Policeman for the World:
The Rise in Extraterritorial FCPA Enforcement and Foreign Investment Competition

By HANS B. CHRISTENSEN, MARK MAFFETT, and THOMAS RAUTER*

June 2020

Abstract: Using insights gained from Foreign Corrupt Practices Act (FCPA) enforcement actions against corporations from 1977 to 2017, we show that a mid-2000s increase in US extraterritorial FCPA enforcement has a significant deterrent effect on foreign direct investment in high-corruption-risk countries by non-US firms headquartered in developed countries. Regulatory compliance costs appear to play a role in deterring investment. Contrary to prior research on the impact of FCPA enforcement against US firms only, our evidence suggests that extraterritorial enforcement reduces both the FCPA's anticompetitive impact on US firms and aggregate foreign direct investment in high-corruption-risk countries.

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

JEL Classification: F50; F60; K2; M4; O1

* University of Chicago Booth School of Business, 5807 S. Woodlawn Ave. Chicago, IL 60637 (hans.christensen@chicagobooth.edu; mark.maffett@chicagobooth.edu; thomas.rauter@chicagobooth.edu). We thank Mia Giuriato, Ginha Kim, Tom Kim, and Fabian Nagel for excellent research assistance. We appreciate helpful comments from Matthias Breuer, Donal Byard, John Core, Kevin Davis, Kurt Gee, Xuefeng Jiang (discussant), Jonathan Karpoff, Anya Kleymenova, Amanda Sanseverino, Clare Wang (discussant), Peter Wysocki, Stefan Zeume and workshop participants at Baruch College, Boston University, Carnegie Mellon University, Florida International University, Humboldt University of Berlin, IESE Business School, London Business School, London School of Economics, Penn State University, the University of Chicago, the University of Minnesota, the University of North Carolina, the University of Zurich, the 2019 Colorado Summer Accounting Research Conference, the 2019 FARS midyear meeting, and the 2018 Global Issues in Accounting Conference. For providing institutional information, we thank Angela Reitmeier (Transparency International), Mary Crane-Charef (OECD Policy Advisor for Anticorruption), and Florian Amann (Goldman Sachs). We gratefully acknowledge financial support from The University of Chicago Booth School of Business. This work is also supported by the Asness Junior Faculty Fellowship, the David G. Booth Faculty Fellowship, the IBM Corporation Faculty Fellowship, the John E. Jeuck Faculty Fellowship, and the Neubauer Family Faculty Fellowship at the University of Chicago Booth School of Business.

1. Introduction

Corruption, in the form of bribes paid to public officials to win business, can distort resource allocation by putting firms that do not engage in corrupt activities at a competitive disadvantage (Shleifer and Vishny 1993; SEC and DOJ 2012). To combat the effects of corrupt business practices, in 1977 the US enacted the Foreign Corrupt Practices Act (FCPA). For nearly three decades FCPA enforcement actions were relatively limited. Despite the FCPA having a broad extraterritorial scope, a lack of international cooperation made it difficult for the US, for practical and diplomatic reasons, to pursue enforcement actions against non-US firms. Critics feared that domestic enforcement alone would put US firms at a competitive disadvantage (Brewster and Buell 2017).

In the mid-2000s, following several regulatory changes and an increased willingness of many countries to cooperate after the 9/11 terrorist attacks, FCPA enforcement actions, particularly against non-US firms, increased significantly (Brewster 2017). This increase in FCPA enforcement is controversial. In the US, critics still worry about the FCPA's potential anticompetitive impact on domestic firms. Outside the US, opponents are concerned about the US strategically targeting competitors and engaging in enforcement activities in countries with little influence over the policy.[1] Our goal is to assess the competitive effects of increased extraterritorial FCPA enforcement by examining the FCPA's impact on non-US firms' foreign direct investment.

If the FCPA poses a credible and punitive enforcement threat, the cost of investing in a high-corruption-risk country will increase and the profitability of investment opportunities in those countries is likely to decline for all firms under the law's jurisdiction (Cuervo-Cazurra 2008; Blundell-Wignall and Roulet 2017). Thus, the FCPA's anticompetitive impact on US firms depends on the breadth of the regulation's extraterritorial reach and extent of its deterrent effects on non-US firms. Beck and Maher (1989) develop a model of anticorruption regulation where a law's effect depends on whether it applies to all bribe payers ("uniform regulation") or only to some bribe payers ("discriminatory regulation"). Discriminatory regulations decrease investment from regulated firms but, assuming there exist a sufficient number of unregulated firms for which investments in high-corruption risk countries remain profitable, have little impact on the overall level of investment or

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

bribery. In contrast, an anticorruption regulation that applies uniformly to all (or at least the vast majority of) potential competitors has no anticompetitive effects and can even increase firms' negotiating power with optimally rent-seeking local bureaucrats, thereby providing a mechanism for firms to credibly commit to not paying bribes (Shleifer and Vishny 1994; Rose-Ackerman 1996). Most prior research (e.g., Beck, Maher, and Tschoegl 1991) suggests that, before the US began actively pursuing enforcement actions against non-US firms, the FCPA acted as a discriminatory regulation—leading to a decrease in investment by US firms in high-corruption-risk countries that was largely offset by unregulated firms. The question we examine is whether the US's assumption of the role of "policeman for the world" and the accompanying increase in extraterritorial enforcement brings the FCPA close enough to a uniform regulation to mitigate its anticompetitive impact on US firms and create the conditions necessary for a decrease in corruption.

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

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

approximately 2.9%. Inconsistent with the FCPA disproportionately harming the competitiveness of US firms relative to firms from other developed countries, we find no evidence that US firms reduce investments in high-corruption-risk countries more than firms headquartered in other ABC countries. FDI flows from ABC countries to high-corruption-risk countries decrease by a similar magnitude whether or not a country actively enforces its own foreign corruption regulation, which corroborates the importance of extraterritorial US FCPA enforcement in explaining the decline in investment. It does not appear that non-ABC countries offset the reduction in investment. On average, we find no evidence of an economically significant increase in FDI from non-ABC countries to high-corruption-risk countries. We do however find evidence of substitution from a subset of non-ABC countries that invested in high-corruption-risk countries prior to the enforcement increase, but this increase in investment is not nearly large enough to offset the reduction in investment from ABC countries. Taken together, our FDI analyses suggest that the increase in FCPA enforcement led to a net decline in FDI in high-corruption-risk countries—a likely unintended, but not unexpected, consequence of more uniform anticorruption enforcement.

Second, we examine changes in firm-level capital expenditures (CAPEX) from the financial-statement-based segment disclosures of large multinational corporations. Contemporaneous shocks that differentially affect investment outflows from ABC countries (relative to non-ABC countries) or investment inflows to high-corruption-risk countries (relative to low-corruption-risk countries) are the primary threat to identification in the FDI analysis. The firm-segment-level CAPEX data allows us to provide tighter identification by exploiting within-country variation in the strength of the FCPA's potential deterrent effect on firms under and not under US jurisdiction and on firms with and without high internal control risk. After the mid-2000s increase in FCPA enforcement, firms headquartered in non-US ABC countries that cross-list on an SEC-regulated US exchange or have a disclosed US segment reduce CAPEX in high-corruption-risk countries by approximately 16%. The reduction in CAPEX increases to 24% for firms with high internal control risk.

Third, to assess the magnitude of the compliance costs imposed by the FCPA, we examine changes in the length of the transactional-due-diligence period (i.e., the time between the signing of a merger agreement and the completion of the deal) for cross-border mergers and acquisitions (M&A) targeting companies in high-corruption-risk countries. Consistent with the FCPA imposing significant compliance costs, we find that after the increase in FCPA enforcement acquirers under US jurisdiction *increase* the length of their due-diligence periods (relative to acquirers not under US

jurisdiction) by 34% (about 43 days) when acquiring targets in high-corruption-risk countries.

