Policeman for the World: The Impact of Extraterritorial FCPA Enforcement on Foreign Investment and Internal Controls

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Abstract

We show that a mid-2000s increase in US extraterritorial enforcement of the Foreign Corrupt Practices Act (FCPA), characterized by greater international regulatory cooperation and more frequent use of the FCPA's accounting provisions, has a significant deterrent effect on foreign direct investment in high-corruption-risk countries. The decrease in investment is at least as large for non-US as for US firms, suggesting that increased extraterritorial enforcement helps to level the foreign-investment playing field. Firms with fundamental characteristics that make it more difficult to maintain effective internal controls invest less in high-corruption-risk countries, suggesting regulatory compliance costs play an important role in deterring investment. Consistent with investments in accounting systems being one margin firms move on to limit enforcement risk when investing in high-corruption-risk countries, firms pursuing new investments spend more time evaluating potential acquisition targets and firms with existing investments report fewer internal-control weaknesses and restatements related to unintentional errors.

Keywords: Foreign Corruption Regulation; Extraterritorial Enforcement; Foreign Corrupt Practices Act (FCPA); Foreign Investment; Internal Controls

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1. Introduction

Corruption, in the form of bribes paid to public officials to win business, can distort resource allocation by putting firms that do not engage in corrupt activities at a competitive disadvantage (Shleifer and Vishny 1993; SEC and DOJ 2012). To combat the effects of corrupt business practices, in 1977 the US enacted the Foreign Corrupt Practices Act (FCPA). The FCPA has two types of provisions, one criminalizing the bribery of foreign public officials (the "anti-bribery provision") and another requiring companies to maintain internal controls and recordkeeping systems to detect improper payments (the "accounting provisions").[1] For nearly three decades, FCPA enforcement actions were relatively limited. Despite the FCPA having a broad extraterritorial scope, a lack of international cooperation made it difficult for the US, for practical and diplomatic reasons, to pursue enforcement actions against non-US firms. Critics feared that domestic enforcement alone would put US firms at a competitive disadvantage (Brewster and Buell 2017).

In the mid-2000s, following several regulatory changes and an increased willingness of many countries to cooperate after the 9/11 terrorist attacks, FCPA enforcement actions, particularly against non-US firms, increased significantly (Brewster 2017). Over the 28-year period from the FCPA's enactment in 1977 until 2004, there were a total of only 53 successful FCPA prosecutions, and virtually none against non-US firms. In the last 15 years, there were over 300 prosecutions, and more than one-third were against non-US firms. The FCPA's accounting provisions have been a key aspect of the increase in extraterritorial enforcement. From a prosecutor's perspective (unlike the Act's anti-bribery provision), the accounting provisions have the advantage that no proof of intent is required to establish a civil violation (Deming 2010). Since 2005, among public issuers, the FCPA's accounting provisions have been the basis of more successful prosecutions than the anti-bribery provisions.

[1] With the passage of the FCPA in 1977, the Act's accounting provisions established, for the first time, the requirement that all SEC-registered firms maintain internal control systems that provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in conformity with GAAP (FCPA 1977). The FCPA's accounting provisions apply not only to bribery-related violations, but also form the legal basis of most accounting fraud and disclosure violation cases (SEC & DOJ 2012). Our analysis focuses only on bribery-related cases.

The increase in extraterritorial FCPA enforcement has been controversial. In the US, critics still worry about the FCPA's potential anticompetitive impact on domestic firms. Outside the US, opponents are concerned about the US strategically targeting competitors and engaging in enforcement activities in countries with little influence over the policy.[2] Our goal is to assess the competitive effects of extraterritorial FCPA enforcement by examining the FCPA's impact on foreign direct investment by both US and non-US firms. As part of this study, we provide descriptive evidence on the importance of the FCPA's accounting provisions in facilitating the mid-2000s increase in extraterritorial FCPA enforcement and examine the impact of these provisions on the compliance costs faced by firms investing in high-corruption-risk countries.

If the FCPA poses a credible and punitive enforcement threat, the cost of investing in a high-corruption-risk country will increase and the profitability of investment opportunities in those countries will likely decline for all firms under the law's jurisdiction (Cuervo-Cazurra 2008; Blundell-Wignall and Roulet 2017). Thus, the FCPA's anticompetitive impact on US firms depends on the breadth of the regulation's extraterritorial reach and extent of its deterrent effects on non-US firms. Beck and Maher (1989) develop a model of anticorruption regulation where a law's effect depends on whether it applies to all bribe payers ("uniform regulation") or only to some bribe payers ("discriminatory regulation"). Discriminatory regulations decrease investment from regulated firms but, assuming there exist a sufficient number of unregulated firms for which investments in high-corruption-risk countries remain profitable, have little impact on the overall level of investment or bribery. In contrast, an anticorruption regulation that applies uniformly to all (or at least the vast majority of) potential competitors has no anticompetitive effects and can even increase firms' negotiating power with optimally rent-seeking local bureaucrats, thereby providing a mechanism for firms to credibly commit to not paying bribes (Shleifer

[2] For example, in an interview on CNBC, President Trump said of the FCPA "Now, every other country goes into these places, and they do what they have to do. It's a horrible law and it should be changed. I mean, we're like the policeman for the world. It's ridiculous." Discussing the enforcement of the FCPA against non-US firms, a 2019 Economist article said, "Facing little scrutiny, prosecutors have applied ever more expansive interpretations of what counts as the sort of link to America that makes an alleged crime punishable there…. Imagine if China fined Amazon $5bn and jailed its executives for conducting business in Africa that did not break American law, but did offend Chinese rules and was discussed on WeChat."

and Vishny 1994; Rose-Ackerman 1996). Most prior research (e.g., Beck et al. 1991) suggests that, before the US began actively pursuing enforcement actions against non-US firms, the FCPA acted as a discriminatory regulation—leading to a decrease in investment by US firms in high-corruption-risk countries that was largely offset by unregulated firms. The question we examine is whether the US's assumption of the role of "policeman for the world" and the accompanying increase in extraterritorial enforcement brings the FCPA close enough to a uniform regulation to mitigate its anticompetitive impact on US firms.

To understand the timing and targets of the increase in extraterritorial FCPA enforcement, we analyze all bribery-related enforcement actions against corporations from 1977 to 2017. Three aspects of the timing and targets of these cases are noteworthy. First, enforcement actions against non-US firms were virtually nonexistent prior to 2005, after which they increased substantially (along with cases against US firms), particularly for bribery-related violations of the FCPA's accounting provisions. An expansion of the legal definition of bribery, the introduction of deferred prosecution agreements, and increased scrutiny of internal controls under the Sarbanes-Oxley Act (SOX) appear to be important factors in explaining the timing of this enforcement increase. Second, enforcement actions are essentially limited to firms headquartered in countries that have ratified the OECD Anti-Bribery Convention (which includes all OECD members and eight non-OECD countries) and that paid bribes in countries *Transparency International* classifies as "highly corrupt." Third, non-US firms with a US cross-listing, significant US operations, and/or high-internal-control risk are significantly more likely to be targets of FCPA enforcement actions. We use these three insights in our research design to estimate the impact of increased extraterritorial FCPA enforcement.

First, we examine changes in bilateral foreign direct investment (FDI) flows. FDI flows capture aggregate country-level changes in investment, and thus allow us to speak to the FCPA's competitive effects between countries. Consistent with the FCPA having a significant deterrent effect on non-US firms, after the mid-2000s enforcement increase, average bilateral FDI flows (as a fraction of outflow-country GDP) from OECD countries to high-corruption-risk countries decrease by approximately 2.9%.

Inconsistent with the FCPA disproportionately harming the competitiveness of US firms relative to firms from other developed countries, we find no evidence that US firms reduce investments in high-corruption-risk countries more than firms headquartered in other OECD countries. FDI flows decrease by a similar magnitude whether or not a country actively enforces its own foreign corruption regulation, which corroborates the importance of extraterritorial US FCPA enforcement in explaining the decline in investment. It does not appear that non-OECD countries offset the reduction in investment. On average, we find no evidence of an economically significant increase in FDI from non-OECD countries to high-corruption-risk countries. Although we do find evidence of substitution from a subset of non-OECD countries that invested in high-corruption-risk countries prior to the enforcement increase, this increase in investment is not large enough to offset the investment reduction from OECD countries. Taken together, our FDI analyses suggest that the increase in extraterritorial FCPA enforcement led to a net decline in FDI in high-corruption-risk countries.

Second, we examine changes in firm-level capital expenditures (CAPEX) from financial-statement-based segment disclosures. Contemporaneous shocks that differentially affect investment outflows from OECD countries (relative to non-OECD countries) or investment inflows to high-corruption-risk countries (relative to low-corruption-risk countries) are the primary threat to identification in the FDI analysis (e.g., IFRS adoption or other concurrent regulation around 2005). The firm-segment-level CAPEX data allows us to provide tighter identification by exploiting within-country variation in the strength of the FCPA's potential deterrent effect on firms under and not under US jurisdiction. After the mid-2000s increase in FCPA enforcement, firms headquartered in non-US OECD countries that cross-list on an SEC-regulated US exchange or have a disclosed US segment reduce CAPEX in high-corruption-risk countries by approximately 16% more than non-US-jurisdiction firms.

Finally, we provide three sets of evidence on the nature and magnitude of the compliance costs imposed by the mid-2000s increase in extraterritorial FCPA enforcement. First, firms with fundamental characteristics that make it more difficult to maintain effective internal controls invest less in high-corruption-risk countries. We find that high-internal-control-risk firms reduce CAPEX by an average of

26% more than firms with low internal control risk. Second, firms pursuing new investments in high-corruption-risk countries spend more time evaluating potential acquisition targets—acquirers subject to the FCPA *increase* the length of their due-diligence periods (relative to acquirers not subject to the FCPA) by 34% (about 43 days) when acquiring targets in high-corruption-risk countries. Third, firms with existing investments in high-corruption-risk countries strengthen their internal control systems—firms reporting a segment in a high-corruption-risk country report 7.5 percentage point fewer internal control weaknesses and 0.6 percentage point fewer restatements related to clerical and bookkeeping errors compared to firms without operations in high-corruption-risk countries.

Since the mid-2000s, the SEC and DOJ have significantly expanded the FCPA's extraterritorial reach, particularly with regard to the regulation's accounting provisions. Collectively, our evidence suggests that this increase in FCPA enforcement has significantly increased compliance costs and deterred investment in high-corruption-risk countries. The decrease in investment is at least as large for non-US, OECD-domiciled firms as for US firms, suggesting that the increase in FCPA enforcement has not created (or amplified) any competitive disadvantage for US firms (and could even have helped to level the foreign investment playing field) relative to firms from other developed countries.

Prior FCPA research focuses on the period shortly after the law's enactment and finds either no statistically significant effect of the FCPA (Graham 1984; Wei 2000; Smarzynska and Wei 2000) or that US firms changed the way they conduct business in high-corruption-risk countries after 1977 and that non-US firms exploited the void (Beck et al. 1991; Hines 1995)—giving credence to the argument that the FCPA is a discriminatory regulation that hurts US businesses. Cuervo-Cazurra (2006, 2008), D'Souza (2012), and Blundell-Wignall and Roulet (2017) show a similar effect of the ABC on OECD countries' investments and exports. Zeume (2017) focuses on the UK Bribery Act's (UKBA) impact on UK firms and finds: 1) a reduction in firm value for UK firms with operations in high-corruption-risk countries; 2) an increase in firm value for non-UK-connected competitors of UK firms; 3) and that UK firms open fewer subsidiaries, make fewer acquisitions, and have lower revenue growth in non-OECD countries. Sanseverino (2019) examines the impact of the UKBA and finds that US firms with UK

operations report lower revenues in high-corruption-risk segments. Our findings complement these studies by providing evidence of similar, albeit smaller, deterrent effects of anticorruption regulation on corporate investment around the mid-2000s FCPA enforcement increase.

In contrast to prior work, we focus on understanding the expansion of the FCPA's extraterritorial reach to non-US firms and on the competitive effects of extraterritorial anticorruption enforcement. We are the first to provide evidence that the extraterritorial expansion of FCPA enforcement has a significant deterrent effect on investment by non-US firms. Our novel descriptive evidence on the characteristics of FCPA enforcement actions against non-US firms highlights the importance of international cooperation and oversight of internal control and recordkeeping systems in successful extraterritorial anticorruption enforcement. This likely explains why, unlike most prior work, we find no evidence of an incremental reduction in the competitiveness of US firms relative to firms from other OECD countries. Instead, our results indicate that investment substitution by non-OECD countries is limited to countries with investments in high-corruption-risk countries before the enforcement increase, and that the substitution from this subset of countries is insufficient to fully offset the decline in investment from OECD countries, which is consistent with the US's assumption of the role of policeman of the world shifting the FCPA from a discriminatory to a more uniform regulation.

We contribute to research in accounting by providing evidence that the FCPA's requirement to devise and maintain a system of accounting controls capable of detecting improper payments is part of what gives the regulation bite. An extensive prior literature in accounting studies the impact of the Sarbanes-Oxley Act (SOX), which, similar to the FCPA, focuses on reducing a difficult-to-observe firm behavior (i.e., fraud) by imposing requirements for internal controls (see Coates and Srinivasan 2014 for a review). We show that the FCPA's internal control requirements impose significant compliance costs for firms' new and existing investments in high-corruption-risk countries and that improvements to accounting systems appear to be part of the solution to avoiding FCPA violations.

Our paper also contributes to the substantial prior literature on the effects of legal bonding by cross-listing (e.g., Stulz 1999; Coffee 1999; Lang et al. 2003; Hail and Leuz 2006). This research

questions whether the benefits of cross-listing are the result of increased regulatory oversight, given the limited enforcement by US securities regulators against foreign firms (e.g., Siegel 2005). Contrary to this argument, we document that in the FCPA setting, extraterritorial US enforcement is extensive and has a significant impact on the investment policies of non-US firms under US jurisdiction.

2. Timing and Targets of Extraterritorial FCPA Enforcement

To understand the extraterritorial expansion in US FCPA enforcement and to best make use of the institutional setting in developing our research design, we examine all enforcement actions (against corporations), and provide evidence on the timing and targets of these cases. We obtain data on FCPA enforcement actions from the *Stanford Law School Foreign Corrupt Practices Clearinghouse* database, including 236 FCPA enforcement actions against US firms and 101 against non-US firms over the period from the enactment of the FCPA in 1977 to 2017. We exclude cases against individuals and cases where the FCPA is used to charge firms for financial misrepresentations that are unrelated to foreign bribery. Thus, our sample is smaller than the total number of FCPA cases and is similar to Martin et al. (2012).

Three characteristics of these cases are noteworthy: 1) enforcement actions against both US and non-US firms increased substantially around 2005; 2) enforcement is essentially limited to firms headquartered in countries that have ratified the OECD's Anti-Bribery Convention and focuses on bribes paid in countries *Transparency International* classifies as "highly corrupt;" and 3) most non-US FCPA enforcement targets have a US cross-listing, significant US operations, and/or high internal control risk.[3] In our empirical analyses, we use each of these sources of variation to identify the effects of increased extraterritorial FCPA enforcement on firms' investment policies and internal controls. Below, we provide details on the characteristics of the enforcement actions.

2.1 Timing of the Increase in Extraterritorial FCPA Enforcement

When the FCPA was passed in 1977, the US was the first country to criminalize the bribery of

[3] Martin et al. (2012) also examine FCPA enforcement actions from 1977 to 2011 and conclude that enforcement increased around 2005 and that FCPA cases relate mainly to bribes paid in high-corruption-risk countries. Relative to Martin et al. (2012), our contribution is to extend the analysis to non-US firms and to examine the role of international cooperation, US cross-listings, US operations, and internal-control risk in explaining the scope and timing of US FCPA enforcement.

foreign public officials. At that time, the official standpoint of most Western governments was that, despite being prohibited domestically, bribery was necessary to "grease the wheels" of business and to facilitate investment in developing countries with inefficient government bureaucracies (Brewster and Buell 2017). The lack of an international consensus on the acceptability of foreign bribery made it difficult for the US to pursue extraterritorial enforcement actions and created fears that active FCPA enforcement against US firms alone would harm their competitiveness (Krever 2007; Gutterman 2013). For nearly three decades, FCPA enforcement actions against US firms were limited, and for foreign firms they were essentially nonexistent. Without support from a broad coalition of countries, FCPA enforcement was practically and politically unviable (Darrough 2010).

