# The Political Economy of Anti-Bribery Enforcement*

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**ABSTRACT**

In this paper, we examine the influence of political motivations on the regulatory enforcement of foreign bribery. Using case-level data from the U.S. Securities and Exchange Commission and U.S. Department of Justice, we show that in the years just prior to a Senate election in a state, the probability of Foreign Corrupt Practices Act (FCPA) enforcement actions against foreign firms located in that state increase significantly, spiking 23%, but not U.S. firms located in the same states. We use exogenous variation in the timing and geographic location of U.S. Congressional elections to establish identification of our effects at the geographic level. The discretion is concentrated in foreign firms that compete most intensively with in-state firms and for important industries in the state. Moreover, the cases brought against these foreign firms just prior to elections have the markers of being weaker cases. Consequently, firms respond to enforcements by reallocating business segments and sales away from perceived corrupt countries.

***Keywords:*** Government policy and regulation, enforcement, political economy, electoral cycles

***JEL Classification:*** D72, G28, G38

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A level playing field for firm-level competition is a fundamental requirement for any market to maximize its potential and achieve as close to the efficient outcome as possible. When distortions arise – favoring a set of firms or individuals over others – these reverberate throughout the economic system: from ex-ante decisions involving incentives to specialize human capital, to capital provision, innovation, sales, production, through enforcement. This is not to say that barriers to entry may not naturally arise – such as those associated with economies of scale, network goods, or scarce resource endowment. Only that if a finger is placed on the scale in order to allow certain firms or agents to achieve these or have an alternative form of unerodable advantage, this can have material implications for allocative efficiency and overall economic development.

There is a large literature documenting inefficiencies and distortions arising from bribery-related activities. Existing research shows that enforcement can be effective – from an ex-ante and ex-post perspective - within a country setting where government audits curb corruption by enhancing political and judiciary accountability (Ferraz and Finan, 2008, 2018; Avis, Ferraz, and Finan, 2018; Colonnelli and Prem, 2020).

However, it can be challenging to extend both the detection and enforcement of anti-bribery laws to extra-territorial jurisdictions against companies. For example, there are a limited number of even domestic firms that the U.S. Securities and Exchange Commission (SEC) and the U.S. Department of Justice (DOJ) can target for domestic infractions given their respective constraints on economic resources and information available to each. Widen this set to include both all foreign firms with operations in the U.S., and to all global activities of each of these firms (with varying levels of cooperation from foreign governments), and the problem of detecting and sanctioning all bribery-activity can be seen to quickly become intractable. It then follows, that these enforcement agencies will have to selectively choose targets in the cross-section and time-series to begin enforcement inquiries upon – build the given case (which we show empirically typically takes years), and then decide if (and importantly *when*) to take enforcement action against. This introduces considerable discretion in anti-bribery enforcement for U.S. regulators, the outcome of which we attempt to explore one facet of in this paper.

From a capital-weighted, and motivating-trend perspective, as global markets have become increasingly integrated – with S&P 500 firms in aggregate realizing nearly 50% of

their sales overseas (Standard & Poor's (2019)) – the need to keep a level playing field in foreign markets has become an increasingly critical component of the competitive landscape for all firms. Realizing this, the U.S. government implemented stringent enforcement relative to other countries through the enactment of the Foreign Corrupt Practices Act of 1977 (FCPA) to attempt to tamp-down on then common occurrence of the bribery of foreign officials, and to restore public confidence in the integrity of the U.S. business system abroad. Since its enactment, FCPA-related enforcement has generated a substantial surge in broader enforcement and become a priority for U.S. law enforcement agencies, conceivably to give confidence to U.S. firms of this level-playing field across their increasingly expansive global competitive space.[1]

In this paper, we provide evidence consistent with the tool which was meant to level the playing field having been used – at least in part - for precisely the opposite purpose. Namely, that FCPA enforcement actions are correlated in geography, time, and usage with political motives, tipping the scales in ways that plausibly appear incentive-aligned along these dimensions. In particular, there are discretions in enforcement actions: i.) spikes in FCPA enforcement are concentrated in foreign headquartered (as opposed to domestic headquartered) firms prior to important elections in those states; ii.) the spikes in enforcement occur specifically at those firms that compete most intensely with domestic firms; iii.) the enforcement is muted for firms in dominant industries in the important election state given local constituent interests; and iv.) congressman's accession to the judiciary committee chair increases their political influence over the enforcement agencies. Moreover, the cases chosen to be brought forward against these foreign firms pre-election bear markers of weaker all-around cases, again consistent with being put forward at very specific times in spite of case quality due to the discretion over timing and identity (location) of actions brought.

We study the relationship between electoral politics and FCPA regulatory actions. The FCPA might present itself as a viable tool for political motives due to the inherent discretion in its application. In particular, the FCPA affords considerable discretion over both: i.) whom to enforce against; and ii.) when to enforce, with an average gap between violation and

[1] In terms of the difference in the function of enforcement agencies, the SEC takes enforcement actions and bring civil penalties, and the DOJ is responsible for civil suits and all criminal prosecutions. However, both the SEC and DOJ often enforce through joint investigations and settlement negotiations.

enforcement action of over eight years. FCPA enforcement policy is conducted in state courts, and brought by either of the U.S. Securities and Exchange Commission (SEC) or the U.S. Department of Justice (DOJ) – both of which have funding and oversight ties back to the U.S. Congress. Our analysis in particular examines the enforcement actions initiated against publicly traded companies for foreign bribery by the DOJ and the SEC. Figure 1 shows the time-series dynamics of these cases – there has been a large rise in these actions in recent times. We explore one potential determinant of this rise, exploring the political determinants of anti-bribery enforcement.

We do this utilizing cross-sectional variation in incentives for identification. In particular, we examine U.S. Congressional Senate elections – which have schedules that are pre-determined, known years in advance,[2] and are plausibly exogenous from a timing and location perspective.[3] They are staggered spatially and in time – with one third of the senate seats being up for re-election of 6-year terms every even-numbered year (outside of special election circumstances). Moreover, unlike presidential elections, there is substantial cross-state variation in the timing of treated states in each election cycle. This allows us to exploit this exogenous variation in Senate election timing and locations to explore the extent to which anti-bribery enforcement is related to electoral concerns.

Our sample consists of 8,677 publicly listed companies with subsidiaries both in the U.S. and in foreign countries from 1985-2017. To study whether political incentives influence the enforcement action of regulators, we use detailed subsidiary-level data of U.S. and foreign companies and link the location of subsidiaries to the state electoral cycles. There is strong evidence that election cycles affect regulators' enforcement actions. Our results suggest that regulators do not respond equally to all firms, instead responding primarily to foreign firms. We find that the probability of a regulatory enforcement increases by 23% ($t$=3.04) in the year leading up to an election for foreign companies. In sharp contrast, we do not observe any increase in regulatory actions against U.S. firms in the same pre-election years.

[2] With the exception of special elections. These are infrequent (for instance, occurring because of deaths while in office), and unsurprisingly our results are unaffected by excluding these unexpected (within-term) events.
[3] While aggregate political incentives have clearly been present throughout history, one component of aggregate variation that is consistent with the rise in actions we observe is the increasing importance of international trade and presence over time (World Bank (2020)).

Exploring the actions taken against foreign firms pre-election in more depth, we additionally find evidence that they are correlated with local constituent interests. Enforcement actions are focused significantly more on foreign firms associated with less job creation in the Senators' states. Moreover, even within these sets of firms, the targets tend to be those that do not have a large economic footprint in elected officials' specific jurisdiction – i.e., in industries and firms with a large number of establishments in their state. These therefore represent actions that are less likely to negatively impact or upset voting constituents.

Moreover, in exploring potential underlying mechanisms behind these empirical patterns, we find additional evidence consistent with economic incentives. First, we find that enforcements are significantly related to the level of foreign competition and the exposure of the given firm to a global supply-network in the year leading up to elections. Foreign companies have a higher probability of being targeted if they compete more intensely with U.S. companies or have stronger economic links with foreign-supply chain networks (as opposed to integrating with US based-networks). Our results further show that the effect of foreign competition on enforcement is stronger for out-state firms that do not have a large economic footprint in their jurisdiction. Therefore, the regulatory agencies trade off the gains and the costs associated with enforcement in the years leading up to elections.

Furthermore, we show that the cases brought against foreign firms pre-election bear a number of markers of being weaker cases overall. For example, they are significantly less likely to ever make it to court proceedings. In addition, they are significantly more likely to end in plea-agreements for the accused firm. Moreover, they are associated with significantly lower sanction-to-bribe ratio of dollars collected (e.g., the amount of "sanctions" for each dollar of alleged bribery), and involve significantly fewer forms of bribery than in other cases (e.g., money, automobiles, real-estate, vacations, etc.).

Lastly, we document how firms broadly respond to FCPA regulatory enforcement actions brought against. We find that all firms – domestic *and* foreign – display a number of distinct changes from pre-post following the targeted FCPA enforcement. In particular, firms significantly reduce exposure to those countries who rank most highly on a Global Corruption Score Index. They do so in terms of both: i.) the extensive margin through reductions in the actual number of physical segments domiciled and operating in perceived

corrupt countries, along with ii.) the intensive margin through reductions in the percentage of their total global sales to those countries. With regard to cross-country comparision in terms of both (i) and (ii), we find that firms from nations perceived as *least* corrupt appear most sensitive to the FCPA actions. This is consistent with anecdotal accounts that partner-governments of these nations have worked more closely with their U.S. analog agencies to enforce the FCPA and mirror trade laws and agreements across nations. Through this set of findings of changes in firm actual production and sales behavior, we document one manner in which FCPA actions do appear associated with real, sizable changes in firm operational outcomes.

Our paper contributes to the literature on the role of political influence on the decision of regulatory agencies or legislative voting behavior (Kroszner and Strahan, 1996; Mian, Sufi, and Trebbi, 2010; Cohen and Malloy, 2014). A number of papers document the political economy of banking regulation and deregulation (Benmelech and Moskowitz, 2010; Liu and Ngo, 2014; Kroszner and Stratmann, 1998; Kroszner and Strahan, 1999; Agarwal et al., 2014; Lambert, 2018; Akey, Heimer, and Lewellen, 2021). Our paper supports the literature on the political influence on regulatory enforcement related to corporate misconduct, antitrust and trade (Weingast and Moran, 1983; Correia, 2014; Baker, Frydman, and Hilt, 2018; Mehta and Zhao, 2020; Mehta, Srinivasan, and Zhao, 2020). In this respect, we show that political incentives appear as a potential consideration when evaluating the impact of regulatory actions in a multinational context. Consistent with Yu and Yu (2011), we provide empirical evidence on how political motives might subtly shape regulatory decisions and the mechanisms that lead to discretionary enforcement. Furthermore, our paper provides new evidence supporting a view that political influence over anti-bribery enforcement on multinational firms may have unintended consequences on broader measures of competitiveness and international trade.

Our work is related to a large literature on the economic impacts of corruption (e.g., Shleifer and Vishny, 1993, 1994; Acemoglu and Verdier, 2000), and how regulatory enforcement shapes corrupt behavior (Fisman and Miguel, 2007). The economics of crime research Becker (1968) emphasizes the assumption that agents respond to the costs and benefits of committing crime, which determines the optimal amount of enforcement. Recently empirical research in this literature has focused on micro-data to study the impact

of anti-bribery enforcement activity on economic outcomes and resource allocation. Zeume (2016) examines changes in U.K firms' values around the passage of the U.K. Bribery Act and finds that the prospect of higher penalties decreased the firm values of U.K. firms. Goldman and Zeume (2021) show that unpunished firms benefit from anti-bribery enforcement, which is associated with increases in revenue and productivity. Karpoff, Lee, and Martin (2017) use foreign bribery-related enforcement actions initiated under the FCPA to examine firms' incentives to pay bribes and their costs. We build on this literature to analyze the anti-bribery enforcement by U.S. regulatory agencies across the universe of multinational firms. In particular, our paper provides an empirical exploration of the political motives associated with enforcement actions and sheds light on the discretion potentially at play in these enforcements.

## I. Background of FCPA and a Case Study

### *A. Origins of Foreign Corruption Practices Act of 1977*

As with most new laws, the FCPA was not formulated without precipitation – specific events and policy considerations motivated Congress to enact the FCPA. Discovery of a foreign corporate payments problem in the mid-1970s resulted from the Office of the Watergate Special Prosecutor, including investigations by the SEC. One notable case was the Lockheed Corporation. The defense contractor received a $250 million government loan to avoid bankruptcy and spent over $100 million of those funds on bribes to various government officials. Brewster and Buell (2017) document that the statute was a response to a national security concern in the Cold War era in the late 1970s between political worldwide regimes.

### *B. Differing views on the Legislation and the Role Foreign Cooperation*

Since the passage of the 1977 Act, there have been concerns regarding its adverse impact on U.S. business abroad. In theory, the FCPA could place U.S. businesses at a comparative disadvantage. This was because even though the U.S. could bring action against a foreign domiciled firm, the enforcement of that action was ultimately up to the foreign jurisdiction in which it was located. Thus, despite the fact that the FCPA provided prosecutors with significant extraterritorial jurisdiction, international cooperation was

essential to effective enforcement. This went all the way from the sharing internal corporate records during investigation, all of the way through to end-enforcement. In practice, foreign governments regularly did refuse to impose civil or criminal rules against their domestic firms. This all fueled even more concern from American businesses about their disadvantage in foreign markets, as the FCPA might only be effectively enforced against U.S. corporations. Figure 1 illustrates the limited number of enforcement actions against foreign companies prior to 2000.

In response to these criticisms, the U.S. Congress directed the Executive Branch to seek a level playing field by encouraging trading partners to adopt similar anti-bribery policies. These efforts ultimately lead to the creation of the Organization for Economic Cooperation and Development Convention on Combating Bribery (the "OECD Convention").[4] On July 31, 1998, the Senate passed S. 2375 International Anti-Bribery and Fair Competition Act of 1998 by unanimous consent. The new legislation criminalized the bribery of foreign public officials, required business accounting transparency and promoted cooperation in the international investigation and enforcement of anti-bribery laws.[5] It further called on all parties to assert territorial jurisdiction broadly by expanding the extraterritorial scope of the FCPA through international cooperation in a wider range of cases.

*C. Anecdotal evidence: America v. Total, S.A.*

To illustrate an example of the enforcement actions, we take a case from the oil and gas industry, *United States of America v. Total, S.A.*, brought by the DOJ and SOE. Total, S.A. ("Total") is a French corporation engaging in the business of exploring for and developing oil and gas resources around the world. Total owned a number of subsidiaries, but its main US base of operations was located in Texas. On May 29, 2013, the DOJ filed a case against Total alleging conspiracy to violate the anti-bribery provisions of the FCPA, along with

[4] The Passage of the OECD Convention paralleled a series of corruption scandals in European in 1995 and 1996. The corruption allegations in Germany, France, and the United Kingdom changed national politics and combating corruption became major electoral issues.

[5] The OECD Convention calls on all parties to make it a criminal offense "for any person intentionally to offer, promise or give any undue pecuniary or other advantage, whether directly or through intermediaries, to a foreign public official, for that official or for a third party, in order that the official act or refrain from acting in relation to the performance of official duties, in order to obtain or retain business or other improper advantage in the conduct of international business."

violation of internal control provisions of the FCPA. According to the district court filings, Total accepted responsibility for the conduct alleged in the suit and agreed to pay a criminal fine of $245.2 million, to implement enhanced anti-corruption compliance policies and procedures, and to hire an independent monitor for a period of three years.

The court filings indicate that, "From May 1995 to November 2004, Total and its co-conspirators, participated in a scheme to pay approximately $60 million in unlawful payments to intermediaries designated by an Iranian official. The Iranian official was the Chairman of an Iranian engineering company owned by the Government of Iran. The purpose of the payments was to induce the Iranian Official to use his influence to assist Total in obtaining and retaining over $1 billion of business related to the Sirri A and E and South Pars oil and gas field development projects."

Exxon Mobil Corporation is an American multinational oil and gas corporation headquartered in Irving, Texas, which is also one of the world's six largest publicly traded oil and gas companies. Exxon Mobil competes with Total in multiple aspects of the oil, natural gas, and energy procurement and production. The 2014 United States Senate election in Texas was held in November 2014, with incumbent Republican Senator John Cornyn running for re-election to a third term, eventually winning Senate re-election. The enforcement action against Total was brought in 2013, preceding the Senate election in Texas. In what follows, we find evidence consistent with this pattern across the universe of FCPA violation enforcement actions from 1985-2017.

## II. Hypothesis, Data and Summary Statistics

*A. Hypothesis of Congressional Influence and Interest Groups*

From a theoretical perspective, the relationship between regulatory agencies and the political system is important but ambiguous as discussed in Weingast and Morgan (1983). The traditional view of the bureaucracy of agency decisions considers agencies act relatively independent of Congress. The traditional approach allows in many instances the failure of Congress to oversee and control agencies. For example, the lack of timely information in relevant policy areas and the high cost of congressional investigation on policy resolutions can limit congressional influence. In contrast, under the bureaucracy paradigm, regulatory agencies therefore have discretion in policies and can exert influence policy decisions.

There are several reasons why regulators might avoid enforcement against potentially corrupt U.S. firms relative to foreign firms. First, public officials may be questioned about their competency when firms under their jurisdictions are targeted, reducing their incentive to investigate local firms. Relatedly, officials might have less incentive to target U.S. firms relative to foreign firms as the costs associated with enforcement (e.g., sanction payments, investment opportunities) are borne by local business owners, employees. Second, public officials have incentive to protect the interests of U.S. companies by strategically selecting cases to maintain their competitiveness in global markets. Given these trade offs, enforcements are more likely when the benefit to local interest groups is high and the economic cost to local firms is sufficiently low. Our case-level data allows us to examine the types of cases and resolution outcomes – along with their timing - brought by regulators to explore the political motives in pre-election periods. To evaluate potential congressional influence on regulators' behavior, we examine how exogenous congressional election timing is associated with the heterogeneity in cases resolution of outcomes.