Since the mid-2000s, the SEC and DOJ have significantly expanded the FCPA's extraterritorial reach. Collectively, our evidence suggests that FCPA enforcement has a significant deterrent effect on investment in high-corruption-risk countries by non-US firms under the FCPA's jurisdiction. The decrease in FDI flows is at least as large for non-US countries that have enacted the OECD's ABC as it is for the US, suggesting that the increase in FCPA enforcement has not created (or amplified) any competitive disadvantage for US firms (and could even have helped to level the foreign direct investment playing field) relative to firms from other developed countries.

Prior FCPA research focuses on the period shortly after the law's enactment and finds either no statistically significant effect of the FCPA (Graham 1984; Wei 2000; Smarzynska and Wei 2000) or that US firms changed the way they conduct business in high-corruption-risk countries after 1977 and that non-US firms exploited the void (Beck, Maher, and Tschoegl 1991; Hines 1995)—giving credence to the argument that the FCPA is a discriminatory regulation that hurts US businesses. Cuervo-Cazurra (2006, 2008), D'Souza (2012), and Blundell-Wignall and Roulet (2017) show a similar effect of the ABC on OECD countries' investments and exports. Zeume (2017) focuses on the UK Bribery Act's (UKBA) impact on UK firms and finds: 1) a reduction in firm value for UK firms with operations in high-corruption-risk countries; 2) an increase in firm value for non-UK-connected competitors of UK firms; 3) and that UK firms open fewer subsidiaries, make fewer acquisitions, and have lower revenue growth in non-OECD countries. Sanseverino (2019) examines the impact of the UKBA and finds that US firms with UK operations report lower revenues in high-corruption-risk segments and are less likely to report a UK segment. Our findings complement these studies by providing evidence of similar, albeit smaller, deterrent effects of anticorruption regulation on corporate investment around the mid-2000s FCPA enforcement increase.

In contrast to prior work, we focus on understanding the expansion of the FCPA's extraterritorial reach to non-US firms and on the competitive effects of extraterritorial anticorruption enforcement—changes that we show brought the FCPA closer to uniform regulation. Our novel descriptive evidence on the characteristics of FCPA enforcement actions against non-US firms highlights the importance of international cooperation and oversight of internal control and recordkeeping systems in successful anticorruption enforcement. We are also the first to provide evidence that the extraterritorial expansion of FCPA enforcement has a significant deterrent effect on investment by non-US firms. This likely explains why, unlike most prior work, we find no

evidence of an incremental reduction in the competitiveness of US firms relative to firms from other OECD countries. Instead, our results indicate that investment substitution by non-OECD countries is limited to countries with investments in high-corruption-risk countries before the enforcement increase, and that the substitution from this subset of countries is insufficient to fully offset the decline in investment from ABC countries, which is consistent with the US's assumption of the role of policeman of world shifting the FCPA from a discriminatory to a more uniform regulation.

2. Evidence on the Extraterritorial Reach of US FCPA Enforcement

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

Three characteristics of these cases are noteworthy: 1) enforcement actions against non-US firms were virtually nonexistent prior to 2005, after which they increased substantially; 2) enforcement is essentially limited to firms headquartered in countries that have ratified the OECD's Anti-Bribery Convention (ABC) and focuses on bribes paid to foreign officials of countries Transparency International classifies as "highly corrupt;" and 3) most non-US targets of FCPA enforcement have a US cross-listing, significant US operations, and/or high internal control risk.[2] In the remainder of this section, we provide evidence that supports each of these conclusions.

2.1 Timing of the Rise in FCPA Enforcement Actions against Non-US Firms

When the FCPA was passed in 1977, the US was the first country to criminalize the bribery of foreign public officials. At that time, the official standpoint of most Western governments was that, despite being prohibited domestically, bribery was necessary to "grease the wheels" of business and to facilitate investment in developing countries with inefficient government bureaucracies (Brewster and Buell 2017). Many European governments even encouraged and subsidized foreign

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

bribery by making it a tax-deductible business expense (Pacini, Swingen, and Rogers 2002). The lack of an international consensus on the acceptability of foreign bribery made it difficult for the US to pursue extraterritorial enforcement actions and created fears that active FCPA enforcement against US firms alone would harm their competitiveness (Krever 2007; Gutterman 2013). For nearly three decades, FCPA enforcement actions against US firms were limited, and for foreign firms they were essentially nonexistent. Without support from a broad coalition of countries, FCPA enforcement was practically and politically unviable (Darrough 2010).

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

Although the ABC entered into force for most OECD countries in February 1999, the US did not significantly increase FCPA enforcement efforts until the mid-2000s (Martin et al. 2012; Olken and Pande 2012). Figure 1(a) plots in total and separately for US and non-US firms the number of enforcement actions (based on the defendant's headquarters location) per year from 1977 to 2017. Enforcement actions against US and non-US firms increase sharply after 2005. The first large spike in enforcement actions occurs in 2007, which, given that a typical FCPA investigation from initiation until the filing of an enforcement action takes multiple years, is consistent with an onset of the ramp up in enforcement around 2005. From 1977 until 2004 there were 53 FCPA enforcement actions (fewer than 2 per year); since then there have been 284 cases (more than 20 per year). For non-US firms, the enforcement increase is even more pronounced, growing from only 4 enforcement actions before 2005 to 97 cases after. Enforcement against US and non-US firms increases around the same time, consistent with the idea that limiting the FCPA's anticompetitive effects on US firms is necessary to make enforcement politically viable.

A confluence of factors, all occurring around 2005, help to explain the timing of the increase in FCPA enforcement, including an expanded legal definition of bribery, the introduction of deferred and non-prosecution agreements in FCPA cases, the enactment of the Sarbanes-Oxley Act, and increased regulatory cooperation under the OECD Anti-Bribery Convention. In Internet Appendix Section IA1, we discuss these factors in detail.

2.2 Geographical Reach of US Extraterritorial FCPA Enforcement

Anecdotal evidence suggests that the ABC contributes to the rise in extraterritorial FCPA enforcement actions against non-US firms (Brewster and Buell 2017). Table 1 lists ABC signatory countries and their respective signing dates. The signatories include all OECD-member states as well as eight additional non-OECD countries (44 countries in total)—we refer to these countries collectively as "ABC countries." In Figure 1(b), we separately plot the number of enforcement actions per year against non-US firms headquartered in ABC and non-ABC countries. Cases are almost exclusively limited to firms headquartered in ABC countries, with 99 cases against firms in ABC countries and only 2 cases against firms in non-ABC countries. Column (4) of Table 1 provides a breakdown of the number of enforcement actions by ABC country. Germany, the UK, and Switzerland have the largest number of cases (15, 13, and 11, respectively) and over half of all (non-US) ABC countries (22 out of 43) have at least one enforcement action against a firm headquartered in their territory.

Internet Appendix Table IA2 reports the number of enforcement actions by bribe country along with the Transparency International CPI value for each country with more than three bribes paid (a single enforcement action can include bribes paid in multiple countries, which is why the number of incidents per country exceeds the total number of cases). The CPI is a composite score of how corrupt a country's public sector is perceived to be, ranging from 0 (most corrupt) to 100 (least corrupt). The median bribe-country CPI is 28. Consistent with the finding in Martin et al. (2012) for all FCPA cases, nearly every FCPA case against a non-US firm pertains to bribes paid in countries that Transparency International classifies as "highly corrupt" (i.e., a CPI value of 50 or less). The most bribes occur in China, Iraq, and Nigeria (67, 41, and 39, respectively); 41 other countries have four or more bribery incidents.

Taken together, the evidence in this section suggests US enforcement is essentially limited to firms headquartered in ABC countries and targets bribes paid in countries Transparency International classifies as "highly corrupt."

2.3 Firms Subject to Extraterritorial FCPA Enforcement Actions

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

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

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

independent variables are fundamental firm characteristics that are likely associated with the complexity of a firm's operations. We then use this model to estimate the likelihood of internal-control weaknesses for non-US firms (who generally do not have to report internal control weaknesses) and use the predicted values from this estimation to capture a firm's inherent internal control risk, *Internal Control Risk* (see Internet Appendix Section IA3 for further details).

