROA for firms located in states with below-median level of public corruption, firms located in states with above-median public corruption had a 0.89 percentage point ($0.0019 - 0.0108 = -0.0089$) decrease in ROA after the passage of BC Law. Hence, antitakeover defenses reduce operating performance primarily for firms in corrupt states.

To mitigate concerns about the results being affected by a systematic trend in firm performance prior to the passage of antitakeover laws and reverse causality, we show the dynamics of the effect of BC Law on firm performance. We follow Bertrand and Mullainathan (2003) and split the BC dummy into four dummies: BC^{-1} for observations in the year prior to the passage of BC laws, BC^{0} for years when BC law was passed, BC^{1} for observations where the BC law was passed a year ago, and BC^{2+} for observations where BC law was passed two or more years ago. We interact all the BC dummies with the state corruption measure to test whether the decrease in operating performance for firms in corrupt states took place after the passage of the laws. In columns 3 and 4 of Table 12, we show that firms in corrupt states had a similar level of operating performance as the other firms until one year after the passage of BC laws, when their operating performance started to deteriorate. Thus, reverse causality is unlikely to be driving our result.

A large number of studies follow Bertrand and Mullainathan (1999) and focus on BC Law in examining the implication of firm governance to other firm policies. In a recent study, Karpoff and Wittry (2017) argue that the use of BC Law in empirical studies is complicated by the confounding effects from other antitakeover laws, such as the coverage by first-generation state antitakeover laws, other second-generation state antitakeover laws, and pre-existing firm-level takeover defenses. For this reason, simply focusing on BC Law can lead to misspecified tests. To address this concern, we control for the effect of other state antitakeover laws in the regression model. In Table 13, we present estimates from regression models where we include dummy variables indicating other antitakeover laws enacted in the state of incorporation, including the First-generation Law (FG), the Poison Pill Law (PP), the Control Share Acquisition Law (CS), the Directors' Duties Law (DD),

and the Fair Price Law (FP), and their interaction with headquarter state corruption measures.[22] Our estimates show that among all the interactions between corruption and anti-takeover laws, only the interaction term $BC \times Corruption$ has a significantly negative coefficient, suggesting that the results discussed earlier are driven by the passage of BC Laws rather than other existing antitakeover provisions.

Finally, we conduct additional robustness tests similar to those in Section 4.3. In Table 14, we show that the stronger negative effect of BC Law on firm performance for firms in corrupt states is robust to controlling for industry×year fixed effects; hence the result is not driven by industry-level differences across states. In Table 15, we show that our result is robust to using survey-based measures of corruption. Specifically, firms in states that are identified as legally or illegally corrupt by Dincer and Johnston (2014) had a greater decline in ROA after the passage of BC Law in their state of incorporation. For results using the alternative Boylan-Long (2003) survey measure, the interaction $BC \times Corruption$ is insignificant, though estimated with the expected negative sign.[23]

Overall, our analysis shows that weaker corporate governance due to the passage of state antitakeover laws has an adverse impact primarily on firms in more corrupt states. As we show in Section 4, state-level public corruption reflects a local culture of corruption. The analysis above suggests that local corrupt culture is also manifested in greater agency problem among local firms.

5.2. Local Culture of Corruption and Corporate Misconduct

Next we provide evidence that firms in states with greater public corruption are also more liable to engage in corrupt activities such as distorting financial reports and committing securities fraud. We examine two forms of corrupt practices. The first one is earnings management. Managers can manipulate reported earnings, such as by recognizing revenue prematurely or deferring expenses, so as to convey a misleading picture about the firm's true state of affairs (see, e.g., Healy and Wahlen, 1999). The manipulation of accounting numbers ultimately affects the accrual of earnings.

[22] Karpoff and Wittry (2017) provide the years in which various state anti-takeover laws are enacted.

[23] In columns 2 and 3, the coefficient for *Corruption* cannot be estimated because the corruption level based on Dincer and Johnston's definition does not change for any firm during the sample period.

Managers who share the local corrupt culture and are prone to greater agency problems may manipulate financial reporting to better conceal their activities. To test our prediction, we examine the variation in earnings management activities, as reflected by the level of discretionary accruals, across firms with different levels of local public corruption using the following model specification:

$$\text{Discetionary Accurals}_{i,t} = \alpha + \beta_1 \text{Corruption}_s + \gamma_1 FIRM_{i,t-1} + \beta_2 \text{State GDP Growth}_{s,t} + IndustryFE + YearFE + \epsilon. \quad (3)$$

Although finding clear evidence of earnings management is difficult, the accounting literature commonly uses abnormal accrual of earnings as a sign of earnings management. We estimate firms' discretionary accruals using the Modified Jone's Model (Dechow, Sloan, and Sweeney, 1995) and take its absolute value to examine the magnitude of earnings management.[24] In addition to firm characteristics included in the earlier analysis, we include the value of total current accruals in the regression following the literature on earnings management (Frankel, Johnson and Nelson, 2002). Since there is no time-series variation in our corruption measure, we focus on cross-sectional variation in this test and control for industry fixed effects at the Fama-French 48 industry level. We expect β_1 to be significantly positive if firms in corrupt states are more likely to manipulate accounting earnings.

Table 16 reports the estimates of Model (3) for firm-year observations from 1990 to 2011. The estimates show that firms located in corrupt states tend to have significantly greater discretionary accruals, indicating that these firms are more likely to be engaged in earnings management.

Second, we examine corporate misconduct reflected by securities class actions. A securities class action is a lawsuit filed by a group of shareholders who suffer from economic losses due to the firm's violations of securities laws. Under our hypothesis, managers who behave corruptly to pursue personal interests may be more prone to making erroneous statements and increasing litigation risk. Hence we test whether firms located in corrupt states are more likely to be subject to a securities

[24]We provide a detailed description of the construction of this and other variables in the Appendix.

class action.

We use the data on securities class actions from 1995 to 2011 from the Stanford Securities Class Action Clearing House (SCAC). We estimate a probit model similar to Model (3), where the dependent variable is a binary variable that equals one if the firm is subject to a securities class action in that year, and zero otherwise. Again, we aim to capture the cross-sectional variation in litigation risk across firms in different states, and thus we include industry and year fixed effects in the model.

In columns 1 and 2 of Table 17, where we estimate the model among all firms from 1995 to 2011, we do not find a significant relation between local state corruption and the likelihood of a securities class action. However, we notice that the likelihood of a securities class action is correlated with certain firm characteristics, such as firm size and age. In columns 3 and 4, we report the estimates among firms with above-median level of total assets and age. In this sample, we find that higher state corruption is correlated with higher likelihood of a securities class action. Our results suggest that, at least among well-established firms in terms of greater size and age, those located in corrupt states are more likely to be subject to a securities class action. Hence, the evidence supports the idea that local corrupt culture, as manifested by public corruption cases, induces greater agency problems and corporate misconduct.

6. Conclusion

We study the implications of a culture of corruption for publicly-listed firms in the U.S. We argue that public corruption may exist alongside and reinforce a broader "culture of corruption" that impinges on different aspects of economic activity in the local area. This culture of corruption can also encourage "private corruption" on the part of firms' managers. We test whether our hypothesis about a "culture of corruption" – as opposed to rent-extraction by public officials – is supported empirically. Consistent with the "culture" argument, we find evidence that firms located in states rife with public corruption are more affected by legislation that curbs foreign corrupt activities,

suggesting that firms in corrupt environments tend to engage in corrupt practices abroad.