*B. Data Sources*

We hand-collect case-level data from the United States Securities and Exchange Commission (SEC) and Department of Justice (DOJ) on anti-bribery investigations and enforcements from 1985 through 2017. We analyze settlement agreements and other litigation-related documents that are published on the SEC and DOJ websites, and the Public Access to Court Electronic Records (PACER). We further augment the enforcement actions, investigations, and entities information from Foreign Corrupt Practices Act Clearinghouse (FCPAC) and verify information from the SEC, press releases, news articles, and other publicly available sources. Our case-level data on enforcement covers 589 cases that involve more than 70 countries. Our sample includes enforcement actions against U.S. companies doing business abroad and foreign firms with subsidiaries located in the United States.

The election data cover state-level returns for U.S. Senate elections from the MIT Election Data and Science Lab (MEDSL). This data includes the years that Senate elections were held between 1985 and 2017. Each Senator serves a six year-term, where the terms are staggered and approximately one-third of the seats are up for election every two years in the 100 seat chamber of the Senate. The election data includes information on: party affiliation,

election outcomes, and vote margins. We also investigate the competitiveness of election outcomes and incentives associated with enforcement actions. Our primary measure of electoral competition is margin of victory for the incumbent in the most recent Senate elections. We also obtain party affiliation and committee assignments of senators from the dataset of Charles Stewart III and Jonathan Woon, Congressional Committee Assignments, 103rd to 115th Congresses, 1993-2017. To capture the influence of senators, we examine the specific role of judiciary chairs on for laws related to enforcement actions.

Our firm-level dataset covers all publicly traded multinational firms listed on the three major U.S. equity exchanges – NYSE, NASDAQ, and AMEX; covering both foreign and U.S. firms listed. We obtain accounting data on sample firms from COMPUSTAT North America and Global. To focus on multinational corporations with similar global operations, we retain U.S. companies doing business abroad with at least one foreign subsidiary and foreign firms who operate in the U.S. with at least one subsidiarity from Bureau van Dijk-Orbis Database (BVD). For each U.S. multinational corporation, we match the state-level electoral cycles with their U.S. headquarters location. For foreign firms that have multiple subsidiaries in the U.S., we identify their most active state of operation with the largest number of subsidiaries and match with the electoral cycles in this state. The U.S. subsidiary location of foreign firms allows us to utilize disaggregated geographic information to study the effect of variation in state-level elections on enforcement outcome. [6] State macroeconomic data on GDP, employment, and population are sourced from the United States Census Bureau of Economic Analysis (BEA) and the United States Bureau of Labor Statistics (BLS).

We further investigate the influence of economic factors associated with global competition on the decision to target certain foreign firms. We first examine whether FCPA enforcements focus on targeting foreign companies that compete with U.S. firms or firms with greater foreign network exposure. In order to construct the foreign competition and network exposure measures, we use FactSet-Revere Data, which captures global economic linkages based on supply-chain relationships. In particular, Regulation SFAS No. 14 and 131 require firms to report information on operating segments in interim financial reports issued

[6] Our main analysis focuses on state-level information of foreign public firms with subsidiaries in the U.S. We also use county-level data associated with firms' main operations to construct alternative measures of locations in the robustness tests.

to shareholders. Namely, firms are required to disclose financial information on any industry segment that constitutes more than 10% of consolidated yearly sales, asset, or profits and hence identify major customer representing more than 10% of the firms' total reported sales.[7] Further, by disaggregating the types of global supply-chain relationships, we study the heterogeneous effects associated with anti-bribery enforcement actions and their global networks.

*C. Summary Statistics and Patterns around U.S. Senate Elections*

Figure 1 shows the number of enforcement actions over time – the blue and red bars plot the number of enforcement actions against U.S. and foreign firms respectively. Prior to the OECD Convention initiated in 1998, the regulatory agencies mainly target U.S. companies doing businesses abroad. The increasing number of enforcements following the OECD Convention provides suggestive evidence that indeed the SEC and DOJ did initiate increased enforcement following international "buy-in" through the establishment of the OECD Convention.

Figure 2 plots the number of anti-bribery enforcement actions around the nearest election date in U.S. states where firms are headquartered or main business is located. The lighter bars show the number of enforcements in the twelve-months leading up to a Senate election, and the darker bars indicate the number of cases in the year following a Senate election, in 3-month increments. Panel A shows the number of enforcement actions taken against U.S. companies, while Panel B shows this identical targeting statistic for foreign companies. From Panel A, there is no significant pattern or change in actions either leading up to, or following, a Senate election. Panel B shows a contrasting pattern for foreign firms. In particular, cases against foreign firms spike in the 3 months just preceding a Senate election in that foreign firms' main operating state. In particular, in the years leading up to Senate elections, the number of enforcement actions in aggregate brought by regulators jumps from the six months (regulators filed 49 cases) to three months prior to the election (101 cases). This over 100% jump in cases is statistically significant at the 1 percent level. In the twelve

[7] SFAS 131, which superseded SFAS 14 *Financial Reporting for Segments of a Business Enterprise,* became effective for fiscal years beginning after December 15, 1997. SFAS 131 permits firms to disclose country-level geographic segment disclosures after the implementation of SFAS 131. SFAS 131 increased the number of reported segments and provided more disaggregated information in the post–SFAS 131 period.

months after elections, the number of enforcement actions drops back down to the average of 43 cases. Again, from Panel A, no similar pattern is observed in the enforcement actions against a similar set of U.S. multinational firms.

Panel A of Table 1 presents our case-level analysis showing the number of enforcement cases brought by country for the top 50 countries by case numbers. A first observation is that regulatory enforcement actions against bribery are brought in regions across the globe especially in perceived corrupt countries according to the Transparency International. We transform the index to a corruption score of 0-10 for interpretation, where a higher score denotes more perceived corruption. Moreover, from Panel B, while cases are brought across industrial sectors, the top 3 sectors against which cases are brought are Manufacturing, Natural Resource Extraction, and Finance.

Table 2 reports summary statistics for our sample of U.S. firms and foreign firms. The dependent variable in our analysis is the fraction of firm-year observations that are subject to anti-bribery enforcement. Given that Senate elections are staggered and approximately one-third of the seats are up for election every two years, our sample average of *Pre-election* indicates that roughly 35 percent of the firm-year observations are headquartered in states up for elections in any given year. Our competition and foreign network exposure capture the ratio of foreign supplier chain relationships (including suppliers, customers, or competitors) to the total number of network linkages.[8]

## III. Empirical Results

### *A. Methodology*

In this section, we first test the hypothesis of time-series and cross-sectional congressional influence associated with FCPA enforcements actions. Essentially, we are attempting to more formally test the initial patterns observed in Figure 2. To do so, we use a difference-in-difference estimator to compare the enforcement outcome in treated states and control states. Specifically, we compare the probability of enforcement in states with an upcoming Senate election (the treatment group) with the probability of enforcement in states without an upcoming election (the control group), for both U.S. and foreign firms.

[8] Besides the intensive margin, our results are robust to the extensive margin of network-size, i.e., whether a firm has any foreign suppliers, customers, or competitors, which we discuss in Section V.

The advantage of our identification, as previously mentioned, is that Senate elections, unlike presidential elections, occur in different states and years over time in predetermined fashion, being predictable years in advance. Therefore, elections in each state can be considered as independent testing samples for the effect of political incentives on enforcement actions for that specific state facing election (and not others who are not), which then changes every two-year period, predictably. The substantial across-state-and-time variation allow us to exploit the exogenous in the timing of senate elections and the political incentives associated with enforcement actions.

Moreover, FCPA enforcement has discretionary components in both: i.) who to enforce against, and ii.) on the timing of targeting, given that many cases show a substantial gap between the year when corruption activities occurred and enforcement action took place. Figure A1 depicts this time lag between bribery activities and enforcement actions with an average of over eight years. Only 5% of enforcement actions (26 cases) against U.S. firms occur within five years after the initial bribery, while for foreign companies merely 1% of enforcement actions (7 cases) occur within five years. The built-in delays in enforcement further bolster its use as a discretionary tool, enlarging the pool to choose from in targeting some firms, but not others, pre-election. Moreover, the substantial average delay in enforcement alleviates the concern that elections drive changes in firm performance, which would lead to changes in corruption activities.

We estimate the following model:

$$Target_{cist} = \delta_1 PreElection_{cist} + X'_{cist}\beta + \theta_c + \theta_s + \theta_i + \theta_t + \epsilon_{cist} \quad (1)$$

where *c* indexes countries in which a firm's headquarter is located, *s* indexes states in which a firm's main operation is located in the U.S., where *i* indexes firms, and *t* indexes years. $PreElection_{cist}$ is an indicator that equals one if a firm *i* 's accounting year *t* is one year before the election in state *s*, or in the case of enforcement the enforcement occurs one year prior to the election. $X_{cist}$ is a vector of time-varying firm-level characteristics (firm size, leverage, cash ratio, ROA, sales growth) and state-level controls (the logarithm of state population, logarithm of state GDP, and state employment rate).

To address concerns regarding country- and state-level unobserved characteristics, and even fine time-invariant attributes of firms, we include a series of fixed effects (e.g., country fixed effect, state fixed effect, firm fixed effect). $\theta_c, \theta_s, \theta_i, \theta_t$ thus represent country fixed

effect, state fixed effect, firm fixed effect, and year fixed effect to control for unobserved, time-varying differences across headquarter countries, states and firms. The unit of observation in these regressions is the firm-state-country year. All standard errors are clustered at the firm level.

In the following analysis, we estimate the pre-election effect $\delta_1$ and compare the differences in anti-bribery enforcement between the sample of U.S. and foreign companies. Our multiple treatment events result across time and states in 575 separate Senate elections in 50 states over 32 years. A key identification assumption in the diff-in-diff estimation in Equation (1) is that treated and control firms share parallel trends. This parallel trend is shown in Figure 2 – in both the pre-period and post-period. Moreover, in subsequent analyses we run a number of placebo-effects specifications to show the unique importance of the election period.

*B. Baseline Results*

We test the hypothesis that political incentives are associated with anti-bribery enforcement in the year leading up to elections – namely, in a way not envisioned by, and perhaps detrimental to, the enforcement of the FCPA. Table 3 presents the linear probability regression estimates of the effect of senate election cycles on anti-bribery enforcements. Columns 1 to 3 presents results with *Target* as the dependent variable, which captures the likelihood of enforcement for U.S. and foreign firms. We include country, state, industry and year fixed effects in Column 1. The second regression (Column 2) adds firm-level controls (size, leverage, cash ratio, ROA, sales growth) and state-level variables (e.g., logarithm of GDP, employment rate, and logarithm of population). Column 3 then estimates the same regression specification, but with finer firm fixed-effects, which subsume country-, state-, and industry-fixed effects (as we have essentially no firms that are switching countries, states, or industries over our sample). $PreElection$ has an insignificant effect on the probability of enforcement in the year leading up to senate elections in all of Columns 1-3.

In Columns 4-6, we then run these same specifications but separated out solely for the sub-sample of firms headquartered in the United States. From Columns 4-6, we see no evidence of an increase in enforcement actions. In fact, the effect is even negative in point estimate, though not statistically significantly so.

Columns 7-9, however, show a very different pattern for foreign firms as targets of FCPA violation actions. Foreign firms are targeted significantly more often pre-election. The positive and significant coefficient on $PreElection$ is statistically significant at the 1 percent level across all specifications. The magnitude of the effect is economically significant: the coefficient on *Pre-election* of 0.0014 in column 8, implies that the probability of enforcement increases by 23% in the year leading up to an election ($t$=3.04) for foreign companies. Moreover, the differences in enforcement likelihood between U.S. and foreign firms is consistent with politicians and regulators exercising some discretion in timing – as normally the majority of actions (58%) are against domestic firms.

Examining the coefficient on *Pre-election* across specifications, the inclusion of state- and even fine firm-level controls and fixed-effects do not materially change the magnitude, bolstering the specification set-up and notion that elections – which again are predetermined and predictable in time and location – are in fact unlikely to be correlated with firm and state characteristics.

*C. Corroborating Evidence*

Even given the baseline results above, one might be concerned that we are simply capturing different types of firms in "U.S." vs. "Foreign" firms. In particular, perhaps the foreign firms we are measuring are simply operating in different (and appearing to be more risky, corrupt, etc.) foreign markets than the U.S. global firms that happen to show up in this sample. In order to address this challenge in separating inference regarding the enforcement from firms' global networks, we focus on a sub-sample of firms for which we compare U.S. and foreign companies with similar global segment exposures. In particular, we focus on multinational firms that operate in similar foreign markets and thus might be expected to be to subject to identical exposures, bribery-intensity environments, geographic shocks, etc. To do this, for each U.S. firm, we match their foreign subsidiaries with the subsidiaries of foreign companies that operate in the same industry and location with the closest number and identity of subsidiaries. Effectively, our analysis compares subsidiaries in the same foreign country and 4 digit SIC code industry that belongs to parent firms catering to similar foreign market segments.

Table A2 shows that matching U.S. and foreign firms with similar geographic exposure has little impact on the inference of our results. In fact, the economic magnitude is even larger in estimated impact. For instance, the coefficient on *Pre-election* in column 6 indicates that the probability of enforcement increases by 33 percent ($t$=2.34) relative to the average probability of targeting foreign firm of 3.13%. The unconditional probability is higher in this sub-sample due to the fact that we're conditioning on firms with larger geographic exposures, but again the magnitude of the relative economic effect is even somewhat larger in this sample. This result suggests that even conditioning on firms operating in similar foreign markets with similar global supply-chain exposures, foreign firms are more vulnerable to being targeted in an FCPA violation in the run-up to elections.

*D. Placebo Test – Placebo Senate Election Dates in Time and Location*

We further conduct placebo tests on Senate election dates to investigate whether unobservable state-level characteristics can explain the enforcement patterns. The results are shown in Appendix Table A3. We randomly assign Senate elections with corresponding probability equals 1/3. This reflects the U.S. Senate election term: Senators serve terms of six years each and the terms are staggered so that approximately one-third of the seats are up for election every two years. The predicted probabilities are insignificant for both U.S. and foreign companies. It provides supporting evidence that treated and control firms exhibit similar trends after elections. Overall, these tests are further evidence consistent with the impact of electoral politics on enforcements being concentrated in the pre-election period, and not in non-election years.

## IV. Where are FCPA Enforcement Actions Against Foreign Firms Concentrated in Pre-Election?

In Section III, given the inherent discretion afforded by the FCPA regarding the decision of when, and against whom, to enforce FCPA bribery allegations, we saw evidence that political incentives were associated were both; ultimately, leaving a mark on empirical enforcement patterns. In this section, we explore the cross-section and time series of the spike in FCPA enforcement actions taken against foreign firms to hopefully gain more insight on potential mechanisms that might be driving the empirical patterns we document.

*A. Locally important industries and enforcement actions*

According to constituent interest hypothesis, we might expect politicians to have less of an incentive to bring action against industries that are especially important for their states' economies. In order to proxy for this, we create a measure called *Local Concentration***,** measured as the fraction of establishments operating in industry *j* in state *s*. In the analysis, we interact the election cycles with this local economic importance of the given industry.

Table 4 presents the results. Columns 1-3 show the full-sample estimation. Across Columns 1-4 *Local Concentration* is negative and significant, consistent with politicians being less likely to spur enforcement actions against important industries in their states. Moreover, the interaction term between *Pre-election X Local Concentration* is negative and significant, suggesting that politicians might be even more reluctant to bring actions directly before an upcoming election. Moreover, from Columns 3-6, these effects largely carry through to foreign firms as well. Therefore, foreign firms who are members of important industries in the state are less likely to be targeted, and in particular before elections.

Tables 5 then explores the pattern on local constituents in further detail. In particular, in Table 5 we create a variable called *U.S. segment share*, which measures the fraction of foreign firms' segment sales in the U.S. relative to their total sales globally. Interestingly, while the coefficient on the main effect of *U.S. segment share* is positive - as perhaps as the foreign firms become more entrenched in the U.S., they become easier to collect data upon, monitor, police, etc. - the interaction term between *U.S. segment share*Pre-Election* all but zeros out the strategic timing of targeting of the foreign firms. The interaction term suggests that as a foreign firm "becomes" a U.S. firm in presence by its U.S. segment share converging to one, it zeros out any strategic targeting of that firm pre-election.

*B. Congressional Influence*

How would political motives shape regulatory enforcement? We next explore political motives by focusing on the presence of the judiciary committee chair. A congressman's accession to the judiciary committee chair increases their political influence over the enforcement agencies, often in ways virtually independent of the state's economic conditions

(Cohen et al. (2011)). Specifically, we investigate the heterogeneous effects of the accession to a judiciary committee chair in states with upcoming Senate elections.

The list of the judiciary Senate committees is from Edwards and Stewart (2006). Seniority shocks begin in the year of appointment and are applied for 6 years (the length of a Senate term). Table 6 reports the results of regressions that seek to explain variation in the probability of enforcement with Senate elections and changes in judiciary committee chairmanships. Columns 3 shows a positive relationship between seniority shocks and the likelihood of enforcement only against foreign companies but not U.S. firms (Column 2). Foreign companies with operations in state whose senator is appointed chair of the judiciary committee experience a 20 percent increase in the probability of enforcement pre-election.

*C. Competition with Foreign Companies*

We next move on to exploring the level of competition between U.S. and foreign firms operating in a given Senator's state at the time of the election. The idea is that Senators may be more likely to take action against firms that are particularly strong rivals to firms domiciled in their states (thus plausibly benefitting these firms, their employees, etc. more acutely). Moreover, this should be especially true when the Senator is able to target a Foreign competitor firm that has little to no presence in their state, as this will do the least amount of potential damage with the largest potential political benefit.