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

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

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

Table 2 Panel A reports descriptive statistics. Our sample consists of the 6,488 firms that have at least one foreign segment between 2005 and 2017 and are headquartered in ABC countries. The requirement that a firm reports at least one foreign segment limits the sample to relatively large multinational corporations, the most likely targets of US FCPA enforcement actions. We further limit our analysis to the post-2004 period because there are few enforcement actions against non-US firms before then. After 2005, the unconditional probability of a FCPA enforcement action (for a large multinational firm) is 1.6%. 23% of firms are headquartered in the US and 37% are headquartered outside of the US but have an operating segment in the US. 3% are SEC registrants via an ADR. Median *Internal Control Risk* is -0.383. The median firm generates 48% of its sales abroad, has total assets of $555 million, and has a return on assets of 4%. The high proportion of foreign sales and large total asset values reflect the sample of multinational firms.

Table 2 Panel B reports results from estimating Eq. (1). In Column (1), the coefficient estimates for *US Firm*, *US Cross Listing*, and *Foreign Firm US Segment* are positive and statistically significant. The largest effect (0.050) is for firms with a US cross-listing, suggesting that (all else

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

Taken together, the evidence in Table 2 Panel B suggests that the threat of an FCPA action is greater for non-US firms that are listed on a US exchange, have a US segment, and/or have high internal control risk.

2.4 Conclusions from Enforcement Action Analysis and Integration into Investment Analyses

To summarize, the analyses so far suggest that the FCPA is likely to have the largest effect on non-US firms: 1) after the mid-2000s enforcement increase; 2) headquartered in ABC-signatory countries and investing in countries with high corruption risk; and 3) having a US cross-listing, a US segment, and/or high internal control risk. To support these descriptive findings, in Internet Appendix Section IA4, we present results from a series of multivariate regressions (both static and time-series) that reinforce the importance of these characteristics. In our investment analyses, we use each of these sources of variation to identify the effect of FCPA enforcement on non-US firms' investment policies.

3. FCPA Enforcement and Investment Policies

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

accounting provisions imposes compliance costs on investing firms by requiring that they set up costly internal control and recordkeeping systems capable of detecting corrupt payments.[3] Even for firms that do not pay bribes, FCPA compliance costs could discourage investment. Alternatively, if FCPA enforcement actions are too few or impose too little cost to serve as an effective deterrent, we expect to observe no change in investment activities.[4]

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

The two hypothesized effects of increased FCPA enforcement need not be mutually exclusive. While the inability to pay bribes and increased compliance costs could deter investment in the short run, over a relatively long horizon, investment could increase as officials in high-corruption-risk countries adapt to the decline in bribery and companies absorb the FCPA's fixed compliance costs. Given these competing possibilities, how increased extraterritorial FCPA enforcement affects non-US firms' investment policies is an empirical question. Our regression analyses exploit firm-, time-, and country-level variation in the characteristics of prior FCPA enforcement actions (see Section 2) to provide evidence on this issue. We assess changes in firms' investment policies using three proxies: bilateral, country-level FDI flows; firm-level capital expenditures; and the length of M&A due diligence.

---

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

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

3.1 Effects of FCPA Enforcement on Aggregate Investment Flows

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

We obtain FDI data from the *Bilateral FDI Statistics* database of the *United Nations Conference on Trade and Development (UNCTAD)*.[5] The raw data include bilateral FDI flows for 220 outflow and inflow countries from 2001 to 2012. We exclude outflow and inflow countries that are not members of the UN and those classified by the IMF as "offshore financial centers."[6] Because we log-transform FDI in the regression analyses, we exclude observations with negative FDI flows. We include all country-out/country-in pairs with at least one year of data, and among the set of countries with some non-missing data, assume that missing observations correspond to FDI flows of zero. In Internet Appendix Section IA5, we further discuss the rationale for our FDI sample selection criteria, provide a breakdown of the number of observations affected by each choice, and show that our inferences are not significantly affected by these choices. In Internet Appendix Section IA8, we provide a breakdown of the number of observations included in the analysis by inflow and outflow country. Our final regression sample covers bilateral FDI flows for 135 outflow and 145 inflow countries between 2002 and 2012.

We compare changes in aggregate bilateral FDI flows for ABC versus non-ABC countries, before and after 2004 and in high- versus low-corruption-risk countries, by estimating the following OLS regression:[7]

---

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

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

[7] By comparing FDI flows around 2005, we implicitly assume that all ABC firms are treated by the increase in FCPA enforcement at the same time. An alternative approach would be to use home-country- (or host-country-) specific enforcement dates based on the date of the first FCPA enforcement action against a firm headquartered (or paying bribes) in a particular country. The assumption in this alternative approach is that firms use their home or host country as a reference point for FCPA enforcement risk. Because our sample consists of relatively large multinational corporations, it is not obvious that these firms take a local, rather than a global, perspective on enforcement risk. In Table IA9 of the Internet Appendix, we conduct our primary analyses using these alternative dates and find no evidence

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

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

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

Using data from the World Bank's *World Development and Governance* database (available beginning in 2002), we include controls for several time-varying, inflow-country characteristics that could affect FDI, including: *GDP Growth*, because business opportunities tend to be procyclical and companies could be more (less) likely to invest abroad during economic booms (busts); *Export Orientation* because host countries' export focus stimulates FDI (Habib and Zurawicki 2002; Singh and Jun 1995) and to control for any correlated changes in trade agreements that could affect FDI (Thangavelu and Findlay 2011); *Political Stability* because political stability reduces investment uncertainty (Egger and Winner 2005); *Regulatory Quality*, *Rule of Law*, and *Government*

of significant changes in FDI flows when we use home-country-specific treatment dates (based on the first FCPA enforcement action against a firm headquartered in that country). We do, however, find a significant reduction in FDI flows to investment-host countries after the first FCPA enforcement action that involves a bribe paid in the host country.

Effectiveness because higher institutional quality lowers operating costs for foreign firms (Daude and Stein 2007; Buchanan, Le, and Rishi 2012).

We include country-pair fixed effects (*Country Out×Country In*) to control for differences in FDI flows arising from time-invariant (or slow-moving) factors such as geographic distance, economic integration, cultural similarities, and colonial ties between countries (i.e., we examine differences from the average FDI flows within a given country-pair). We add *Country Out×Year* fixed effects to control for macroeconomic, regulatory, and institutional changes in the outflow country (i.e., within a given outflow-country year, we compare differences in FDI flows to high- versus low-corruption-risk countries). Because we are interested in assessing the extent of investment substitution from non-ABC countries (as indicated by the *Post2004×High-Corruption-Risk Country* coefficient estimate), we do not include *Country In×Year* fixed effects in our baseline specification. However, we do include these fixed effects in the analysis in Table 3 Panel B (i.e., within a given inflow-country×year, we compare differences in FDI flows from ABC versus non-ABC countries). We cluster standard errors at the outflow- and inflow-country levels because FDI flows could be correlated over time within both outflow and inflow countries. Internet Appendix Section IA5 presents several alternative specifications, including: 1) different ABC-country samples; 2) a continuous corruption measure; 3) non-log-transformed FDI flows; 4) negative FDI flows; 5) excluding assumed-zero FDI flows; 6) excluding inflow-country controls; 7) controlling for the MMoU; and 8) alternative clustering.

Table 3 Panel A presents descriptive statistics at the country-pair-year level. FDI outflows are right-skewed, with a mean of 0.042% and a 75th percentile of and 0.008% of outflow-country GDP. Approximately 61% of the FDI-flow observations originate from ABC countries and 72% of observations occur after the US enforcement shock in 2005 (*Post2004*). FDI flows to high-corruption-risk countries constitute 70% of all country-pair observations, reflecting the fact that Transparency International classifies the majority of countries in the world as having high corruption risk. The median inflow country has an annual *GDP Growth* of 2.8% and an *Export Orientation* of 35% (exports/GDP); institutional indicators are approximately equal to the world average (i.e., close to 0 on a scale from -2.5 to 2.5).