In the mid-1990s, public opinions about corruption began to shift. The view that bribery was a necessary, albeit unpleasant, expedient when doing business in high-corruption-risk countries lost favor as policymakers began to recognize corruption's widespread negative externalities (Brewster and Buell 2017). The shift in worldviews became apparent when, in December 1997, OECD member countries signed the legally binding *Convention on Combating Bribery of Foreign Public Officials in International Business Transactions* (i.e., the Anti-Bribery Convention or ABC). The ABC requires (among other things) that signatory countries criminalize the bribery of foreign officials as an extraditable offense, cooperate in investigations among signatory countries, and impose penalties for failing to maintain accounting systems capable of detecting bribery. The willingness of other developed countries to cooperate with the US in fighting corruption opened the door for an increase in FCPA enforcement.

Figure 1 Panel A plots in total and separately for US and non-US firms the number of enforcement actions (based on defendant headquarters location) per year from 1977 to 2017. Enforcement actions against US and non-US firms increase sharply after 2005. The first spike in enforcement actions occurs in 2007, which, given that a typical FCPA investigation, from initiation until the filing of an enforcement action, takes multiple years, is consistent with an onset of the ramp up in enforcement around 2005. From 1977 until 2004 there were 53 FCPA enforcement actions (fewer than 2 per year); since then there have been 284 cases (more than 20 per year). For non-US firms, the

enforcement increase is even more pronounced, growing from only 4 enforcement actions before 2005 to 97 cases after. Enforcement against US and non-US firms increases around the same time, consistent with the idea that limiting the FCPA's anticompetitive effects on US firms is necessary to make enforcement politically viable.

A confluence of factors, all occurring around 2005, help to explain the timing of the increase in FCPA enforcement, including an expanded legal definition of bribery, the introduction of deferred and non-prosecution agreements in FCPA cases, the enactment of the Sarbanes-Oxley Act, and increased regulatory cooperation. Below, we discuss these factors in detail.

2.1.1 United States v. Kay

A 2004 ruling by the US Court of Appeals in United States v. Kay expanded the legal definition of a bribe paid to "obtain or retain" business, and thereby broadened the scope of the FCPA beyond government procurement contracts to include a variety of potential interactions with public officials when conducting business abroad (e.g., payments for customs duties, licenses, permits, taxes, etc.). Consistent with the importance of the Kay decision, Martin et al. (2012) find that, compared to the period from 1977 to 2004, the percentage of FCPA enforcement actions targeting activities besides government procurement contracts nearly doubled after 2005.

2.1.2 Deferred Prosecution and Non-Prosecution Agreements

In late 2004, the DOJ used a non-prosecution agreement for the first time in a case against InVision Technologies and General Electric. Previously, the DOJ relied on filing formal charges as its only enforcement option. In January of 2005, the DOJ, again for the first time, employed a deferred-prosecution agreement in a case against Monsanto. These alternative resolution vehicles forgo formal charges in favor of allowing the accused to acknowledge wrongdoing, pay a monetary penalty, and prospectively demonstrate good conduct. The possibility of using these agreements greatly reduced the likelihood that the DOJ would have to fulfill the burden of proof in court, and thus increased the agency's willingness to pursue cases. Although the possibility of using deferred and non-prosecution agreements existed before 2005, their usage in FCPA cases appears to reflect a change in tactics by the DOJ

(Corporate Crime Reporter 2010). Martin et al. (2012) show that since 2004 the DOJ has resolved 75% of all corporate FCPA enforcement actions with non- or deferred-prosecution agreements.

2.1.3 The Sarbanes-Oxley Act (SOX)

Regulatory changes arising from SOX increased the consequences to firms for failing to maintain adequate internal control systems, such as those required under the FCPA's accounting provisions. SOX Section 404, which became effective in November 2004 (for most firms), requires SEC registrants and their external auditors to assess the effectiveness of firms' internal control systems, including the firm's FCPA compliance programs, and to publicly disclose the results in the auditor's report. Increased scrutiny under SOX made it more likely that internal control failures and questionable transactions would be detected. An increased awareness of potential improprieties, coupled with the requirement under SOX Section 302 that senior corporate officers certify the accuracy of the firm's financial statements, increased the incentives for managers to self-report potential FCPA violations. Because the SEC and DOJ consider the extent of a company's cooperation, self-reporting misconduct upon discovery can also lead to less severe sanctions (SEC and DOJ 2012).

Our own analysis is consistent with SOX leading to an increase in self-reported violations of the FCPA's accounting provisions. Table 1 Panel A presents a breakdown of FCPA cases by the provision violated for all cases and separately for US and non-US firms. Consistent with the importance of the accounting provisions, of the 311 FCPA cases where provision data are available, nearly 75% include violations of the FCPA's accounting provisions (compared to 63% for the anti-bribery provision). These proportions are similar for cases against US and non-US firms. Figure 1 Panel B shows that the use of the accounting provisions increased significantly after the 2004 effective date of SOX Section 404 for cases against both US and non-US firms (more so than the anti-bribery provision). Table 1 Panel B presents a breakdown of enforcement actions by method of violation detection. Consistent with SOX increasing firms' incentives to self-disclose, for both US and non-US firms, self-reporting is the most frequent source of revelation. Figure 1 Panel C shows that the proportion of self-reported violations has increased significantly since 2005.

2.1.4 Increased Regulatory Cooperation

Without cooperation from foreign regulators it is difficult for US authorities to enforce the FCPA extraterritorially—particularly the accounting provisions, which require access to firms' internal records. The willingness of many countries to cooperate with US enforcement efforts increased in the years after the 9/11 terror attacks and the OECD's ABC provided the foundation for such cooperation in anticorruption enforcement. In Figure 1 Panel D, we plot the number of enforcement actions with foreign cooperation over time for non-US firms. Enforcement actions with foreign cooperation were nonexistent before 2005, but increase significantly after 2005, around the same time as the increase in overall enforcement shown in Figure 1 Panel A.

Table 1 Panel C reports the location of the cooperating foreign agency in relation to the defendant firm. Foreign cooperation is present in over 25% of all FCPA enforcement actions (95 out of 337) and in more than 50% of the cases against non-US firms (53 out of 101). In cases involving non-US defendants, the cooperating agencies are mostly located in the defendant's headquarters country (66%) or a prominent international financial center (13.2%), and not where the company allegedly paid bribes (7.5%). Similarly, in cases against US defendants, the cooperating agency is most often located in the offending subsidiary's headquarter country (38%) or in a financial center (40.5%), and not in the countries where bribes were paid (9.5%). Although we cannot observe what information regulators share, the cooperating agency is usually from the country where a firm has an administrative presence, suggesting that agencies share corporate records. The defendant's bookkeeping and internal control records are likely important sources of evidence for any enforcement action based on the FCPA's accounting provisions.

Taken together, the evidence in this section suggests legal and regulatory changes in the mid-2000s led to a significant increase in extraterritorial FCPA enforcement. Based on this evidence, we use the year 2005 to mark the onset of the enforcement increase in our empirical analyses.

2.2 Country-Level Characteristics of the Targets of Extraterritorial FCPA Enforcement

Our evidence on the increased importance of regulatory cooperation suggests that the ABC

contributes to the rise in extraterritorial FCPA enforcement actions. Table 2 lists ABC signatory countries and their respective signing dates. The signatories include all OECD-member states as well as eight additional non-OECD countries (44 countries in total)—we refer to these countries collectively as "OECD countries." In Figure 1 Panel E, we separately plot the number of enforcement actions per year against non-US firms headquartered in OECD and non-OECD countries. Cases are almost exclusively limited to firms headquartered in OECD countries, with 99 cases against firms in OECD countries and only 2 cases against firms in non-OECD countries. Column (4) of Table 2 provides a breakdown of the number of enforcement actions by OECD country. Germany, the UK, and Switzerland have the largest number of cases (15, 13, and 11, respectively) and over half of all (non-US) OECD countries (22 out of 43) have at least one enforcement action against a firm headquartered in their territory.

Table 3 reports the number of enforcement actions by bribe country along with the *Transparency International* CPI value for each country with more than three bribes paid (a single enforcement action can include bribes paid in multiple countries, which is why the number of incidents per country exceeds the total number of cases). The CPI is a composite score of how corrupt a country's public sector is perceived to be, ranging from 0 (most corrupt) to 100 (least corrupt). The median bribe-country CPI is 28. Consistent with the finding in Martin et al. (2012) for all FCPA cases, nearly every FCPA case pertains to bribes paid in countries that *Transparency International* classifies as "highly corrupt" (i.e., a CPI value of 50 or less). The most bribes occur in China, Iraq, and Nigeria (67, 41, and 39, respectively); 41 other countries have four or more bribery incidents.

Taken together, the evidence in this section suggests US enforcement is essentially limited to firms headquartered in OECD countries and mainly relates to bribes paid in countries *Transparency International* classifies as "highly corrupt." Based on this evidence, we consider OECD outflow country investments in high-corruption-risk inflow countries as the treatment group in our empirical analyses.

2.3 Firm-Level Characteristics of the Targets of Extraterritorial FCPA Enforcement

Among firms headquartered in OECD countries, there is likely heterogeneity in the strength of the FCPA's deterrent effect. For US regulators to prosecute a firm for an FCPA violation, the firm must

be under US jurisdiction. The FCPA's jurisdictional scope is expansive and cases can be brought by either the SEC and/or the DOJ against issuers (75% of all enforcement actions), domestic concerns (5%), and firms acting in US territory (20%). To prosecute a foreign issuer under the FCPA's accounting provisions, the SEC must typically demonstrate that a firm has internal control weaknesses that prevent the detection of bribes. Internal control weaknesses are partly determined by inherent company characteristics, such as the complexity of a firm's business model (Doyle et al. 2007). Thus, firms under US jurisdiction and/or with high internal control risk should respond more strongly to the threat of increased antibribery enforcement. Unfortunately, neither US jurisdiction nor internal control risk are perfectly observable. Instead, we rely on several empirical proxies and validate our measures by testing whether firms with these characteristics are more likely to be the target of an enforcement action.

We measure whether a non-US firm is under US jurisdiction (i.e., is an SEC-registrant and/or takes actions in US territory) using two indicator variables, *US Cross Listing* and *Foreign Firm US Segment*. Foreign firms cross-listed on a US stock exchange (and some firms traded in the over-the-counter market) are required to register with the SEC, and thus are directly under FCPA jurisdiction. Under international accounting standards, if a firm has a significant operational and managerial presence in another country, the firm must publicly disclose disaggregated financial information for operations in that country. For firms that disclose a US segment, it is more likely that, if the firm commits an FCPA violation, that action will fall under US jurisdiction. We create indicator variables equal to one if a firm has an SEC-registered ADR (*US Cross Listing*) or a disclosed operating segment in the US (*Foreign Firm US Segment*). We obtain data on foreign firms' US cross-listing status from the websites of the major depository banks (Bank of New York and Citibank) and data on US reporting segments from *Worldscope*. We verify that a cross-listed firm is an SEC registrant through a manual search of 20-F and 40-F filings in the *SeekEdgar* database.

We estimate internal control risk using a two-stage approach. First, for a sample of SEC registrants (who are required to report internal control weaknesses), we estimate a linear probability model where the dependent variable is an indicator for reported internal control weaknesses and the

independent variables are fundamental firm characteristics that are likely associated with the complexity of a firm's operations. We then use this model to estimate the likelihood of internal-control weaknesses and use the predicted values from this estimation to capture a firm's inherent internal control risk, *Internal Control Risk* (see Appendix Section B for further details).

To validate our US jurisdiction and internal control risk proxies, we estimate each variable's association with FCPA enforcement actions using the following linear-probability model:

$$\begin{aligned} FCPA\ Enforcement\ Action_i = {} & \beta_1 US\ Firm_i + \beta_2 US\ Cross\ Listing_i \\ & + \beta_3 Foreign\ Firm\ US\ Segment_i + \beta_4 Internal\ Control\ Risk_i \\ & + Controls + Fixed\ Effects + \varepsilon_i \end{aligned} \tag{1}$$

FCPA Enforcement Action is an indicator equal to one if a firm is subject to an FCPA enforcement action between 2005 to 2017. *US Firm* is an indicator equal to one if a firm is headquartered in the US. We define *US Cross Listing*, *Foreign Firm US Segment*, and *Internal Control Risk* as described above. *US Cross Listing* and *Foreign Firm US Segment* equal one if a firm meets that condition at any point during our sample period. We control for the proportion of revenue earned outside a firm's headquarters country (*Foreign Exposure)*, firm size (*Ln(Total Assets USD)*), and profitability (*Return on Assets*).

Table 4 Panel A reports descriptive statistics. Our sample consists of the 6,488 firms that have at least one foreign segment between 2005 and 2017 and are headquartered in OECD countries. The requirement that a firm reports at least one foreign segment limits the sample to relatively large multinational corporations, the most likely targets of US FCPA enforcement actions. We further limit our analysis to the post-2004 period because there are few enforcement actions against non-US firms before then. After 2005, the unconditional probability of a FCPA enforcement action (for a large multinational firm) is 1.6%. 23% of firms are headquartered in the US and 37% are headquartered outside of the US but have an operating segment in the US. 3% are SEC registrants via an ADR. Median *Internal Control Risk* is -0.383. The median firm generates 48% of its sales abroad, has total assets of $555 million, and has a return on assets of 4%. The high proportion of foreign sales and large total asset values reflect the sample of multinational firms.

Table 4 Panel B reports results from estimating Eq. (1). In Column (1), the coefficient estimates for *US Firm*, *US Cross Listing*, and *Foreign Firm US Segment* are positive and statistically significant. The largest effect (0.050) is for firms with a US cross-listing, suggesting that (all else equal) non-US firms that trade in the US and are SEC registrants have a higher likelihood of an FCPA-enforcement action than US firms, for which the estimated effect is 0.021 (although the difference is not statistically significant). The positive and significant *Internal Control Risk* coefficient indicates that firms likely to face high internal control risk are more frequently subject to FCPA-enforcement actions; perhaps because the SEC explicitly targets these firms (e.g., because prosecution under the accounting provisions requires less evidence), or perhaps because weak controls lead to more bribery. In Column (2), we exclude US firms and include country fixed effects and find similar results. This indicates that *US Jurisdiction* and *Internal Control Risk* are important predictors of FCPA enforcement actions independent from country-specific characteristics (e.g., a country's relationship with the US).

Taken together, the evidence in Table 4 Panel B suggests that the threat of an FCPA action is greater for non-US firms that are listed on a US exchange, have a US segment, and/or have high internal control risk. Based on this evidence, we consider firms with these characteristics as the treatment group in our empirical analyses.