In order to explore this, we use the entire global networks among suppliers, customers, and competitors using FactSet-Revere data. Different from the Compustat segment data, Factset-Revere covers global companies and identifies their comprehensive geographic revenue exposures from April 2003 onward. In the following analysis, we test whether enforcement actions are sensitive to network exposures around election cycles. Given the interdependence among suppliers, customers, and competitors, the probability of investigation would not only depend on regions in which a firm is operating but also its business networks in those regions. In particular, we focus on enforcement actions on foreign firms that compete with U.S. firms, which would constitute a threat to the local firms and their competitive advantage.

Figure 3 illustrates an example of a global supply-chain network used in the analysis of foreign versus domestic interests. In this figure, Chevron Corporation and Total S.A.

operate in the same industry, where Chevron Corporation is a U.S. company with headquarters located in California and Total S.A. is a French company with major operations located in Texas. Chevron Corporation has both Toyota Electric Power Co. Holdings Inc. (a Japanese Company with major operations in California) and BP (a British company with major operations in Texas) in its production network. Total S.A. has ExxonMobil (a U.S. Company headquartered in Texas) and Tesla (a U.S. company headquartered in California) in its production network.

We examine whether foreign firms are targeted to an even larger extent when their entire supply-chain network and stakeholders (e.g., customers, suppliers, JV partners, etc.) are located more outside of the U.S. (as opposed to brining more exposure to the U.S.). The idea behind this test is that the downside to targeting (and potentially harming) foreign firms would be attenuated if it has less direct and collateral damage domestically.

Table 7 shows tests of this using *Foreign Network*, which measures the percentage of the Foreign firms' operations occurring completely outside of the U.S. (as opposed to bringing U.S. exposure). From Columns 3 and 4, for U.S. companies the insignificant results on the interaction terms indicate that U.S.-based companies do not experience increases in enforcement irrespective of their share of suppliers or customers which occur outside of the U.S. In contrast, from Columns 5 and 6, foreign companies face a higher probability of enforcement if they have weaker overall economic links with the U.S., and a larger share of their networks located outside of U.S. borders.

We further investigate whether foreign competition has explanatory power for enforcement actions in the year leading up to elections. To examine the sensitivity of enforcement actions to the extent of foreign competition, we estimate Equation (2) as:

$$Target_{cist} = \delta_1 Preelection_{cist} + \delta_2 Foreign\ Competitor_{it} + \delta_3 Preelection_{cist} \times Foreign\ Competitor_{it} + X'_{cist}\beta + \theta_c + \theta_s + \theta_i + \theta_t + \epsilon_{cist}$$

We define $Foreign\ Competitor_{it}$ at the firm level as the fraction of company $j \neq i$ headquartered in other countries $d \neq c$ that compete with company $i$ within its production network. In this specification, we exploit the time-series variation in foreign competition on enforcement across election cycles. This approach controls for self-selection of firms in foreign businesses and its exposure to other foreign competing firms, as well as any fixed firm-specific unobservables.

Table 8 shows the effect of foreign competition on the probability of enforcement in the year leading up to elections. In regression specifications, we control for year-, country-, state-, industry-, and firm fixed-effects where indicated to isolate confounding effects due to common regional trends. From Columns 1-4, for the overall sample of firms, and for U.S. firms in particular, the effect of elections on the probability of enforcement is statistically insignificant, including the incremental impact of having a foreign competitor.

However, for the sample of foreign companies, the story again is in sharp contrast. In particular, from Column 6, from the coefficient on *Pre-election X ForeignCompetitor* being positive and significant (0.0127, $t$=2.31) indicates that foreign firms are targeted significantly more often when they have a higher concentration of foreign competitors. The point estimates implies that going from the 25$^{th}$ percentile to the 75$^{th}$ percentile of the sample distribution of the share of foreign competitors (i.e., from 0 to 0.167) magnifies the positive effect of pre-election on enforcement by 24%.[9]

Columns 7 and 8 then disaggregates this effect even further into whether that competitors of the foreign firm are largely U.S. firms (e.g., ExxonMobil) vs. other foreign firms (e.g., Royal Dutch Shell PLC). From Columns 7 and 8, the effect is mainly driven by instances in which the competitors of the foreign firm are U.S. domiciled. This is consistent with regulators weighing the political motive and capital gained when using the FCPA enforcement as a potential political tool.

We further examine whether enforcement agencies are equally responsive in targeting foreign companies that have customers operate in versus outside of their constituencies. In the Table A4, we test whether enforcement agencies are responsive relatively more to the country in which a firm's headquarter is located or the state in which a firm's major operation is located. *Foreign In-state Competitor* is the share of a company's supply-chain networks that are foreign and with major business operations located in the same state as the company. In all specifications, the insignificant result indicates that politicians are less responsive to the simple state location of suppliers or customers, which would include both foreign and US firms. Instead, they are sensitive to the country in which a firm's headquarter is located and

[9] In recently issued FCPA guidance, the DOJ and SEC jointly reaffirmed their position that U.S.- and foreign-based issuers, and U.S. citizens, nationals, residents, and entities, can be subject to territorial jurisdiction for any use of interstate commerce in furtherance of a corrupt payment to a foreign official, see https://www.justice.gov/criminal-fraud/fcpa-guidance.

are precise in targeting both the company and its global networks in pre-election period as shown previously.

Table A5 further shows that enforcement agencies are responsive to supply-chain networks that are foreign and operate outside of their own states. *Foreign Out-state Competitor* is the share of a company's supply-chain networks that are foreign and with major business operations located in different states than the company. Consistent with the findings on the protectionism towards U.S. firms, the insignificant coefficient on the interaction term in columns (3) and (4) further suggests that enforcement agencies have less incentive to target U.S. companies. In column (6), the coefficient on Foreign Out-state Competitor is positive and statistically significant at the 10 percent level for foreign firms. Together with the findings shown in Table 8, we find evidence that enforcement agencies not only target foreign companies that compete with U.S. firms but also those headquartered in other states. This result supports the interest groups hypothesis that regulators respond less actively in targeting local firms to protection their constituency but are more aggressive in targeting foreign firms that are located at a greater distance.

*D. Weaker Cases Brought Against Foreign Firms Pre-election*

If political motivations do help explain the spike in FCPA cases brought against foreign firms pre-election, we might expect these cases to be weaker on other dimensions. This is because the political motivations would result in having to run a constrained-maximization of enforcement choice and timing to acutely those cases that fit geography-time motivation at that precise pre-election timing. We explore these characteristics in Figure 4. Figure 4 plots the "diff-in-diff" with each histogram bar in each respective panel showing the % difference between (Foreign-US) of that category, and then the bars comparing Election vs. Non-Election Years. From Figure 4, cases brought against foreign firms pre-election bear a number of markers of being weaker cases. First, they are significantly less likely to ever make it to court proceedings. In addition, they are significantly more likely to end in plea-agreements for the accused firm. Moreover, they are associated with significantly lower sanction-to-bribe ratio of dollars collected (e.g., the amount of "sanctions" for each dollar of alleged bribery). Lastly, they involve significantly fewer forms of bribery than in other cases (e.g., money, automobiles, real-estate, vacations, etc.). In addition to the evidence

from Figure 4, we find additional corroborative evidence shown in Figure A2. From Figure A2, for example, these cases brought against foreign firms pre-election are also much less expansive than the usual FCPA case brought (involving both significantly fewer alleged countries of infraction, and significantly fewer mitigating factors).

*E. Enforcement by DOJ vs. SEC and Political Party*

FCPA oversight and enforcement is handled jointly by the U.S. SEC and U.S. DOJ. In this section, we both explore the dynamics of cases brought by each – in particular with regard to the pre-election spike in enforcement actions against foreign firms – along with exploring the dynamics of enforcement when different parties are in political power.

Table A6 first explores the patterns of enforcement actions brought by both the SEC and the DOJ over the electoral cycles we explore in the paper. From Table A6, nearly the entire strategic timing effect we document is driven through cases brought by the DOJ (while the SEC has a constant level of enforcement actions being brought across election vs. non-election years). This is consistent with the political influence from judiciary result we document, in that the DOJ has direct oversight from the Senate Judiciary Committee, and Senators might have influence channels stemming through this direct authority and oversight structure. Table A7 provides confirmatory evidence of this, in that the location of SEC regional offices has no impact on the pre-election spike in cases brought against foreign firms.

Table A8 then explores whether the targeting behavior we document is observed differentially depending on which party controls the current presidency. We find that the strategic timing of enforcement actions against foreign firms is concentrated in periods in which a Republican administration is in control of the White House. From Table A8, while in general less enforcements of any kind are brought against foreign or domestic firms, the strategic timing of increasing intensity of targeting of foreign firms seems to occur predominantly under administrations with a Republican president in power.

*C. Additional placebo test: Investigations vs. Enforcements Timing*

Previous findings in this paper focus on instances that progressed to FCPA anti-bribery enforcement actions. Prior to enforcement actions, however, the DOJ and SEC first

monitor potential corruption activities and develop cases based on this monitoring, absent of outside influence or sources. Importantly, many of these investigations never develop into enforcement actions. Moreover, they can often take a significant amount of time to develop and unfold, and their existence is not made public until an action is taken (or decided definitively to not be taken). Thus, prompting an opening of an investigation is not a strategically sensible political tool to use pre-election, as the outcome will be realized often years after the election has already taken place (and at an uncertain point in the future with uncertain outcome). In contrast, influencing the prompting of an enforcement action results in an immediate public signal, and an immediate realization of potential political pay-off.

We use these "investigations" as a placebo group to test whether foreign firms also exhibit the same enforcement pattern in this sample. If it were true that foreign firms were simply engaging in more corrupt activities, and doing so in a specific timing pattern consistent with the results to this point, the same pattern might be expected to arise in investigations.

To investigate this alternative explanation, we compare the probability of investigations between U.S. and foreign firms using data from 298 investigation announcements from 1985-2017. The estimates reported in Table A9, however, show no such similar patterns. U.S. and foreign firms have identical patterns pre-elections, both showing statistically zero difference in investigation initiation surrounding these times.

**V. Real Effects on Firm Behavior Associated with FCPA Enforcement Actions**

Lastly, we turn to the response of those firms that are targeted by Foreign Corrupt Practices Act Violation enforcement actions, in order to examine how firms operations differ before and after enforcement actions are undertaken. We explore these firm behaviors in Tables 9-11.

First, Table 9 documents that all firms – domestic *and* foreign – display distinct changes from pre-post following FCPA enforcement. In particular, firms significantly reduce their firm operations in those countries who rank most highly on a Global Corruption Score Index. They do so in terms of both: i.) the percentage of their global segments domiciled in more corrupt countries (Columns 1-4), and ii.) by an explicit reduction in the *number* of global segment locations in these countries perceived as more corrupt (Columns 5-8). Table 10 then provides corroborating evidence of this change in real behavior on the dimension of a

reduction in firm-level sales consummated in these countries perceived as more corrupt post-enforcement actions.

Lastly, Table 11 then explores which countries' firms exhibit the largest changes and shifts in underlying global firm operations following FCPA enforcement actions being taken. Table 11 shows that firms from those nations perceived as least corrupt nations appear most responsive to the FCPA actions. This is consistent with anecdotal accounts that partner-governments of these nations have worked more closely with U.S. analog agencies to enforce the FCPA and mirror trade laws and agreements across nations. In sum, the findings of Tables 9-11 on changes in firm real production and sales behavior associated with FCPA actions accentuate the increasing importance of global sales and production location optimization in firm operational decisions and outcomes.

## V. Conclusion

In this paper, we test the hypothesis that political incentives are associated with anti-bribery enforcement. We use case-level data from the DOJ and SEC and augment with subsidiary data of global firms to provide empirical evidence that FCPA violations show variation with political motives. This is in contrast to what the laws were envisioned for – being initiated to level the playing field for increasing international global commerce and trade. However, we show that the nature of FCPA violation enforcement builds in discretionary components in both who to enforce against, and when to enforce the violation (with the average gap between violation and enforcement being an average of 8 years). Using U.S. Senate elections as identification, we find that enforcement actions against foreign firms spike over 20% in the year leading up to elections, with no similar pattern for U.S. domiciled firms. A nice aspect of this identification is that Senate elections occur are predictable years in advance, and occur for only roughly one-third of states in any given election-cycle year (unlike presidential elections). Thus, this provides plausibly exogenous geographic- and time-series variation for identification of accentuated political incentives.

We find that the spikes in enforcement are significantly larger when foreign firms compete more closely with firms in the U.S. Senator's home state, along with when the given foreign firm has little to no presence in the home state itself (to minimize collateral damage).

More broadly, the more of the foreign firm's production network that is located abroad, the more likely it is to be targeted. In contrast, when the foreign firm is a part of an locally important firm in the state, it is comparatively less likely to be targeted. We find no evidence that placebo election years have any similar patterns, nor do investigations that were initiated completely internally by the SEC or DOJ.

Stepping back, our research provides a first step in exploring the subtle role of political economy in regulatory enforcement against corruption. In particular, the implementation of the Foreign Corrupt Practices Act appears to deviate in fundamental respects from its aim. Given the foundational importance of the Foreign Corrupt Practices Act as a template for level-playing field international regulation and cooperation, shining a light on weaknesses to its current implementation is crucial to improving international agreements moving ahead. Future global integration and global trade are dependent on precisely this understanding and refinement occurring.

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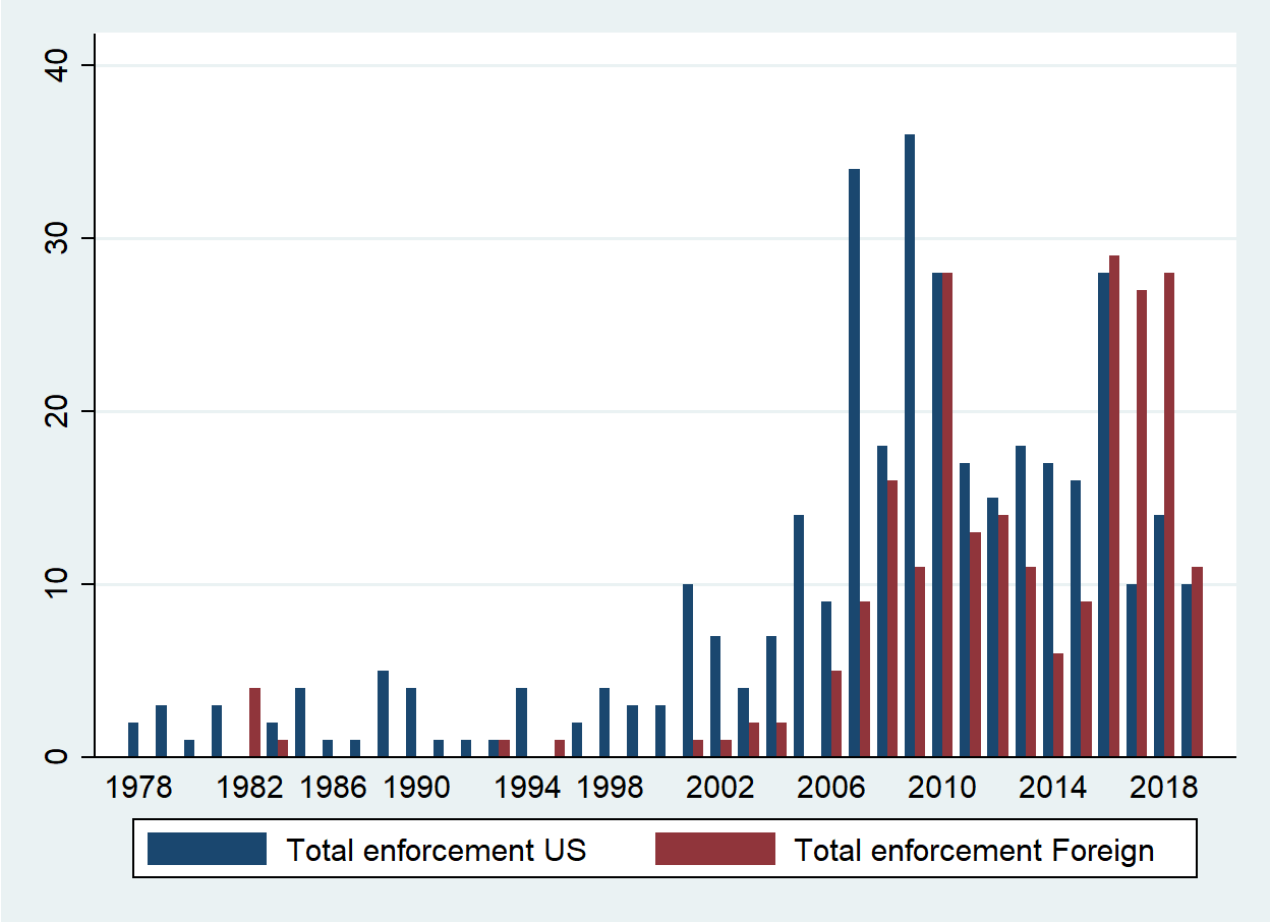
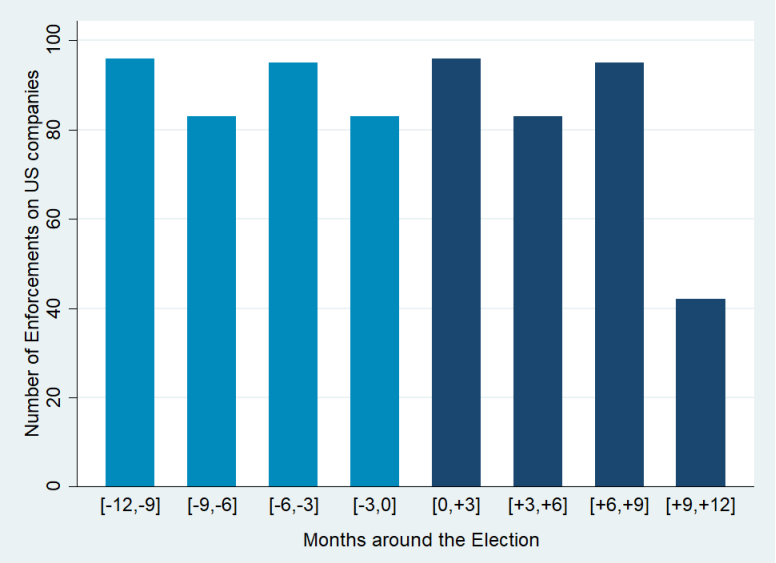



**Figure 1. Number of anti-bribery enforcement cases.** This figure shows the number of anti-bribery enforcement actions initiated by both the U.S. Department of Justice (DOJ) and Securities and Exchange Commission (SEC) in each year between 1978 and 2017.