In addition, we find that the culture of corruption also coincides with greater agency problems among firms located in corrupt environments. We show that stronger corporate governance may be especially beneficial to firms in more corrupt states. This is because when the external environment is weak, stronger internal governance mechanisms may ensure that the cash flow and control rights of the investors are better protected. Further, we find that firms in high-corruption states tend to engage in more earnings management and larger firms in these states are more likely to be involved in a securities class action.

We believe that our findings have significant implications for both research as well as policy-making. Our results indicate that the local cultural environment (including attitudes toward corruption) can have a greater impact, than has been recognized, on the value-implications of corporate governance and informational transparency. What is surprising is that, despite the strong judicial/political systems and relatively low levels of corruption in the U.S., the value effects of the variation in state-level corruption are economically important. We believe that the link between public corruption and corporate governance is a fruitful avenue for future research.

The findings in this paper have useful policy implications. First, our results on antitakeover laws suggest that adoption of stronger governance standards can help overcome some of the ill-effects of corruption. Second, it is important to curb the "culture" of corruption. In that vein, it is plausible that conviction of corrupt public officials has a parallel to the "broken-window" view of crime: strictly limiting public corruption could signal that private corruption is also unacceptable.

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Appendix: Variable Definitions

- *Corruption* is the rank of the average number of corruption convictions per million population of the state from 1976 to 2011.
- *High Corruption* is a binary variable that equals one if the average number of corruption convictions per million population of the state is above the median.
- *Tobin's Q* is the sum of total assets and the difference between market value and book value of total common equity, divided by total assets.
- *Ln(Assets)* is the natural logarithm of total assets.
- *Firm Age* is the age of the firm in years based on CRSP.
- *Leverage* is the sum of long term debt and debt in current liabilities divided by total assets.
- *Tangibility* is the net total value of property, plant, and equipment, divided by total assets.
- *ROA* is equal to earnings before interest, taxes, depreciation and amortization (EBITDA) to lagged asset ratio.
- *HHI* is the Hirfindahl-Hirschman Index of the 3-digit SIC industry.
- *Discretionary Accruals* is the discretionary accruals estimated from the Modified Jone's Model (Dechow, Sloan, and Sweeney, 1995). We first estimate the following model in each 2-SIC industry and year:
  $Total\ Accurals = \alpha_0 + \alpha_1 \frac{1}{Assets_{t-1}} + \alpha_2 \frac{\Delta Rev}{Assets_{t-1}} + \alpha_3 \frac{PPE_{t-1}}{Assets_{t-1}} + \epsilon,$
  where current accruals $TotalAccurals$ is the difference between net income and net cash flow divided by lagged assets, ΔRev is the change in net sales. PPE is the gross property, plant and equipment. The coefficient estimates are used to predict the non-discretionary accruals in the following model:
  $Nondiscretionary\ Accurals = \hat{\alpha_0} + \hat{\alpha_1} \frac{1}{Assets_{t-1}} + \hat{\alpha_2} \frac{\Delta Rev - \Delta AR}{Assets_{t-1}} + \hat{\alpha_3} \frac{PPE_{t-1}}{Assets_{t-1}} + \epsilon,$
  where ΔAR is the change in accounts receivables. The discretionary accruals is computed as the absolute value of the difference between the total accruals and nondiscretionary accruals. We multiply the discretionary accruals by 100 when using it in the regressions.
- *Total Accruals* is the difference between net income and net cash flow divided by lagged assets.
- *Export Industry* is a dummy variable that equals 1 if the 4-digit SIC industry has non-zero value of export in year 1974.
- *Corrupt Destination* is a dummy variable that equals 1 if the export-value-weighted average of the export destination countries' corruption score (La Porta, Lopez-de-Silane, Shleifer, and Vishny, 1998) is in the bottom decile of the sample.
- *Assets Growth* is current total assets divided by lagged total assets minus one.
- *Sales Growth* is current total revenue divided by lagged total revenue minus one.

Table 1: Summary Statistics.

This table presents summary statistics of the main variables used in our analyses. We winsorize all the variables at the 1st and 99th percentiles. All the variables are defined in the Appendix.

	N	Mean	Std. Dev.	25th	Median	75th
FCPA Sample (1974-1980)						
Q	19,161	1.156	0.898	0.785	0.932	1.207
Ln(Assets)	19,161	4.142	1.717	2.929	3.967	5.169
Firm Age	19,161	12.211	13.539	3.989	6.888	14.153
Leverage	19,161	0.261	0.177	0.132	0.249	0.363
Tangibility	19,161	0.339	0.197	0.194	0.300	0.452
ROA	19,161	0.188	0.133	0.114	0.178	0.252
HHI	19,161	0.125	0.183	0.013	0.055	0.160
Export Industry	18,055	0.467	0.499	0.000	0.000	1.000
BC Sample (1976-1995)						
Q	61,051	1.779	1.626	0.963	1.252	1.898
Ln(Assets)	61,051	4.148	2.002	2.696	3.980	5.394
Firm Age	61,051	12.426	13.456	3.271	8.052	16.510
Leverage	61,051	0.246	0.208	0.075	0.217	0.364
Tangibility	61,051	0.321	0.219	0.152	0.275	0.447
ROA	61,051	0.112	0.216	0.050	0.137	0.215
HHI	61,051	0.145	0.201	0.013	0.066	0.197

Table 2: Corruption by State.

This table presents the average number of corruption-related convictions per million population from 1976 to 2011. All the variables are defined in the Appendix.

State	Average Number of Corruption-related Convictions per Million Population (1976-2011)
Oregon	0.850
Washington	1.012
New Hampshire	1.195
Minnesota	1.210
Utah	1.283
Nebraska	1.434
Iowa	1.457
Colorado	1.481
Wisconsin	1.642
Vermont	1.668
North Carolina	1.769
Kansas	1.801
Idaho	1.882
Nevada	1.964
Michigan	1.966
Indiana	2.021
Arizona	2.038
California	2.117
Arkansas	2.233
Texas	2.285
Connecticut	2.313
Maine	2.422
Missouri	2.659
Massachusetts	2.694
Rhode Island	2.724
New Mexico	2.731
Wyoming	2.795
Hawaii	2.825
Delaware	3.005
Maryland	3.033
West Virginia	3.212
South Carolina	3.263
Georgia	3.345
New Jersey	3.358
Florida	3.361
Ohio	3.573
Pennsylvania	3.666
Virginia	3.841
New York	3.913
Oklahoma	4.127
Kentucky	4.265
Illinois	4.356
Alabama	4.416
Montana	4.428
Tennessee	4.596
North Dakota	5.157
South Dakota	5.674
Mississippi	5.878
Louisiana	6.061
Alaska	6.326
District Of Columbia	54.452

Table 3: Foreign Corrupt Practices Act, State Corruption, and Firm Value.

In this table, we show that the enactment of the Foreign Corrupt Practices Act (FCPA) more adversely affected the value of firms located in states with high public corruption. We present estimates from regressions in a seven-year window around the enactment of FCPA in 1977. The dependent variable is *Tobin's Q* and the independent variables of interest are interactions between *FCPA*, a binary variable that equals one after the enactment of FCPA, and measures of headquarter state public corruption. *Corruption* is the rank of headquarter state corruption based on the average number of corruption convictions per million population. *High Corruption* is a binary variable that equals one if the headquarter state has above-median level of *Corruption*. In addition, we control for lagged firm and industry characteristics including *Ln(Assets)*, *Firm Age*, *Leverage*, *Tangibility*, *ROA*, and *HHI*, as well as *State GDP Growth*. We also include firm and year fixed effects in the regressions. The standalone variable *FCPA* (*Corruption*) is not estimated, because it does not vary across firms (over time in this sample). We present *t*-statistics using standard errors clustered by headquarter state in brackets. *, ** and *** indicate significance better than 10%, 5%, and 1% respectively.