Table 3 Panel B presents regression results for Eq. (2). Column (1) reports results for the average effect across all countries (i.e., including all non-ABC countries in the control group and including the US as an ABC outflow country). The *ABC×Post2004×High-Corruption-Risk Country*

coefficient estimate is negative and statistically significant, indicating a decrease in bilateral FDI flows (as a percentage of outflow-country GDP) from ABC countries to high-corruption-risk countries of 2.8%. The estimated change in bilateral FDI flows from non-ABC countries, as indicated by the *Post2004×High-Corruption-Risk Country* coefficient estimate, is only -0.1% and is statistically insignificant. Based on a 95% confidence interval, we can infer that, on average, non-ABC countries' FDI flows to high-corruption-risk countries do not increase by more than 0.8%. Because FDI from ABC countries to high-corruption-risk countries far exceeds that of non-ABC countries, even a statistically unlikely 0.8% increase in FDI from non-ABC countries would not offset the observed reduction in ABC-country FDI. The *Political Stability* coefficient estimate is statistically significant and has the expected sign. The remaining control variables are statistically indistinguishable from zero.

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

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

Column (4) presents results including only ABC countries that, according to Transparency

International, have never actively enforced their own corruption regulations (see Table 1). In weak-enforcement countries, any change in investment around the increase in FCPA enforcement is more likely to be attributable to the extraterritorial enforcement efforts of the US. The results in Column (4) indicate that inactive enforcement countries reduce FDI in high-corruption-risk countries by 3.0%, an almost identical coefficient magnitude as for the full sample.

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

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

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

If the FCPA increases the cost of investing in high-corruption-risk countries only for ABC countries, non-ABC countries should have a competitive advantage. Yet, to this point, our analyses provide no indication that non-ABC countries increase investment in high-corruption-risk countries in response to the decline in ABC-country FDI. One potential explanation is that the analyses in Panel B implicitly assume that any investment substitution (as indicated by the *Post2004×High-*

Corruption-Risk Country coefficient estimate) is similar among the entire control group. In Table 3 Panel C, we alter the dependent variable by scaling aggregate FDI flows by GDP (in USD) of the *inflow* rather than the *outflow* country. Using a common denominator makes it easier to compare FDI flows from different outflow countries. The results in Table 3 Panel C Columns (1) and (2) show that scaling by inflow-country GDP does not affect the conclusion that, on average, there is no investment substitution from non-ABC countries.[8]

Another potential explanation for the lack of investment substitution is that, because more than two-thirds of all pre-2005 FDI stock in high-corruption-risk countries was held by ABC countries, it may be difficult, at least in the short term, for non-ABC countries to fill the void. However, non-ABC countries that have existing operations in high-corruption risk countries can likely ramp-up investment faster. We use the stock of non-ABC country FDI in 2004 to proxy for the extent of investment competition ABC countries are likely to face from non-ABC countries in a given inflow country. In countries where the pre-2005 existing investments by non-ABC countries are relatively large, the FCPA is more likely to function as a discriminatory regulation because there are potentially many investors not affected by the increase in FCPA enforcement. Where there is more competition from non-ABC countries, we expect to observe a larger decline in ABC-country FDI and more investment substitution from non-ABC countries. In contrast, in countries where there is no (or relatively little) pre-2005 FDI stock from non-ABC firms, the FCPA is likely to operate as a uniform regulation where all potential investors face an increase in enforcement risk. Here, we expect to observe smaller declines in FDI from ABC countries and little investment substitution.

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

In Columns (5) and (6), we further limit the sample to non-ABC countries whose FDI stock

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

in a given country represents at least 1% of all FDI stock in that country in 2004. The P*ost2004×High-Corruption-Risk Country* coefficient estimate increases to 0.020, approximately 43% as large as the decrease in investment from ABC countries (-0.046) and is statistically significant, suggesting that one explanation for the absence of substitution is that it is difficult for countries without existing FDI in a country to (quickly) exploit the reduction in investment from ABC countries. That said, the magnitude of the increase in FDI appears far too small to offset the reduction from ABC countries. The larger decrease in FDI from ABC countries in Table 3 Panel C, relative to the baseline specification in Panel B, is expected given that the FCPA applies to a smaller proportion of the market (i.e., in markets with more non-ABC firms the FCPA is a more discriminatory regulation).

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

3.2 Effects of FCPA Enforcement on Firm-Level Capital Expenditures

Our second investment proxy is firm-level capital expenditures (CAPEX) from segment disclosures. A firm's segment disclosures report certain financial results from foreign countries where the firm has a material business interest—including information on expenditures made in acquiring or maintaining fixed assets, such as land, buildings, and equipment. This granular firm-segment-level data allows us to exploit within-country variation in the FCPA's impact on investment among non-US firms under and not under US jurisdiction and with high versus low internal control risk, and hence to draw a tighter link between changes in investment policies and the FCPA. If the mid-2000s increase in FCPA enforcement causes non-US firms (headquartered in ABC countries)

to reduce direct investments in countries with high corruption risk, we expect firms explicitly under US jurisdiction and/or with high internal control risk to reduce CAPEX more than other firms in the same country after 2004. The drawback of the CAPEX analysis is that data are limited for firms from non-OECD countries and that there is no data for private firms. Thus, we cannot speak to the FCPA's overall impact on competition between countries in this analysis.

Importantly, because we compare changes in CAPEX for firms under US jurisdiction to firms not under US jurisdiction, if firms not under US jurisdiction gain a competitive advantage and increase investment in high-corruption-risk countries in response to increased FCPA enforcement, our estimates will overstate the investment reduction by firms under US jurisdiction. Thus, the purpose of the CAPEX analysis is to establish the role of US FCPA enforcement as a determinant of investment-policy changes for non-US firms rather than to estimate the FCPA's aggregate effect on direct investment flows to high-corruption-risk countries or competition.

We collect firm-segment-level CAPEX data from *Worldscope*, which compiles information from geographic segment disclosures in firms' financial reports. We require that each parent firm have at least two observations in the pre- and post-2004 periods. Segment disclosures are widely available only for firms headquartered in OECD countries that signed the ABC in 1997 (see Table 1), limiting our sample to parent firms from these countries. We exclude US firms in this analysis because there is no variation in US jurisdiction. In Internet Appendix Section IA8, we provide a breakdown of the number of observations by parent and segment country.

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

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

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

We include fixed effects for: *Parent Country×Segment Country* to control for level

differences in investment flows arising from time-invariant country-level connections, such as cultural similarities or colonial ties, between each parent and segment-country pair; *Segment Country×Year* to control for time-varying macroeconomic, regulatory, and institutional changes in the segment country; and *US Jurisdiction×Segment Country* to control for time-invariant, level differences in investment flows between firms under and not under US jurisdiction by segment country. Because we measure *US Jurisdiction* at the firm level and include *Segment Country×Year* fixed effects, we examine variation in *Segment CAPEX* within a given inflow country and year, which helps to address the concern that a shock other than increased FCPA enforcement (that occurs around 2005 and differentially affects investment in high- versus low-corruption-risk countries) could confound our inferences. We cluster standard errors at the segment-country level only, because we have relatively few parent countries in the sample. Internet Appendix Section IA6 presents several alternative specifications, including: 1) excluding large firms; 2) using a continuous measure of corruption; 3) using an alternative measure of corruption; 4) non-log-transformed CAPEX; and 5) alternative clustering.

Table 4 Panel A reports descriptive statistics. For the median firm, *Segment CAPEX* is 0.3% of total (parent-level) assets. About 71% of the observations come from the *Post2004* period. High-corruption-risk segments makeup 21% of all segments, 50% of the segment-year observations come from firms under *US Jurisdiction* (with *High Internal Control Risk*).