Panel A: Enforcement on U.S. companies




Panel B: Enforcement on foreign companies

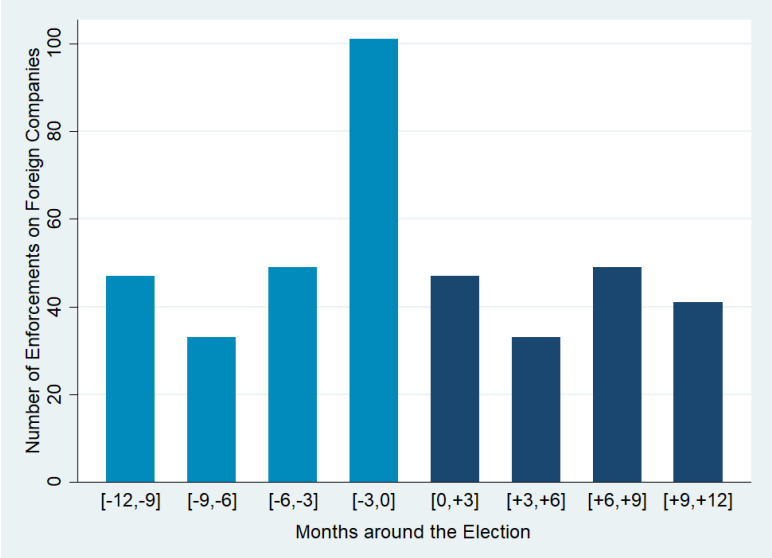



**Figure 2: Electoral cycle and anti-bribery enforcements.** These figures plot the number of anti-bribery enforcement actions around the nearest election date in U.S. states where firms are headquartered or main business is located from 1978 to 2017. Panel A shows the number of enforcement actions against U.S. companies and Panel B presents the number of enforcement cations against foreign companies. The lighter bars show the number of enforcements in twelve-month increments leading up to a Senate election, and the darker bars indicate the number of cases after a Senate election

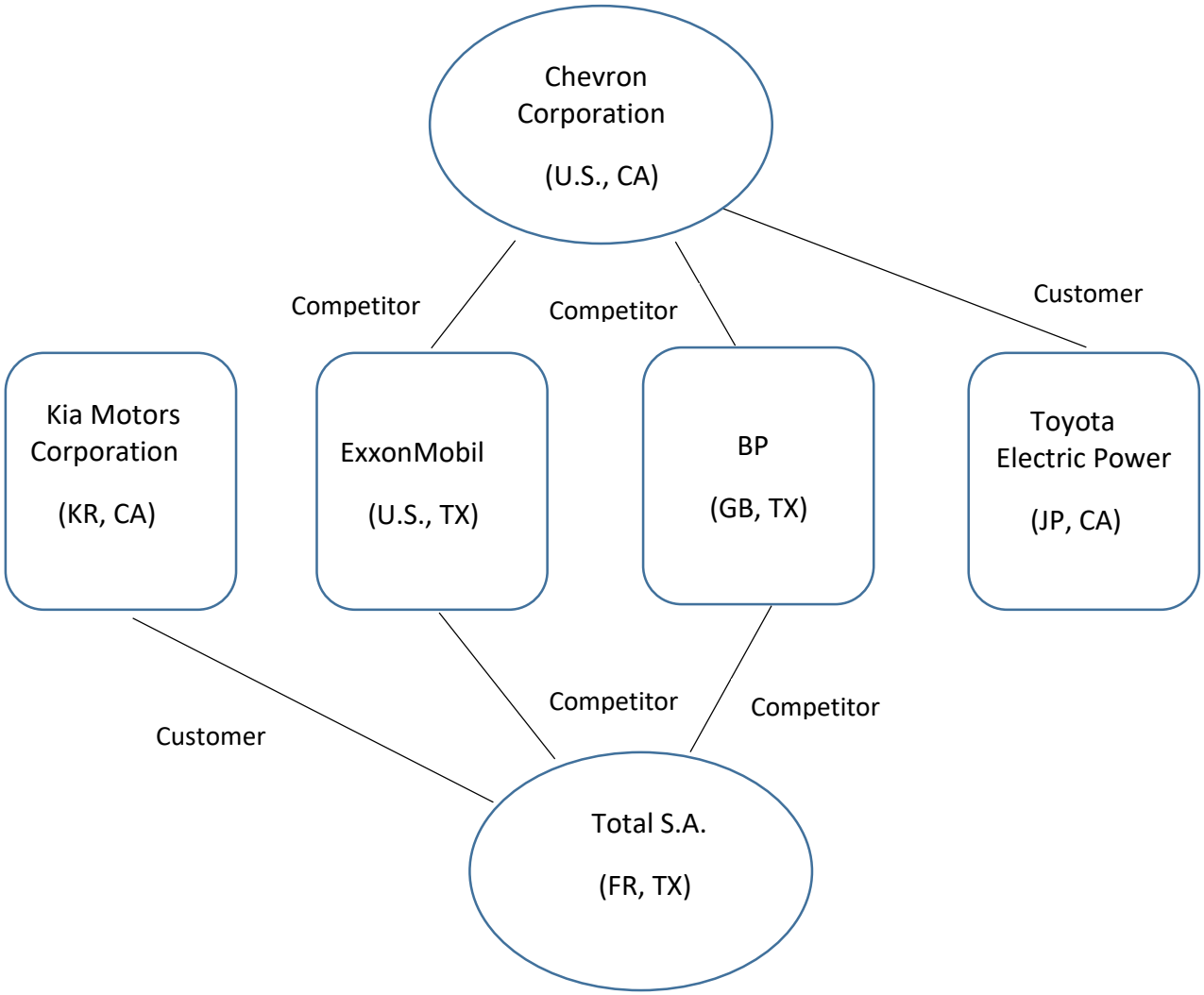
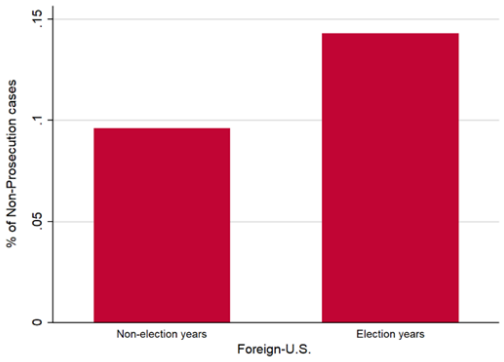
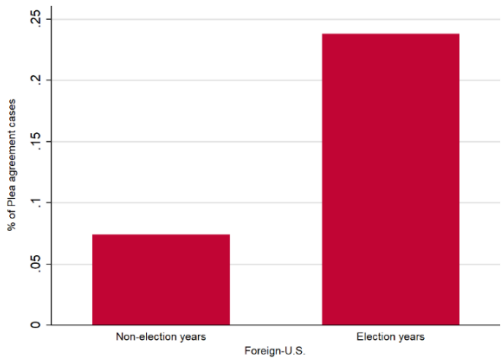



**Figure 3. Global Networks**. This figure illustrates the global supply-chain networks used in the analysis of foreign versus domestic interests. In this figure, Chevron Corporation and Total S.A. operate in the same industry, where Chevron Corporation is a U.S. company with headquarter located in California and Total S.A. is a French company with major operations located in Texas. Chevron Corporation has Toyota Electric Power Co. Holdings Inc. (a Japanese Company with major operations in California) as its customer and BP as its competitors (a British company with major operations in Texas) within its production networks. Total S.A. has Kia Motors Corporation (a Korean company headquartered in California) as its customer and ExxonMobil as its competitors (a U.S. Company headquartered in Texas).

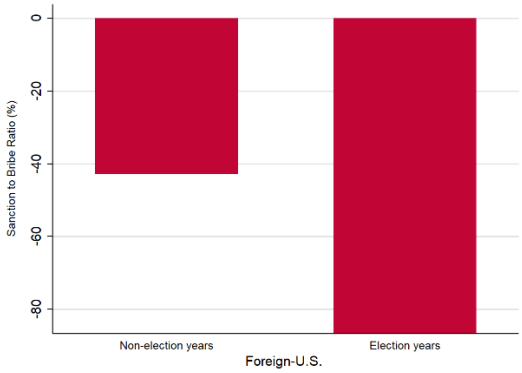
Panel A: Cases never reaching court




Panel B: Plea agreement cases




Panel C: Sanction to bribe ratio




Panel D: Forms of bribery payment

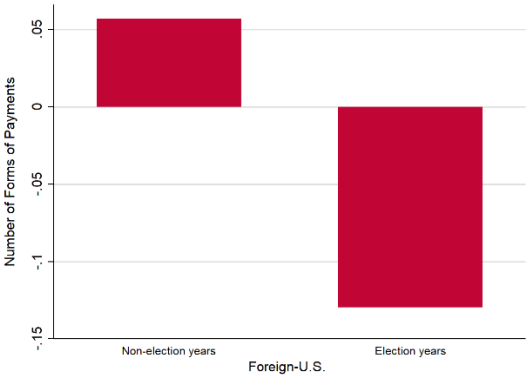



**Figure 4: Case resolution outcomes – Proxies for Weaker Cases.** Panel A plots the difference-in-differences in the fraction of cases that never reach the level of being considered in court; being resolved in non-prosecutions between foreign and U.S. companies. The figure shows the difference between (Foreign-U.S.) percentages of these types of cases in election years vs. non-election years. Panel B shows the parallel difference in the fraction of cases resolved in plea agreements between (Foreign - U.S.) companies and between election years and non-election years. Panel C shows the average sanction to bribe ratio, Panel D shows the average number of payment forms (e.g., cash, non-cash gifts, travel, lodging, electronics, computer equipment, clothing, accessories etc.).

## Table 1
## Enforcements by Bribery Occurred Countries and Industries

This table provides the number of enforcement actions and the number of listed firms involved in bribery over the sample period (1978 to 2019) based on country where bribery was alleged to occur. *Corruption Perceptions Index* is obtained from the Transparency International from 1998 to 2019 and calculated using different data sources from different institutions that capture perceptions of corruption with a focus on the public sector. Since 2012, the index has a scale of 0-100 where a 0 indicates the highest level of perceived corruption and 100 indicates the lowest level of perceived corruption (prior to 2012, it has a scale of 0-10). In all analysis, we transform the index to a *corruption score* of 0-10 for interpretation, where a higher score denotes more corruption. Panel A shows the number of cases and the number of firms targeted across countries, and Panel B provides the distribution across industries.

Panel A: Enforcement by Corruption Involved Country/Segment

| Country ISO | Country | Enforcement case ranking | Total number of cases | Total number of firms | Corruption score |
|---|---|---|---|---|---|
| CHN | China | 1 | 95 | 53 | 6.1 |
| NER | Nigeria | 2 | 65 | 29 | 7.4 |
| IRQ | Iraq | 3 | 46 | 22 | 8.5 |
| VEN | Venezuela | 4 | 45 | 10 | 8.0 |
| MEX | Mexico | 5 | 43 | 19 | 6.6 |
| BRA | Brazil | 6 | 38 | 21 | 6.0 |
| IDN | Indonesia | 7 | 36 | 18 | 6.8 |
| RUS | Russia | 8 | 32 | 15 | 7.7 |
| SAU | Saudi Arabia | 9 | 25 | 13 | 5.6 |
| ARG | Argentina | 10 | 25 | 13 | 7.0 |
| KAZ | Kazakhstan | 11 | 23 | 13 | 7.1 |
| THA | Thailand | 12 | 22 | 9 | 6.2 |
| AGO | Angola | 13 | 19 | 12 | 7.7 |
| GAB | Gabon | 14 | 19 | 4 | 7.2 |
| PAN | Panama | 15 | 14 | 3 | 6.2 |
| EGY | Egypt | 16 | 14 | 8 | 7.1 |
| KOR | Korea, South | 17 | 14 | 6 | 4.6 |
| ECU | Ecuador | 18 | 13 | 4 | 7.7 |
| ARE | United Arab Emirates | 19 | 12 | 6 | 3.2 |
| LBY | Libya | 20 | 12 | 6 | 8.3 |
| VNM | Vietnam | 21 | 12 | 7 | 6.7 |
| GNQ | Equatorial Guinea | 22 | 11 | 7 | 8.1 |
| COD | Democratic Republic of Congo | 23 | 11 | 6 | 7.8 |
| UZB | Uzbekistan | 24 | 11 | 6 | 8.4 |
| POL | Poland | 25 | 10 | 8 | 4.5 |
| GRC | Greece | 26 | 10 | 7 | 6.6 |
| CRI | Costa Rica | 27 | 10 | 4 | 5.2 |
| AZE | Azerbaijan | 28 | 10 | 6 | 7.8 |
| BGD | Bangladesh | 29 | 10 | 7 | 7.3 |
| TWN | Taiwan | 30 | 9 | 4 | 4.4 |

| | | | | | |
|---|---|---|---|---|---|
| TUR | Turkey | 31 | 8 | 4 | 5.9 |
| COL | Colombia | 32 | 8 | 4 | 6.2 |
| PHL | Philippines | 33 | 8 | 4 | 7.7 |
| SEN | Senegal | 34 | 7 | 2 | 6.7 |
| HTI | Haiti | 35 | 7 | 2 | 7.8 |
| KWT | Kuwait | 36 | 7 | 5 | 5.1 |
| MYS | Malaysia | 37 | 7 | 3 | 5.6 |
| HND | Honduras | 38 | 7 | 2 | 7.6 |
| UKR | Ukraine | 39 | 6 | 3 | 7.1 |
| IRN | Iran | 40 | 6 | 4 | 7.5 |
| GHA | Ghana | 41 | 6 | 4 | 5.7 |
| HRV | Croatia | 42 | 6 | 3 | 5.4 |
| TCD | Chad | 43 | 6 | 2 | 8.0 |
| MNE | Montenegro | 44 | 6 | 3 | 5.5 |
| RWA | Rwanda | 45 | 5 | 1 | 7.2 |
| MOZ | Mozambique | 46 | 5 | 4 | 7.3 |
| PAK | Pakistan | 47 | 5 | 4 | 7.3 |
| KGZ | Kyrgyzstan | 48 | 5 | 2 | 8.0 |
| BEN | Benin | 49 | 5 | 2 | 7.1 |
| MRT | Mauritania | 50 | 4 | 3 | 7.3 |

Panel B: Enforcement by Targeted Industry

| Targeted Industry | NAICS2 | Total number of cases | Total number of firms |
|---|---|---|---|
| Manufacturing | 31-33 | 229 | 110 |
| Mining, Quarrying, and Oil and Gas Extraction | 21 | 60 | 21 |
| Finance and Insurance | 52 | 29 | 13 |
| Professional, Scientific, and Technical Services | 54 | 19 | 10 |
| Information | 51 | 19 | 7 |
| Wholesale Trade | 42 | 15 | 7 |
| Transportation and Warehousing | 48-49 | 14 | 7 |
| Construction | 23 | 10 | 3 |
| Agriculture, Forestry, Fishing and Hunting | 11 | 8 | 3 |
| Health Care and Social Assistance | 62 | 5 | 2 |

**Table 2**
**Descriptive Statistics**

Panel A presents the summary statistics of targeted and non-targeted firms. The sample includes Compustat North America and Global listed firms with subsidiary information from Bureau van Dijk Orbis Database across all countries. Target indicates whether firms were subject to the U.S. Department of Justice (DOJ) and Securities and Exchange Commission (SEC) enforcement during the sample period from 1985 to 2017. Target Foreign equals one if a foreign firm that was subject to anti-bribery enforcement during the sample period and equals zero otherwise. Pre-election is a dummy variable that equals one if the enforcement occurs one year prior to the election, or the firm's accounting year is one year before the election in the case of no enforcement. State GDP is the logarithm of gross domestic product by state in thousands of dollars). Employment rate is the state-level employment rate from Bureau of Economic Analysis. Panel B presents the case-level characteristics during election and non-election years and between U.S. and foreign firms.