3. FCPA Enforcement and Investment Policies

Ex ante, the sign and economic significance of any effect of FCPA enforcement on non-US firms' investment policies is unclear. If the FCPA poses a credible and punitive enforcement threat to non-US firms, the cost of investing in a high-corruption-risk country could increase, causing investment flows to decline. An increase in enforcement could raise the costs of investing in a high-corruption-risk country in two ways. First, an increased likelihood of detection for violations of the FCPA's anti-bribery provisions directly increases the cost of paying a bribe (i.e., through anticipated civil and criminal penalties). If bribery is prohibitively costly, accessing investment opportunities in high-corruption-risk countries is likely to be difficult. Second, avoiding violations of the FCPA's accounting provisions imposes compliance costs on investing firms by requiring that they set up costly internal control and

recordkeeping systems capable of detecting corrupt payments.[4] Even for firms that do not pay bribes, FCPA compliance costs could discourage investment. Alternatively, if FCPA enforcement actions are too few or impose too little cost to serve as an effective deterrent, we expect to observe no change in investment activities.[5]

Increased FCPA enforcement could also lower investment costs. The FCPA's ostensible objective is to decrease corruption, not to reduce corporate investment in developing countries (SEC and DOJ 2012). If potential bribe recipients are aware of the risks faced by the bribe payer, and the antibribery regulation applies to most potential bribe payers (i.e., uniform regulation) greater FCPA enforcement could provide a mechanism for firms to credibly commit to not pay bribes. That is, by increasing firms' negotiating power with optimally-rent-seeking local bureaucrats, the FCPA could actually lower investment costs in high-corruption-risk countries (Shleifer and Vishny 1994; Rose-Ackerman 1996). In the long run, if the FCPA is enforced uniformly for most potential bribe payers and the overall supply of bribes is reduced, a new, less-corrupt equilibrium could arise.

The two hypothesized effects of increased FCPA enforcement need not be mutually exclusive. While the inability to pay bribes and increased compliance costs could deter investment in the short run, over a relatively long horizon, investment could increase as officials in high-corruption-risk countries adapt to the decline in bribery and companies absorb the FCPA's fixed compliance costs. Given these competing possibilities, how increased extraterritorial FCPA enforcement affects non-US firms' investment policies is an empirical question. Our regression analyses exploit firm-, time-, and country-

[4] A recent enforcement action against Walmart provides an illustrative example of the FCPA's potential costs. On June 20, 2019, Walmart pled guilty to bribing foreign officials in Brazil, Mexico, and India to obtain government permits between 2000 and 2011. On top of the $282 million that Walmart paid to the SEC as a fine, the company spent $613 million on investigation costs and $294 million on a global compliance program (New York Times 2019). In addition to the direct costs of $1.2 billion, Walmart also incurred large indirect reputational costs as a result of the scandal. The first trading day after the *New York Times* first reported the company's alleged bribery scheme, Walmart's market capitalization dropped by 4.7% (about $10 billion) (New York Times 2012).

[5] Karpoff et al. (2017) examine stock price reactions to announcements of FCPA enforcement actions and conclude that bribery appears to be a positive net-present-value ("NPV") project. Their analysis differs from ours because it focuses on firms that have already decided to invest and does not capture the potential deterrent effect on new investment. If some projects become NPV negative as a consequence of higher marginal costs of bribing, overall investment could decrease even if continued investment projects are NPV positive net of penalties.

level variation in the characteristics of prior FCPA enforcement actions (see Section 2) to provide evidence on this issue. We assess changes in firms' investment policies using country-level FDI flows and firm-level capital expenditures.

3.1 Effects of FCPA Enforcement on Aggregate Investment Flows

Our first investment proxy is country-level, bilateral FDI flows. An analysis of FDI flows has the advantages of including investments by both private and public firms and data being available for most countries. These attributes allow us to assess aggregate, country-level changes in investment, and thus to speak to the FCPA's competitive effects between countries. The drawback is that we cannot exploit within-country variation in FDI, which increases the set of potential omitted variables and requires us to make stronger assumptions to interpret the evidence as causal.

We obtain FDI data from the *Bilateral FDI Statistics* database of the *United Nations Conference on Trade and Development (UNCTAD)*.[6] The raw data include bilateral FDI flows for 220 outflow and inflow countries from 2001 to 2012. We exclude outflow and inflow countries that are not members of the UN and those classified by the IMF as "offshore financial centers."[7] Because we log-transform FDI in the regression analyses, we exclude observations with negative FDI flows. We include all country-out/country-in pairs with at least one year of data, and among the set of countries with some non-missing data, assume that missing observations correspond to FDI flows of zero. Our final regression sample covers bilateral FDI flows for 135 outflow and 145 inflow countries between 2002 and 2012.

We compare changes in bilateral FDI flows for OECD versus non-OECD countries, before and after 2004 and in high- versus low-corruption-risk countries, using the following OLS regression:[8]

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[6] According to the *UNCTAD*, FDI consists of: 1) greenfield investments in which the company constructs new facilities from the ground up; 2) purchases of controlling equity stakes; 3) shares of earnings belonging to foreign investors that are not distributed as dividends by affiliates (i.e., reinvested earnings); and 4) intracompany loans between foreign investors and affiliate enterprises.

[7] For a list of UN member states see: https://www.un.org/en/member-states/. For a list of offshore financial centers see: https://www.imf.org/external/np/mae/oshore/2000/eng/back.htm.

[8] By comparing FDI flows around 2005, we implicitly assume that all OECD firms are treated by the increase in FCPA enforcement at the same time. An alternative approach would be to use home-country- (or host-country-) specific enforcement dates based on the date of the first FCPA enforcement action against a firm headquartered (or paying bribes) in a particular country. The assumption in this alternative approach is that firms use their home or host country as a reference point for

$$
\begin{aligned}
Ln(1+FDI\times 100)_{out,in,t} = {} & \beta_1 OECD_{out}\times Post2004_t \times High\text{-}Corruption\text{-}Risk\ Country_{in} \\
& +\beta_2 Post2004_t \times High\text{-}Corruption\text{-}Risk\ Country_{in} \\
& +Controls_{in,t} + Fixed\ \ Effects + \varepsilon_{out,in,t}
\end{aligned}
\tag{2}
$$

$Ln(1+FDI\times 100)$ is the natural logarithm of one plus *FDI* times 100. *FDI* is aggregate, bilateral foreign direct investment flow in US dollars from country *out* to country *in* in year *t*, divided by the US dollar GDP of the outflow country. *OECD* is an indicator that equals one for OECD countries. For ease of interpretation, and because there is little time-series variation in ABC signing dates, we exclude countries that signed the ABC after 1997 (see Table 2). *Post2004* is an indicator equal to one for firm-years after 2004. *High-Corruption-Risk Country* is defined as a country with a CPI value below 50. Our primary variable of interest, *OECD*×*Post2004*×*High-Corruption-Risk Country*, captures the change in FDI flows from OECD countries to high-corruption-risk inflow countries after 2004 relative to FDI flows to low-corruption-risk countries, FDI flows from non-OECD countries, and pre-2004 FDI flows.

Also of interest is the *Post2004*×*High-Corruption-Risk Country* coefficient estimate, which captures the change in FDI flows from non-OECD countries to high-corruption-risk countries after 2004 (e.g., in substitution for a decline in FDI flows from OECD countries). If there are profitable investment opportunities after the US enforcement shock, and non-OECD countries are not capital constrained, these countries might increase their investment in high-corruption-risk countries. Alternatively, non-OECD countries might not have the capacity to offset a decline in investment from OECD countries (e.g., because the majority of FDI flows originate from OECD countries), at least over a short horizon.

Using data from the World Bank's *World Development and Governance* database (available beginning in 2002), we include controls for several time-varying, inflow-country characteristics that could affect FDI, including: *GDP Growth*, because business opportunities tend to be procyclical and companies could be more (less) likely to invest abroad during economic booms (busts); *Export*

FCPA enforcement risk. Because our sample consists of relatively large multinational corporations, it is not obvious that these firms take a local, rather than a global, perspective on enforcement risk. In additional (untabulated) analyses, we find no evidence of significant changes in FDI flows when we use home-country-specific treatment dates (based on the first FCPA enforcement action against a firm headquartered in that country). We do, however, find a significant reduction in FDI flows to investment-host countries after the first FCPA enforcement action that involves a bribe paid in the host country.

Orientation because host countries' export focus stimulates FDI (Habib and Zurawicki 2002; Singh and Jun 1995) and to control for any correlated changes in trade agreements that could affect FDI (Thangavelu and Findlay 2011); *Political Stability* because political stability reduces investment uncertainty (Egger and Winner 2005); *Regulatory Quality*, *Rule of Law*, and *Government Effectiveness* because higher institutional quality lowers operating costs for foreign firms (Daude and Stein 2007; Buchanan et al. 2012).

We include country-pair fixed effects (*Country Out×Country In*) to control for differences in FDI flows arising from time-invariant (or slow-moving) factors such as geographic distance, economic integration, and colonial ties between countries (i.e., we examine differences from the average FDI flows within a given country-pair). We add *Country Out×Year* fixed effects to control for macroeconomic, regulatory, and institutional changes in the outflow country (i.e., within a given outflow-country year, we compare differences in FDI flows to high- versus low-corruption-risk countries). Because we are interested in assessing the extent of investment substitution from non-OECD countries (as indicated by the *Post2004×High-Corruption-Risk Country* coefficient estimate), we do not include *Country In×Year* fixed effects in our baseline specification. However, we do include these fixed effects in the analysis in Table 5 Panel B (i.e., within a given inflow-country×year, we compare differences in FDI flows from OECD versus non-OECD countries). We cluster standard errors at the outflow- and inflow-country levels because FDI flows could be correlated over time within both outflow and inflow countries.

Table 5 Panel A presents descriptive statistics at the country-pair-year level. FDI outflows are right-skewed, with a mean of 0.042% and a 75th percentile of 0.008% of outflow-country GDP. Approximately 61% of the FDI observations originate from OECD countries and 72% of observations occur after the US enforcement shock in 2005 (*Post2004*). FDI flows to high-corruption-risk countries constitute 70% of all country-pair observations, reflecting the fact that *Transparency International* classifies the majority of countries as having high corruption risk. The median inflow country has an annual *GDP Growth* of 2.8% and an *Export Orientation* of 35% (exports/GDP); institutional indicators are approximately equal to the world average (i.e., close to 0 on a scale from -2.5 to 2.5).

Table 5 Panel B presents regression results for Eq. (2). Column (1) reports results for the average effect across all countries (i.e., including all non-OECD countries in the control group and including the US as an OECD outflow country). The *OECD×Post2004×High-Corruption-Risk Country* coefficient estimate is negative and statistically significant, indicating a decrease in bilateral FDI flows (as a percentage of outflow-country GDP) from OECD countries to high-corruption-risk countries of 2.8%. The estimated change in bilateral FDI flows from non-OECD countries, as indicated by the *Post2004×High-Corruption-Risk Country* coefficient estimate, is only -0.1% and is statistically insignificant. Based on a 95% confidence interval, we can infer that, on average, non-OECD countries' FDI flows to high-corruption-risk countries do not increase by more than 0.8%. Because FDI from OECD countries to high-corruption-risk countries far exceeds that of non-OECD countries, even a statistically unlikely 0.8% increase in FDI from non-OECD countries would not offset the observed reduction in OECD-country FDI. The *Political Stability* coefficient estimate is statistically significant and has the expected sign. The remaining control variables are statistically indistinguishable from zero.[9]

A key assumption underlying our identification strategy is that the trends in FDI flows from OECD countries to high- and low-corruption-risk countries would have been similar absent the increase in FCPA enforcement (i.e., the parallel-trends assumption). In Figure 2 Panel A, we plot the treatment effect over time by replacing the single *OECD×Post2004×High-Corruption-Risk Country* variable with separate interactions for each sample year (except for 2004, which serves as the benchmark). In support of the parallel-trends assumption, OECD countries have similar patterns in FDI flows to high- and low-corruption-risk countries before 2005. Figure 2 Panel A also indicates that OECD countries curtail FDI flows to high-corruption-risk countries soon after 2005 and that the reduction in FDI flows persists through the end of our sample period in 2012.

[9] We assess the sensitivity of our estimates to several alternative (untabulated) specifications including: 1) excluding assumed-zero FDI flows; 2) including negative FDI flows; 3) including only OECD outflow countries with non-zero enforcement actions; 4) using continuous values of CPI; and 5) using an alternative corruption index from the World Bank. In all cases, the *OECD×Post2004×High-Corruption-Risk Country* coefficient estimate is of a similar economic magnitude and is statistically significant at the 5% level or higher.

In Column (2), we exclude the US as an OECD outflow country. Consistent with increased extraterritorial FCPA enforcement having a significant impact on non-US firms' investment after 2004, FDI flows from non-US OECD countries to high-corruption-risk countries decline by 2.9%. In Column (3), we examine the change in FDI for the US only by excluding all non-US OECD outflow countries from the treatment group (but continue to include all non-OECD countries in the control group). Inconsistent with the FCPA disproportionately harming the competitiveness of US firms relative to firms from other developed countries, the *OECD×Post2004×High-Corruption-Risk Country* coefficient estimate is negative, statistically insignificant, and smaller in magnitude than the estimate for non-US OECD countries in Column (2). US firms do not appear to reduce investments in high-corruption-risk countries more than non-US firms headquartered in other OECD countries.

Column (4) presents results including only OECD countries that, according to *Transparency International*, have never actively enforced their own corruption regulations (see Table 2). In weak-enforcement countries, any change in investment around the increase in FCPA enforcement is more likely to be attributable to the extraterritorial enforcement efforts of the US. The results in Column (4) indicate that inactive enforcement countries reduce FDI in high-corruption-risk countries by 3.0%, an almost identical coefficient magnitude as for the full sample.

The evidence in Section 2 suggests that FCPA enforcement increased around 2005. However, because the exact timing of the enforcement increase is unclear, in Column (5), we estimate an alternative specification that excludes the years 2005 and 2006, and thus allows for some uncertainty in the exact timing of the enforcement shift. The *OECD×Post2004×High-Corruption-Risk Country* coefficient estimate (-0.025) is slightly smaller than the full-sample-period estimate in Column (1) (-0.028), which along with the evidence in Figure 2 Panel A, suggests the decline in investment began around 2005.

Columns (6) and (7) additionally include *Country In×Year* fixed effects as an alternative way to control for time-varying factors that could differentially affect investment in high- versus low-corruption-risk countries. In Column (6), the *OECD×Post2004×High-Corruption-Risk Country* coefficient estimate is similar in magnitude to Column (2) and statistically significant. In Column (7),

the estimated effect for the US remains small and statistically insignificant.

As another approach to mitigate concerns about omitted, inflow-country characteristics, in Column (8), we perform a falsification test using foreign portfolio investment (FPI) from the *IMF Coordinated Portfolio Investment Survey* (scaled by country-out GDP) as the dependent variable. FPI is primarily driven by passive investors who acquire non-controlling equity stakes in the secondary market, and thus their investments, while still sensitive to growth opportunities, are unlikely subject to the FCPA. The *OECD×Post2004×High-Corruption-Risk Country* coefficient estimate is positive (0.033), statistically insignificant, and if anything indicates that FPI from OECD to high-corruption-risk countries increases after 2004 relative to FPI in low-corruption-risk countries. Omitted, time-varying, inflow-country characteristics do not appear to explain the results.

If the FCPA increases the cost of investing in high-corruption-risk countries only for OECD countries, non-OECD countries should have a competitive advantage. Yet, to this point, our analyses provide no indication that non-OECD countries increase investment in high-corruption-risk countries in response to the decline in OECD-country FDI. One potential explanation is that the analyses in Panel B implicitly assume that any investment substitution (as indicated by the *Post2004×High-Corruption-Risk Country* coefficient) is similar among the entire control group. In Table 5 Panel C, we alter the dependent variable by scaling aggregate FDI flows by GDP (in USD) of the *inflow* rather than the *outflow* country. Using a common denominator makes it easier to compare FDI flows from different outflow countries. The results in Table 5 Panel C Columns (1) and (2) show that scaling by inflow-country GDP does not affect the conclusion that, on average, there is no investment substitution from non-OECD countries.[10]

Another potential explanation for the lack of investment substitution is that, because more than two-thirds of all pre-2005 FDI stock in high-corruption-risk countries was held by OECD countries, it may be difficult, at least in the short term, for non-OECD countries to fill the void. However, non-OECD countries that have existing operations in high-corruption-risk countries can likely ramp-up investment

[10] Alternatively, it could be the case that some firms in non-OECD countries that are under US jurisdiction (e.g., through a US cross-listing) are also deterred from engaging in corrupt activities by the increase in FCPA enforcement (despite the absence of prior enforcement actions against firms from these countries).

faster. We use the stock of non-OECD country FDI in 2004 to proxy for the extent of investment competition OECD countries are likely to face from non-OECD countries in a given inflow country. In countries where the pre-2005 existing investments by non-OECD countries are relatively large, the FCPA is more likely to function as a discriminatory regulation because there are potentially many investors not affected by the increase in FCPA enforcement. Where there is more competition from non-OECD countries, we expect to observe a larger decline in OECD-country FDI and more investment substitution from non-OECD countries. In contrast, in countries where there is no (or relatively little) pre-2005 FDI stock from non-OECD firms, the FCPA is likely to operate as a uniform regulation where all potential investors face an increase in enforcement risk. Here, we expect to observe smaller declines in FDI from OECD countries and little investment substitution.