Dependent Variable:	Tobin's Q	
	(1)	(2)
FCPA × Corruption	-0.003**	
	(-2.06)	
FCPA × High Corruption		-0.079**
		(-2.22)
Ln(Assets)	-0.125**	-0.127**
	(-2.26)	(-2.32)
Firm Age	-0.052***	-0.049**
	(-2.82)	(-2.61)
Leverage	0.347*	0.349*
	(1.80)	(1.81)
Tangibility	-0.367*	-0.371**
	(-1.98)	(-2.01)
ROA	0.493***	0.493***
	(3.97)	(3.96)
HHI	-0.023	-0.023
	(-0.81)	(-0.81)
GDP Growth	1.254***	1.278***
	(4.21)	(4.25)
Adjusted R^2	0.787	0.787
Observations	19,161	19,161
Year FE	YES	YES
Firm FE	YES	YES

Table 4: Foreign Corrupt Practices Act, State Corruption, and Firm Performance.

In this table, we show that the enactment of FCPA more adversely affected the operating performance and assets/sales growth of firms located in states with high public corruption. We present estimates from regressions in a seven-year window around the enactment of FCPA in 1977. The dependent variables are *ROA* (columns 1 and 2), *Assets Growth* (columns 3 and 4) and *Sales Growth* (columns 5 and 6). The independent variables of interest are interactions between *FCPA*, a binary variable that equals one after the enactment of FCPA, and measures of headquarter state public corruption. *Corruption* is the rank of headquarter state corruption based on the average number of corruption convictions per million population. *High Corruption* is a binary variable that equals one if the headquarter state has above-median level of *Corruption*. In addition, we control for lagged firm and industry characteristics including *Ln(Assets)*, *Firm Age*, *Leverage*, *Tangibility*, *Q*, and *HHI*, as well as *State GDP Growth*. We also include firm and year fixed effects in the regressions. The standalone variable *FCPA* (*Corruption*) is not estimated, because it does not vary across firms (over time in this sample). We present *t*-statistics using standard errors clustered by headquarter state in brackets. *, ** and *** indicate significance better than 10%, 5%, and 1% respectively.

Dependent Variable:	ROA		Assets Growth		Sales Growth	
	(1)	(2)	(3)	(4)	(5)	(6)
FCPA × Corruption	-0.0004*		-0.0017***		-0.0011**	
	(-1.70)		(-3.74)		(-2.54)	
FCPA × High Corruption		-0.0098*		-0.0440***		-0.0291**
		(-1.99)		(-4.30)		(-2.36)
Ln(Assets)	-0.0741***	-0.0743***	-0.2622***	-0.2632***	-0.2241***	-0.2248***
	(-14.58)	(-14.51)	(-15.17)	(-15.27)	(-9.91)	(-9.89)
Firm Age	-0.0166**	-0.0162**	-0.0569***	-0.0553***	-0.0520**	-0.0509**
	(-2.27)	(-2.21)	(-3.88)	(-3.77)	(-2.62)	(-2.55)
Leverage	-0.0915***	-0.0914***	-0.5036***	-0.5032***	0.1583*	0.1586*
	(-4.74)	(-4.71)	(-12.74)	(-12.65)	(1.95)	(1.94)
Tangibility	0.0275	0.0271	0.2197***	0.2181**	-0.0003	-0.0014
	(1.29)	(1.28)	(2.70)	(2.67)	(-0.00)	(-0.01)
Q	0.0240***	0.0240***	0.0898***	0.0897***	0.0161	0.0161
	(3.64)	(3.64)	(5.17)	(5.16)	(1.29)	(1.29)
HHI	-0.0096	-0.0096	-0.0204	-0.0203	-0.0140	-0.0139
	(-1.38)	(-1.38)	(-1.22)	(-1.22)	(-0.38)	(-0.38)
GDP Growth	0.1704***	0.1729***	0.2712***	0.2819***	0.4652***	0.4727***
	(4.33)	(4.36)	(2.76)	(2.83)	(4.03)	(4.01)
Adjusted R^2	0.644	0.644	0.389	0.389	0.329	0.329
Observations	19,187	19,187	19,198	19,198	19,165	19,165
Year FE	YES	YES	YES	YES	YES	YES
Firm FE	YES	YES	YES	YES	YES	YES

Table 5: FCPA and Firm Value: Placebo Test

In this table, we present diff-in-diff estimates in the 1970-1976 period around a pseudo shock in the end of 1973, to test the parallel trend prior to FCPA. The dependent variable is *Tobin's Q* and the independent variables of interest are interactions between *Post 1973*, a binary variable that equals one after 1974, and measures of headquarter state public corruption. *Corruption* is the rank of headquarter state corruption based on the average number of corruption convictions per million population. *High Corruption* is a binary variable that equals one if the headquarter state has above-median level of *Corruption*. In addition, we control for lagged firm and industry characteristics including *Ln(Assets)*, *Firm Age*, *Leverage*, *Tangibility*, *Q*, and *HHI*, as well as *State GDP Growth*. We also include firm and year fixed effects in the regressions. The standalone variable *FCPA* (*Corruption*) is not estimated, because it does not vary across firms (over time in this sample). We present *t*-statistics using standard errors clustered by headquarter state in brackets. *, ** and *** indicate significance better than 10%, 5%, and 1% respectively.

Dependent Variable:	Tobin's Q	
	(1)	(2)
Post 1973 × Corruption	-0.001	
	(-1.43)	
Post 1973 × High Corruption		-0.021
		(-0.73)
Ln(Assets)	-0.635***	-0.634***
	(-11.03)	(-10.98)
Firm Age	-0.004	-0.004
	(-0.58)	(-0.57)
Leverage	0.527***	0.525***
	(4.08)	(4.07)
Tangibility	-0.460***	-0.458***
	(-2.77)	(-2.76)
ROA	1.161***	1.161***
	(14.36)	(14.40)
HHI	0.009	0.009
	(0.17)	(0.16)
GDP Growth	0.110	0.090
	(0.61)	(0.48)
Adjusted R^2	0.766	0.766
Observations	13,335	13,335
Year FE	YES	YES
Firm FE	YES	YES

Table 6: FCPA and Firm Value: Short Term Market Reaction to FCPA.

The dependent variable is the cumulative abnormal return (CAR) adjusted by value-weighted market return over different windows around May 5, 1977, when FCPA passed the senate. The independent variables of interest are measures of headquarter state public corruption. *Corruption* is the rank of headquarter state corruption based on the average number of corruption convictions per million population. *High Corruption* is a binary variable that equals one if the headquarter state has above-median level of *Corruption*. We present t-statistics using robust standard errors in brackets. *, ** and *** indicate significance better than 10%, 5%, and 1% respectively.

Dependent Variables:	CAR[-30,-1]		CAR[-3,+3]		CAR[-5,+5]		CAR[0,+120]	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Corruption	-0.000		-0.0001		-0.0002*		-0.001**	
	(-0.23)		(-1.36)		(-1.78)		(-2.04)	
High Corruption		-0.001		-0.005**		-0.006**		-0.018**
		(-0.22)		(-2.22)		(-2.03)		(-2.05)
Adjusted R^2	-0.000	-0.000	0.000	0.002	0.001	0.001	0.001	0.001
Observations	2,564	2,564	2,561	2,561	2,562	2,562	2,565	2,565

Table 7: FCPA and Firm Value: Export Industries and Export Destinations.