Panel A: Firm-level annual variables, years 1985-2017, firms = 8,677

| | Mean | Median | Standard Deviation | Observation |
|---|---|---|---|---|
| Target | 0.015 | 0.000 | 0.121 | 137,844 |
| Target U.S. | 0.009 | 0.000 | 0.095 | 137,844 |
| Target Foreign | 0.006 | 0.000 | 0.076 | 137,844 |
| Pre-election | 0.350 | 0.000 | 0.477 | 137,844 |
| Size | 7.101 | 6.833 | 3.169 | 137,844 |
| Leverage | 0.543 | 0.543 | 0.242 | 137,844 |
| Cash | 0.156 | 0.101 | 0.166 | 137,844 |
| ROA | 0.086 | 0.099 | 0.153 | 137,844 |
| Sales Growth | 0.216 | 0.125 | 0.561 | 137,844 |
| Powerful Committee | 0.395 | 0.000 | 0.489 | 124,288 |
| Senior Committee | 0.203 | 0.000 | 0.402 | 124,288 |
| Local Concentration | 0.036 | 0.022 | 0.031 | 141,495 |
| U.S. exposure | 0.933 | 1.000 | 0.250 | 62,150 |
| U.S. segment share | 19.581 | 19.815 | 2.615 | 55,995 |
| ForeignCompetitor | 0.117 | 0.000 | 0.204 | 55,065 |
| U.S. Competitor | 0.022 | 0.000 | 0.094 | 55,065 |
| Non-U.S. Competitor | 0.095 | 0.000 | 0.166 | 55,065 |
| Foreign Network | 0.239 | 0.000 | 0.391 | 55,065 |
| Corruption exposure | 4.206 | 4.652 | 1.272 | 62,142 |
| Log (# segments in top 50 perceived corrupt countries) | 1.699 | 2.079 | 1.480 | 62,142 |
| Log (# segments in top 100 perceived corrupt countries) | 2.237 | 2.944 | 1.769 | 62,142 |
| Log (segment sales in top 50 perceived corrupt countries) | 10.926 | 14.772 | 8.931 | 62,142 |
| Log (segment sales in top 100 perceived corrupt countries) | 12.771 | 16.825 | 9.485 | 62,142 |

**Table 3**
**Senate Elections and Anti-bribery Enforcement**

This table presents regression analysis of anti-bribery enforcements on Senate elections for the years 1985 to 2017. The independent variable *Pre-election* is an indicator that equals one if a firm *i* 's accounting year *t* is one year before the election in state *s*, or in the case of enforcement the enforcement occurs one year prior to the election. *Target* equals one if firm *i* is subject to the U.S. Department of Justice (DOJ) and Securities and Exchange Commission (SEC) enforcement year *t*, and equals zero otherwise. *Target Foreign* equals one if there is a regulatory enforcement on foreign firm *i* in year *t*, and equals zero otherwise. Firm-level controls include size (the log of assets), leverage (the sum of long-term debt plus current debt divided by total assets), cash (cash divided by total assets), ROA (operating income divided by total assets), sales growth (three-year average of annual growth in sales in U.S. dollars). State-level control *State GDP* is the logarithm of gross domestic product by state in thousands of dollars). *State Employment Rate* is the state-level employment rate from Bureau of Economic Analysis. In all regressions, standard errors are clustered at the firm level, which are shown in the parentheses. ***, **, or * indicates that the regression coefficient is statistically significant at the 1%, 5%, and 10% level respectively.

| | Target | | | Target U.S. | | | Target Foreign | | |
|---|---|---|---|---|---|---|---|---|---|
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) |
| Pre-election | 0.0006 | 0.0008 | 0.0007 | -0.0005 | -0.0005 | -0.0006 | 0.0011*** | 0.0013*** | 0.0014*** |
| | (0.0006) | (0.0006) | (0.0007) | (0.0005) | (0.0005) | (0.0005) | (0.0004) | (0.0004) | (0.0004) |
| Size | | 0.0077*** | 0.0001 | | 0.0045*** | 0.0012 | | 0.0031*** | -0.0011 |
| | | (0.0008) | (0.0013) | | (0.0007) | (0.0008) | | (0.0005) | (0.0011) |
| Leverage | | 0.0085 | 0.0080 | | 0.0024 | 0.0089 | | 0.0061 | -0.0008 |
| | | (0.0065) | (0.0069) | | (0.0044) | (0.0061) | | (0.0052) | (0.0031) |
| Cash | | 0.0088 | 0.0149** | | 0.0011 | 0.0196*** | | 0.0077** | -0.0047 |
| | | (0.0056) | (0.0059) | | (0.0044) | (0.0047) | | (0.0036) | (0.0036) |
| ROA | | -0.0183*** | -0.0005 | | -0.0042 | -0.0021 | | -0.0140*** | 0.0016 |
| | | (0.0052) | (0.0058) | | (0.0035) | (0.0044) | | (0.0041) | (0.0039) |
| Sales Growth | | -0.0051*** | -0.0004 | | -0.0037*** | -0.0007 | | -0.0014*** | 0.0003 |
| | | (0.0008) | (0.0011) | | (0.0008) | (0.0008) | | (0.0004) | (0.0009) |
| State Employment Rate | | 0.3162** | 0.3975** | | 0.1122 | 0.1415 | | 0.2040** | 0.2560* |
| | | (0.1236) | (0.1603) | | (0.0726) | (0.0921) | | (0.0999) | (0.1346) |
| State Population | | 0.1256*** | 0.1576*** | | 0.0527* | 0.0633 | | 0.0729** | 0.0943** |
| | | (0.0430) | (0.0567) | | (0.0314) | (0.0419) | | (0.0289) | (0.0393) |
| State GDP | | -0.0623* | -0.0808* | | -0.0102 | -0.0087 | | -0.0521* | -0.0721** |
| | | (0.0341) | (0.0436) | | (0.0204) | (0.0259) | | (0.0277) | (0.0360) |
| Year FE | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Country, state, industry FE | Yes | Yes | Subsumed | Yes | Yes | Subsumed | Yes | Yes | Subsumed |
| Firm FE | No | No | Yes | No | No | Yes | No | No | Yes |
| Observations | 137,844 | 137,844 | 137,840 | 137,844 | 137,844 | 137,840 | 137,844 | 137,844 | 137,840 |
| R-squared | 0.1490 | 0.1635 | 0.4682 | 0.1206 | 0.1292 | 0.4703 | 0.1431 | 0.1497 | 0.4276 |

**Table 4**
**Locally Important Industries**

This table presents regressions of enforcement on locally important industries. The independent variable *Pre-election* equals one if the enforcement occurs one year prior to the election, or the firm's accounting year is one year before the election in the case of no enforcement. *Target* indicates whether firms were subject to the U.S. Department of Justice (DOJ) and Securities and Exchange Commission (SEC) enforcement during the sample period. *Target Foreign* equals one if a foreign firm that was subject to anti-bribery enforcement during the sample period and equals zero otherwise. We identify *Local Concentration* as the fraction of establishments that operate in industry *j* in state *s*. *Log(GDP)* is the logarithm of gross domestic product by state in thousands of dollars). In all regressions, standard errors are clustered at the firm level, which are shown in the parentheses. ***, **, or * indicates that the regression coefficient is statistically significant at the 1%, 5%, and 10% level respectively.

| | Target | | | Target US | | | Target Foreign | | |
|---|---|---|---|---|---|---|---|---|---|
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) |
| Pre-election | 0.0007 | 0.0034*** | 0.0034*** | 0.0002 | 0.0001 | 0.0002 | 0.0028*** | 0.0033*** | 0.0032*** |
| | (0.0008) | (0.0012) | (0.0012) | (0.0009) | (0.0009) | (0.0008) | (0.0007) | (0.0009) | (0.0009) |
| Local concentration | -0.1384*** | -0.2084 | -0.4017** | -0.1195** | -0.2921** | -0.1820 | -0.0639** | 0.0837 | -0.2197** |
| | (0.0428) | (0.1278) | (0.1655) | (0.0551) | (0.1163) | (0.1219) | (0.0269) | (0.0897) | (0.0976) |
| Pre-election × Local concentration | -0.0195** | -0.0283** | -0.0217 | -0.0067 | -0.0037 | -0.0050 | -0.0182** | -0.0247*** | -0.0167* |
| | (0.0099) | (0.0133) | (0.0136) | (0.0122) | (0.0104) | (0.0097) | (0.0087) | (0.0084) | (0.0097) |
| Firm and state controls | No | Yes | Yes | No | Yes | Yes | No | Yes | Yes |
| Year FE | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Country, state, industry FE | Yes | Yes | Subsumed | Yes | Yes | Subsumed | Yes | Yes | Subsumed |
| Firm FE | No | No | Yes | No | No | Yes | No | No | Yes |
| Observations | 141,495 | 91,555 | 91,474 | 91,555 | 91,555 | 91,474 | 91,555 | 91,555 | 91,474 |
| R-squared | 0.0357 | 0.2120 | 0.6047 | 0.0269 | 0.1641 | 0.6180 | 0.0768 | 0.2018 | 0.5550 |

**Table 5**
**Foreign Companies' Exposure in the U.S.**

This table presents regressions of enforcement related to the presence of foreign firms' in the U.S. Pre-election equals one if the enforcement occurs one year prior to the election, or the firm's accounting year is one year before the election in the case of no enforcement. U.S. segment share measures the fraction of foreign firms' segment sales in the U.S. relative to their total sales globally. Target U.S. equals one if a U.S. firm was subject to anti-bribery enforcement during the sample period and equals zero otherwise. Target Foreign equals one if a foreign firm was subject to anti-bribery enforcement during the sample period and equals zero otherwise. In all regressions, standard errors are clustered at the firm level, which are shown in the parentheses. ***, **, or * indicates that the regression coefficient is statistically significant at the 1%, 5%, and 10% level respectively.

| | The sales of foreign firm business in the U.S. | |
|---|---|---|
| | Target Foreign | |
| outcome | (1) | (2) |
| Pre-election | 0.0021*** | 0.0019*** |
| | (0.0006) | (0.0007) |
| U.S. segment share | 0.0207*** | 0.0143** |
| | (0.0061) | (0.0060) |
| Pre-election*U.S. segment share | -0.0022** | -0.0021** |
| | (0.0009) | (0.0010) |
| Firm and state controls | Yes | Yes |
| Year FE | Yes | Yes |
| Country, state, industry FE | Yes | Subsumed |
| Firm FE | No | Yes |
| Observations | 57,995 | 57,858 |
| R-squared | 0.0828 | 0.5168 |

**Table 6**
**Judiciary Committees and Enforcement**

This table reports panel regressions of the probability of enforcement on election cycles and the presence of powerful chairman. The Senate judiciary chair is from Edwards and Stewart (2006). Seniority shocks begin in the year of appointment and are applied for 6 years. *Pre-election* equals one if the enforcement occurs one year prior to the election, or the firm's accounting year is one year before the election in the case of no enforcement. *Foreign Competitor* is the share of a company's competitors that are headquartered in other countries. *Target* indicates whether firms were subject to the U.S. Department of Justice (DOJ) and Securities and Exchange Commission (SEC) enforcement during the sample period. *Target U.S.* equals one if a U.S. firm was subject to anti-bribery enforcement during the sample period and equals zero otherwise. *Target Foreign* equals one if a foreign firm was subject to anti-bribery enforcement during the sample period and equals zero otherwise.

| | Target | Target US | Target Foreign |
|---|---|---|---|
| outcome | (1) | (2) | (3) |
| Pre-election | -0.0001 | -0.0013* | 0.0012* |
| | (0.0010) | (0.0007) | (0.0006) |
| Judiciary Chair | 0.0038*** | 0.0020*** | 0.0018*** |
| | (0.0005) | (0.0004) | (0.0003) |
| Pre-election × Judiciary Chair | 0.0023** | 0.0011 | 0.0012** |
| | (0.0009) | (0.0007) | (0.0006) |
| State and firm controls | Yes | Yes | Yes |
| Year FE | Yes | Yes | Yes |
| Country, state, industry FE | Subsumed | Subsumed | Subsumed |
| Firm FE | Yes | Yes | Yes |
| Observations | 124,276 | 124,276 | 124,276 |
| R-squared | 0.5121 | 0.5318 | 0.4478 |

**Table 7**
**Foreign Supply Chain Network and Enforcement**

This table tests the impact of the extent of foreign (vs. domestic) operations and enforcement activity. *Pre-election* equals one if the enforcement occurs one year prior to the election, or the firm's accounting year is one year before the election in the case of no enforcement. We use FactSet Revere to identify network connectedness of customer-supplier relationships in global supply chains. *Foreign Network* is the share of a company's supply-chain network with headquarters in other countries. *Target* indicates whether firms were subject to the U.S. Department of Justice (DOJ) and Securities and Exchange Commission (SEC) enforcement during the sample period. *Target U.S.* equals one if a U.S. firm was subject to anti-bribery enforcement during the sample period and equals zero otherwise. *Target Foreign* equals one if a foreign firm was subject to anti-bribery enforcement during the sample period and equals zero otherwise. In all regressions, standard errors are clustered at the firm level, which are shown in the parentheses. ***, **, or * indicates that the regression coefficient is statistically significant at the 1%, 5%, and 10% level respectively.

| | Target | | Target U.S. | | Target Foreign | |
|---|---|---|---|---|---|---|
| outcome | (1) | (2) | (3) | (4) | (5) | (6) |
| Pre-election | 0.0021 | 0.0007 | 0.0009 | -0.0002 | 0.0012 | 0.0009 |
| | (0.0023) | (0.0020) | (0.0021) | (0.0018) | (0.0010) | (0.0009) |
| Foreign Network | 0.0031 | -0.0100 | -0.0069 | -0.0024 | 0.0100*** | -0.0076*** |
| | (0.0062) | (0.0067) | (0.0057) | (0.0063) | (0.0038) | (0.0026) |
| Pre-election × Foreign Network | 0.0114*** | 0.0144*** | 0.0008 | -0.0002 | 0.0106*** | 0.0146*** |
| | (0.0043) | (0.0043) | (0.0022) | (0.0016) | (0.0038) | (0.0040) |
| Firm and state controls | Yes | Yes | Yes | Yes | Yes | Yes |
| Year FE | Yes | Yes | Yes | Yes | Yes | Yes |
| Country, state, industry FE | Yes | Subsumed | Yes | Subsumed | Yes | Subsumed |
| Firm FE | No | Yes | No | Yes | No | Yes |
| Observations | 39,841 | 39,363 | 39,841 | 39,363 | 39,841 | 39,363 |
| R-squared | 0.3126 | 0.6712 | 0.2686 | 0.6681 | 0.2757 | 0.6302 |

**Table 8**
**Foreign Competition and Enforcement**

This table presents regressions of enforcement related to the level of foreign competition. *Pre-election* equals one if the enforcement occurs one year prior to the election, or the firm's accounting year is one year before the election in the case of no enforcement. *Foreign Competitor* is the share of a company's competitors that are headquartered in other countries. *Target* indicates whether firms were subject to the U.S. Department of Justice (DOJ) and Securities and Exchange Commission (SEC) enforcement during the sample period. *Target U.S.* equals one if a U.S. firm was subject to anti-bribery enforcement during the sample period and equals zero otherwise. *Target Foreign* equals one if a foreign firm was subject to anti-bribery enforcement during the sample period and equals zero otherwise. In all regressions, standard errors are clustered at the firm level, which are shown in the parentheses. ***, **, or * indicates that the regression coefficient is statistically significant at the 1%, 5%, and 10% level respectively.

| outcome | Target | | Target U.S. | | Target Foreign | | | |
|---|---|---|---|---|---|---|---|---|
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) |
| Pre-election | 0.0043* | 0.0029 | 0.0015 | 0.0001 | 0.0027** | 0.0028*** | 0.0036*** | 0.0035*** |
| | (0.0022) | (0.0019) | (0.0020) | (0.0016) | (0.0011) | (0.0010) | (0.0012) | (0.0012) |
| Foreign Competitor | 0.0321** | -0.0122 | -0.0099 | -0.0096 | 0.0420*** | -0.0026 | | |
| | (0.0143) | (0.0226) | (0.0093) | (0.0125) | (0.0131) | (0.0175) | | |
| Pre-election × ForeignCompetitor | 0.0046 | 0.0097 | -0.0040 | -0.0030 | 0.0085 | 0.0127** | | |
| | (0.0073) | (0.0061) | (0.0037) | (0.0028) | (0.0063) | (0.0055) | | |
| U.S. Competitor | | | | | | | -0.0665 | |
| | | | | | | | (0.0758) | |
| Pre-election × U.S. Competitor | | | | | | | 0.0361** | |
| | | | | | | | (0.0168) | |
| Non-U.S. Competitor | | | | | | | | 0.0115 |
| | | | | | | | | (0.0122) |
| Pre-election × Non-U.S. Competitor | | | | | | | | 0.0084 |
| | | | | | | | | (0.0053) |
| State and firm controls | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Year FE | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Country, state, industry FE | Yes | Subsumed | Yes | Subsumed | Yes | Subsumed | Subsumed | Subsumed |
| Firm FE | No | Yes | No | Yes | No | Yes | Yes | Yes |
| Observations | 39,841 | 39,363 | 39,841 | 39,363 | 39,841 | 39,363 | 39,363 | 39,363 |
| R-squared | 0.3134 | 0.6711 | 0.2687 | 0.6682 | 0.2792 | 0.6298 | 0.6302 | 0.6298 |

**Table 9**
**Changes in Corruption Exposure after Enforcement**

This table shows changes in firms' corruption exposure and the number of segments in countries with high corruption perception after anti-bribery enforcements. In columns 1-4, the dependent variable corruption exposure at firm level is constructed as $Corruption\ exposure_{it} = \sum_{s \in S} Corruption\ Score_{ct} \times \frac{Segment_{i,c,t}}{Num\ segments_{i,t}}$, where *Corruption Score* equals 10 minus the *Corruption Perceptions Index* obtained from the Transparency International from 1998 to 2019. A higher corruption score indicates more perceived corruption. $Segment_{i,c}$ denotes whether a firm *i* has segment operating in country *c* in year *t* , and $Num\ segments_{i,t}$ denotes the total number of segments for firm *i* in year *t*. The corruption exposure measure increases in the perceived corruption across segments. The dependent variables *Log (# segments in top 50 perceived corrupt countries)* in columns 5 and 7 and *Log (# segments in top 100 perceived corrupt countries)* in columns 6 and 8 equal the logarithm of the number of segments operating in top 50 and top 100 most perceived countries according to Transparency International. *Pre-election* equals one if the enforcement occurs one year prior to the election, or the firm's accounting year is one year before the election in the case of no enforcement. *Target* indicates whether firms were subject to the U.S. Department of Justice (DOJ) and Securities and Exchange Commission (SEC) enforcement during the sample period. *Target U.S.* equals one if a U.S. firm was subject to anti-bribery enforcement during the sample period and equals zero otherwise. *Target Foreign* equals one if a foreign firm was subject to anti-bribery enforcement during the sample period and equals zero otherwise.