In Columns (3) and (4), we limit the sample to non-OECD countries that have an FDI stock greater than zero in 2004, before the increase in FCPA enforcement. Consistent with our predictions, we find a larger decrease in OECD-country FDI flows in countries where non-OECD firms are already invested. The *Post2004×High-Corruption-Risk Country* coefficient estimate, which captures the change in investment from non-OECD countries, increases to 0.013 and becomes statistically significant (at the 10% level), providing some indication of investment substitution. The magnitude of the investment increase from non-OECD countries with nonzero pre-2005 FDI stock is approximately one-third as large (in absolute terms) as the decrease from OECD countries (-0.039).

In Columns (5) and (6), we further limit the sample to non-OECD countries whose FDI stock in a given country represents at least 1% of all FDI stock in that country in 2004. The P*ost2004×High-Corruption-Risk Country* coefficient estimate increases to 0.020, approximately 43% as large as the decrease in investment from OECD countries (-0.046) and is statistically significant, suggesting that one explanation for the absence of substitution is that it is difficult for countries without existing FDI in a country to (quickly) exploit the reduction in investment from OECD countries. That said, the magnitude of the increase in FDI appears far too small to offset the reduction from OECD countries. The larger decrease in FDI from OECD countries in Table 5 Panel C, relative to the baseline specification in Panel

B, is expected given that the FCPA applies to a smaller proportion of the market (i.e., in markets with more non-OECD firms the FCPA is a more discriminatory regulation).

To summarize, our FDI analysis indicates that, following the mid-2000s increase in FCPA enforcement, OECD countries reduce FDI in high-corruption-risk countries. Inconsistent with the argument that stricter enforcement disproportionately harms the competitiveness of US firms relative to firms from other developed countries, these results suggest that the US has successfully extended the extraterritorial reach of the FCPA to non-US firms headquartered in OECD countries. This conclusion is supported by additional evidence indicating that a country's own foreign corruption enforcement matters little for the impact of the FCPA. Finally, we find evidence of investment substitution only from non-OECD countries that invest in high-corruption-risk countries prior to the increase in enforcement. The substitution from this subset of countries is insufficient to offset the reduction from OECD countries; suggesting that more uniform enforcement of the FCPA has less of an anticompetitive impact on US firms but also leads to a net decline in FDI in high-corruption-risk countries.

3.2 Effects of FCPA Enforcement on Firm-Level Capital Expenditures

Our second investment proxy is firm-level capital expenditures (CAPEX) from segment disclosures. A firm's segment disclosures report certain financial results from foreign countries where the firm has a material business interest—including information on expenditures made in acquiring or maintaining fixed assets, such as land, buildings, and equipment. This granular firm-segment-level data allows us to exploit within-country variation in the FCPA's impact on investment among non-US firms under and not under US jurisdiction and with high versus low internal control risk, and hence to draw a tighter link between changes in investment policies and the FCPA. If the mid-2000s increase in FCPA enforcement causes non-US firms (headquartered in OECD countries) to reduce direct investments in countries with high corruption risk, we expect firms explicitly under US jurisdiction to reduce CAPEX more than other firms in the same country after 2004. The drawback of the CAPEX analysis is that data are limited for firms from non-OECD countries and that there is no data for private firms. Thus, we

cannot speak to the FCPA's overall impact on competition between countries in this analysis.

Importantly, because we compare changes in CAPEX for US-jurisdiction to non-US-jurisdiction firms, if non-US jurisdiction firms gain a competitive advantage and increase investment in high-corruption-risk countries in response to increased FCPA enforcement, our estimates will overstate the investment reduction by US-jurisdiction firms. Thus, the purpose of the CAPEX analysis is to establish the role of US FCPA enforcement as a determinant of investment-policy changes rather than to estimate the FCPA's aggregate effect on direct investment flows to high-corruption-risk countries or competition.

We collect firm-segment-level CAPEX data from *Worldscope*, which compiles information from firms' geographic segment disclosures. We require that each parent firm have at least two observations in the pre- and post-2004 periods. Segment disclosures are widely available only for firms headquartered in OECD countries that signed the ABC in 1997 (see Table 2), limiting our sample to parent firms from these countries. We exclude US firms in this analysis because there is no variation in US jurisdiction.

We compare changes in firm-segment-level CAPEX between non-US firms under and not under US jurisdiction around the increase in FCPA enforcement by separately estimating the following OLS regression for segments in high- and low-corruption-risk countries:

$$Ln(1 + Segment\ CAPEX \times 100)_{i,c,t} = \beta_1 Post\ 2004_t \times US\ Jurisdiction_i + Fixed\ Effects + \varepsilon_{i,c,t} \quad (3)$$

Ln(1+Segment CAPEX×100) is the natural logarithm of one plus capital expenditures by firm *i* in segment country *c* during year *t*, divided by total parent-firm consolidated assets in *t-1*, times 100. *Post2004* is an indicator equal to one for firm-years after 2004. *US Jurisdiction* is an indicator equal to one if a firm has an SEC-registered US cross-listing or US segment prior to 2005. To mitigate the concern that firms endogenously avoid US jurisdiction after the increase in FCPA enforcement (e.g., by delisting from the US or choosing not to open a US segment), we measure *US Jurisdiction* before 2005.

We include fixed effects for: *Parent Country×Segment Country* to control for level differences in investment flows arising from time-invariant country-level connections, such as cultural similarities or colonial ties, between each parent and segment-country pair; *Segment Country×Year* to control for time-varying macroeconomic, regulatory, and institutional changes in the segment country; and *US*

Jurisdiction×Segment Country to control for time-invariant, level differences in investment flows between firms under and not under US jurisdiction by segment country. Because we measure *US Jurisdiction* at the firm level and include *Segment Country×Year* fixed effects, we examine variation in *Segment CAPEX* within a given inflow country and year, which helps to address the concern that a shock other than increased FCPA enforcement (that occurs around 2005 and differentially affects investment in high- versus low-corruption-risk countries) could confound our inferences. We cluster standard errors at the segment-country level only, because we have relatively few parent countries in the sample.

Table 6 Panel A reports descriptive statistics. For the median firm, *Segment CAPEX* is 0.3% of total (parent-level) assets. About 71% of the observations come from the *Post2004* period. High-corruption-risk segments makeup 21% of all segments, 50% of the segment-year observations come from firms under *US Jurisdiction* (with *High Internal Control Risk*).

Table 6 Panel B presents results from estimating Eq. (3). In Column (1), the coefficient estimate for *Post2004×US Jurisdiction* is negative and statistically significant, indicating that after 2004 firms under US jurisdiction reduce *Segment CAPEX* in high-corruption-risk countries by 18.1% (compared to firms not under US jurisdiction; 18.1% = $\exp^{(-0.200)}$-1). This estimate is not directly comparable to the 2.8% reduction in FDI estimated in Section 3.1 because FDI includes many other types of investment besides CAPEX (e.g., majority equity investments).

In Column (2), for the subsample of segments in low-corruption-risk countries, *Post2004×US Jurisdiction* is statistically insignificant and close to zero. In Column (3), we assess the statistical significance of the difference in the *Post2004×US Jurisdiction* coefficient estimates between Columns (1) and (2) by estimating a triple-differences model that includes a *High-Corruption-Risk Segment* indicator (equal to one if a segment is located in a high-corruption-risk country) and *US Jurisdiction×Year* fixed effects. The *Post2004×US Jurisdiction×High-Corruption-Risk Segment* coefficient estimate is approximately equal to the difference in the estimated treatment effect between Columns (1) and (2) (i.e., a decrease in *Segment CAPEX* of 15.7%) and statistically significant.

In Table 6 Panel B Column (4), we include *Parent Country×Year* fixed effects as an additional

control for time-varying factors that could affect the level of CAPEX from a given parent country (e.g., the macroeconomic cycle). The *Post2004×US Jurisdiction×High-Corruption-Risk Segment* coefficient estimate increases (slightly) to -0.174, and remains statistically significant (at the 10% level). To allow for some uncertainty in the exact timing of the shift in enforcement, in Column (5), we estimate an alternative specification that excludes the years 2005 and 2006. The estimated treatment effect is slightly larger than in Column (3) (-0.198 versus -0.171) and statistically significant (at the 10% level).[11]

To assess the reasonableness of the parallel-trends assumption, Figure 2 Panel B maps out the treatment effect over time by replacing *Post2004×US Jurisdiction×High-Corruption-Risk Segment* with separate interactions for each of the years in our sample, except for 2004 (which serves as the benchmark). In the pre-period, the coefficient estimates are close to zero and statistically insignificant. In the post-period, the treatment effect is negative, statistically significant in 2005, and consistent with Table 6 Panel B Column (5), becomes more negative after 2007.[12]

To summarize, the results of the firm-segment-level CAPEX analyses provide further evidence that increased extraterritorial FCPA enforcement leads to a decline in investment in high-corruption-risk countries and, by exploiting within-country variation in the strength of the FCPA's potential deterrent effect on firms under and not under US jurisdiction, helps to mitigate the concern that contemporaneous regulatory shocks (e.g., IFRS adoption) that differentially affect investment outflows from OECD countries (relative to non-OECD countries) or investment inflows to high-corruption-risk countries (relative to low-corruption-risk countries) could explain our findings.

4. Nature and Magnitude of FCPA Compliance Costs

In this section, we provide three sets of evidence on the nature and magnitude of the compliance

[11] We assess the sensitivity of our estimates to several alternative (untabulated) specifications including: 1) excluding large firms; 2) using a continuous measure of corruption; 3) using an alternative measure of corruption; and 4) using non-log-transformed CAPEX. In all cases, the *Post2004×US Jurisdiction×High-Corruption-Risk Segment* coefficient estimate is of a similar economic magnitude and is statistically significant at the 10% level or higher.

[12] Prior research shows that proprietary and agency costs are important determinants of firms' segment-reporting decisions (Bens et al. 2011). If increased FCPA enforcement leads firms to systematically change their segment-reporting behavior in high- relative to low-corruption-risk countries (e.g., by aggregating segment reporting in high-corruption-risk countries to the regional level), this could lead us to overestimate the decline in CAPEX. However, we find no evidence that firms are more likely to aggregate single-country segments into regions following the increase in FCPA enforcement (untabulated).

costs imposed by the mid-2000s increase in extraterritorial FCPA enforcement. Increased compliance costs that make otherwise positive NPV projects unprofitable are one potential explanation for the observed reduction in foreign direct investment in high-corruption-risk countries after the rise in FCPA enforcement. Compliance costs could increase either because FCPA enforcement prevents firms from using bribes to circumvent inefficient local bureaucracies or because FCPA guidance emphasizes firms' own efforts to avoid making corrupt payments (i.e., the existence of strong internal controls) in the determination of fault and penalties. These compliance costs could manifest in firms' decisions to invest, the due diligence exercised in considering potential new investments, or in the design of internal control systems to oversee existing assets in high-corruption-risk countries.

4.1 Compliance Costs and the Decision to Invest

First, we examine variation in the decision to invest based on firms' internal control risk. Our analysis of prior enforcement actions indicates that firms with fundamental characteristics that make it more difficult to maintain effective internal controls are more likely to face an FCPA enforcement action. Because of this heightened internal control risk, we expect that these firms are likely to invest less in high-corruption-risk countries after the increase in FCPA enforcement.

In Columns (1) and (2) of Table 7, we continue with the same research design from the CAPEX analyses in Table 6 Panel B and separately estimate the triple-differences model from Column (3) (i.e. *Post2004×US Jurisdiction×High-Corruption-Risk Segment*) for firms with above and below median *Internal Control Risk*. We find that the treatment effect is limited to firms with above median internal control risk (the difference in the effect across partitions is statistically significant at the 10% level). These firms decrease CAPEX in high-corruption-risk countries by approximately 25% more than in low-corruption-risk countries after the mid-2000s increase in extraterritorial FCPA enforcement. In Figure 3 Panel A, we map out the treatment effect in event time and find no visible pre-treatment trend in *Segment CAPEX* between the high- and low-internal-control-risk subsamples.

4.2 Compliance Costs Conditional on Investing

Second, we examine whether firms pursuing new investments in high-corruption-risk countries

spend more time evaluating potential acquisition targets. We use the length of M&A due diligence as a proxy for the additional effort firms exert to avoid potential FCPA violations. The length of the M&A transactional due-diligence period (i.e., the number of days between the signing of an M&A agreement and the completion of the deal) is likely to be a direct function of the caution exercised and administrative effort necessary to ensure regulatory compliance. Because a transfer of ownership likely requires obtaining a variety of permits from local officials, any increase in compliance costs arising from an inability to pay bribes is likely to be particularly pronounced during M&A transactions. Moreover, cross-border M&A exposes acquirers to significant FCPA compliance risks (e.g., successor liability) and enforcement agencies encourage firms to conduct thorough due diligence before any deal to identify potential violations. If a violation comes to light after a deal closes, evidence of careful due diligence can allow firms to obtain favorable treatment and lower penalties in any subsequent enforcement proceedings. If compliance costs are an important reason for the observed reduction in direct investment, we expect that firms subject to the FCPA will place greater emphasis on their due diligence efforts for acquisition targets in high-corruption-risk countries following the increase in enforcement. Consequently, the length of the M&A due diligence period should increase.

We obtain M&A data from *SDC Platinum* and *Thomson ONE*. The primary drawbacks of the M&A data are that (i) they are widely available only for public acquirers headquartered in OECD countries that were members prior to signing the ABC (see Table 2) and (ii) there is no variation in US jurisdiction for US firms. We limit our sample to completed cross-border deals between public firms from 2001 to 2017. We focus on public *acquirers* because we can establish US jurisdiction, defined based on whether a company files with the SEC or operates a segment in the US, only for these firms. We limit our sample to public *targets* because prior research shows that in acquisitions of private targets, a significant proportion of the due diligence is performed prior to signing an acquisition agreement (Wangerin 2019). Given that we measure due diligence length based on the number of days between the signing of the acquisition agreement and the deal's closing date, our measure is likely less representative of companies' due diligence efforts for private targets. Because the typical due diligence review lasts

between two and three months (Wangerin 2019), we exclude deals with due diligence periods below 10 days. Transactions with such short completion times likely indicate the existence of a prior relationship between the acquirer and target firm (e.g., prior minority ownership).

We compare changes in the length of the due-diligence period for firms under and not under US jurisdiction by separately estimating the following OLS regression for targets in high- versus low-corruption-risk countries:

$$\begin{aligned} Ln(M\&A\ Due\ Diligence\ Length_{i,d,t}) = Post\ 2004_t \times US\ Jurisdiction_i \\ + Controls + Fixed\ Effects + \varepsilon_{i,d,t} \end{aligned} \tag{4}$$

Ln(M&A Due Diligence Length) is the natural logarithm of the number of days between signing the acquisition agreement and the closing of the transaction between acquirer *i* and target *d* in year *t*. We use a deal's announcement date as a proxy for the signing date because the latter is sparsely populated and, when reported, both dates are nearly identical (the average difference is 0.76 days). We take the natural logarithm to account for the variable's skewness. *US Jurisdiction* is defined as in the CAPEX analysis. We include controls for deal size (*Ln(Deal Size)*) and type (i.e., *Divestiture* and *Bankruptcy/Restructuring*). The fixed effects are the same as in Eq. (3). We cluster standard errors at the target-country level only because there are relatively few acquirer countries in the sample.