In this table, we show that the enactment of FCPA more adversely affected firms located in states with high public corruption, particularly for firms in industries that export to corrupt countries. We present estimates from regressions in a seven-year window around the enactment of FCPA in 1977. The dependent variable is *Tobin's Q*. We split the diff-in-diff estimator $\text{FCPA}_t \times \text{Corruption}_s$ into three groups: firms in *Non-Export Industry*, industries that *Export to Low-Corruption Destinations*, and industries that *Export to High-Corruption Destinations*. We identify an industry as exporting to high-corruption destinations if the average corruption score (LaPorta, Lopez-de-Silanes, Shleifer, and Vishny, 1998) of the destination countries, weighted by the proportion of the given industrys exports to the respective country, is in the lowest decile (lower score indicates higher corruption). In addition, we control for lagged firm and industry characteristics including *Ln(Assets)*, *Firm Age*, *Leverage*, *Tangibility*, *ROA*, and *HHI*, as well as *State GDP Growth*. We also include firm and year fixed effects in the regressions. We report p-values from t-tests for the null hypothesis that the coefficients for the interaction terms equal one another. We present *t*-statistics using standard errors clustered by headquarter state in brackets. *, ** and *** indicate significance better than 10%, 5%, and 1% respectively.

Dependent Variable:	Tobin's Q	
	(1)	(2)
FCPA × Corruption (Non-Export Industry)	-0.001	
	(-1.02)	
FCPA × Corruption (Export to Low-Corruption Destinations)	-0.004***	
	(-2.94)	
FCPA × Corruption (Export to High-Corruption Destinations)	-0.006***	
	(-3.31)	
FCPA × High Corruption (Non-Export Industry)		-0.044
		(-1.15)
FCPA × High Corruption (Export to Low-Corruption Destinations)		-0.103***
		(-2.97)
FCPA × High Corruption (Export to High-Corruption Destinations)		-0.164***
		(-3.80)
Adjusted R^2	0.688	0.688
Observations	15,559	15,559
P(Low-Corruption Export=High-Corruption Export)	0.033	0.027
P(Low-Corruption Export=No Export)	0.003	0.010
Control Variables	YES	YES
Year FE	YES	YES
Firm FE	YES	YES

Table 8: FCPA and Foreign Sales Growth.

In this table, we show that firms located in states with high public corruption experienced slower foreign sales growth over the nine years after the passage of FCPA. We present estimates from regressions using firm-year observations with no missing foreign sales value from 1978 to 1986. The dependent variable is *Foreign Sales Growth*. We split the sample into three subperiods and define two binary variables that indicate subperiod $1981-83$ and $1984-86$. The independent variables of interest are the interaction between subperiod dummies and state corruption measures. In addition, we control for lagged firm and industry characteristics including *Ln(Assets)*, *Firm Age*, *Leverage*, *Tangibility*, *ROA*, and *HHI*, as well as *State GDP Growth*. We also include firm and year fixed effects in the regressions. We report p-values from t-tests for the null hypothesis that the coefficients for the interaction terms equal one another. We present *t*-statistics using standard errors clustered by headquarter state in brackets. *, ** and *** indicate significance better than 10%, 5%, and 1% respectively.

Dependent Variable:	Foreign Sales Growth	
	(1)	(2)
Year $(1981-83) \times$ Corruption	-0.0022**	
	(-2.55)	
Year $(1984-86) \times$ Corruption	-0.0013	
	(-1.35)	
Year $(1981-83) \times$ High Corruption		-0.0403*
		(-1.83)
Year $(1984-86) \times$ High Corruption		-0.0319
		(-1.42)
Ln(Assets)	-0.0884***	-0.0887***
	(-3.79)	(-3.76)
Firm Age	0.0014*	0.0014*
	(1.90)	(1.88)
Leverage	-0.0485	-0.0468
	(-0.82)	(-0.79)
Tangibility	0.0914	0.0944
	(0.74)	(0.76)
Q	0.0565***	0.0565***
	(4.37)	(4.36)
HHI	-0.0336	-0.0341
	(-1.45)	(-1.49)
GDP Growth	1.1857***	1.1793***
	(6.32)	(5.85)
Adjusted R^2	0.260	0.260
Observations	7,453	7,453
Year FE	YES	YES
Firm FE	YES	YES

Table 9: FCPA and Firm Value: Controlling for Industry × Year Fixed Effects.

In this table, we show that our diff-in-diff estimate around FCPA is robust to controlling for industry × year fixed effects. The dependent variable is *Tobin's Q* and the independent variables of interest are interactions between *FCPA*, a binary variable that equals one after the enactment of FCPA, and measures of headquarter state public corruption. *Corruption* is the rank of headquarter state corruption based on the average number of corruption convictions per million population. *High Corruption* is a binary variable that equals one if the headquarter state has above-median level of *Corruption*. In addition, we control for lagged firm and industry characteristics including *Ln(Assets)*, *Firm Age*, *Leverage*, *Tangibility*, *ROA*, and *HHI*, as well as *State GDP Growth*. We also include both firm and industry × year fixed effects in the regressions. We use three different industry classifications: two-digit SIC (columns 1 and 2), three-digit SIC (columns 3 and 4), and Fama-French 48 industries (columns 5 and 6). The standalone variable *FCPA* (*Corruption*) is not estimated, because it does not vary across firms (over time in this sample). We present *t*-statistics using standard errors clustered by headquarter state in brackets. *, ** and *** indicate significance better than 10%, 5%, and 1% respectively.

Dependent Variable:	Tobin's Q					
	(1)	(2)	(3)	(4)	(5)	(6)
FCPA × Corruption	-0.002**		-0.002***		-0.002**	
	(-2.27)		(-2.85)		(-2.31)	
FCPA × High Corruption		-0.049*		-0.050**		-0.042*
		(-1.94)		(-2.12)		(-1.96)
Ln(Assets)	-0.195***	-0.196***	-0.210***	-0.210***	-0.194***	-0.195***
	(-4.32)	(-4.32)	(-4.89)	(-4.89)	(-4.92)	(-4.92)
Firm Age	-0.034	-0.033	-0.027	-0.026	-0.036*	-0.034*
	(-1.60)	(-1.51)	(-1.09)	(-1.02)	(-1.80)	(-1.71)
Leverage	0.349**	0.350**	0.360**	0.360**	0.375***	0.375***
	(2.19)	(2.19)	(2.47)	(2.47)	(2.98)	(2.98)
Tangibility	-0.287*	-0.289*	-0.253	-0.256	-0.291*	-0.292**
	(-1.75)	(-1.76)	(-1.64)	(-1.66)	(-1.99)	(-2.01)
ROA	0.516***	0.516***	0.527***	0.526***	0.497***	0.497***
	(4.52)	(4.51)	(4.37)	(4.36)	(4.54)	(4.54)
HHI	-0.059***	-0.059***	-0.024	-0.024	-0.028	-0.027
	(-2.74)	(-2.74)	(-0.73)	(-0.74)	(-1.31)	(-1.31)
GDP Growth	0.757***	0.771***	0.679***	0.691***	0.811***	0.822***
	(3.59)	(3.66)	(2.91)	(2.99)	(4.16)	(4.23)
Adjusted R^2	0.754	0.754	0.754	0.754	0.757	0.757
Observations	18,840	18,840	18,563	18,563	18,859	18,859
Industry × Year FE	YES	YES	YES	YES	YES	YES
Industry Definition	SIC2	SIC2	SIC3	SIC3	FF48	FF48
Firm FE	YES	YES	YES	YES	YES	YES

Table 10: FCPA and Firm Value: Alternative Measures of Corruption.