| Dependent variable | Corruption exposure | | | | Log (# segments in top 50 perceived corrupt countries) | Log (# segments in top 100 perceived corrupt countries) | Log (# segments in top 50 perceived corrupt countries) | Log (# segments in top 100 perceived corrupt countries) |
|---|---|---|---|---|---|---|---|---|
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) |
| Target US | -0.6630*** | -0.1819* | | | -0.1286*** | -0.1761*** | | |
| | (0.2065) | (0.0989) | | | (0.0242) | (0.0297) | | |
| Target Foreign | | | -1.8111*** | -0.2451** | | | -0.2009*** | -0.2603*** |
| | | | (0.3070) | (0.1065) | | | (0.0292) | (0.0358) |
| State, firm and segment controls | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Year FE | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Country, state, industry FE | Yes | Subsumed | Yes | Subsumed | Subsumed | Subsumed | Subsumed | Subsumed |
| Firm FE | No | Yes | No | Yes | Yes | Yes | Yes | Yes |
| Observations | 62,139 | 62,059 | 62,139 | 62,059 | 62,059 | 62,059 | 62,059 | 62,059 |
| R-squared | 0.6509 | 0.9096 | 0.6560 | 0.9096 | 0.9603 | 0.9581 | 0.9603 | 0.9581 |

**Table 10**
**Changes in Segment Sales after Enforcement**

This table shows changes in firms' segment sales in countries with high corruption perception after anti-bribery enforcements. The dependent variables *Log (segment sales in top 50 perceived corrupt countries)* and *Log (segment sales in top 100 perceived corrupt countries)* equal the logarithm of the segment sales in top 50 and top 100 most perceived countries according to Transparency International. *Pre-election* equals one if the enforcement occurs one year prior to the election, or the firm's accounting year is one year before the election in the case of no enforcement. *Target* indicates whether firms were subject to the U.S. Department of Justice (DOJ) and Securities and Exchange Commission (SEC) enforcement during the sample period. *Target U.S.* equals one if a U.S. firm was subject to anti-bribery enforcement during the sample period and equals zero otherwise. *Target Foreign* equals one if a foreign firm was subject to anti-bribery enforcement during the sample period and equals zero otherwise. We also include the logarithm of the total sales in all segments and fixed effects as indicated.

| Dependent variable | Log (segment sales in top 50 perceived corrupt countries) | | Log (segment sales in top 100 perceived corrupt countries) | | Log (segment sales in top 50 perceived corrupt countries) | | Log (segment sales in top 100 perceived corrupt countries) | |
|---|---|---|---|---|---|---|---|---|
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) |
| Target US | -1.9509*** | -0.3184* | -1.6151*** | -0.4918** | | | | |
| | (0.1460) | (0.1796) | (0.1738) | (0.1936) | | | | |
| Target Foreign | | | | | -1.2968*** | -0.2584 | -1.8017*** | -0.5318** |
| | | | | | (0.1990) | (0.2194) | (0.2367) | (0.2365) |
| State, firm controls | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Year FE | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Country, state, industry FE | Yes | Subsumed | Yes | Subsumed | Yes | Subsumed | Yes | Subsumed |
| Firm FE | No | Yes | No | Yes | No | Yes | No | Yes |
| Observations | 60,072 | 59,989 | 60,072 | 59,989 | 60,072 | 59,989 | 60,072 | 59,989 |
| R-squared | 0.8932 | 0.9391 | 0.8643 | 0.9365 | 0.8930 | 0.9391 | 0.8642 | 0.9365 |

**Table 11**

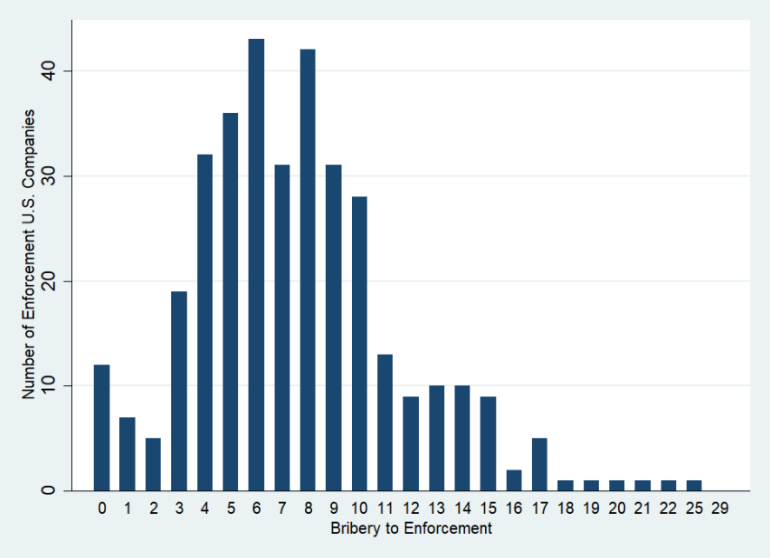
**Which Country's Firms Reduce Corruption Exposure the most following Enforcement?**

This table shows the heterogeneous effect across home country corruption norms and the changes in the number of segments in countries with high corruption perception after anti-bribery enforcements. Home High Corrupt equal one if a firm is headquartered in a country with perceived corruption score above the mean, and equals zero otherwise. In columns 1 and 2, the dependent variable corruption exposure at firm level is constructed as $Corruption\ exposure_{it} = \sum_{s \in S} Corruption\ Score_{ct} \times \frac{Segment_{i,c,t}}{Num\ segments_{i,t}}$, where *Corruption Score* equals 10 minus the *Corruption Perceptions Index* obtained from the Transparency International from 1998 to 2019. A higher corruption score indicates more perceived corruption. $Segment_{i,c}$ denotes whether a firm *i* has segment operating in country *c* in year *t* , and $Num\ segments_{i,t}$ denotes the total number of segments for firm *i* in year *t*. The corruption exposure measure increases in the perceived corruption across segments. The dependent variables *Log (# segments in top 50 perceived corrupt countries)* in columns 3 and 4 and *Log (# segments in top 100 perceived corrupt countries)* in columns 5 and 6 equal the logarithm of the number of segments operating in top 50 and top 100 most perceived countries according to Transparency International. *Pre-election* equals one if the enforcement occurs one year prior to the election, or the firm's accounting year is one year before the election in the case of no enforcement. *Target Foreign* equals one if a foreign firm was subject to anti-bribery enforcement during the sample period and equals zero otherwise.

| Dependent variable | Corruption exposure | | Log (# segments in top 50 perceived corrupt countries) | | Log (# segments in top 100 perceived corrupt countries) | |
|---|---|---|---|---|---|---|
| | (1) | (2) | (3) | (4) | (5) | (6) |
| Post-Targeting | -1.7573*** | -1.8071*** | -2.1135*** | -2.1803*** | -2.4740*** | -2.5734*** |
| | (0.0603) | (0.0584) | (0.0527) | (0.0521) | (0.0646) | (0.0636) |
| Home High Corrupt | 0.2057*** | 0.0858*** | 0.0245*** | 0.0232*** | 0.0361*** | 0.0377*** |
| | (0.0078) | (0.0101) | (0.0068) | (0.0090) | (0.0084) | (0.0109) |
| Post-Targeting × Home High Corrupt | 0.6759*** | 0.6867*** | 0.7469*** | 0.7624*** | 0.9253*** | 0.9200*** |
| | (0.1277) | (0.1255) | (0.1116) | (0.1120) | (0.1369) | (0.1367) |
| Year, state, industry FE | Yes | Yes | Yes | Yes | Yes | Yes |
| Country FE | No | Yes | No | Yes | No | Yes |
| Observations | 62,072 | 62,072 | 62,072 | 62,072 | 62,072 | 62,072 |
| R-squared | 0.6278 | 0.6560 | 0.7902 | 0.7977 | 0.7789 | 0.7892 |

## Appendix

Panel A: The Duration of Bribery to Enforcement for U.S. companies




Panel B: The Duration of Bribery to Enforcement for foreign companies

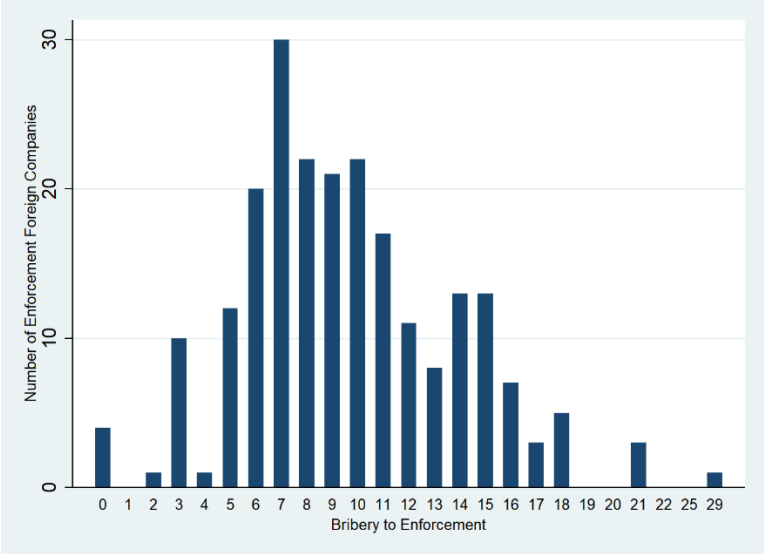
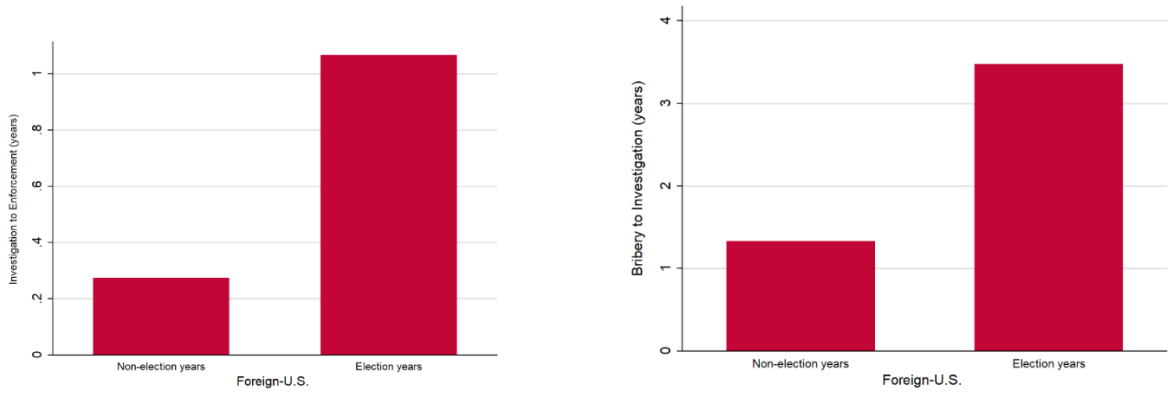



**Figure A1: The time lag between bribery actions and anti-bribery enforcements.** These graphs plot the number of anti-bribery enforcement and the number of years between bribery actions initially occurred and enforcement actions. Panel A shows the number of enforcement actions against U.S. companies and Panel B presents the number of enforcement cations against foreign companies.

Panel A: Timing from investigation to enforcement Panel B: Timing from bribery to investigation




Panel C: Number of countries involved Panel D: Mitigating factors

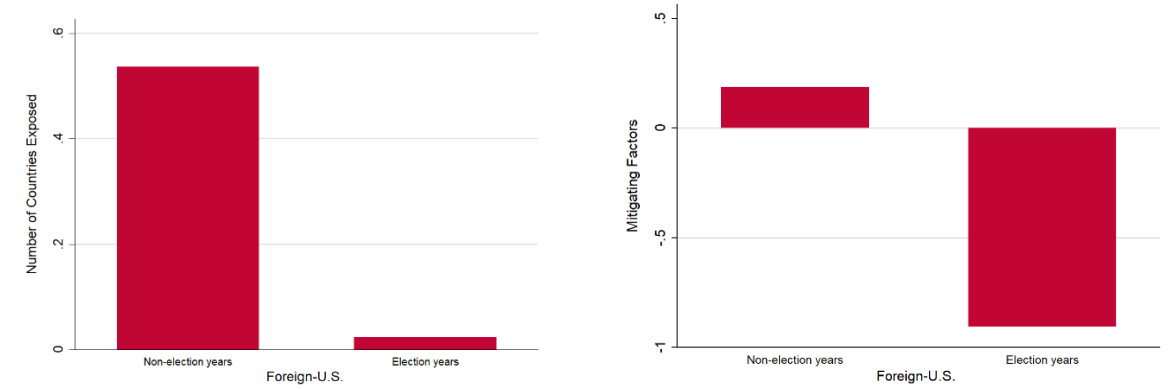
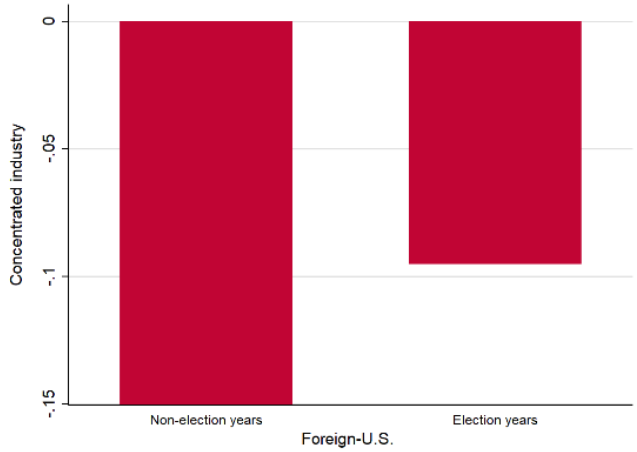



**Figure A2: Case duration and extent of bribing activities – proxies for weaker cases.** The figure shows the difference between (Foreign-U.S.) percentages of these types of cases in election years vs. non-election years. Panel A shows the difference in average number of years took from investigations to enforcement, Panel B presents the difference in the number of years from bribery activity initially occurred to investigations. Cases enforced in election years involve longer investigation to enforcement especially for foreign companies, which suggests weaker cases and delayed conclusion to investigations.

Panel C shows the number of countries that corruption activities involved, Panel D shows the number of mitigating factors associated with the case in terms of 1) Self-Report, 2) Cooperation, 3) Voluntary Remedial Measures, 4) Misconduct Limited to Low Level Individuals, 5) Other Factors. Cases enforced in election years have lower sanction to bribe ratio, number of corruption involved countries, number of payment forms, and mitigating factors, which indicates weak cases.

Panel A: Concentrated industry




Panel B: Retail and services industry

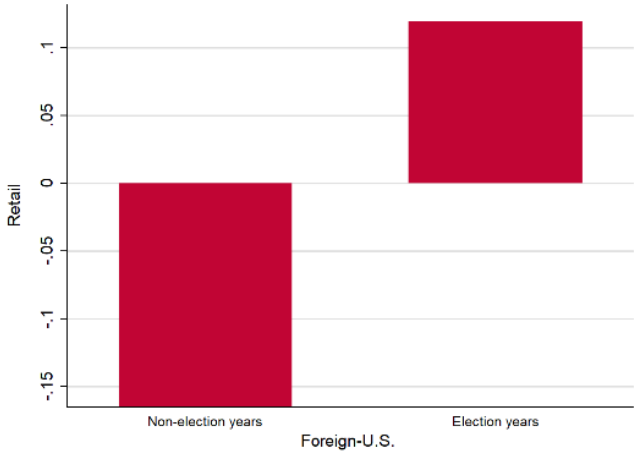



**Figure A3: The high profile cases.** These figures plot the difference-in-differences of high profile cases between foreign and U.S. companies and between election years and non-election years. Panel A shows the fraction of cases in locally concentrated industries. We explore the Senators' constituent interests from the top 5 industries with the largest concentration in a state relative to others states. The spikes in the delays from investigation to enforcement is more pronounced for industries with "interested" Senators. Panel B shows the fraction of cases in retail and service sectors.

Foreign firms enforced in election years involve larger bribing amounts, higher probability being targeted from concentrated industries and in retail service sectors, which indicates high profile cases.

**Table A1**
**Summary Statistics of Enforcements**

This table provides the number of enforcement actions and the number of listed firms involved in bribery over the sample period (1978 to 2019) based on firms' headquarter country. *Corruption Perceptions Index* is obtained from the Transparency International from 1998 to 2019 and calculated using different data sources from different institutions that capture perceptions of corruption with a focus on the public sector. Since 2012, the index has a scale of 0-100 where a 0 indicates the highest level of perceived corruption and 100 indicates the lowest level of perceived corruption (prior to 2012, it has a scale of 0-10). In all analysis, we transform the index to a corruption score of 0-10 for interpretation, where a higher score denotes more corruption. Panel A shows the number of cases and the number of firms by headquarter country, and Panel B provides the summary statistics for case characteristics.