Table 8 Panel A reports descriptive statistics. The average length of the due diligence period is 124 days. Approximately 75% of the sample deals occur after 2004, 23% of targets are from high-corruption-risk countries, and 13% of acquirers are under US jurisdiction. The average deal size is about $1 billion, 38% of deals are divestitures, and 4% involve a bankruptcy or restructuring.

Table 8 Panel B presents results from estimating Eq. (4). In Column (1), the *Post2004×US Jurisdiction* coefficient estimate is positive, statistically significant, and implies that, when acquiring a target in a high-corruption-risk country, acquirers under US jurisdiction *increase* the length of their due diligence (relative to acquirers not under US jurisdiction) by approximately 20% (about 25 days). In contrast, in Column (2), we find that for targets in low-corruption-risk countries, acquirers under US jurisdiction *reduce* the length of their due diligence relative to non-US jurisdiction acquirers. In Column

(3), we estimate a triple-differences model that includes a *High-Corruption-Risk Target* indicator (equal to one if a target is located in a high-corruption-risk country) and *US Jurisdiction×Year* fixed effects. The *Post2004×US Jurisdiction×High-Corruption-Risk Target* coefficient estimate indicates that acquirers under US jurisdiction increase due diligence length for targets in high- relative to low-corruption-risk countries by approximately 34%. In Figure 3 Panel B, we map out the treatment effect in event time and find no visible pre-treatment trend in *M&A Due Diligence Length* between the high- and low-corruption-risk subsamples. We use two-year periods because acquisition activity varies substantially across years and some years have few acquisitions in high-corruption-risk countries.

4.3 Compliance Costs and Existing Investments

Third, we examine whether firms with existing operations in high-corruption-risk countries strengthen their internal control systems after the increase in FCPA enforcement. Our descriptive analysis in Section 2.1.3 indicates that the mid-2000s FCPA enforcement increase was, to a large extent, fueled by more frequent prosecutions under the Act's accounting provisions. If firms respond to the increase in enforcement risk by investing in better compliance systems, we expect to observe a decline in the incidence of internal control failures.

Our first proxy for the strength of internal controls is the frequency with which companies restate their financial statements as a result of clerical and bookkeeping errors. The FCPA's accounting provisions require (among other things) that firms "make and keep books, records, and accounts, which, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the issuer" (FCPA 1977). Although better internal controls can reduce restatements of all types, carefully orchestrated fraud can occur even in the face of rigorous accounting systems. However, the type of improvements to firms' accounting systems firms make to avoid violations of the FCPA's accounting provisions are likely to lead directly to fewer unintentional errors.

We obtain internal control data from *Audit Analytics*, which provides granular measures of the

frequency and nature of restatements and internal control failures for SEC-registered issuers. We exploit variation in the corruption risk firms face based on the location of their geographic segments, comparing changes in the frequency of bookkeeping and clerical restatements between 2001 and 2017 for US and non-US domiciled issuers with and without segments in high-corruption-risk countries around the mid-2000s increase in FCPA enforcement using the following OLS regression:

$$Clerical\ Error\ Restatement_{i,t} = \beta_1\ Post\ 2004_t \times High\text{-}Corruption\text{-}Risk\ Segment_i + Fixed\ Effects + \varepsilon_{c,t} \quad (5)$$

Clerical Error Restatement is an indicator equal to one if firm *i* restates its financials in year *t* because of a clerical or bookkeeping error (according to the *Audit Analytics* definition). *High-Corruption-Risk Segment* is an indicator equal to one if firm *i* had disclosed an operating segment in 2004 in a country with a CPI score of 50 or less. We include firm fixed effects to control for time-invariant (or slow-moving) differences in restatements across firms and add year fixed effects to account for time trends. We cluster standard errors at the firm level. Table 9 Panel A presents descriptive statistics at the firm-year level. Approximately 0.3% of firms restate their financial statements because of clerical errors in any given year. About 76% of the observations come from the *Post 2004* period and 4.9% of firm-years include at least one segment in a high-corruption-risk country.

Table 9 Panel B presents results from estimating Eq. (5). In Column (1), the coefficient estimate for *High-Corruption-Risk Segment*×*Post 2004* is negative and statistically significant, indicating that, after 2004, firms with exposure to highly corrupt countries are 0.6 percentage points less likely to restate based on a clerical error (compared to firms without high-corruption-risk segments). In Column (2), we limit our analysis to firms with at least one foreign segment and find similar results. As an alternative approach to control for differences in firm size, in Column (3), we add flexible *Ln(Total Assets)* × *Year* interactions and again find similar results. In Figure 3 Panel C, we map out the treatment effects over time and find no visible pre-period trend. In the post-period, the treatment effect is positive for all periods beginning in 2005.

Second, we examine changes in the likelihood that firms report SOX 404 internal control weaknesses after the mid-2000s increase in FCPA enforcement. SOX Section 404 requires SEC registrants and their external auditors to assess the effectiveness of firms' internal control systems, including the firm's FCPA compliance programs, and to publicly disclose the results in the auditor's report. Because internal control reporting did not become effective for most firms until November 2004, we cannot estimate a difference-in-differences design as in Eq. (5). Instead, in Figure 3 Panel D, we provide descriptive evidence on the impact of increased FCPA enforcement on firms' accounting systems by comparing the post-2004 incidence of reported internal control weaknesses between firms with and without geographic segments in high-corruption-risk countries. For both groups of firms, we normalize the probability of internal control weaknesses to zero in 2004 (the benchmark period). We find that firms with a segment in a high-corruption-risk country have a 7.5 percentage point lower likelihood of receiving a weak internal control attestation (compared to firms without operations in high-corruption-risk countries) throughout the post period.

4.4 Conclusions from Analyses of the FCPA's Compliance Costs

To summarize, consistent with the FCPA imposing significant compliance costs, our analysis suggests that firms with fundamental characteristics that make it more difficult to maintain effective internal controls invest less in high-corruption-risk countries. Consistent with investments in accounting systems being one margin firms move on to limit the risk of enforcement actions when investing in high-corruption-risk countries, firms pursuing new investments spend more time evaluating potential acquisition targets and firms with existing investments report fewer internal control weaknesses and restatements related to clerical and bookkeeping errors.

5. Conclusion

Following several prominent regulatory changes and an increased willingness of many countries to cooperate, FCPA enforcement actions, particularly against non-US firms, have significantly increased. Using institutional insights gained from enforcement actions against corporations from 1977 to 2017,

we show that a mid-2000s increase in US extraterritorial FCPA enforcement, characterized by international cooperation and prosecutions based on the FCPA's accounting provisions, has had a significant deterrent effect on foreign direct investment in high-corruption-risk countries. The decrease in FDI flows is at least as large for non-US countries that have enacted the OECD's Anti-bribery Convention as it is for the US, suggesting that the increase in FCPA enforcement has not created (or amplified) any competitive disadvantage for US firms, and could have helped to level the foreign direct investment playing field relative to firms from other developed countries. Regulatory compliance costs related to the FCPA's requirement to devise and maintain a system of accounting controls capable of detecting improper payments seems to be an important part of what gives the regulation bite.

We find evidence of investment substitution only for a subset of non-ABC countries with existing (i.e., pre-enforcement-increase) investments in high-corruption-risk countries. Given these countries' relatively limited share of aggregate global FDI, this suggests that more uniform FCPA enforcement leads to a net decline in FDI in high-corruption-risk countries. Our paper does not speak to whether local firms increase investment to substitute for the observed decline in foreign investment or the ultimate impact of increased FCPA enforcement on economic development in high-corruption-risk countries. On the one hand, a reduction in FDI likely has a direct, negative effect on economic growth. On the other hand, prior research shows that corruption can have adverse consequences for the efficiency of resource allocation and reinforce extractive political regimes, both of which have a negative impact on economic development (Shleifer and Vishny 1993; Acemoglu and Robinson 2012; Ortiz-Ospina and Roser 2016). Thus, if FDI unchecked by strictly enforced antibribery regulation fosters corrupt activities, it is possible that, by reducing FDI and the incentive to solicit bribes, foreign corruption regulation could have a positive effect on economic growth in high-corruption-risk countries. Or, if foreign corruption regulation mainly discourages investments that provide few benefits, a decline in FDI might not have an adverse impact on the host country. We leave this question to future research.

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Appendix A - Variable Definitions

Variables used in FCPA Enforcement Analysis

FCPA Enforcement Indicator	Binary indicator equal to one if a firm faced at least one FCPA enforcement action between 2005 and 2017.
US Firm	Binary indicator equal to one if the firm is headquartered in the US.
Foreign Firm US Segment	Binary indicator equal to one if the non-US firm has an operating segment in the United States.
US Cross Listing	Binary indicator equal to one if the non-US firm is cross-listed in the US and files financial reports with the SEC.
Internal Control Risk	The predicted likelihood of the firm having an internal control weakness.
Foreign Exposure	The firm's average ratio of international sales over total sales between 2005 and 2017.
Total Assets (bn. USD)	The firm's average total assets between 2005 and 2017 in billions of US dollars.
Return on Assets(%)	The firm's average return on assets between 2005 and 2017.

Variables used in FDI Analysis

FDI/GDP Out	Aggregate, bilateral foreign direct investment flow in US dollars divided by the US dollar GDP of the outflow country.
FDI/GDP In	Aggregate, bilateral foreign direct investment flow in US dollars divided by the US dollar GDP of the inflow country.
OECD	Binary indicator equal to one after an outflow country signs the OECD Anti-Bribery Convention.
Post 2004	Binary indicator equal to one beginning in 2004.
High-Corruption-Risk Country	Binary indicator equal to one if the inflow country has a CPI of 50 or less in 2004 (or the next year with available data).
Never Active Enforcement	Binary indicator equal to one for outflow countries that Transparency International never classifies as active enforcers of the Anti-Bribery Convention.
Foreign Portfolio Investment	Aggregate, bilateral foreign portfolio investment in US dollars divided by the US dollar GDP of the outflow country.
GDP Growth	The inflow country's lagged annual percentage growth rate of real GDP per capita.
Export Orientation	Total exports from the inflow country to the outflow country divided by the inflow country's GDP.
Political Stability	The inflow country's perceived likelihood of political instability and/or politically motivated violence, including acts of terrorism.
Regulatory Quality	The inflow country's perceived ability to implement sound policies and regulations that promote private sector development.
Rule of Law	The inflow country's perceived strength of practices, institutions, or norms that support the equality of all citizens and institutions before the law and more generally prevent the arbitrary use of power.
Government Effectiveness	The inflow country's perceived quality of public services, including the quality and independence of its civil service, the effectiveness of policy formulation and implementation, as well as the credibility of the government's commitment to implement such policies.

Variables used in CAPEX Analysis

Segment CAPEX	The firm's yearly capital expenditures in a given segment country divided by lagged consolidated assets.
Post 2004	Binary indicator equal to one beginning in 2004.
High-Corruption-Risk Segment	Binary indicator equal to one if the segment country has a CPI of 50 or less in 2004 (or the next year with available data).
US Jurisdiction	Binary indicator equal to one if the firm is a US-cross listed SEC filer or operates a segment in the US in 2004 or before.
High Internal Control Risk	Binary indicator equal to one if the firm's likelihood of having an internal control weakness is higher than the in-sample median.

Variables used in M&A Analysis

M&A Due Diligence Length	Number of days between the signing of the acquisition agreement and the closing of the transaction.
Post 2004	Binary indicator equal to one beginning in 2004.
High-Corruption-Risk Target	Binary indicator equal to one if the target firm's headquarter country has a CPI of 50 or less in 2004 (or the next year with available data).
US Jurisdiction	Binary indicator equal to one if the firm is a US-cross listed SEC filer or operates a segment in the US.
Deal Size (bn. USD)	The size of the M&A transaction in billion US dollars.
Divestiture	Binary indicator equal to one if the deal is a divestiture transaction.
Bankruptcy/Restructuring	Binary indicator equal to one if the deal is a bankruptcy or restructuring transaction.

Variables used in Internal Control Weakness Analysis

Internal Control Weakness	Binary indicator equal to one if the firm is registered with the SEC and received a weak internal control attestation in the given year.

Variables used in Restatement Analysis

Clerical Error Restatement	Binary indicator equal to one if the firm restates its financials in the given year because of a clerical or bookkeeping error.
Post 2004	Binary indicator equal to one for years after 2004.
High-Corruption-Risk Segment	Binary indicator equal to one if the firm had disclosed an operating segment in 2004 in a country with a CPI of 50 or less in 2004 (or the next year with available data).

Variables used in Estimation of Internal-Control-Risk Measure

Weak Internal Controls (Reported)	Binary indicator equal to one if the firm is registered with the SEC and received at least one weak internal control attestation in an audit between 2005 and 2017.
Total Assets (bn. USD)	The firm's average total assets between 2005 and 2017 in billions of US dollars.
Return on Assets	The firm's average return on assets between 2005 and 2017.
Foreign Exposure	The firm's average ratio of international sales over total sales between 2005 and 2017.
Sales Growth	The average yearly percentage growth rate of the firm's net sales between 2005 and 2017.
Firm Age	The firm's average age in years between 2005 and 2017.
Big 8 Auditor	Binary indicator equal to one if the firm's auditor is a Big 8 accounting firm in least one year between 2005 and 2017.
Weak Internal Controls (Predicted)	The predicted likelihood of the firm having an internal control weakness.
FCPA Enforcement Indicator	Binary indicator equal to one if the firm faced at least one FCPA enforcement action between 2005 and 2017.

Appendix B: Estimation of Internal Control Risk Measure

In constructing the internal control risk measure used in Sections 2.3 and 4.1 of the Manuscript, our objective is to capture a firm's (unobservable) inherent internal control risk. One common proxy for internal control risk is a disclosed internal control weakness ("ICW"), as required for SEC registrants under SOX. Unfortunately, ICWs are available only for SEC registrants. To approximate the likelihood of an internal control weakness for a broad sample of non-SEC-registered firms, we use a two-stage estimation approach. First, we model the determinants of disclosed internal control weaknesses using a sample of SEC-registered firms. Then we use the estimated coefficients from the determinants model to predict the likelihood of internal control weaknesses for all firms.

We obtain data on ICWs from *Audit Analytics* and financial statement data from *Worldscope*. For the determinants model, our sample consists of the 1,493 SEC-registered firms that have at least one foreign segment between 2005 and 2017 and were required by SOX Section 404 to disclose material internal control weaknesses in their auditor's report during this period.

We estimate the firm-level determinants of internal control weaknesses using the following linear probability model:

$$\begin{aligned} \textit{Internal Control Weakness}_i = {} & \beta_1 \textit{Ln(Total Assets)}_i + \beta_2 \textit{Return on Assets}_i + \beta_3 \textit{Foreign Exposure}_i \\ & + \beta_4 \textit{Sales Growth}_i + \beta_5 \textit{Firm Age}_i + \beta_6 \textit{Big8 Auditor}_i + \textit{Fixed Effects} + \varepsilon_i \end{aligned} \tag{IA1}$$

Internal Control Weakness is an indicator equal to one if a firm discloses at least one internal control weakness after 2004. We choose explanatory variables based on prior research including firm size (*Ln(Total Assets)*), profitability (*Return on Assets*), foreign activities (*Foreign Exposure*), firm growth (*Sales Growth*), maturity (*Firm Age*), and oversight by a reputable audit firm (*Big8 Auditor*) (Doyle et al. 2007). We add industry fixed effects (defined at the two-digit-SIC level) to account for time-invariant differences in internal control weaknesses in different industries. We collapse observations to the firm level and compute the average value of each explanatory variable between 2005 and 2017.