Table 4 Panel B presents results from estimating Eq. (3). In Column (1), the coefficient estimate for *Post2004×US Jurisdiction* is negative and statistically significant, indicating that after 2004 firms under US jurisdiction reduce *Segment CAPEX* in high-corruption-risk countries by 18.1% (compared to firms not under US jurisdiction; 18.1% = $\exp^{(-0.200)}$-1). This estimate is not directly comparable to the 2.8% reduction in FDI estimated in Section 3.1 because FDI includes many other types of investment besides CAPEX (e.g., majority equity investments).

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

difference in the estimated treatment effect between Columns (1) and (2) (i.e., a decrease in *Segment CAPEX* of 15.7%) and is statistically significant.

In Table 4 Panel B Column (4), we include *Parent Country×Year* fixed effects as an additional control for time-varying factors that could affect the level of CAPEX from a given parent country (e.g., the macroeconomic cycle). The *Post2004×US Jurisdiction×High-Corruption-Risk Segment* coefficient estimate increases (slightly) to -0.174, and is statistically significant (at the 10% level). To allow for some uncertainty in the exact timing of the shift in enforcement, in Column (5), we estimate an alternative specification that excludes the years 2005 and 2006. The estimated treatment effect is slightly larger than in Column (3) (-0.198 versus -0.171) and is statistically significant (at the 10% level).

To assess the reasonableness of the parallel-trends assumption, Figure 2 Panel B maps out the treatment effect over time by replacing *Post2004×US Jurisdiction×High-Corruption-Risk Segment* with separate interactions for each of the years in our sample, except for 2004 (which serves as the benchmark). In the pre-period, the coefficient estimates are close to zero and statistically insignificant. In the post-period, the treatment effect is negative, statistically significant in 2005, and consistent with Table 4 Panel B Column (5), becomes more negative after 2007.

Prior research shows that proprietary and agency costs are important determinants of firms' segment-reporting decisions (Bens, Berger, Monahan 2011). If increased, FCPA enforcement leads firms to systematically change their segment-reporting behavior in high- relative to low-corruption-risk countries (e.g., by aggregating segment reporting in high-corruption-risk countries to the regional level), this could lead us to overestimate the decline in CAPEX. In Internet Appendix Section IA6, we show that there is no evidence that firms are more likely to aggregate segments in high-corruption-risk countries after the increase in FCPA enforcement.

Next, we examine variation based on firms' internal control risk. Our analysis of prior enforcement actions indicates that firms with significant internal control risk are more likely to be FCPA enforcement targets. Accordingly, we expect that these firms are more likely to reduce investments in high-corruption-risk countries after the enforcement increase. In Columns (6) and (7), we separately estimate the triple-differences model from Table 4 Panel B Column (3) for firms with above and below median *Internal Control Risk*. This partitioning allows us to further strengthen identification by introducing a fourth layer of variation. We find that the treatment effect is limited to firms with above median internal control risk (the difference in the effect across partitions is

statistically significant at the 10% level). In Internet Appendix Figure IA3, we map out the treatment effect in event time and find no statistically significant differences in the pre-treatment trends in *Segment CAPEX* between the high- and low-internal-control-risk subsamples.

To summarize, the firm-segment-level CAPEX analysis suggests that increased extraterritorial FCPA enforcement leads non-US firms under US jurisdiction to reduce investment in high-corruption-risk countries, particularly firms subject to high internal control risk.

3.3 Effects of FCPA Enforcement on M&A Due Diligence Length

Our third investment proxy is the length of M&A due diligence by firms that acquire companies in high-corruption-risk countries. Increased compliance costs that make otherwise positive NPV projects unprofitable are one potential explanation for the observed reduction in foreign direct investment in high-corruption-risk countries after the rise in FCPA enforcement. Compliance costs could increase either because FCPA enforcement prevents firms from using bribes to circumvent inefficient local bureaucracies or because the FCPA guidance emphasizes firms' own efforts to avoid making corrupt payments (e.g., the existence of strong internal controls) in the determination of fault and penalties.

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

We obtain M&A data from *SDC Platinum* and *Thomson ONE*. The primary drawbacks of the M&A data are that they are widely available only for public acquirers headquartered in ABC

countries that were members of the OECD prior to signing the ABC (see Table 1) and that there is no variation in US jurisdiction for US firms. We limit our sample to completed cross-border deals between public firms from 2001 to 2017. We focus on public *acquirers* because we can establish US jurisdiction, defined based on whether a company files with the SEC or operates a segment in the US, only for these firms. We limit our sample to public *targets* because prior research shows that in acquisitions of private targets, a significant proportion of the due diligence is performed prior to signing an acquisition agreement (Wangerin 2019). Given that we measure due diligence length based on the number of days between the signing of the acquisition agreement and the deal's closing date, our measure is likely less representative of companies' due diligence efforts for private targets (nonetheless, we report similar results for private targets in Internet Appendix Section IA7). Because the typical due diligence review lasts between two and three months (Wangerin 2019), we exclude deals with due diligence periods below 10 days. Transactions with such short completion times likely indicate the existence of a prior relationship between the acquirer and target firm (e.g., prior minority ownership).

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

$$Ln(\textit{M\&A Due Diligence Length}_{i,d,t}) = \textit{Post } 2004_t \times \textit{US Jurisdiction}_i + \textit{Controls} + \textit{Fixed Effects} + \varepsilon_{i,d,t} \quad (4)$$

Ln(M&A Due Diligence Length) is the natural logarithm of the number of days between signing the acquisition agreement and the closing of the transaction between acquirer *i* and target *d* in year *t*. We use a deal's announcement date as a proxy for the signing date because the latter is sparsely populated and, when reported, both dates are nearly identical (the average difference is 0.76 days). We take the natural logarithm to account for the variable's skewness. *US Jurisdiction* is defined as in the CAPEX analysis. We include controls for deal size (*Ln(Deal Size)*) and type (i.e., *Divestiture* and *Bankruptcy/Restructuring*). The fixed effects are the same as in Eq. (3). We cluster standard errors at the target-country level only, because there are relatively few acquirer countries in the sample. In Internet Appendix Section IA7, we present several alternative specifications, including: 1) a continuous corruption measure, 2) an alternative corruption measure, 3) non-log-transformed *M&A Due Diligence Length*, and 4) alternative clustering.

Table 5 Panel A reports descriptive statistics. The average length of the due diligence period

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

Table 5 Panel B presents results from estimating Eq. (4). In Column (1), the *Post2004×US Jurisdiction* coefficient estimate is positive, statistically significant, and implies that, when acquiring a target in a high-corruption-risk country, acquirers under US jurisdiction *increase* the length of their due diligence (relative to acquirers not under US jurisdiction) by approximately 20% (about 25 days). In contrast, in Column (2), we find that for targets in low-corruption-risk countries, acquirers under US jurisdiction *reduce* the length of their due diligence relative to non-US jurisdiction acquirers. In Column (3), we estimate a triple-differences model that includes a *High-Corruption-Risk Target* indicator (equal to one if a target is located in a high-corruption-risk country, and zero otherwise) and *US Jurisdiction×Year* fixed effects. The *Post2004×US Jurisdiction×High-Corruption-Risk Target* coefficient estimate indicates that acquirers under US jurisdiction increase due diligence length for targets in high- relative to low-corruption-risk countries by approximately 34%. We find similar (but weaker) results when we additionally control for *Acquirer Country×Year* fixed effects (Column 4) or exclude 2005 and 2006 (Column 5).

To assess the reasonableness of the parallel-trends assumption, in Figure 2 Panel C, we map out the treatment effect over time by replacing *Post2004×US Jurisdiction×High-Corruption-Risk Target* with separate interactions for each two-year period in our sample, except for the years 2003 and 2004 (which serve as the benchmark). We use two-year periods because acquisition activity varies substantially across years and some years have few acquisitions in high-corruption-risk countries. In the pre-period, the coefficient estimates are close to zero and statistically insignificant. In the post-period, the treatment effect is positive for all periods beginning in 2005/2006.