Panel A: Enforcements by Headquarter Country

| Country | Total number of cases | Total number of firms | Corruption Perceptions Index | Corruption score |
|---|---|---|---|---|
| United States | 254 | 126 | 7.471 | 2.529 |
| France | 21 | 7 | 7.135 | 2.865 |
| United Kingdom | 18 | 9 | 8.263 | 1.737 |
| Germany | 17 | 8 | 7.892 | 2.108 |
| Venezuela | 17 | 2 | 2.554 | 7.446 |
| Switzerland | 15 | 4 | 8.889 | 1.111 |
| Japan | 11 | 6 | 7.197 | 2.803 |
| Netherlands | 11 | 4 | 8.525 | 1.475 |
| Ireland | 7 | 3 | 8.035 | 1.965 |
| Brazil | 7 | 3 | 3.864 | 6.136 |
| Chile | 6 | 2 | 7.121 | 2.879 |
| Canada | 5 | 3 | 8.666 | 1.334 |
| Mexico | 5 | 1 | 3.373 | 6.627 |
| Sweden | 5 | 2 | 9.115 | 0.885 |
| Hungary | 4 | 1 | 5.043 | 4.957 |
| Taiwan | 4 | 1 | 7.500 | 2.500 |
| Israel | 3 | 1 | 6.396 | 3.604 |
| Russian Federation | 3 | 1 | 2.523 | 7.477 |
| Singapore | 3 | 1 | 9.024 | 0.976 |
| Norway | 2 | 1 | 8.684 | 1.316 |
| Bermuda | 2 | 1 | 8.715 | 1.285 |
| Hong Kong | 2 | 1 | 7.892 | 2.108 |
| Luxembourg | 2 | 1 | 8.411 | 1.589 |
| Denmark | 2 | 1 | 9.385 | 0.615 |
| Italy | 2 | 2 | 4.678 | 5.322 |
| Australia | 1 | 1 | 8.469 | 1.531 |
| Cayman Islands | 1 | 1 | 7.282 | 2.718 |
| Portugal | 1 | 1 | 7.892 | 2.108 |
| Belgium | 1 | 1 | 7.095 | 2.905 |
| China | 1 | 1 | 3.614 | 6.386 |
| Spain | 1 | 1 | 6.446 | 3.554 |
| Bangladesh | 1 | 1 | 7.892 | 2.108 |
| Total | 435 | 199 | 7.033 | 2.967 |

| Panel B: Case characteristics in election years versus non-election years and between U.S. and foreign companies | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | U.S. companies | | | | | Foreign companies | | | | |
| | Election years | | Non-election years | | | Election years | | Non-election years | | |
| | Mean | SD | Mean | SD | Diff (t-stat) | Mean | SD | Mean | SD | Diff (t-stat) |
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) |
| Bribery Amount (millions) | 3.610 | 6.315 | 17.694 | 45.788 | -14.084*<br>(0.069) | 41.675 | 89.034 | 39.492 | 73.753 | 2.183<br>( 0.903) |
| Sanction to bribe ratio | 360.795 | 424.205 | 530.253 | 950.414 | -169.458<br>(0.352) | 274.076 | 353.109 | 487.365 | 578.396 | -213.289*<br>(0.097) |
| Plea agreements | 0.119 | 0.328 | 0.200 | 0.402 | -0.081<br>(0.248) | 0.357 | 0.485 | 0.274 | 0.449 | 0.083<br>(0.355) |
| Non-prosecutions | 0.190 | 0.397 | 0.219 | 0.416 | -0.029<br>(0.704) | 0.333 | 0.477 | 0.315 | 0.468 | 0.018<br>(0.842) |
| Timing (investigations to enforcements | 4.405 | 3.768 | 3.573 | 2.237 | 0.832<br>(0.109) | 5.472 | 2.443 | 3.848 | 2.387 | 1.624***<br>(0.002) |
| Timing (bribery to enforcements) | 7.714 | 2.916 | 8.895 | 3.990 | -1.181*<br>(0.084) | 10.171 | 5.039 | 10.597 | 3.967 | -0.426<br>(0.620) |
| Timing (bribery to investigations) | 4.676 | 2.539 | 6.625 | 5.571 | -1.949**<br>(0.042) | 8.146 | 8.676 | 7.958 | 5.663 | 0.189<br>(0.889) |

**Table A2**
**U.S. and Foreign Companies with Similar Geographic Exposure**

This table tests the sensitivity of anti-bribery enforcement to U.S. elections by comparing U.S. and foreign firms with similar geographic exposure in foreign market. For each U.S. firm, we match their foreign subsidiaries with the subsidiaries of foreign companies that operate in the same industry and have the closest number of subsidiaries. Beyond the firm characteristics at headquarters, the analysis compares U.S. and foreign companies that are exposed to the same election shocks in the U.S. and cater to similar foreign market segments. *Pre-election* equals one if the enforcement occurs one year prior to the election, or the firm's accounting year is one year before the election in the case of no enforcement. *Target* indicates whether firms were subject to the U.S. Department of Justice (DOJ) and Securities and Exchange Commission (SEC) enforcement during the sample period. *Target U.S.* equals one if a U.S. firm was subject to anti-bribery enforcement during the sample period and equals zero otherwise. *Target Foreign* equals one if a foreign firm was subject to anti-bribery enforcement during the sample period and equals zero otherwise.

| outcome | Target | | Target U.S. | | Target Foreign | |
|---|---|---|---|---|---|---|
| | (1) | (2) | (3) | (4) | (5) | (6) |
| Pre-election | 0.0087* | 0.0087* | -0.0015 | -0.0016 | 0.0102** | 0.0103** |
| | (0.0047) | (0.0046) | (0.0012) | (0.0011) | (0.0045) | (0.0044) |
| Firm controls | Yes | Yes | Yes | Yes | Yes | Yes |
| State controls | Yes | Yes | Yes | Yes | Yes | Yes |
| Year FE | Yes | Yes | Yes | Yes | Yes | Yes |
| Country FE | Subsumed | Subsumed | Subsumed | Subsumed | Subsumed | Subsumed |
| State FE | Subsumed | Subsumed | Subsumed | Subsumed | Subsumed | Subsumed |
| Industry FE | Subsumed | Subsumed | Subsumed | Subsumed | Subsumed | Subsumed |
| Firm FE | No | Yes | No | Yes | No | Yes |
| Observations | 51,491 | 51,491 | 51,491 | 51,491 | 51,491 | 51,491 |
| R-squared | 0.3383 | 0.4430 | 0.1354 | 0.3615 | 0.3187 | 0.4003 |

**Table A3**

**Placebo of Elections**

This table presents placebo test of the main specification of Table 3. We randomly assign Senate elections with corresponding probability equals 1/3. This reflects the U.S. Senate election term: Senators serve terms of six years each and the terms are staggered so that approximately one-third of the seats are up for election every two years.

| | Target | | | Target U.S. | | | Target Foreign | | |
|---|---|---|---|---|---|---|---|---|---|
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) |
| Placebo Election | -0.0020*** | -0.0012* | -0.0010 | -0.0011** | -0.0007* | -0.0007 | -0.0009* | -0.0004 | -0.0003 |
| | (0.0007) | (0.0006) | (0.0007) | (0.0005) | (0.0004) | (0.0005) | (0.0005) | (0.0004) | (0.0005) |
| Size | | 0.0076*** | 0.0001 | | 0.0045*** | 0.0012 | | 0.0032*** | -0.0012 |
| | | (0.0008) | (0.0013) | | (0.0007) | (0.0007) | | (0.0005) | (0.0011) |
| Leverage | | 0.0083 | 0.0073 | | 0.0023 | 0.0085 | | 0.0061 | -0.0013 |
| | | (0.0065) | (0.0069) | | (0.0044) | (0.0060) | | (0.0052) | (0.0031) |
| Cash | | 0.0087 | 0.0140** | | 0.0012 | 0.0190*** | | 0.0075** | -0.0050 |
| | | (0.0056) | (0.0058) | | (0.0044) | (0.0047) | | (0.0036) | (0.0036) |
| ROA | | -0.0183*** | -0.0002 | | -0.0040 | -0.0019 | | -0.0142*** | 0.0017 |
| | | (0.0053) | (0.0058) | | (0.0036) | (0.0044) | | (0.0041) | (0.0039) |
| Sales Growth | | -0.0050*** | -0.0003 | | -0.0036*** | -0.0007 | | -0.0014*** | 0.0004 |
| | | (0.0008) | (0.0011) | | (0.0008) | (0.0008) | | (0.0004) | (0.0009) |
| State-level controls | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Year FE | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Country FE | Yes | Yes | Subsumed | Yes | Yes | Subsumed | Yes | Yes | Subsumed |
| State FE | Yes | Yes | Subsumed | Yes | Yes | Subsumed | Yes | Yes | Subsumed |
| Industry FE | Yes | Yes | Subsumed | Yes | Yes | Subsumed | Yes | Yes | Subsumed |
| Firm FE | No | No | Yes | No | No | Yes | No | No | Yes |
| Observations | 134,558 | 134,558 | 134,536 | 134,558 | 134,558 | 134,536 | 134,558 | 134,558 | 134,536 |
| R-squared | 0.1505 | 0.1649 | 0.4725 | 0.1233 | 0.1317 | 0.4766 | 0.1431 | 0.1497 | 0.4280 |

**Table A4**
**The Role of Foreign In-state Competition**

This table presents regression of enforcement on constituent interests and election cycles. *Pre-election* equals one if the enforcement occurs one year prior to the election, or the firm's accounting year is one year before the election in the case of no enforcement. *State* is the share of a company's supply-chain networks that are located in the same state. *Foreign In-state Competitor* is the share of a firm's competitors that are operated within the same states. *Target* indicates whether firms were subject to the U.S. Department of Justice (DOJ) and Securities and Exchange Commission (SEC) enforcement during the sample period. *Target U.S.* equals one if a U.S. firm was subject to anti-bribery enforcement during the sample period and equals zero otherwise. *Target Foreign* equals one if a foreign firm was subject to anti-bribery enforcement during the sample period and equals zero otherwise. In all regressions, standard errors are clustered at the firm level, which are shown in the parentheses. ***, **, or * indicates that the regression coefficient is statistically significant at the 1%, 5%, and 10% level respectively.

| outcome | Target | | Target US | | Target Foreign | |
|---|---|---|---|---|---|---|
| | (1) | (2) | (3) | (4) | (5) | (6) |
| Pre-election | 0.0051** | 0.0039* | 0.0012 | 0.0000 | 0.0038*** | 0.0039*** |
| | (0.0023) | (0.0021) | (0.0019) | (0.0016) | (0.0013) | (0.0014) |
| Foreign In-state Competitor | 0.0177 | -0.1368 | -0.0105 | -0.0404 | 0.0282 | -0.0964 |
| | (0.0614) | (0.1100) | (0.0317) | (0.0396) | (0.0583) | (0.0872) |
| Pre-election × Foreign In-state Competitor | -0.0141 | 0.0126 | -0.0110 | -0.0175 | -0.0031 | 0.0302 |
| | (0.0266) | (0.0254) | (0.0127) | (0.0111) | (0.0253) | (0.0218) |
| Firm controls | Yes | Yes | Yes | Yes | Yes | Yes |
| State controls | Yes | Yes | Yes | Yes | Yes | Yes |
| Year FE | Yes | Yes | Yes | Yes | Yes | Yes |
| Country FE | Subsumed | Subsumed | Subsumed | Subsumed | Subsumed | Subsumed |
| State FE | Subsumed | Subsumed | Subsumed | Subsumed | Subsumed | Subsumed |
| Industry FE | Subsumed | Subsumed | Subsumed | Subsumed | Subsumed | Subsumed |
| Firm FE | Yes | Yes | Yes | Yes | Yes | Yes |
| Observations | 39,841 | 39,363 | 39,841 | 39,363 | 39,841 | 39,363 |
| R-squared | 0.3124 | 0.6716 | 0.2685 | 0.6682 | 0.2748 | 0.6303 |

**Table A5**
**The Role of Foreign Out-state Competition**

This table presents regression of enforcement on constituent interests and election cycles. *Pre-election* equals one if the enforcement occurs one year prior to the election, or the firm's accounting year is one year before the election in the case of no enforcement. *State* is the share of a company's supply-chain networks that are located in the same state. *Foreign Out-state Competitor* is the share of a firm's competitors that are operated outside of its state. *Target* indicates whether firms were subject to the U.S. Department of Justice (DOJ) and Securities and Exchange Commission (SEC) enforcement during the sample period. *Target U.S.* equals one if a U.S. firm was subject to anti-bribery enforcement during the sample period and equals zero otherwise. *Target Foreign* equals one if a foreign firm was subject to anti-bribery enforcement during the sample period and equals zero otherwise. In all regressions, standard errors are clustered at the firm level, which are shown in the parentheses. ***, **, or * indicates that the regression coefficient is statistically significant at the 1%, 5%, and 10% level respectively.

| outcome | Target | | Target US | | Target Foreign | |
|---|---|---|---|---|---|---|
| | (1) | (2) | (3) | (4) | (5) | (6) |
| Pre-election | 0.0040* | 0.0030 | 0.0014 | -0.0002 | 0.0026** | 0.0031*** |
| | (0.0023) | (0.0020) | (0.0020) | (0.0017) | (0.0011) | (0.0010) |
| Foreign Out-state Competitor | 0.0367** | 0.0037 | -0.0105 | -0.0060 | 0.0473*** | 0.0097 |
| | (0.0147) | (0.0195) | (0.0100) | (0.0127) | (0.0137) | (0.0153) |
| Pre-election × Foreign Out-state Competitor | 0.0076 | 0.0107 | -0.0034 | -0.0011 | 0.0109 | 0.0118* |
| | (0.0082) | (0.0068) | (0.0042) | (0.0033) | (0.0071) | (0.0061) |
| Firm controls | Yes | Yes | Yes | Yes | Yes | Yes |
| State controls | Yes | Yes | Yes | Yes | Yes | Yes |
| Year FE | Yes | Yes | Yes | Yes | Yes | Yes |
| Country FE | Subsumed | Subsumed | Subsumed | Subsumed | Subsumed | Subsumed |
| State FE | Subsumed | Subsumed | Subsumed | Subsumed | Subsumed | Subsumed |
| Industry FE | Subsumed | Subsumed | Subsumed | Subsumed | Subsumed | Subsumed |
| Firm FE | Yes | Yes | Yes | Yes | Yes | Yes |
| Observations | 39,841 | 39,363 | 39,841 | 39,363 | 39,841 | 39,363 |
| R-squared | 0.3135 | 0.6711 | 0.2686 | 0.6681 | 0.2795 | 0.6299 |

**Table A6**
**DOJ versus SEC Enforcement**

This table presents regressions of enforcement related to the regulatory agencies DOJ versus SEC. Pre-election equals one if the enforcement occurs one year prior to the election, or the firm's accounting year is one year before the election in the case of no enforcement. DOJ is an indicator variable that equals one if a firm was subject to enforcement by the U.S. Department of Justice (DOJ), and equals zero if the enforcement action was undertaken by the Securities and Exchange Commission (SEC) during the sample period. Target U.S. equals one if a U.S. firm was subject to anti-bribery enforcement during the sample period and equals zero otherwise. Target Foreign equals one if a foreign firm was subject to anti-bribery enforcement during the sample period and equals zero otherwise. In all regressions, standard errors are clustered at the firm level, which are shown in the parentheses. ***, **, or * indicates that the regression coefficient is statistically significant at the 1%, 5%, and 10% level respectively.

| | DOJ vs. SEC Enforcements | | | |
|---|---|---|---|---|
| | Target U.S. | | Target Foreign | |
| outcome | (1) | (2) | (3) | (4) |
| Pre-election | -0.0086 | -0.0078 | 0.0173*** | 0.0180*** |
| | (0.0086) | (0.0087) | (0.0057) | (0.0057) |
| DOJ | 0.0261 | 0.0307* | -0.0149* | -0.0138 |
| | (0.0182) | (0.0177) | (0.0089) | (0.0095) |
| Pre-election*DOJ | -0.0086* | -0.0085* | 0.0103** | 0.0097** |
| | (0.0050) | (0.0050) | (0.0045) | (0.0046) |
| Firm controls | Yes | Yes | Yes | Yes |
| State controls | Yes | Yes | Yes | Yes |
| Year FE | Yes | Yes | Yes | Yes |
| Country, state, industry FE | Yes | Yes | Yes | Yes |
| Firm FE | No | Yes | No | Yes |
| Observations | 8,361 | 8,361 | 8,361 | 8,361 |
| R-squared | 0.5107 | 0.5539 | 0.5002 | 0.5191 |

**Table A7**
**SEC Regional Offices**

This table presents regressions of enforcement related to the presence of SEC local offices. Pre-election equals one if the enforcement occurs one year prior to the election, or the firm's accounting year is one year before the election in the case of no enforcement. SEC offices is an indicator variable that equals one if a firm was domiciled in a state with the presence of the Securities and Exchange Commission (SEC) regional offices (GA, MA, IL, CO, TX, CA, FL, NY, PA, UT). Target U.S. equals one if a U.S. firm was subject to anti-bribery enforcement during the sample period and equals zero otherwise. Target Foreign equals one if a foreign firm was subject to anti-bribery enforcement during the sample period and equals zero otherwise. In all regressions, standard errors are clustered at the firm level, which are shown in the parentheses. ***, **, or * indicates that the regression coefficient is statistically significant at the 1%, 5%, and 10% level respectively.

| | SEC regional offices | | | |
|---|---|---|---|---|
| | Target U.S. | | Target Foreign | |
| outcome | (1) | (2) | (3) | (4) |
| Pre-election | -0.0009 | -0.0008 | 0.0009** | 0.0012** |
| | (0.0006) | (0.0005) | (0.0004) | (0.0005) |
| SEC offices | 0.0002 | -0.1877* | 0.0002 | -0.0390 |
| | (0.0036) | (0.1027) | (0.0017) | (0.0357) |
| Pre-election*SEC offices | 0.0006 | 0.0003 | 0.0000 | 0.0003 |
| | (0.0005) | (0.0005) | (0.0006) | (0.0005) |
| | (0.0008) | (0.0008) | (0.0004) | (0.0009) |
| Firm controls | Yes | Yes | Yes | Yes |
| State controls | Yes | Yes | Yes | Yes |
| Year FE | Yes | Yes | Yes | Yes |
| Country, state, industry FE | Yes | Yes | Yes | Yes |
| Firm FE | No | Yes | No | Yes |
| Observations | 137,844 | 137,840 | 137,844 | 137,840 |
| R-squared | 0.1250 | 0.4647 | 0.1470 | 0.4253 |