Table B1 Panel A reports descriptive statistics. 34% of firms have at least one reported ICW. The median firm has total assets of (approximately) $1.4 billion (*Ln(Total Assets)*) and *Return on Assets* of 4.3%. Average *Foreign Exposure* equals 43.7%, reflecting the sample of relatively large (multinational) companies with at least one foreign segment. Median *Sales Growth* and *Firm Age* are 7.3% and 16 years, respectively. The majority of firms (83.7%) obtain their financial statement and internal control audits from a *Big8 Auditor*.

In Table B2 Column (1), we report estimates from Eq. (IA1). Consistent with prior research, we find that *Ln(Total Assets)* and *Return on Assets* are significantly negatively associated with internal control weaknesses (Doyle et al. 2007). *Foreign Exposure* is significantly positively related to ICWs, suggesting that the complexity of foreign business operations could be a significant driver of internal control weaknesses. Consistent with large audit firms providing higher-quality audits, we find that companies with reputable auditors are less likely to face internal control problems. The *Sales Growth* and *Firm Age* coefficient estimates are statistically indistinguishable from zero.

To compute the *Internal Control Risk* measure, we use the coefficient estimates from Eq. (IA1) to calculate fitted ICW values for all non-SEC-registered firms that have the necessary financial data available in Worldscope. The final row of Table B1 Panel A reports descriptive statistics for estimated *Internal Control Risk*. We classify firms as having *High Internal Control Risk* if their predicted value exceeds the segment-CAPEX sample median.

We validate our approach and test whether internal control risk is associated with the likelihood of receiving an FCPA enforcement action by estimating the following OLS regression:

$$\begin{aligned} FCPA\ Enforcement\ Action_i = {} & \beta_1 Internal\ Control\ Weakness_i + \beta_2 Ln(Total\ Assets)_i \\ & + \beta_3 Return\ on\ Assets_i + \beta_4 Foreign\ Exposure_i + \beta_5 Sales\ Growth_i \\ & + \beta_6 Firm\ Age_i + \beta_7 Big8\ Auditor_i + Fixed\ Effects + \varepsilon_i \end{aligned} \quad \text{(IA2)}$$

FCPA Enforcement Action$_i$ is an indicator equal to one if firm *i* is the target of an FCPA enforcement action at least once during our sample period. The other variables and fixed effects are identical to Eq. (IA1). Table B1 Panel B reports summary statistics. 4.7% of firms face an enforcement action. The descriptive statistics for the remaining variables are similar to those in Panel A.

In Column (2) of Table B2, the *Internal Control Weakness* coefficient estimate is positive and statistically significant at the 5% level, indicating that firms with disclosed internal control weaknesses are 2.6 percentage points more likely to face an FCPA violation. The results of this analysis indicate that our *Internal Control Risk* proxy is likely to capture meaningful variation in the firms' likelihood of facing an FCPA enforcement action.

Table B1: Descriptive Statistics for Prediction of Internal Control Weaknesses

Panel A	N	Mean	SD	P1	P25	P50	P75	P99
Weak Internal Controls (Reported)	1,493	0.340	0.474	0.000	0.000	0.000	1.000	1.000
Ln(Total Assets)	1,493	7.250	2.269	2.422	5.646	7.222	8.687	13.528
Return on Assets	1,493	0.004	0.165	-0.742	-0.002	0.043	0.078	0.214
Foreign Exposure	1,493	0.437	0.285	0.000	0.192	0.416	0.652	1.000
Sales Growth	1,493	0.211	1.073	-0.269	0.012	0.073	0.163	2.730
Firm Age	1,493	17.059	9.142	2.063	10.000	15.750	23.500	36.167
Big 8 Auditor	1,493	0.837	0.369	0.000	1.000	1.000	1.000	1.000
Weak Internal Controls (Predicted)	1,493	-0.406	0.155	-0.750	-0.509	-0.429	-0.322	0.001

Panel B	N	Mean	SD	P1	P25	P50	P75	P99
FCPA Enforcement Indicator	1,460	0.047	0.212	0.000	0.000	0.000	0.000	1.000
Weak Internal Controls (Reported)	1,460	0.345	0.475	0.000	0.000	0.000	1.000	1.000
Ln(Total Assets)	1,460	7.236	2.274	2.422	5.625	7.205	8.677	13.528
Foreign Exposure	1,460	0.433	0.283	0.000	0.192	0.411	0.648	1.000
Return on Assets	1,460	0.003	0.166	-0.742	-0.003	0.043	0.078	0.213
Sales Growth	1,460	0.211	1.084	-0.269	0.011	0.072	0.164	2.730
Firm Age	1,460	17.137	9.182	2.063	10.000	15.913	24.000	36.167
Big 8 Auditor	1,460	0.836	0.370	0.000	1.000	1.000	1.000	1.000

Notes: This table presents descriptive statistics for the analysis of internal control weaknesses in Table B2. Panel A presents descriptive statistics for the sample in Column (1) of Table B2. Panel B presents descriptive statistics for the sample in Column (2) of Table B2. We define all variables in Appendix A. The sample is from 2005 to 2017. We collect geographic segment-level data from Worldscope, enforcement actions from the Stanford Law School FCPA Database, and internal control data from Audit Analytics.

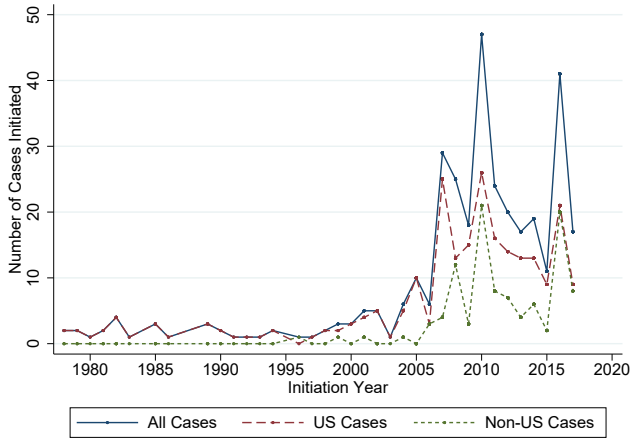
Table B2: Predicting Internal Control Weaknesses

	SEC-Registered Firms	
Dependent Variable:	Weak Internal Controls (1)	FCPA Enforcement Indicator (2)
Weak Internal Controls (Reported)		0.026**
		(2.15)
Ln(Total Assets)	-0.050***	0.023***
	(-6.07)	(4.59)
Return on Assets	-0.215**	-0.004
	(-2.46)	(-0.17)
Foreign Exposure	0.116**	0.072***
	(2.32)	(3.37)
Sales Growth	-0.002	-0.001
	(-0.17)	(-0.31)
Firm Age	0.001	0.002***
	(0.76)	(2.67)
Big 8 Auditor	-0.136***	-0.018
	(-3.37)	(-1.24)
Fixed Effects:		
Industry	Yes	Yes
Number of Standard Error Clusters:		
Firm	1,493	1,460
Adjusted R-Squared	0.12	0.08
Firm Observations	1,493	1,460

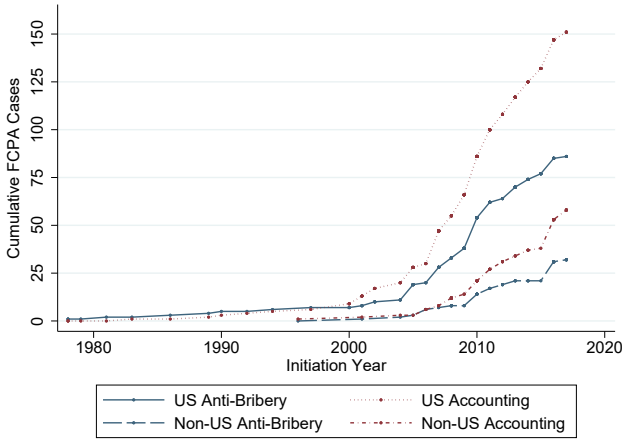
Notes: This table reports coefficient estimates from OLS regressions examining the firm-level determinants of internal control weaknesses and FCPA enforcement actions. In Column (1), we estimate a determinants model for disclosed internal control weaknesses using a sample of SEC-registered firms. In Column (2), we estimate the effect of reported internal control weaknesses on the probability that SEC-registered firms become targets of FCPA enforcement actions. We define all variables in Appendix A. The sample is from 2005 to 2017. We collect geographic segment-level data from Worldscope, enforcement actions from the Stanford Law School FCPA Database, and internal control data from Audit Analytics. T-statistics, reported in parentheses, are based on standard errors clustered at the firm level. ***, **, and * indicate statistical significance at the 1%, 5% and 10% levels (two-tailed), respectively.

Figure 1: FCPA Enforcement Actions from 1977 to 2017

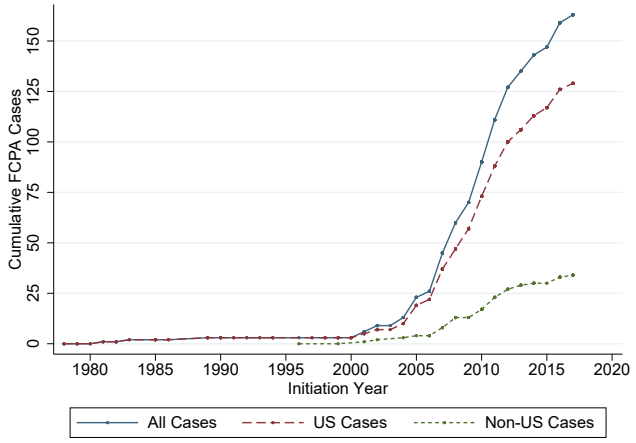
Panel A: FCPA Enforcement Actions by Parent Company Origin



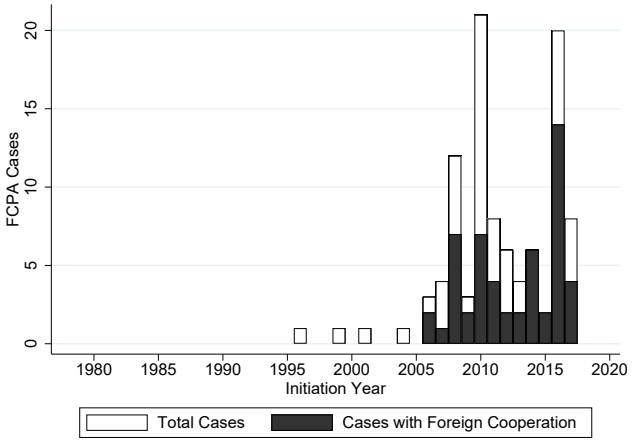
Panel B: FCPA Enforcement Actions by Parent Company Origin and Provision



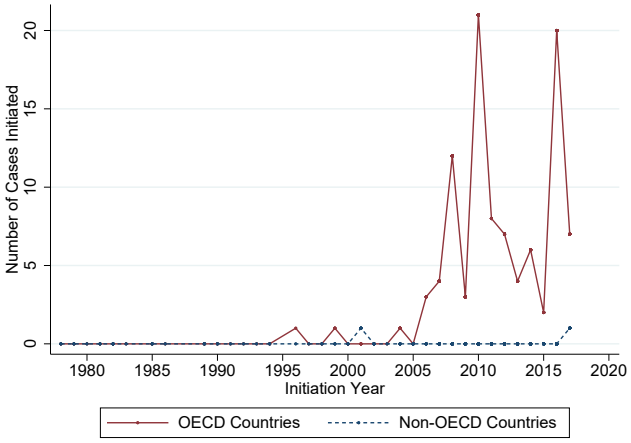
Panel C: FCPA Enforcement Actions on Self-Reported Cases



Panel D: FCPA Enforcement Actions against Non-US Firms



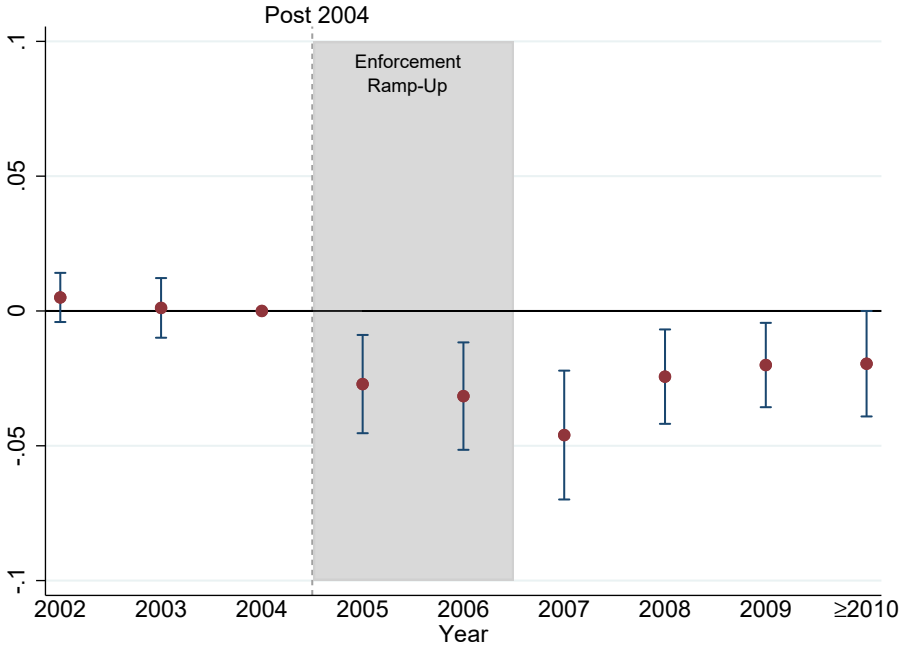
Panel E: FCPA Enforcement Actions against Non-US Firms by Parent Company Origin



Notes: Panel A shows the annual number of firm-related FCPA enforcement actions initiated by the SEC and DOJ by type of defendant headquarter country from 1977 to 2017. The defendant headquarter country is the country where the firm that faced the enforcement action is headquartered. Panel B shows the cumulative annual number of firm-related FCPA enforcement actions initiated by the SEC and DOJ by type of defendant headquarter country and type of provision from 1977 to 2017. Panel C shows the cumulative annual number of firm-related FCPA enforcement actions initiated by the SEC and DOJ on self-reported cases from 1977 to 2017. Panel D shows the annual number of firm-related FCPA enforcement actions against non-US firms initiated by the SEC and DOJ and the number of cases with foreign cooperation from 1977 to 2017. Panel E shows the annual number of FCPA enforcement actions initiated by the SEC and DOJ against firms from non-US OECD and non-US, non-OECD countries from 1977 to 2017. We collect all (337) enforcement actions against corporations from the Stanford Law School FCPA Database.