To summarize, consistent with the FCPA imposing significant compliance costs, our analysis suggests that FCPA enforcement increases the amount of time it takes non-US firms under US jurisdiction to complete acquisitions of firms headquartered in high-corruption-risk countries. Importantly, because this analysis speaks only to the FCPA's costs conditional on a firm choosing to invest, it likely understates the regulation's total costs.

4. Conclusion

Following several prominent regulatory changes and an increased willingness of many countries to cooperate after the 9/11 terrorist attacks, FCPA enforcement actions, particularly

against non-US firms, have significantly increased. Using institutional insights gained from enforcement actions against corporations from 1977 to 2017, we show that a mid-2000s increase in US extraterritorial FCPA enforcement, characterized by international cooperation and prosecutions based on the FCPA's recordkeeping provisions, has had a significant deterrent effect on foreign direct investment by non-US firms in high-corruption-risk countries. Increased regulatory compliance costs appear to play an important role. The decrease in FDI flows is at least as large for non-US countries that have enacted the OECD's Anti-bribery Convention as it is for the US, suggesting that the increase in FCPA enforcement has not created (or amplified) any competitive disadvantage for US firms (and could even have helped to level the foreign direct investment playing field) relative to firms from other developed countries.

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

References

Acemoglu, D., and Robinson, J. (2012). *Why Nations Fail: The Origins of Power, Prosperity and Poverty*. New York: Crown Publishers.

Beck P., and Maher M. (1989). "Competition, Regulation and Bribery." *Managerial and Decision Economics* 10: 1–12.

Beck, P., Maher, M., and Tschoegl, A. (1991). "The Impact of the Foreign Corrupt Practices Act on US Exports." *Managerial and Decision Economics* 12: 295–303.

Bens, D., Berger, P., and Monahan, S. (2011). "Discretionary Disclosure in Financial Reporting: An Examination Comparing Internal Firm Data to Externally Reported Segment Data." *The Accounting Review* 86: 417–449.

Blundell-Wignall, A., and Roulet, C. (2017). "Foreign Direct Investment, Corruption and the OECD Anti-Bribery Convention." *OECD Working Papers on International Investment*, 2017/01. Paris: OECD Publishing.

Brewster, R. (2017). "Enforcing the FCPA: International Resonance and Domestic Strategy" *Virginia Law Review* 103(8): 1611–1682.

Brewster, R., and Buell, S. (2017). "The Market for Global Anticorruption Enforcement." *Law and Contemporary Problems* 80: 193–214.

Buchanan B., Le Q., and Rishi M. (2012). "Foreign Direct Investment and Institutional Quality." *International Review of Financial Analysis* 21: 81–89.

Corporate Crime Reporter (2010). "Mark Mendelsohn on the Rise in FCPA Enforcement." September 13th, 2010.

Cuervo-Cazurra, A. (2006). "Who Cares about Corruption?" *Journal of International Business Studies* 37(6): 803–822.

Cuervo-Cazurra, A. (2008). "The Effectiveness of Laws against Bribery Abroad." *Journal of International Business Studies* 39(4): 634–651.

Daude, C., and Stein, E. (2007). "The Quality of Institutions and Foreign Direct Investment." *Economics and Politics* 19: 317–344.

Darrough, M. (2010). "The FCPA and the OECD Convention: Some Lessons from the US Experience." *Journal of Business Ethics* 93: 255–276.

Doyle, J., Ge, W., and McVay, S. (2007). "Determinants of Weaknesses in Internal Control over Financial Reporting." *Journal of Accounting and Economics*, 44: 193-223.

D'Souza A. (2012). "The OECD Anti-Bribery Convention: Changing the Currents of Trade." *Journal of Development Economics* 97: 73–87.

Economist (2019). "The Trouble with America's Extraterritorial Campaign against Business." Retrieved from https://www.economist.com/leaders/2019/01/19/the-trouble-with-americas-extraterritorial-campaign-against-business.

Egger, P., and Winner, H. (2005). "Evidence on Corruption as an Incentive for Foreign Direct Investment." *European Journal of Political Economy* 21: 932–952.

Foreign Corrupt Practices Act (1977). Pub. L. 95-213, 91 Stat. 1494, 95th Congress.

Graham, J. (1984). "The Foreign Corrupt Practice Act: A New Perspective." *Journal of International Business Studies* 15: 107–121.

Gutterman, E. (2013). "Easier Done Than Said: Transnational Bribery, Norm Resonance, and the Origins of the US Foreign Corrupt Practice Act." *Foreign Policy Analysis* 11: 109–128.

Habib, M., and Zurawicki, L. (2002). "Corruption and Foreign Direct Investment." *Journal of International Business Studies* 33: 291–307.

Hines, J. (1995). "Forbidden Payment: Foreign Bribery and American Business after 1977." *National Bureau of Economic Research.* Working Paper.

Karpoff, J., Lee, D., and Martin, G. (2017). "Foreign Bribery: Incentives and Enforcement." Working Paper.

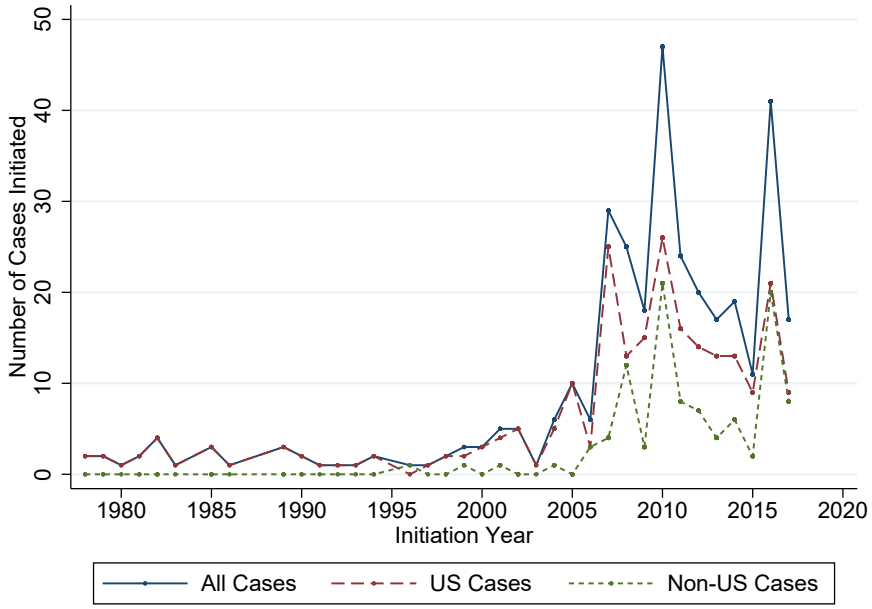
Krever, T. (2007). "Curbing Corruption? The Efficacy of the Foreign Corrupt Practices Act." *North Carolina Journal of International Law and Commercial Regulation* 33: 83–102.