**Table A8**
**Political Party in Control of Presidency**

This table presents regressions of enforcement related to the political party that wins that presidential elections. Pre-election equals one if the enforcement occurs one year prior to the election, or the firm's accounting year is one year before the election in the case of no enforcement. Republican equals one if president is from the Republican party and equals zero otherwise. Target U.S. equals one if a U.S. firm was subject to anti-bribery enforcement during the sample period and equals zero otherwise. Target Foreign equals one if a foreign firm was subject to anti-bribery enforcement during the sample period and equals zero otherwise. In all regressions, standard errors are clustered at the firm level, which are shown in the parentheses. ***, **, or * indicates that the regression coefficient is statistically significant at the 1%, 5%, and 10% level respectively.

| | Republican vs. Democratic party in power | | | |
|---|---|---|---|---|
| | Target U.S. | | Target Foreign | |
| outcome | (1) | (2) | (3) | (4) |
| Pre-election | -0.0003 | -0.0004 | -0.0004 | -0.0005 |
| | (0.0004) | (0.0004) | (0.0003) | (0.0004) |
| Republican | -0.0031*** | -0.0045*** | -0.0032*** | -0.0042*** |
| | (0.0010) | (0.0012) | (0.0010) | (0.0011) |
| Pre-election*Republican | 0.0008 | 0.0008 | 0.0028*** | 0.0030*** |
| | (0.0008) | (0.0008) | (0.0007) | (0.0008) |
| Firm controls | Yes | Yes | Yes | Yes |
| State controls | Yes | Yes | Yes | Yes |
| Country, state, industry FE | Yes | Yes | Yes | Yes |
| Firm FE | Yes | Yes | Yes | Yes |
| Observations | 137,844 | 137,840 | 137,844 | 137,840 |
| R-squared | 0.1283 | 0.4696 | 0.1464 | 0.4231 |

## Table A9
## Placebo Test: SEC and DOJ Investigations and Electoral Cycles

This table conducts placebo tests using SEC and DOJ initiated and conducted investigations (not FCPA violations) as a placebo outcome variable. *Pre-election* equals one if the enforcement occurs one year prior to the election, or the firm's accounting year is one year before the election in the case of no enforcement. *Target* indicates whether firms were subject to the U.S. Department of Justice (DOJ) and Securities and Exchange Commission (SEC) enforcement during the sample period. *Target U.S.* equals one if a U.S. firm was subject to anti-bribery enforcement during the sample period and equals zero otherwise. *Target Foreign* equals one if a foreign firm was subject to anti-bribery enforcement during the sample period and equals zero otherwise. In all regressions, standard errors are clustered at the firm level, which are shown in the parentheses. ***, **, or * indicates that the regression coefficient is statistically significant at the 1%, 5%, and 10% level respectively.

| | Target | | | Target U.S. | | | Target Foreign | | |
|---|---|---|---|---|---|---|---|---|---|
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) |
| Pre-election | 0.0003 | 0.0006 | 0.0008 | 0.0004 | 0.0004 | -0.0006 | -0.0000 | 0.0002 | 0.0005 |
| | (0.0007) | (0.0008) | (0.0008) | (0.0004) | (0.0005) | (0.0005) | (0.0005) | (0.0006) | (0.0006) |
| Size | | 0.0127*** | 0.0034* | | 0.0059*** | 0.0012 | | 0.0068*** | 0.0011 |
| | | (0.0011) | (0.0019) | | (0.0009) | (0.0008) | | (0.0008) | (0.0016) |
| Leverage | | 0.0123* | 0.0239*** | | 0.0078 | 0.0089 | | 0.0045 | 0.0070 |
| | | (0.0069) | (0.0079) | | (0.0052) | (0.0061) | | (0.0050) | (0.0043) |
| Cash | | 0.0109 | 0.0247*** | | 0.0030 | 0.0196*** | | 0.0079 | 0.0002 |
| | | (0.0073) | (0.0091) | | (0.0054) | (0.0047) | | (0.0051) | (0.0064) |
| ROA | | -0.0158** | 0.0017 | | -0.0012 | -0.0021 | | -0.0146*** | 0.0008 |
| | | (0.0071) | (0.0076) | | (0.0048) | (0.0044) | | (0.0055) | (0.0046) |
| Sales Growth | | -0.0085*** | -0.0022 | | -0.0047*** | -0.0007 | | -0.0037*** | -0.0003 |
| | | (0.0012) | (0.0015) | | (0.0009) | (0.0008) | | (0.0008) | (0.0011) |
| State controls | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Year FE | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Country, state, industry FE | Yes | Yes | Subsumed | Yes | Yes | Subsumed | Yes | Yes | Subsumed |
| Firm FE | No | No | Yes | No | No | Yes | No | No | Yes |
| Observations | 137,844 | 137,844 | 137,840 | 137,844 | 137,844 | 137,840 | 137,844 | 137,844 | 137,840 |
| R-squared | 0.1561 | 0.1814 | 0.5160 | 0.1275 | 0.1392 | 0.4703 | 0.1334 | 0.1471 | 0.4942 |

**Appendix B: How senators or politicians could influence enforcement?**

In the hearing before the subcommittee on crime, terrorism, and homeland security of the committee on the judiciary house of representatives one hundred twelfth congress, the Senate Judiciary Committee testified as follows:

- James Sensenbrenner, Jr., a Representative in Congress from the State of Wisconsin, and Chairman of Subcommittee on Crime, Terrorism, and Homeland Security asserted that "As a part of its oversight functions over the Justice Department and the criminal laws of the United States, this Committee is well suited to examine the impact of the FCPA and to ask hard questions about whether the act is succeeding in its mission or is needlessly hurting American job creation." He also cited that, "The Wall Street Journal (Jan 24, 2011) pointed out that FCPA fines made up half of all DOJ Criminal Division penalties in fiscal year 2010. This is a considerable windfall for the Federal Government."[1]
- Chairman Sensenbrenner further emphasized the vague in interpretation of the law that "Significant concerns about the FCPA and its enforcement by the Justice Department are being expressed by the business community, and business is already in trouble. Under the Obama Administration, America is suffering through a severe and prolonged economic downturn. Businesses that are trying to comply with the FCPA assert that the law is being enforced in a vague and impenetrable manner. Because the risks of prosecution are so great, with million-dollar fines and possible prison sentences, companies would rather settle with the Justice Department than go to court."
- The uncertainty may lead to discretions that "The result is a shortage of court decisions determining the limits of the law. Companies must then analyze cases prosecuted by the Justice Department and the settlements reached to determine how to do business in foreign markets. The business community complains that the absence of case law interpreting the breadth and scope of the FCPA inflates the Department's prosecutorial discretion and confounds industries' ability to conform to the law."

[1] The Wall Street Journal, Jan 24, 2011, FCPA Fines Made Up Half Of All DOJ Criminal Division Penalties In Fiscal 2010, https://www.wsj.com/articles/BL-CCB-3241.

# Cornyn Bill to Crack Down On Public Corruption Passes Judiciary Committee

## Cornyn Bill to Crack Down On Public Corruption Passes Judiciary Committee

WASHINGTON—The U.S. Senate Judiciary Committee on Thursday advanced bipartisan legislation introduced by U.S. Sens. John Cornyn, R-Texas, and Patrick Leahy, D-Vt., to crack down on public corruption, provide additional resources to investigators and prosecutors, and toughen penalties for public corruption offenses. The Public Corruption Prosecution Improvements Act, S.1946, now moves to the full Senate for consideration. Sen. Cornyn is a member of the Judiciary Committee and Vice Chairman of the Ethics Committee. "Public corruption is not a Republican or Democratic problem. It's not just in Washington, D.C. either. It is a problem in statehouses and city halls across this country," Sen. Cornyn said. "This legislation strengthens our efforts to combat public corruption by making substantive reforms to public corruption laws, and by giving prosecutors new tools to use in their battle against corrupt officials. We must restore integrity and Americans' trust in their government. This legislation sends a strong message and demonstrates just how serious we are about stamping out this problem." The Public Corruption Prosecution Improvements Act strengthens the enforcement of U.S. federal laws for public corruption offenses by increasing the maximum punishments on several offenses, including theft and embezzlement of federal funds, bribery, and a number of corrupt campaign contribution practices. Also, a total of $100 million will go to the Department of Justice and the Offices of Inspectors General for combating public corruption. The bipartisan legislation will do the following:

- Toughen the prohibition against bribery in connection with programs receiving federal financial assistance;
- Increase maximum penalties for theft of government property, bribery and other public corruption offenses;
- Include certain government theft and bribery offenses as predicates for racketeering prosecutions and wiretaps;
- Revise the definition of "official act" for purposes of public corruption prosecutions;
- Establish a six-year limitation period for the prosecution of certain public corruption crime relating to bribery, theft of government property, mail fraud, and racketeering; and
- Revise prohibitions against mail and wire fraud to include the taking of any other thing of value (in addition to money or property) in the commission of such crimes.

*Sen. Cornyn serves on the Armed Services, Judiciary and Budget Committees. In addition, he is Vice Chairman of the Senate Select Committee on Ethics. He serves as the top Republican on the Judiciary Committee's Immigration, Border Security and Refugees subcommittee and the Armed Services Committee's Airland subcommittee.*

Figure B1. U.S. Senate Judiciary Committee John Cornyn and the Public Corruption Prosecution Improvement Act, S.1948.
Source: https://www.cornyn.senate.gov/content/cornyn-bill-crack-down-public-corruption-passes-judiciary-committee

# Blumenthal Asks Top Federal Prosecutor for Guidance on Trump Organization's Potential Violation of the Foreign Corrupt Practices Act

*Friday, March 24, 2017*

## Anti-bribery legislation was passed during the Watergate investigation to protect against illegal influence by foreign officials

[WASHINGTON, D.C.] – In light of President Trump's continuing refusal to divest himself from his vast business entanglements – even as the Trump Organization pursues activities abroad – U.S. Senator Richard Blumenthal (D-CT) sought input today from top federal prosecutors regarding whether or not those actions could indicate a violation of the Foreign Corrupt Practices Act (FCPA).

**"In simple terms, the FCPA prohibits American business officials from engaging in bribery or offering illicit payments to foreign officials to get their way: they must play by the rules of the country in which they are conducting business or pay a steep price," Blumenthal wrote.**

Today, Blumenthal wrote the Acting U.S. Attorney for the Southern District of New York, Joon Kim, and the Chief of the Fraud Section at the Department of Justice, Andrew Weissmann, seeking legal guidance on whether President Trump and his family's continuing relationship with the Trump Organization may have given rise to a violation of the FCPA.

Figure B2. Senator Blumenthal asked U.S. Attorney for the Southern District of New York and the Chief of the Fraud Section at the Department of Justice regarding Trump Organization's potential violation of the FCPA.
Source: https://www.blumenthal.senate.gov/newsroom/press/release/blumenthal-asks-top-federal-prosecutor-for-guidance-on-trump-organizations-potential-violation-of-the-foreign-corrupt-practices-act

# Blumenthal and Doggett Lead Call for DOJ Investigation of British American Tobacco

*Wednesday, February 3, 2016*

WASHINGTON, D.C. – Following multiple reports of widespread and systematic bribery of politicians and policymakers across Central and East Africa by **British American Tobacco** (BAT),**U.S. Senator Richard Blumenthal** (D-CT) and **U.S. Representative Lloyd Doggett** (D-TX) are calling for an immediate investigation of BAT—the world's second largest publicly-traded tobacco corporation.

In a letter to the U.S. Department of Justice (DOJ), the lawmakers argue BAT's actions may have violated both the Anti-Bribery and the Books and Records provisions of the Foreign Corrupt Practices Act (FCPA). Additional signatories of the letter include: Sen. Markey (D-MA), Sen. Merkley (D-OR), Sen. Reed (D-RI), Rep. Tsongas (D-MA), Rep. Conyers (D-MI), Rep. Keating (D-MA) and Rep. Nadler (D-NY).

Since the release of a BBC documentary that first brought attention to BAT's alleged actions, additional documents have come to light, showing the bribery may be even more widespread. The documents indicate BAT may have paid people off to protect its corporate reputation and cover up scandals like environmental damage caused by a warehouse fire in Uganda, and even engaged in corporate espionage and sabotage of competitor tobacco corporations in Kenya.

"If true, the allegations lodged against BAT are an affront to public health and United States law," said **Senator Richard Blumenthal** (D-Conn.), who sits on the Judiciary Committee, which oversees the FCPA. "The tobacco industry has a long history of placing profits above public health, and these allegations raise clear questions about whether BAT violated the Foreign Corrupt Practices Act – a question DOJ must answer. With tobacco companies exploiting growth opportunities in Africa, actions like BAT's threaten to undermine the WHO's global tobacco treaty and condemn the entire continent to generations of smoking, cancer, and preventable death."

Figure B3. Senator Blumenthal led the call for DOJ investigation of British American Tobacco company. Source: https://www.blumenthal.senate.gov/newsroom/press/release/call-for-doj-investigation-of-british-american-tobacco

# Trump called global anti-bribery law 'horrible.' His administration is pursuing fewer new investigations.

*Renae Merle*

For years, President Trump has criticized a more than 40-year-old law banning companies from bribing foreign officials to win business.

In 2012, he told CNBC that the Foreign Corrupt Practices Act was a "horrible law." In a 2017 Oval Office meeting, Trump ordered his then-Secretary of State Rex Tillerson to do away with it.

"It's just so unfair that American companies aren't allowed to pay bribes to get business overseas," Trump said, according to "A Very Stable Genius," a book by Washington Post reporters Philip Rucker and Carol D. Leonnig that published in January.

White House economic adviser Larry Kudlow said recently that the Trump administration is "looking at" making changes to the global anti-bribery law.

The Foreign Corrupt Practices Act was largely dormant for decades after its passage in 1977, with very few prosecutions until President George W. Bush began using the anti-bribery statute to propel the country's moral authority across the globe, legal experts say. It led to a global shift in attitudes about bribery, with the United States as the leading voice, said Andy Spalding, a professor at the University of Richmond School of Law and a senior editor of the FCPA Blog.

"A Republican administration dusted off the law and gave it some teeth," Spalding said.

But the law has been criticized by those who say it gives foreign competitors an advantage.

In a 2011 paper, Jay Clayton, now chairman of the Securities and Exchange Commission, said the United States' anti-bribery policies were "causing lasting harm to the competitiveness of U.S. regulated companies and the U.S. capital markets." Trump nominated Clayton to chair the SEC in 2017.

The Trump administration also appears to be more focused on prosecuting foreign companies accused of bribery, Savelle said. Over the past decade, U.S.-based firms have been the target of twice as many FCPA-related sanctions as foreign ones, according to the Stanford data. But among the ongoing cases, the breakdown is nearly even split, she said. (Friday's Airbus case adds to the total of foreign companies targeted by DOJ.)

"It may be an intentional effort to level the playing field by going after more foreign companies," Savelle said.

Figure B4. The Trump Administration's skepticism about the FCPA and the low number of enforcement cases.
Source: https://www.washingtonpost.com/business/2020/01/31/trump-fcpa/

The administration has made other moves that dovetail with the president's disdain for anti-bribery laws.

Early in his administration, Mr. Trump signed a measure from Congress striking down a rule from the Securities and Exchange Commission that would have required oil, gas and mining companies listed on United States stock exchanges to disclose how much they were paying to foreign governments.

Figure B5. The Trump Administration's exclusion of oil, gas, and mining companies from FCPA investigations.
Source: https://www.nytimes.com/2020/01/15/business/economy/trump-bribery-law.html

# Senators Introduce Combating Global Corruption Act of 2017

April 28, 2017

FCPA Update Anti-Corruption FCPA Bribery Fraud

Senator Ben Cardin and Republican co-sponsors recently introduced a bill titled the "Combating Global Corruption Act of 2017," which seeks "to identify and combat corruption in countries, to establish a tiered system of countries with respect to levels of corruption by their governments and their efforts to combat such corruption, and to assess United States assistance to designated countries in order to advance anti-corruption efforts in those countries and better serve United States taxpayers."

This bill, if enacted, would require the Secretary of State to publish annual rankings of foreign countries split up into three tiers that depend on whether those countries' governments comply with "minimum standards for the elimination of corruption." The introduced bill defines corruption as "the exercise of public power for private gain, including by bribery, nepotism, fraud, or embezzlement."

Figure B6. The Republican Senator Ben Cardin's active role in FCPA enforcement globally.
Source: https://buckleyfirm.com/blog/2017-04-28/senators-introduce-combating-global-corruption-act-2017

# U.S. Senator warns of corruption amid opening of Chinese loan market

*Lawrence Delevingne*

NEW YORK (Reuters) - U.S. Senator Marco Rubio has asked regulators to be vigilant about keeping American investors safe from "hazards" connected with a provision in the latest U.S.-China trade deal that encourages investment in China's non-performing loan market.

> FILE PHOTO: U.S. Senator Marco Rubio (R-FL) talks to reporters following a classified national security briefing of the U.S. Senate on developments with Iran after attacks by Iran on U.S. forces in Iraq, at the U.S. Capitol in Washington, U.S., January 8, 2020. REUTERS/Tom Brenner - RC2WBE9TKNYQ/File Photo

The "Phase One" deal announced in January includes an agreement that allows U.S. financial firms to apply for licenses to acquire non-performing loans directly from Chinese banks.

Such arrangements, especially those with state-owned enterprises, are risky, Rubio wrote in a public letter here to Attorney General William Barr sent on Tuesday. Copies also went to Securities and Exchange Commission Chairman Jay Clayton and top Department of Justice prosecutors.

"I urge you to vigilantly identify and enforce the Foreign Corrupt Practices Act (FCPA) cases involving the sale of distressed debt by Chinese financial and nonfinancial companies to American firms," Rubio wrote.

Figure B7. The strong linkage between anti-bribery enforcement and other economic activities and policies (e.g., market entry in foreign countries).
Source: https://www.reuters.com/article/idUSL1N2AQ00U