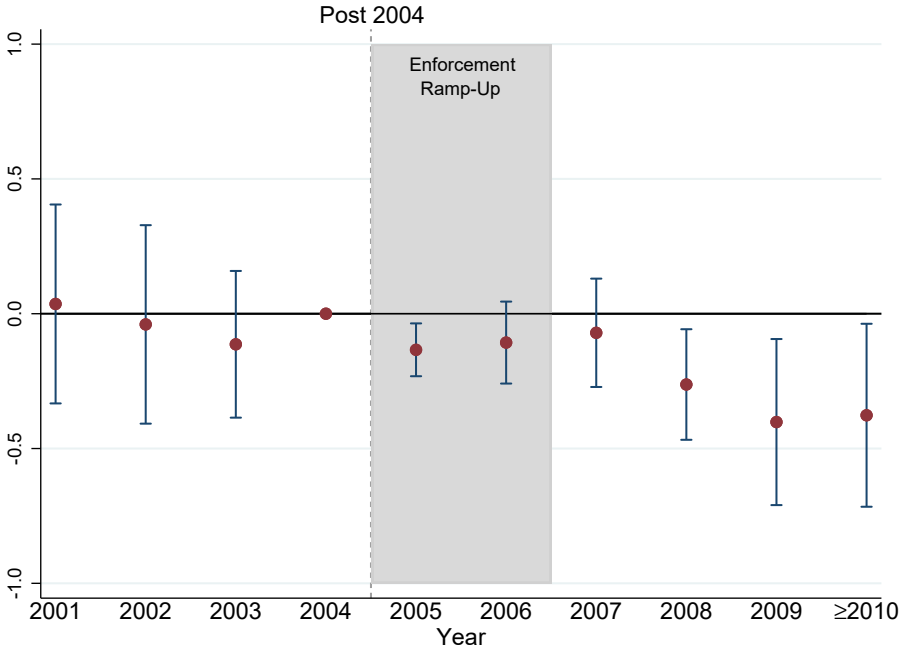
Figure 2: Foreign Investments in High-Corruption-Risk Areas around the Increase in FCPA Enforcement

Panel A: Foreign Direct Investment



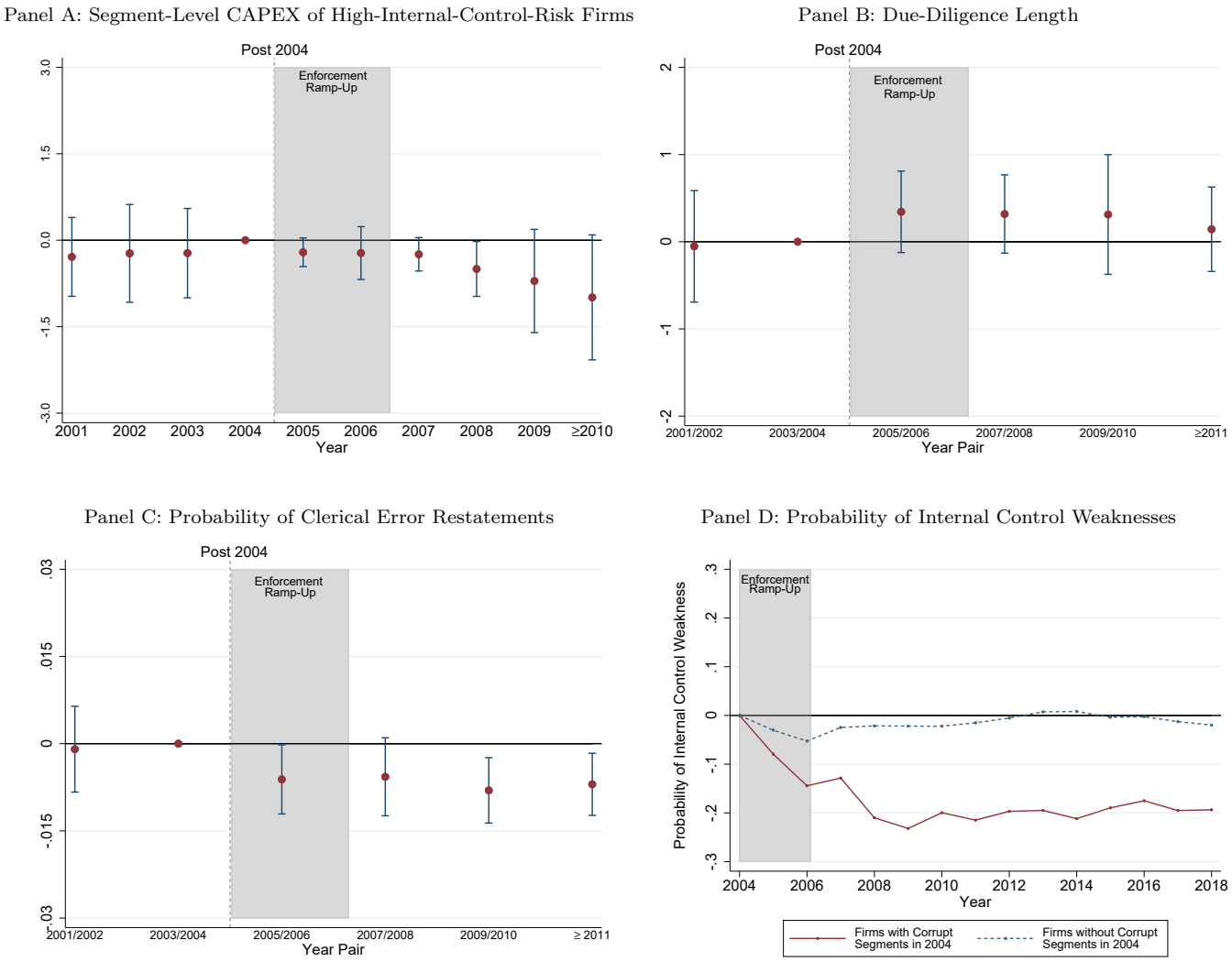
Notes: Panel A shows coefficient estimates and 90% confidence intervals for OLS regressions estimating the effect of the post-2004 increase in FCPA enforcement on foreign direct investments in high-corruption-risk countries. We estimate the model from Column (1) of Table 5 Panel B but replace the *OECD* × *Post 2004* × *High-Corruption-Risk Country* indicator with separate interactions for each of the years in our sample (except for 2004, which serves as the benchmark).

Panel B: Firm-Segment-Level CAPEX



Notes: Panel B shows coefficient estimates and 90% confidence intervals for OLS regressions estimating the effect of the post-2004 increase in FCPA enforcement on segment-level CAPEX by non-US firms headquartered in OECD countries in high-corruption-risk countries. We estimate the model from Column (1) of Table 6 Panel B but replace the *Post 2004* × *US Jurisdiction* × *High-Corruption-Risk Segment* indicator with separate interactions for each of the years in our sample (except for 2004, which serves as the benchmark).

Figure 3: Internal Control Systems around the Increase in FCPA Enforcement



Notes: Panel A shows coefficient estimates and 90% confidence intervals for OLS regressions estimating the effect of the post-2004 increase in FCPA enforcement on segment-level investments by high-internal-control-risk, OECD-country firms in high-corruption-risk countries. We estimate a quadruple-differences model and replace the *Post 2004* × *US Jurisdiction* × *High-Corruption-Risk Segment* × *High Internal Control Risk* indicator with separate interactions for each of the years in our sample (except for 2004, which serves as the benchmark). Panel B shows coefficient estimates and 90% confidence intervals for OLS regressions estimating the effect of the post-2004 increase in FCPA enforcement on the due-diligence length in cross-border M&A transactions. We estimate the model from Column (1) of Table 8 Panel B but replace the *Post 2004* × *US Jurisdiction* × *High-Corruption-Risk Target* indicator with separate interactions each marking a two-year period (except for 2003/2004, which serves as the benchmark). Panel C shows coefficient estimates and 90% confidence intervals for OLS regressions estimating the effect of the post-2004 increase in FCPA enforcement on the probability of clerical error restatement for firms that had a high-corruption-risk segment in 2004. We estimate the model from Column (1) of Table 9 Panel B, but replace the *Post 2004* × *High-Corruption-Risk Segment in 2004* indicator with separate interactions each marking a two-year period (except for 2003/2004, which serves as the benchmark). Panel D shows the average probability of receiving an internal control weakness attestation for firms with and without a high-corruption-risk segment in 2004.

Table 1: FCPA Enforcement Actions

Panel A: FCPA Cases by U.S. and non-US defendants and Provision

	All Cases	Non-US Defendant	US Defendant
Accounting Provisions	114	35	79
Anti-Bribery Provision	79	22	57
Accounting and Anti-Bribery Provisions	118	33	85
Not Available	26	11	15
Total	337	101	236

Panel B: FCPA Cases by Type of Detection

	All Cases	Non-US Defendant	US Defendant
Self-Reported	150	20	130
Investigation	22	14	8
Whistleblower	9	7	2
Press	3	3	0
Multiple	14	10	4
Other or Unknown	139	47	92
Total	337	101	236

Panel C: Relation of Defendant to Foreign Assisting Country

	All Cases	Non-US Defendant	US Defendant
Country where firm is headquartered	35	35	0
Country where subsidiary is located	16	0	16
Financial centers	24	7	17
Country where bribe was paid	8	4	4
Other	12	7	5
Total	95	53	42

Notes: This table presents descriptive statistics for FCPA enforcement actions against firms between 1977 and 2017. Panel A reports the number of FCPA enforcement actions by type of provision and U.S. and non-US defendants. Panel B reports the number of FCPA enforcement actions by type of detection and U.S. and non-US defendants. Panel C provides statistics on how non-US and U.S. defendant firms are connected to the country of the assisting foreign agency. In Panel C, we limit to enforcement actions with foreign cooperation. Financial centers include the United Kingdom and Switzerland. We collect all (337) enforcement actions against corporations from the Stanford Law School FCPA Database.

Table 2: Institutional Details on Anti-Bribery-Convention Countries

					Enters Regression Sample			
Country	Signature Date (1)	OECD Country (2)	Active Enforcer (3)	US FCPA Enforcement Actions (4)	FDI Flows (5)	CAPEX (6)	M&A (7)	Restatements (8)
Argentina	17 December 1997	.	.	0	x	.	.	x
Australia	17 December 1997	x	.	0	x	x	x	x
Austria	17 December 1997	x	.	0	x	x	x	x
Belgium	17 December 1997	x	.	1	x	x	x	x
Brazil	17 December 1997	.	.	5	x	.	.	x
Bulgaria	17 December 1997	.	.	0	x	.	.	.
Canada	17 December 1997	x	.	2	x	x	x	x
Chile	17 December 1997	x	.	4	x	.	.	x
Colombia	19 January 2013	.	.	0	x	.	.	x
Costa Rica	23 July 2017	.	.	1	x	.	.	.
Czech Republic	17 December 1997	x	.	0	x	.	x	x
Denmark	17 December 1997	x	x	3	x	x	x	x
Estonia	12 February 2005	x	.	0	x	.	.	.
Finland	17 December 1997	x	.	0	x	x	x	x
France	17 December 1997	x	.	8	x	x	x	x
Germany	17 December 1997	x	x	15	x	x	x	x
Greece	17 December 1997	x	.	0	x	.	x	x
Hungary	17 December 1997	x	.	1	x	x	.	x
Iceland	17 December 1997	x	.	0	x	.	x	x
Ireland	17 December 1997	x	.	0	x	x	x	x
Israel	17 December 1997	x	.	2	x	.	.	x
Italy	17 December 1997	x	x	5	x	x	x	x
Japan	17 December 1997	x	.	5	x	.	x	x
Latvia	30 May 2014	x	.	0	x	.	.	.
Lithuania	15 July 2017	x	.	0	x	.	.	.
Luxembourg	17 December 1997	x	.	3	x	x	x	x
Mexico	17 December 1997	x	.	1	x	x	x	x
Netherlands	17 December 1997	x	.	8	x	x	x	x
New Zealand	17 December 1997	x	.	0	x	.	x	x
Norway	17 December 1997	x	x	2	x	x	x	x
Peru	27 July 2018	.	.	0	x	.	.	x
Poland	17 December 1997	x	.	1	x	x	x	x
Portugal	17 December 1997	x	.	0	x	x	x	x
Russian Federation	17 February 2012	.	.	3	x	.	.	x
Slovak Republic	17 December 1997	x	.	0	x	x	.	.
Slovenia	17 December 1997	x	.	0	x	.	.	.
South Africa	18 August 2007	.	.	0	x	.	.	x
South Korea	17 December 1997	x	.	0	x	.	x	x
Spain	17 December 1997	x	.	0	x	x	x	x
Sweden	17 December 1997	x	.	5	x	x	x	x
Switzerland	17 December 1997	x	x	11	x	x	x	x
Turkey	17 December 1997	x	.	0	x	.	x	x
United Kingdom	17 December 1997	x	x	13	x	x	x	x
United States	17 December 1997	x	x	236	x	.	x	x

Notes: This table presents implementation characteristics of the OECD Anti-Bribery Convention (ABC) by signatory country. *Active Enforcer* countries are countries where Transparency International indicates that the country actively enforces the Anti-Bribery Convention domestically for at least one year.

Table 3: FCPA Enforcement Actions by Country where Bribes were Paid

Bribe Country	FCPA Cases (1)	Corruption Perceptions Index (2)
China	67	34
Iraq	41	21
Nigeria	39	16
Mexico	34	36
Indonesia	30	20
India	24	28
Russia	23	28
Brazil	23	39
Argentina	19	25
Saudi Arabia	17	34
Kazakhstan	17	22
Thailand	17	36
Angola	15	20
Venezuela	13	23
Egypt	13	32
Greece	11	43
Vietnam	10	26
Poland	10	35
Bangladesh	9	15
United Arab Emirates	8	61
Democratic Republic of the Congo	8	20
Uzbekistan	8	23
Taiwan	8	56
Ukraine	7	22
Philippines	7	26
Croatia	6	35
Iran	6	29
Turkey	6	32
Costa Rica	6	49
Libya	6	25
South Korea	6	45
Colombia	6	38
Panama	5	37
Malaysia	5	50
Ecuador	5	24
Niger	5	22
Azerbaijan	5	19
Nicaragua	4	27
Honduras	4	23
Guinea	4	19
Israel	4	64
Dominican Republic	4	29
Mozambique	4	28
Pakistan	4	21
...	...	...
Total	679	Mean: 31 (Median: 28)

Notes: This table presents statistics on FCPA enforcement actions by the country where bribes were paid, and the country's Corruption Perceptions Index (CPI) score in 2004 (or the next year with available data). We collect all (337) enforcement actions against corporations from the Stanford Law School FCPA Database and CPI scores from Transparency International. For brevity, we limit the list of countries to those with more than 3 incidents of bribery.

Table 4: Firm Characteristics of FCPA Enforcement Targets

Panel A: Descriptive Statistics

	N	Mean	SD	P1	P25	P50	P75	P99
FCPA Enforcement Action	6,488	0.016	0.126	0.000	0.000	0.000	0.000	1.000
US Firm	6,488	0.231	0.422	0.000	0.000	0.000	0.000	1.000
Foreign Firm US Segment	6,488	0.367	0.482	0.000	0.000	0.000	1.000	1.000
US Cross Listing	6,488	0.033	0.179	0.000	0.000	0.000	0.000	1.000
Internal Control Risk	6,488	-0.357	0.170	-0.702	-0.468	-0.383	-0.272	0.163
Foreign Exposure	6,488	0.477	0.319	0.000	0.194	0.466	0.751	1.000
Total Assets (bn. USD)	6,488	15.943	125.750	0.003	0.126	0.555	2.862	264.743
Return on Assets (%)	6,488	-0.489	19.081	-91.764	0.120	3.910	7.336	22.265

Notes: This table presents descriptive statistics for the FCPA enforcement analysis in Table 4 Panel B. We define all variables in Appendix A. This table uses geographic segment-level data from Worldscope and covers firms that have at least one foreign segment. The sample is from 2005 to 2017. We obtain enforcement actions from the Stanford Law School FCPA Database and compute *Internal Control Risk* based on data collected from Audit Analytics and Worldscope.

Panel B: Regression Results

Dependent Variable: *FCPA Enforcement Action*	All Firms (1)	Non-US Firms (2)
US Jurisdiction Proxies:		
US Firm	0.021***	
	(4.40)	
US Cross Listing	0.050***	0.050***
	(2.83)	(2.80)
Foreign Firm US Segment	0.006**	0.008***
	(2.23)	(2.79)
Accounting Weakness:		
Internal Control Risk	0.096***	0.079***
	(3.94)	(4.26)
Firm Controls:		
Ln(Total Assets USD)	0.015***	0.014***
	(6.57)	(6.38)
Foreign Exposure	0.002	-0.009**
	(0.49)	(-2.07)
Return on Assets	0.637	-0.440
	(0.87)	(-0.87)
Fixed Effects:		
Country	No	Yes
Industry	Yes	Yes
Unit of Observation	Firm	Firm
Sample Period	2005-2017	2005-2017
Adjusted R-Squared	0.06	0.07
Observations	6,488	4,973

Notes: This table reports coefficient estimates from OLS regressions estimating the association between firm characteristics and the probability of facing at least one FCPA enforcement action from 2005 to 2017. We define all variables in Appendix A. The sample includes firms headquartered in countries that agree to cooperate with US regulators under the OECD Anti-Bribery Convention (ABC). In Column (1), we consider all OECD firms including US firms. In Column (2), we consider non-US OECD firms. We collect enforcement actions from the Stanford Law School FCPA Database. T-statistics, reported in parentheses, are based on robust standard errors. ***, **, and * indicate statistical significance at the 1%, 5% and 10% levels (two-tailed), respectively.