In this table, we show that the estimated effect of FCPA on the value of firms in corrupt states is robust to alternative measures of corruption. In column 1, we rank state corruption based on Question 6 of the survey by Boylan and Long (2003). In columns 2 and 3, we use binary variables indicating states that are considered legally or illegally corrupt, based on the survey by Dincer and Johnston (2014). In addition, we control for lagged firm and industry characteristics including *Ln(Assets)*, *Firm Age*, *Leverage*, *Tangibility*, *ROA*, and *HHI*, as well as *State GDP Growth*. We also include firm and year fixed effects in the regressions. We present t-statistics using standard errors clustered by headquarter state in brackets. *, ** and *** indicate significance better than 10%, 5%, and 1% respectively.

Dependent Variable:	Tobin's Q		
Corruption Measures:	Boylan-Long Q6	Dincer-Johnston	
		Legal Corruption	Illegal Corruption
	(1)	(2)	(3)
FCPA × Corruption	-0.004**	-0.068**	0.027
	(-2.34)	(-2.13)	(0.66)
Ln(Assets)	-0.126**	-0.141***	-0.136**
	(-2.06)	(-2.71)	(-2.60)
Firm Age	-0.070	-0.051***	-0.055***
	(-0.48)	(-2.73)	(-3.02)
Leverage	0.394*	0.389**	0.388**
	(1.87)	(2.11)	(2.10)
Tangibility	-0.411**	-0.390**	-0.381**
	(-2.13)	(-2.10)	(-2.03)
ROA	0.434***	0.492***	0.495***
	(3.45)	(3.95)	(3.96)
HHI	-0.031	-0.028	-0.028
	(-1.07)	(-0.94)	(-0.93)
GDP Growth	1.291***	1.201***	1.180***
	(4.29)	(3.96)	(3.76)
Adjusted R^2	0.778	0.793	0.793
Observations	17,121	18,961	18,961
Year FE	YES	YES	YES
Firm FE	YES	YES	YES

Table 11: Cardin-Lugar Amendment and Firms Value.

The Cardin-Lugar Amendment, which requires extractive industry corporations, like oil, gas and mining companies to disclose payments they make to foreign governments for access to natural resources, became law in 2010 as Section 1504 of the Dodd-Frank Act. In Panel A, we conduct an event study around the enactment of the Dodd-Frank Act (July 21, 2010) for firms in the extractive industires (SIC 1000-1499 and 4900-4999) and show that the cumulative abnormal return in 120 days after the enactment of the Dodd-Frank Act is significantly more negative for firms located in corrupt states. In Panel B, we conduct a diff-in-diff test for these firms in a seven-year window around the enactment of the Dodd-Frank Act (similar to Model (1)) and show that firms located in corrupt states had a significantly more negative change in long term firm value. *Corruption* is the rank of headquarter state corruption based on the average number of corruption convictions per million population. *High Corruption* is a binary variable that equals one if the headquarter state has above-median level of *Corruption*. In addition, we control for lagged firm and industry characteristics including *Ln(Assets)*, *Firm Age*, *Leverage*, *Tangibility*, *ROA*, and *HHI*, as well as *State GDP Growth*. We also include both firm and year fixed effects in the regressions. The standalone variable *Post* (*Corruption*) is not estimated, because it does not vary across firms (over time in this sample). We present t-statistics using standard errors clustered by headquarter state in brackets. *, ** and *** indicate significance better than 10%, 5%, and 1% respectively.

Panel A: Short-term Market Reaction to Cardin-Lugar Amendment

Dependent Variables:	CAR[-30,-1]		CAR[-3,+3]		CAR[-5,+5]		CAR[0,+120]	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Corruption	0.001		0.000		0.001		-0.003**	
	(1.25)		(1.12)		(1.49)		(-2.00)	
High Corruption		0.015		0.002		0.010		-0.068**
		(1.18)		(0.33)		(1.01)		(-2.06)
Adjusted R^2	0.002	0.001	0.001	-0.003	0.006	0.001	0.011	0.011
Observations	293	293	293	293	293	293	293	293

Panel B: Long-term Firm Value after Cardin-Lugar Amendment

Dependent Variable:	Tobin's Q	
	(1)	(2)
Post × Corruption	-0.003*	
	(-1.95)	
Post × High Corruption		-0.086*
		(-1.65)
Ln(Assets)	-0.215**	-0.216**
	(-2.54)	(-2.52)
Firm Age	0.021	0.021
	(0.92)	(0.91)
Leverage	0.191	0.188
	(1.13)	(1.12)
Tangibility	-0.076	-0.072
	(-0.17)	(-0.17)
ROA	0.059	0.067
	(0.23)	(0.25)
HHI	-0.147	-0.148
	(-1.02)	(-1.01)
GDP Growth	0.086	-0.039
	(0.18)	(-0.09)
Adjusted R^2	0.736	0.736
Observations	1,341	1,341
Year FE	YES	YES
Firm FE	YES	YES

Table 12: State Antitakeover Laws, Local State Corruption, and Performance.

In this table, we show that the enactment of state antitakeover laws more negatively affected operating performance for firms located in states with high public corruption. We present regression estimates for firm-year observations from 1976 to 1995, where the dependent variable is *ROA*. In columns 1 and 2, and the independent variables of interest are interactions between measures of headquarter state corruption and a binary variable, *BC*, that equals one if a Business Combination Law is passed in the state of incorporation. In columns 3 and 4, we decompose *BC* into four binary variables indicating observations before/after the passage of BC law (BC^{-1}, BC^{0}, BC^{1}, and BC^{2+}). We use the rank of headquarter state corruption in columns 1 and 3 and a binary variable indicating firms with above-median level of headquarter state corruption in columns 2 and 4. In addition, we control for lagged firm and industry characteristics including *Ln(Assets)*, *Firm Age*, *Leverage*, *Tangibility*, *Q*, and *HHI*, as well as the *State GDP Growth*. We also include firm and year fixed effects in the regressions. We present *t*-statistics using standard errors clustered by state of incorporation in brackets. *, ** and *** indicate significance better than 10%, 5%, and 1% respectively.