Koehler, M. (2019) "2004 Was an Important Year in Terms of Modern FCPA Enforcement." Retrieved from:

http://fcpaprofessor.com/2004-important-year-terms-modern-fcpa-enforcement/ in February 2020.
Lang, M., Maffett, M., Omartian, J., and Silvers, R. (2019). "Regulatory Cooperation and Foreign Portfolio Investment." *Journal of Financial Economics*, forthcoming.
Lawson, B., Martin, G., Muriel, L., and Wilkins, M. (2019). "How Do Auditors Respond to FCPA Risk?" *Auditing: A Journal of Practice & Theory* 38: 177-200.
Martin, G., Karpoff, J., Lee, D., and Cooper, J. (2012). The Foreign Corrupt Practices Act: An Empirical Examination of Enforcement Trends. Working paper.
Olken, B., and Pande, R. (2012). "Corruption in Developing Countries." *Annual Review of Economics* 4: 479–509.
Ortiz-Ospina, E., and Roser, M. (2016). "Corruption." *Our World in Data*. Retrieved from: https://ourworldindata.org/corruption.
Pacini, C., Swingen, J., and Rogers, H. (2002). "The Role of the OECD and EU Conventions in Combating Bribery of Foreign Public Officials." *Journal of Business Ethics* 37: 385–405.
Rose-Ackerman, S. (1996). "The Political Economy of Corruption: Causes and Consequences." *World Bank.*
Sanseverino, A. (2019). "The Impact of Anti-Corruption Laws: Evidence from the U.K. Bribery Act's Extraterritorial Reach." Working paper.
Sarbanes-Oxley Act (2002). Pub. L. 107-204, 116 Stat. 745, 107th Congress.
Searle Civil Justice Institute (2012). "The Foreign Corrupt Practices Act: An Empirical Examination of Enforcement Trends."
Shleifer, A., and Vishny, R. (1993). "Corruption." *The Quarterly Journal of Economics* 108, 599–617.
Shleifer, A., and Vishny R. (1994). "Politicians and Firms." *The Quarterly Journal of Economics* 109: 995–1025.
Silvers, R. (2016). "The Valuation Impact of SEC Enforcement Actions on Nontarget Foreign Firms." *Journal of Accounting Research* 54: 187–234.
Silvers, R. (2019). "Cross-Border Cooperation Between Securities Regulators." Working Paper.
Singh, H., and Jun, K. (1995). "Some New Evidence on Determinants of Foreign Direct Investment in Developing Countries." Policy Research Working Paper Series No. 1531. Washington, D.C.: The World Bank.
Smarzynska, B., and Wei, S. (2000) "Corruption and Composition of Foreign Direct Investment: Firm-Level Evidence." Working paper.
Thangavelu, S. and Findlay, C. (2011). "The Impact of Free Trade Agreements on Foreign Direct Investment in the Asia-Pacific Region." ERIA Research Project Report 2010-29, edited by C. Findlay. 112–131.
The New York Times (2012). "Wal-Mart Hushed Up a Vast Mexican Bribery Case*."* Retrieved from: https://www.nytimes.com/2012/04/22/business/at-wal-mart-in-mexico-a-bribe-inquiry-silenced.html.
The New York Times (2019). "A 'Sorceress' in Brazil, a 'Wink' in India: Walmart Pleads Guilty After a Decade of Bribes." Retrieved from: https://www.nytimes.com/2019/06/20/business/walmart-bribery-settlement.html.
Trump, D. (2012). Interview by J. Kernen (15 May, 2012). *Squawk Box*. Englewood Cliffs: CNBC.
US Department of Justice and US Securities and Exchange Commission (2012). *A Resource Guide to the US Foreign Corrupt Practices Act*. Washington D.C.: US Department of Justice. Retrieved from: https://www.justice.gov/criminal-fraud/fcpa-guidance.
United States v. Kay, 359 F.3d 738 (5th Cir. 2004).
Wangerin, D. (2019). "M&A Due Diligence, Post-Acquisition Performance, and Financial Reporting for Business Combinations." *Contemporary Accounting Research* 36: 2344-2378.
Wei, S. (2000). "How Taxing is Corruption on International Investors." *The Review of Economics and Statistics* 82: 1–11.
Zeume, S. (2017). "Bribes and Firm Value." *Review of Financial Studies* 30: 1457–1489.

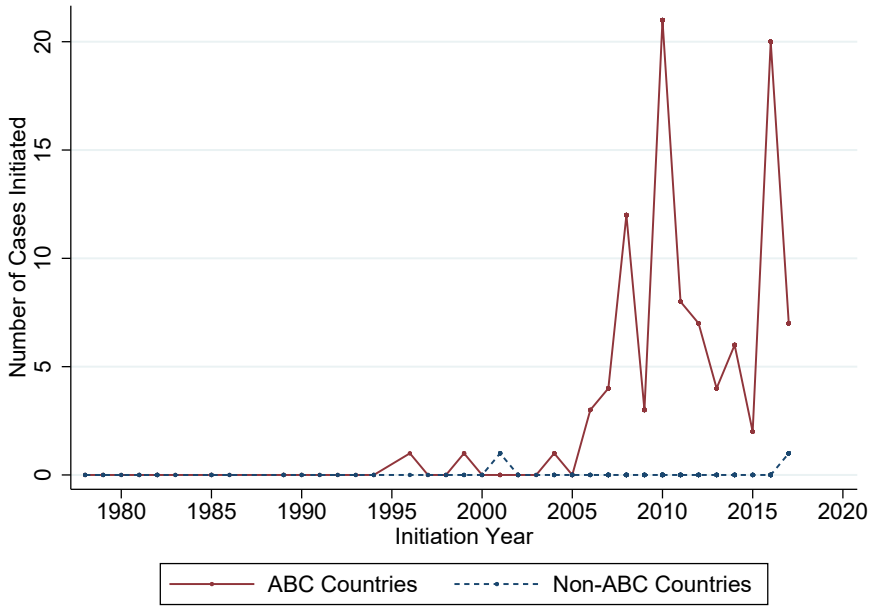
Figure 1: FCPA Enforcement Actions from 1977 to 2017

(a): FCPA Enforcement Actions by Parent Company Origin



Notes: Figure 1.a shows the annual number of firm-related FCPA enforcement actions initiated by the SEC and DOJ by type of defendent headquarter country from 1977 to 2017. The defendant headquarter country is the country where the firm that faced the enforcement action is headquartered. We collect all (337) enforcement actions against corporations from the Stanford Law School FCPA Database.

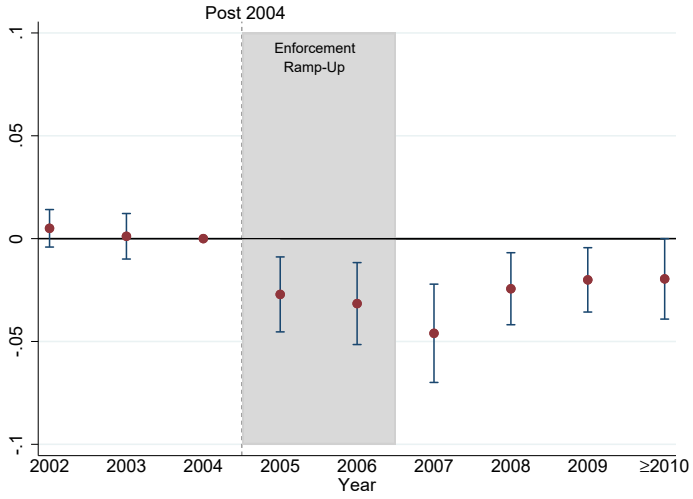
(b): FCPA Enforcement Actions against Non-US Firms by Parent Company Origin



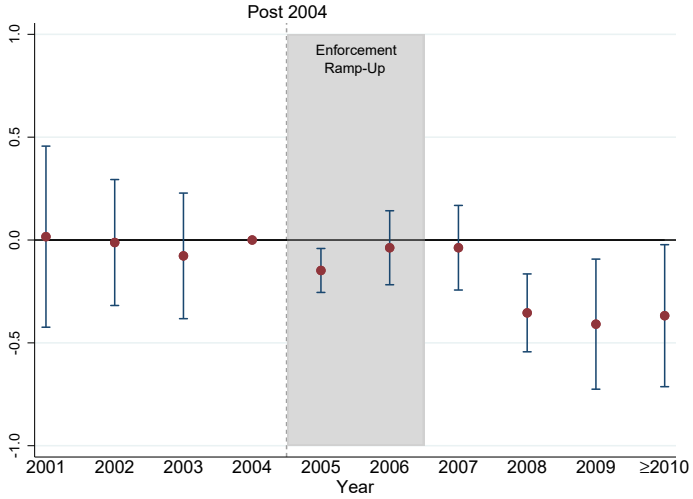
Notes: Figure 1.b shows the annual number of FCPA enforcement actions initiated by the SEC and DOJ against firms from non-US ABC and non-US, non-ABC countries from 1977 to 2017. We collect all (337) enforcement actions against corporations from the Stanford Law School FCPA Database.