Table 5: Effect of FCPA Enforcement on Foreign Direct Investment

Panel A: Descriptive Statistics

	N	Mean	SD	P1	P25	P50	P75	P99
FDI/GDP Out × 100	38,130	0.042	0.208	0.000	0.000	0.000	0.008	0.886
OECD	38,130	0.608	0.488	0.000	0.000	1.000	1.000	1.000
Post First Enforcement Action	38,130	0.723	0.448	0.000	0.000	1.000	1.000	1.000
High-Corruption-Risk Country	38,130	0.702	0.457	0.000	0.000	1.000	1.000	1.000
GDP Growth	38,130	3.001	4.609	-9.395	0.915	2.835	5.280	13.811
Export Orientation	38,130	42.949	30.372	9.492	25.565	35.331	51.929	186.444
Political Stability	38,130	0.026	0.915	-2.327	-0.655	0.155	0.782	1.512
Regulatory Quality	38,130	0.337	0.919	-1.617	-0.410	0.276	1.144	1.882
Rule of Law	38,130	0.204	1.001	-1.568	-0.617	0.006	1.037	1.961
Government Effectiveness	38,130	0.316	0.965	-1.453	-0.471	0.122	1.069	2.229

Notes: This table presents descriptive statistics for the foreign direct investment analysis in Table 5 Panel B. We define all variables in Appendix A. We trim the dependent variable, *FDI/GDP Out (× 100)*, at the 99th percentile by year. The sample is from 2002 to 2012. FDI data is from the United Nations Conference on Trade and Development (UNCTAD). Control variable and GDP data are from the World Bank and the IMF.

Table 5 Continued: Effect of FCPA Enforcement on Foreign Direct Investment

Panel B: Regression Results

						Within Country-In		
Dependent Variable: Ln(1+*FDI/GDP Out* × 100) [except for Column (8)]	All Countries (1)	Non-US Countries (2)	United States (3)	Never Active Enforcement (4)	Excluding 2005-2006 (5)	Non-US Countries (6)	United States (7)	Placebo Test: Foreign Portfolio Investment (8)
OECD × Post 2004 × High-Corruption-Risk Country	-0.028***	-0.029***	-0.009	-0.030***	-0.025**	-0.030**	0.007	0.033
	(-2.72)	(-2.75)	(-1.30)	(-2.68)	(-2.21)	(-2.30)	(0.76)	(1.59)
Post 2004 × High-Corruption-Risk Country	-0.001	-0.001	-0.003	-0.001	-0.002			
	(-0.17)	(-0.18)	(-0.53)	(-0.31)	(-0.39)			
Country In Controls:								
GDP Growth	0.000	0.000	-0.000	0.000	-0.000			
	(0.14)	(0.17)	(-0.91)	(0.14)	(-0.07)			
Export Orientation	0.000	0.000	0.000	0.000	0.000			
	(0.26)	(0.24)	(1.02)	(0.18)	(0.39)			
Political Stability	0.006**	0.006**	0.005	0.008**	0.007*			
	(1.98)	(1.98)	(1.29)	(2.36)	(1.97)			
Regulatory Quality	-0.004	-0.004	-0.007	-0.005	-0.001			
	(-0.50)	(-0.52)	(-0.60)	(-0.70)	(-0.18)			
Rule of Law	0.007	0.007	-0.014	0.004	0.002			
	(0.81)	(0.81)	(-1.41)	(0.51)	(0.19)			
Government Effectiveness	-0.005	-0.005	0.017	-0.001	-0.009			
	(-0.59)	(-0.58)	(1.25)	(-0.14)	(-0.84)			
Fixed Effects:								
Country Out × Country In	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country Out × Year	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country In × Year	No	No	No	No	No	Yes	Yes	Yes
Standard Error Clusters:								
Country Out	135	134	100	128	135	134	100	25
Country In	145	145	143	145	145	143	133	192
Adjusted R-Squared	0.57	0.57	0.46	0.56	0.56	0.58	0.47	0.16
Country-Pair-Year Observations	38,130	36,938	16,151	31,571	31,085	36,915	15,993	33,348

Notes: This table reports the coefficient estimates of OLS regressions estimating the effect of FCPA enforcement on foreign direct investment flows to corrupt countries. The sample is from 2002 to 2012. FDI data is from the United Nations Conference on Trade and Development (UNCTAD) and FPI data is from the IMF Coordinated Portfolio Investment Survey. Control variable and GDP data are from the World Bank and the IMF. T-statistics, reported in parentheses, are based on standard errors clustered at the outflow country and inflow country level. ***, **, and * indicate statistical significance at the 1%, 5% and 10% levels (two-tailed), respectively.

Table 5 Continued: Effect of FCPA Enforcement on Foreign Direct Investment

Panel C: Foreign Investment Increases by Non-OECD Countries in Corrupt Countries

Non-OECD Control Group:	Invested and Non-Invested		Invested		Strongly Invested	
Dependent Variable:	All Countries	Non-US Countries	All Countries	Non-US Countries	All Countries	Non-US Countries
Ln(1+*FDI/GDP In* × 100)	(1)	(2)	(3)	(4)	(5)	(6)
OECD × Post 2004 × High-Corruption-Risk Country	-0.031***	-0.028**	-0.039***	-0.037***	-0.046***	-0.043***
	(-2.71)	(-2.59)	(-2.82)	(-2.70)	(-2.98)	(-2.89)
Post 2004 × High-Corruption-Risk Country	0.004	0.004	0.013*	0.013*	0.020**	0.020**
	(0.85)	(0.89)	(1.79)	(1.83)	(2.13)	(2.17)
Sum of Coefficients (p-value):						
Post 2004 × High-Corruption-Risk Country +	-0.026**	-0.024*	-0.026**	-0.023**	-0.026**	-0.023**
OECD × Post 2004 × High-Corruption-Risk Country	(0.03)	(0.03)	(0.03)	(0.04)	(0.03)	(0.04)
Control Variables:						
Country In (see Table 5 Panel B)	Yes	Yes	Yes	Yes	Yes	Yes
Fixed Effects:						
Country Out × Country In	Yes	Yes	Yes	Yes	Yes	Yes
Country Out × Year	Yes	Yes	Yes	Yes	Yes	Yes
Standard Error Clusters:						
Country Out	136	135	125	124	119	118
Country In	144	144	144	144	144	144
Adjusted R-Squared	0.55	0.54	0.55	0.54	0.55	0.54
Country-Pair-Year Observations	38,117	36,982	31,151	30,016	28,248	27,113

Notes: This table reports the coefficient estimates of OLS regressions estimating the effect of FCPA enforcement on FDI substitution by non-OECD countries in high-corruption-risk countries. Invested (Strongly Invested) is defined as non-OECD countries with an FDI stock/GDP In greater than zero (1%). We define all variables in Appendix A. The sample is from 2002 to 2012. FDI data is from the United Nations Conference on Trade and Development (UNCTAD). Control variable and GDP data are from the World Bank and the IMF. T-statistics, reported in parentheses, are based on standard errors clustered at the outflow country and inflow country level. ***, **, and * indicate statistical significance at the 1%, 5% and 10% levels (two-tailed), respectively.

Table 6: Effect of FCPA Enforcement on Firm-Segment-Level Capital Expenditures

Panel A: Descriptive Statistics

	N	Mean	SD	P1	P25	P50	P75	P99
Segment CAPEX × 100	8,094	1.970	16.476	0.000	0.074	0.307	1.031	24.733
Post 2004	8,094	0.711	0.454	0.000	0.000	1.000	1.000	1.000
High-Corruption-Risk Segment	8,094	0.210	0.407	0.000	0.000	0.000	0.000	1.000
US Jurisdiction	8,094	0.498	0.500	0.000	0.000	0.000	1.000	1.000
High Internal Control Risk	7,459	0.504	0.500	0.000	0.000	1.000	1.000	1.000

Notes: This table presents descriptive statistics for our non-US firm-level capital expenditures analysis in Table 6 Panel B. We define all variables in Appendix A. The sample is from 2001 to 2017. We collect segment data from Worldscope.

Panel B: Regression Results

Dep Var: Ln(1+*Segment CAPEX* × 100)	High-Corruption-Risk Segments (1)	Low-Corruption-Risk Segments (2)	All Segments (3)	Incl. Parent Country × Year Fixed Effects (4)	All Segments excl. 2005-2006 (5)
Post 2004 × US Jurisdiction	-0.200***	-0.035			
	(-2.87)	(-1.21)			
Post 2004 × US Jurisdiction × High-Corruption-Risk Segment			-0.171**	-0.174*	-0.198*
			(-2.18)	(-1.88)	(-1.81)
Fixed Effects:					
Parent Country × Segment Country	Yes	Yes	Yes	Yes	Yes
Segment Country × Year	Yes	Yes	Yes	Yes	Yes
US Jurisdiction × Segment Country	Yes	Yes	Yes	Yes	Yes
US Jurisdiction × Year	No	No	Yes	Yes	Yes
Parent Country × Year	No	No	No	Yes	No
Difference in Coefficients (p-value)					
Standard Error Clusters:					
Segment Country	36	28	64	64	63
Adjusted R-Squared	0.41	0.25	0.29	0.29	0.28
Segment-Country-Year Observations	1,696	6,398	8,094	8,080	6,119

Notes: This table reports coefficient estimates of OLS regressions estimating the effect of FCPA enforcement on segment-level capital expenditures by non-US firms. We define all variables in Appendix A. The sample is from 2001 to 2017. We collect segment data from Worldscope. T-statistics, reported in parentheses, are based on standard errors clustered at the segment country level. ***, **, and * indicate statistical significance at the 1%, 5% and 10% levels (two-tailed), respectively.

Table 7: The Role of Internal Control Risk for the Corporate Investment Effects of FCPA Enforcement

Dep Var: Ln(1+*Segment CAPEX* × 100)	High Internal Control Risk (1)	Low Internal Control Risk (2)
Post 2004 × US Jurisdiction × High-Corruption-Risk Segment	-0.274*	0.024
	(-1.73)	(0.26)
Fixed Effects:		
Parent Country × Segment Country	Yes	Yes
Segment Country × Year	Yes	Yes
US Jurisdiction × Segment Country	Yes	Yes
US Jurisdiction × Year	Yes	Yes
Parent Country × Year	No	No
Difference in Coefficients (p-value)	0.06	
Standard Error Clusters:		
Segment Country	52	44
Adjusted R-Squared	0.29	0.32
Segment-Country-Year Observations	3,633	3,575

Notes: This table reports coefficient estimates of OLS regressions examining role of internal control risk for the corporate investment effects of FCPA enforcement. We define all variables in Appendix A. The sample is from 2001 to 2017. We collect segment data from Worldscope. T-statistics, reported in parentheses, are based on standard errors clustered at the segment country level. ***, **, and * indicate statistical significance at the 1%, 5% and 10% levels (two-tailed), respectively.

Table 8: Effect of FCPA Enforcement on M&A Due Diligence Length

Panel A: Descriptive Statistics

	N	Mean	SD	P1	P25	P50	P75	P99
M&A Due Diligence Length	5,299	123.890	120.742	13.000	53.000	89.000	150.000	672.000
Post 2004	5,299	0.754	0.431	0.000	1.000	1.000	1.000	1.000
High-Corruption-Risk Target	5,299	0.228	0.419	0.000	0.000	0.000	0.000	1.000
US Jurisdiction	5,299	0.132	0.338	0.000	0.000	0.000	0.000	1.000
Deal Size (bn. USD)	5,299	0.998	3.774	0.000	0.027	0.127	0.538	15.017
Divestiture	5,299	0.376	0.484	0.000	0.000	0.000	1.000	1.000
Bankruptcy/Restructuring	5,299	0.043	0.202	0.000	0.000	0.000	0.000	1.000

Notes: This table presents descriptive statistics for our M&A due diligence length analysis in Table 8 Panel B. We define all variables in Appendix A. We trim the dependent variable, *M&A Due Diligence Length*, at the 99th percentile by year. The sample is from 2001 to 2017. M&A data are from ThomsonONE and SDC.

Panel B: Regression Results

	High-Corruption-Risk Targets	Low-Corruption-Risk Targets	All Targets
Dep. Variable: *Ln(M&A Due Diligence Length)*	(1)	(2)	(3)
Post 2004 × US Jurisdiction	0.183*	-0.113**	
	(0.107)	(0.054)	
Post 2004 × US Jurisdiction × High-Corruption-Risk Target			0.296***
			(0.108)
Deal Controls:			
Ln(Deal Size)	0.005	0.083***	0.072***
	(0.015)	(0.009)	(0.009)
Divestiture	-0.046	-0.191***	-0.175***
	(0.081)	(0.036)	(0.041)
Bankruptcy/Restructuring	-0.151	0.006	0.001
	(0.139)	(0.046)	(0.045)
Fixed Effects:			
Acquirer Country × Target Country	Yes	Yes	Yes
Target Country × Year	Yes	Yes	Yes
US Jurisdiction × Target Country	Yes	Yes	Yes
US Jurisdiction × Year	No	No	Yes
Acquirer Country × Year	No	No	No
Standard Error Clusters:			
Target Country	46	34	80
Adjusted R-Squared	0.16	0.14	0.16
Deal Observations	1,207	4,092	5,299

Notes: This table reports coefficient estimates of OLS regressions estimating the effect of FCPA enforcement on M&A due diligence length. We define all variables in Appendix A. The sample is from 2001 to 2017. M&A data are from ThomsonONE and SDC. T-statistics, reported in parentheses, are based on standard errors clustered at the target country level. ***, **, and * indicate statistical significance at the 1%, 5% and 10% levels (two-tailed), respectively.

Table 9: Effect of FCPA Enforcement on Clerical Error Restatements

Panel A: Descriptive Statistics

	N	Mean	SD	P1	P25	P50	P75	P99
Clerical Error Restatement	122,984	0.003	0.054	0.000	0.000	0.000	0.000	0.000
Post 2004	122,984	0.763	0.425	0.000	1.000	1.000	1.000	1.000
High-Corruption-Risk Segment	122,984	0.049	0.215	0.000	0.000	0.000	0.000	1.000

Notes: This table presents descriptive statistics for restatement analyses in Table 9 Panel B. We define all variables in Appendix A. The sample is from 2001 to 2017. Restatement data is from Audit Analytics and total asset data is from Compustat.

Panel B: Regression Results

Dependent Variable: Clerical Error Restatement	(1) Full Sample	(2) Multinational Firms	(3) Flexible Size Control
Post 2004 × High-Corruption-Risk Segment	-0.006***	-0.007**	-0.006**
	(-2.84)	(-2.07)	(-2.38)
Fixed Effects:			
Firm	Yes	Yes	Yes
Year	Yes	Yes	Yes
Standard Error Clusters:			
Firm	12,364	3,039	12,006
Adjusted R-Squared	0.004	0.006	-0.001
Firm-Year Observations	210,188	24,940	122,984

Notes: This table reports coefficient estimates of OLS regressions estimating the effect of the post-2004 increase in FCPA enforcement on the probability of clerical error restatements for firms that had a high-corruption-risk segment in 2004. We define all variables in Appendix A. The sample is from 2001 to 2017. Restatement data is from Audit Analytics and total asset data is from Compustat. T-statistics, reported in parentheses, are based on standard errors clustered at the firm level. ***, **, and * indicate statistical significance at the 1%, 5%, and 10% levels (two-tailed), respectively.