Dependent Variable:			ROA	
Corruption Measure:	Rank	Above-median	Rank	Above-median
	(1)	(2)	(3)	(4)
BC	-0.0027	0.0019		
	(-0.65)	(0.45)		
BC × Corruption	-0.0005***	-0.0108***		
	(-4.56)	(-3.37)		
BC^{-1}			-0.0007	-0.0024
			(-0.14)	(-0.49)
BC^{0}			-0.0043	-0.0056
			(-0.84)	(-1.05)
BC^{1}			-0.0031	0.0003
			(-0.43)	(0.04)
BC^{2+}			-0.0004	0.0058
			(-0.06)	(0.92)
BC^{-1} × Corruption			0.0002	0.0040
			(1.63)	(1.03)
BC^{0} × Corruption			-0.0000	0.0022
			(-0.19)	(0.90)
BC^{1} × Corruption			-0.0004***	-0.0084***
			(-2.77)	(-2.64)
BC^{2+} × Corruption			-0.0006***	-0.0142***
			(-3.70)	(-3.95)
Corruption	0.0014		0.0014	
	(1.37)		(1.39)	
High Corruption		0.0302		0.0316
		(1.05)		(1.11)
Ln(Assets)	-0.0139***	-0.0139***	-0.0140***	-0.0139***
	(-3.84)	(-3.83)	(-3.83)	(-3.82)
Firm Age	-0.0007***	-0.0007***	-0.0007***	-0.0007***
	(-5.65)	(-5.54)	(-5.58)	(-5.50)
Leverage	-0.0401***	-0.0402***	-0.0400***	-0.0401***
	(-5.75)	(-5.77)	(-5.70)	(-5.71)
Tangibility	-0.0108	-0.0106	-0.0105	-0.0103
	(-0.95)	(-0.93)	(-0.92)	(-0.88)
Q	-0.0015	-0.0015	-0.0015	-0.0015
	(-0.66)	(-0.66)	(-0.65)	(-0.65)
HHI	0.0035	0.0036	0.0036	0.0036
	(1.07)	(1.09)	(1.08)	(1.09)
GDP Growth	0.2722***	0.2744***	0.2677***	0.2696***
	(6.66)	(6.72)	(6.44)	(6.58)
Adjusted R^2	0.618	0.618	0.618	0.619
Observations	61,051	61,051	61,051	61,051
Year FE	YES	YES	YES	YES
Firm FE	YES	YES	YES	YES

Table 13: State Antitakeover Laws: Controlling for other Antitakeover Laws.

In this table, we present regression estimates where we include state antitakeover laws other than the Business Combination Law, including the First-generation Law (FG), the Poison Pill Law (PP), the Control Share Acquisition Law (CS), the Directors' Duties Law (DD), and the Fair Price Law (FP). The dependent variable is *ROA* and the independent variables of interest are interactions between measures of headquarter state corruption and binary variables indicating the passage of antitakeover laws. In addition, we control for lagged firm and industry characteristics including *Ln(Assets)*, *Firm Age*, *Leverage*, *Tangibility*, *Q*, and *HHI*, as well as *State GDP Growth*. We also include firm and year fixed effects in the regressions. We present *t*-statistics using standard errors clustered by state of incorporation in brackets. *, ** and *** indicate significance better than 10%, 5%, and 1% respectively.

Dependent Variable:	ROA	
Corruption Measure:	Rank	Above-median
	(1)	(2)
BC	-0.0036	0.0003
	(-0.94)	(0.06)
FG	0.0000	0.0008
	(0.00)	(0.16)
PP	-0.0057	-0.0145
	(-1.20)	(-1.63)
CS	0.0019	0.0038
	(0.51)	(0.63)
DD	-0.0026	0.0079
	(-0.43)	(0.89)
FP	-0.0033	-0.0081
	(-0.79)	(-1.21)
BC × Corruption	-0.0005**	-0.0103***
	(-2.18)	(-2.53)
FG × Corruption	0.0001	-0.0017
	(-0.53)	(-0.44)
PP × Corruption	0.0005	0.0163
	(0.85)	(1.24)
CS × Corruption	-0.0004	-0.0036
	(-1.06)	(-0.53)
DD × Corruption	-0.0004	-0.0186
	(-0.86)	(-1.53)
FP × Corruption	0.0004	0.0092
	(1.22)	(1.13)
Corruption	0.0014	0.0292
	(1.42)	(1.05)
Adjusted R^2	0.619	0.619
Observations	61,051	61,051
Control Variables	YES	YES
Year FE	YES	YES
Firm FE	YES	YES

Table 14: State Antitakeover Laws: Controlling for Industry × Year Fixed Effects.

In this table, we show that the negative effect of state antitakeover laws on operating performance for firms in corrupt states is robust to controlling for industry × year fixed effects. The dependent variable is *ROA*, and the independent variables of interest are interactions between measures of headquarter state corruption and a binary variable, *BC*, that equals one if a Business Combination Law is passed in the state of incorporation. We use the rank of headquarter state corruption in columns 1, 3, and 5, and a binary variable indicating firms with above-median level of headquarter state corruption in columns 2, 4, and 6. In addition, we control for lagged firm and industry characteristics including *Ln(Assets)*, *Firm Age*, *Leverage*, *Tangibility*, *Q*, and *HHI*, as well as *State GDP Growth*. We also include both firm and industry × year fixed effects in the regressions. We use three different industry classifications: two-digit SIC (columns 1 and 2), three-digit SIC (columns 3 and 4), and Fama-French 48 industries (columns 5 and 6). We present *t*-statistics using standard errors clustered by state of incorporation in brackets. *, ** and *** indicate significance better than 10%, 5%, and 1% respectively.

Dependent Variable:	ROA					
	(1)	(2)	(3)	(4)	(5)	(6)
BC	-0.0035	0.0020	-0.0021	0.0044	-0.0025	0.0034
	(-0.91)	(0.54)	(-0.57)	(1.23)	(-0.69)	(1.03)
BC × Corruption	-0.0006***		-0.0006***		-0.0006***	
	(-4.60)		(-4.69)		(-4.77)	
BC × High Corruption		-0.0129***		-0.0149***		-0.0134***
		(-3.33)		(-4.50)		(-3.64)
Corruption	0.0015		0.0016**		0.0016*	
	(1.61)		(2.04)		(1.79)	
High Corruption		0.0343		0.0349		0.0357
		(1.34)		(1.47)		(1.41)
Ln(Assets)	-0.0150***	-0.0150***	-0.0149***	-0.0149***	-0.0155***	-0.0154***
	(-4.61)	(-4.60)	(-4.45)	(-4.46)	(-4.56)	(-4.55)
Firm Age	-0.0008***	-0.0008***	-0.0007***	-0.0006***	-0.0010***	-0.0009***
	(-5.50)	(-5.35)	(-4.00)	(-3.77)	(-6.74)	(-6.79)
Leverage	-0.0374***	-0.0376***	-0.0375***	-0.0376***	-0.0377***	-0.0378***
	(-5.73)	(-5.76)	(-5.05)	(-5.05)	(-5.18)	(-5.20)
Tangibility	-0.0035	-0.0034	-0.0090	-0.0089	-0.0013	-0.0012
	(-0.33)	(-0.32)	(-0.81)	(-0.79)	(-0.13)	(-0.11)
Q	-0.0028	-0.0028	-0.0040*	-0.0040*	-0.0029	-0.0029
	(-1.19)	(-1.19)	(-1.72)	(-1.72)	(-1.32)	(-1.32)
HHI	0.0044	0.0045	-0.0008	-0.0007	0.0022	0.0022
	(1.53)	(1.55)	(-0.28)	(-0.24)	(0.63)	(0.65)
GDP Growth	0.1886***	0.1916***	0.1862***	0.1896***	0.1947***	0.1976***
	(4.88)	(4.89)	(4.60)	(4.66)	(5.08)	(5.11)
Adjusted R^2	0.603	0.603	0.603	0.603	0.605	0.605
Observations	61,051	61,051	61,051	61,051	61,051	61,051
Industry × Year FE	YES	YES	YES	YES	YES	YES
Industry Definition	SIC2	SIC2	SIC3	SIC3	FF48	FF48
Firm FE	YES	YES	YES	YES	YES	YES

Table 15: State Antitakeover Laws: Alternative Measures of Corruption.

In this table, we show that the negative effect of state antitakeover laws on operating performance for firms in corrupt states is robust to alternative measures of corruption. In column 1, we rank state corruption based on Question 6 of the survey by Boylan and Long (2003). In columns 2 and 3, we use binary variables indicating states that are considered legally or illegally corrupt, based on the survey by Dincer and Johnston (2014). In addition, we control for lagged firm and industry characteristics including *Ln(Assets)*, *Firm Age*, *Leverage*, *Tangibility*, *ROA*, and *HHI*, as well as *State GDP Growth*. We also include firm and year fixed effects in the regressions. In columns 2 and 3, the coefficient for *Corruption* cannot be estimated because the corruption level based on Dincer and Johnston's definition does not change for any firm during the sample period. We present *t*-statistics using standard errors clustered by headquarter state in brackets. *, ** and *** indicate significance better than 10%, 5%, and 1% respectively.

Dependent Variable:	Tobin's Q		
Corruption Measures:	Boylan-Long Q6	Dincer-Johnston	
		Legal Corruption	Illegal Corruption
	(1)	(2)	(3)
BC	0.0004	0.0025	-0.0002
	(0.07)	(0.57)	(-0.05)
BC × Corruption	-0.0001	-0.0158***	-0.0079***
	(-1.11)	(-6.87)	(-2.82)
Corruption	0.0010		
	(0.88)		
Ln(Assets)	-0.0137***	-0.0138***	-0.0139***
	(-3.70)	(-3.90)	(-3.94)
Firm Age	-0.0007***	-0.0007***	-0.0007***
	(-5.08)	(-5.47)	(-5.66)
Leverage	-0.0429***	-0.0404***	-0.0406***
	(-6.48)	(-5.78)	(-5.82)
Tangibility	-0.0046	-0.0120	-0.0121
	(-0.50)	(-1.10)	(-1.15)
Q	-0.0014	-0.0011	-0.0012
	(-0.73)	(-0.47)	(-0.48)
HHI	0.0034	0.0025	0.0024
	(0.94)	(0.92)	(0.86)
GDP Growth	0.2876***	0.2750***	0.2707***
	(6.37)	(6.71)	(6.59)
Adjusted R^2	0.620	0.618	0.618
Observations	54,356	60,415	60,415
Year FE	YES	YES	YES
Firm FE	YES	YES	YES

Table 16: State Corruption and Earnings Management.

This table presents regression estimates for firm-year observations from 1990 to 2011. The dependent variable is *Discretionary Accruals* and the independent variables of interest are measures of headquarter state public corruption. *Corruption* is the rank of headquarter state corruption based on the average number of corruption convictions per million population. *High Corruption* is a binary variable that equals one if the headquarter state has above-median level of *Corruption*. We control for lagged firm and industry characteristics including *Ln(Assets)*, *Firm Age*, *Leverage*, *Tangibility*, *ROA*, *Q*, *HHI*, *Current Accruals*, as well as *State GDP Growth*. We also control for Fama-French 48 industry fixed effects and year fixed effects in these regressions. We present *t*-statistics using standard errors clustered by headquarter state in brackets. *, ** and *** indicate significance better than 10%, 5%, and 1% respectively.

Dependent Variable:	*Discretionary Accruals*	
	(1)	(2)
Corruption	0.022***	
	(3.75)	
High Corruption		0.358*
		(2.00)
Ln(Assets)	-1.323***	-1.319***
	(-21.58)	(-21.29)
Firm Age	0.009	0.010
	(1.58)	(1.60)
Leverage	3.054***	3.081***
	(8.05)	(8.13)
Tangibility	-3.486***	-3.523***
	(-6.68)	(-6.63)
ROA	-0.787***	-0.788***
	(-3.02)	(-3.01)
Q	0.589***	0.589***
	(9.23)	(9.23)
HHI	0.100	0.098
	(0.39)	(0.38)
Current Accruals	-20.661***	-20.661***
	(-10.41)	(-10.42)
GDP Growth	9.491***	8.412***
	(3.81)	(3.36)
Adjusted R^2	0.229	0.229
Observations	74,424	74,424
Year FE	YES	YES
Industry FE	YES	YES

Table 17: State Corruption and Securities Class Action.

This table presents probit regression estimates where the dependent variable is *Securities Class Action*, a binary variable that equals one if the firm is subject to a securities class action in year t. The independent variables of interest are measures of headquarter state corruption. *Corruption* is the rank of headquarter state corruption based on the average number of corruption convictions per million population. *High Corruption* is a binary variable that equals one if the headquarter state has above-median level of *Corruption*. In columns 1 and 2, the sample consists of all firm-year observations from 1995 to 2011. In columns 3 and 4, the sample consists of firm-year observations with total assets and firm age above the sample median. In all the regressions, we control for lagged firm and industry characteristics including *Ln(Assets)*, *Firm Age*, *Leverage*, *Tangibility*, *ROA*, *Q*, *HHI*, as well as *State GDP Growth*. We also control for Fama-French 48 industry fixed effects and year fixed effects in these regressions. We present t-statistics using standard errors clustered by headquarter state in brackets. *, ** and *** indicate significance better than 10%, 5%, and 1% respectively.

Dependent Variable:	*Securities Class Action*			
Sample:	Full		Size and age above median	
	(1)	(2)	(3)	(4)
Corruption	0.001		0.004***	
	(0.51)		(2.69)	
High Corruption		-0.022		0.073*
		(-0.66)		(1.71)
Ln(Assets)	0.189***	0.189***	0.219***	0.219***
	(17.17)	(17.20)	(7.97)	(7.81)
Firm Age	-0.009***	-0.009***	-0.006***	-0.005**
	(-6.60)	(-6.61)	(-2.62)	(-2.50)
Leverage	-0.089	-0.084	0.229**	0.229***
	(-1.61)	(-1.50)	(2.57)	(2.60)
Tangibility	-0.553***	-0.554***	-0.722***	-0.729***
	(-4.55)	(-4.58)	(-2.64)	(-2.67)
ROA	-0.011	-0.011	0.188	0.185
	(-0.41)	(-0.39)	(1.11)	(1.08)
Q	0.057***	0.057***	0.100***	0.099***
	(9.76)	(9.69)	(4.82)	(4.72)
HHI	-0.006	-0.005	-0.123	-0.126
	(-0.05)	(-0.05)	(-0.67)	(-0.68)
GDP Growth	1.661***	1.501**	1.386*	1.350
	(2.65)	(2.22)	(1.75)	(1.64)
Pseudo R^2	0.114	0.114	0.137	0.137
Observations	52,157	52,157	16,952	16,952
Year FE	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES

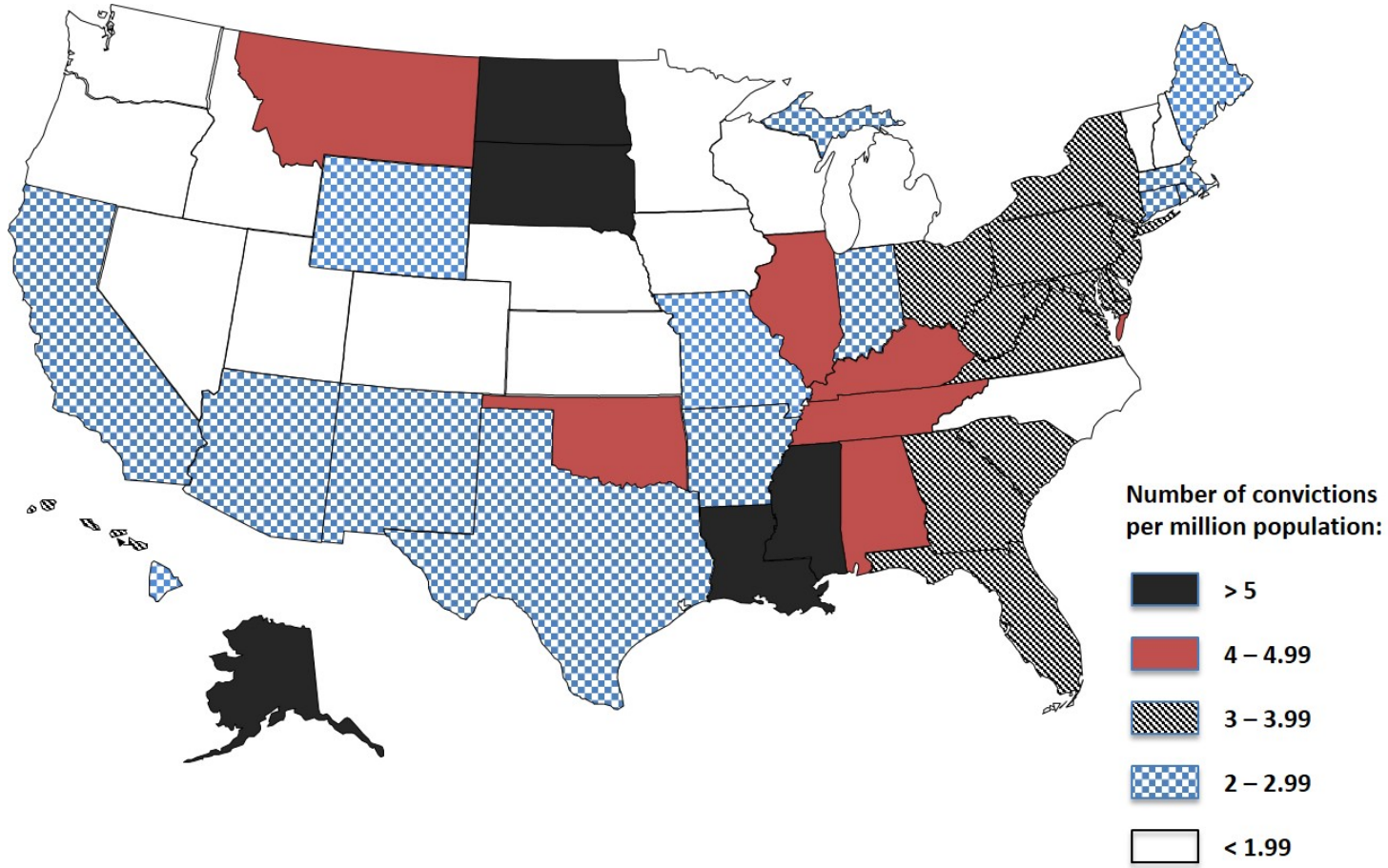

Figure 1: Map showing variation in the average corruption across the United States

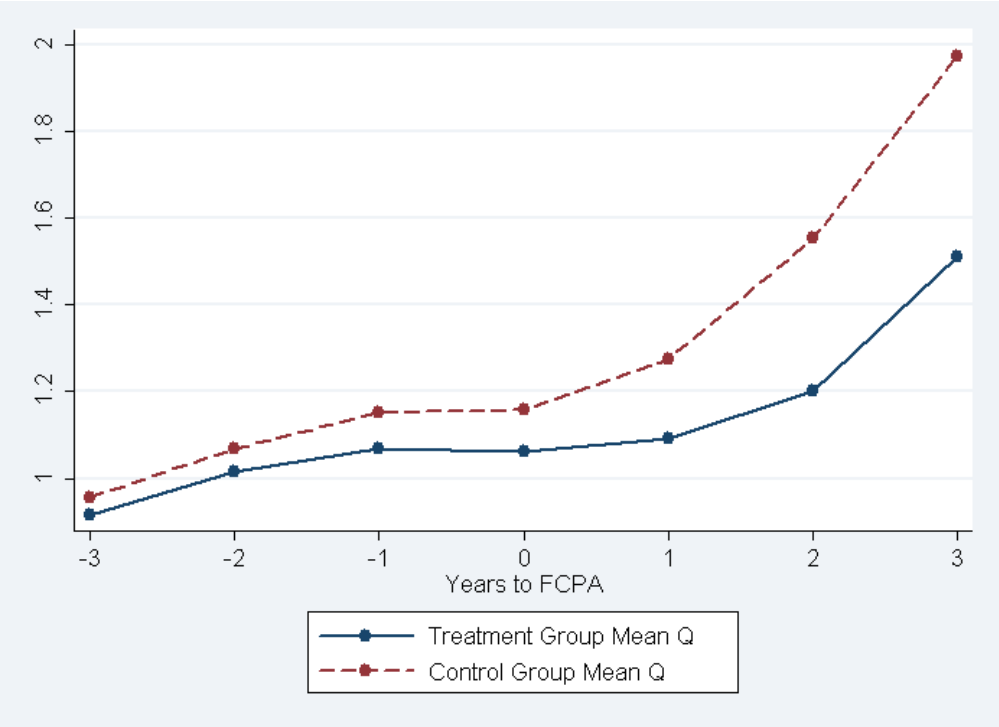

Figure 2: Q around FCPA

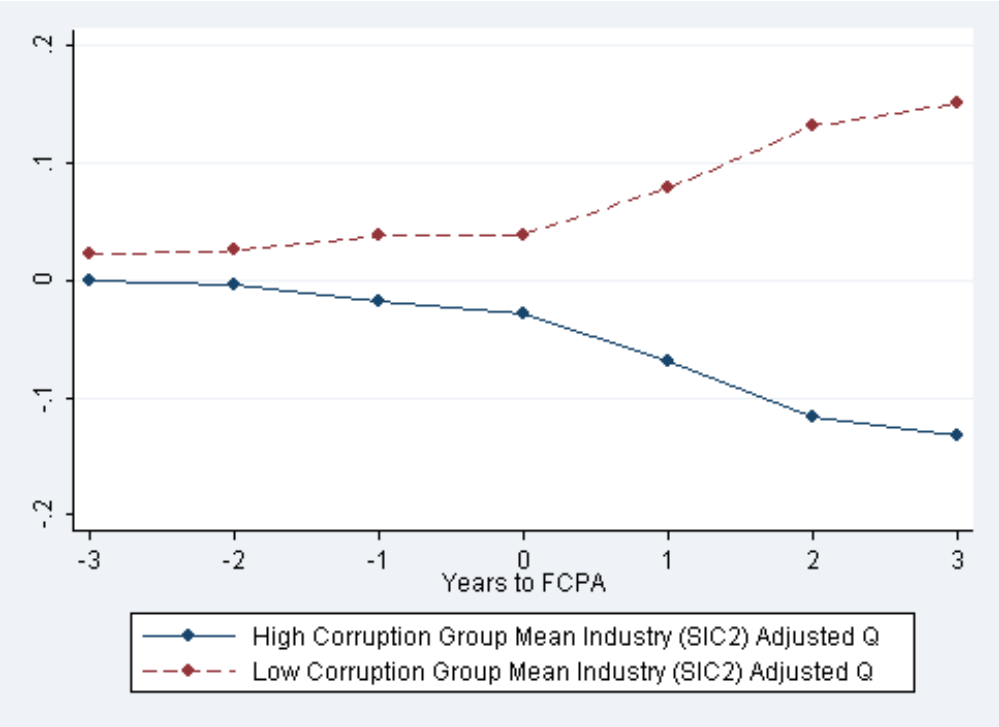

Figure 3: Industry-adjusted Q around FCPA