Figure 2: Event-time Charts

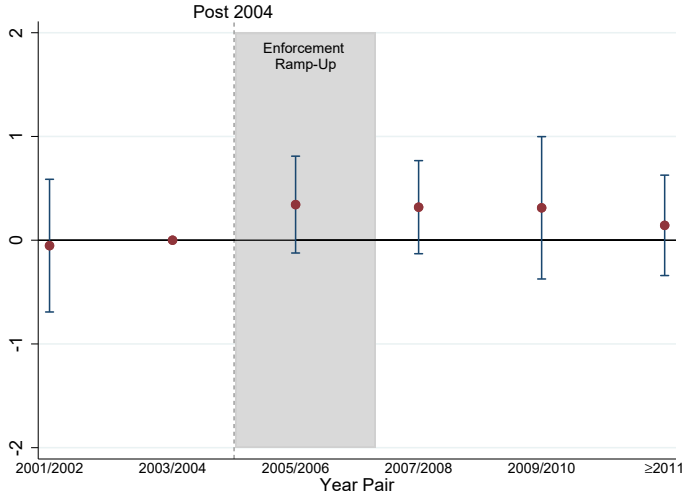
Panel A: Foreign Direct Investment around the Increase in FCPA Enforcement



Panel B: Firm-Segment-Level CAPEX around the Increase in FCPA Enforcement



Panel C: Due-Diligence Length around the Increase in FCPA Enforcement



Notes: Panel A shows coefficient estimates and 90% confidence intervals for OLS regressions estimating the effect of the post-2004 increase in FCPA enforcement on foreign direct investments in high-corruption-risk countries. We estimate the model from Column (1) of Table 3 Panel B but replace the *ABC* × *Post 2004* × *High-Corruption-Risk Country* indicator with separate interactions for each of the years in our sample (except for 2004, which serves as the benchmark). Panel B shows coefficient estimates and 90% confidence intervals for OLS regressions estimating the effect of the post-2004 increase in FCPA enforcement on segment-level CAPEX by non-US firms headquartered in ABC countries in high-corruption-risk countries. We estimate the model from Column (3) of Table 4 Panel B but replace the *Post 2004* × *US Jurisdiction* × *High-Corruption-Risk Segment* indicator with separate interactions for each of the years in our sample (except for 2004, which serves as the benchmark). Panel C shows coefficient estimates and 90% confidence intervals for OLS regressions estimating the effect of the post-2004 increase in FCPA enforcement on the due-diligence length in cross-border M&A transactions. We estimate the model from Column (3) of Table 5 Panel B but replace the *Post 2004* × *US Jurisdiction* × *High-Corruption-Risk Target* indicator with separate interactions each marking a two-year period (except for 2003/2004, which serves as the benchmark).

Table 1: Institutional Details on ABC Countries

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

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

Table 2: Firm Characteristics of FCPA Enforcement Targets

Panel A: Descriptive Statistics

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

Notes: This table presents descriptive statistics for the FCPA enforcement analysis in Table 2 Panel B. We define all variables in Appendix A. This table uses geographic segment-level data from Worldscope and covers firms that have at least one foreign segment. The sample is from 2005 to 2017. We obtain enforcement actions from the Stanford Law School FCPA Database and compute *Internal Control Risk* based on data collected from Audit Analytics and Worldscope (see Internet Appendix Section IA3 for details).

Panel B: Regression Results

Dependent Variable: *FCPA Enforcement Action*	All Firms (1)	Non-US Firms (2)
US Jurisdiction Proxies:		
US Firm	0.021	
	(0.005)	
US Cross Listing	0.050	0.050
	(0.018)	(0.018)
Foreign Firm US Segment	0.006	0.008
	(0.003)	(0.003)
Accounting Weakness:		
Internal Control Risk	0.096	0.079
	(0.024)	(0.019)
Firm Controls:		
Ln(Total Assets USD)	0.015	0.014
	(0.002)	(0.002)
Foreign Exposure	0.002	-0.009
	(0.005)	(0.004)
Return on Assets	0.637	-0.440
	(0.728)	(0.506)
Fixed Effects:		
Country	No	Yes
Industry	Yes	Yes
Unit of Observation	Firm	Firm
Sample Period	2005-2017	2005-2017
Adjusted R-Squared	0.06	0.07
Observations	6,488	4,973

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

Table 3: Effect of FCPA Enforcement on Foreign Direct Investment

Panel A: Descriptive Statistics

	N	Mean	SD	P1	P25	P50	P75	P99
FDI/GDP Out × 100	38,130	0.042	0.208	0.000	0.000	0.000	0.008	0.886
ABC	38,130	0.608	0.488	0.000	0.000	1.000	1.000	1.000
Post 2004	38,130	0.723	0.448	0.000	0.000	1.000	1.000	1.000
High-Corruption-Risk Country	38,130	0.702	0.457	0.000	0.000	1.000	1.000	1.000
GDP Growth	38,130	3.001	4.609	-9.395	0.915	2.835	5.280	13.811
Export Orientation	38,130	42.949	30.372	9.492	25.565	35.331	51.929	186.444
Political Stability	38,130	0.026	0.915	-2.327	-0.655	0.155	0.782	1.512
Regulatory Quality	38,130	0.337	0.919	-1.617	-0.410	0.276	1.144	1.882
Rule of Law	38,130	0.204	1.001	-1.568	-0.617	0.006	1.037	1.961
Government Effectiveness	38,130	0.316	0.965	-1.453	-0.471	0.122	1.069	2.229

Notes: This table presents descriptive statistics for the foreign direct investment analysis in Table 3 Panel B. We describe the sample selection in Table IA7 of the Internet Appendix. We define all variables in Appendix A. We trim the dependent variable, *FDI/GDP Out (× 100)*, at the 99th percentile by year. The sample is from 2002 to 2012. FDI data is from the United Nations Conference on Trade and Development (UNCTAD). Control variable and GDP data are from the World Bank and the IMF.

Table 3 Continued: Effect of FCPA Enforcement on Foreign Direct Investment

Panel B: Regression Results

Dependent Variable: Ln(1+*FDI/GDP Out* × 100) [except for Column (8)]	All Countries (1)	Non-US Countries (2)	United States (3)	Never Active Enforcement (4)	Excluding 2005-2006 (5)	Within Country-In: Non-US Countries (6)	Within Country-In: United States (7)	Placebo Test: Foreign Portfolio Investment (8)
ABC × Post 2004 × High-Corruption-Risk Country	-0.028	-0.029	-0.009	-0.030	-0.025	-0.030	0.007	0.033
	(0.010)	(0.011)	(0.007)	(0.011)	(0.012)	(0.013)	(0.010)	(0.021)
Post 2004 × High-Corruption-Risk Country	-0.001	-0.001	-0.003	-0.001	-0.002			
	(0.005)	(0.005)	(0.005)	(0.005)	(0.006)			
Country In Controls:								
GDP Growth	0.000	0.000	-0.000	0.000	-0.000			
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)			
Export Orientation	0.000	0.000	0.000	0.000	0.000			
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)			
Political Stability	0.006	0.006	0.005	0.008	0.007			
	(0.003)	(0.003)	(0.004)	(0.003)	(0.003)			
Regulatory Quality	-0.004	-0.004	-0.007	-0.005	-0.001			
	(0.007)	(0.008)	(0.011)	(0.008)	(0.008)			
Rule of Law	0.007	0.007	-0.014	0.004	0.002			
	(0.008)	(0.008)	(0.010)	(0.008)	(0.010)			
Government Effectiveness	-0.005	-0.005	0.017	-0.001	-0.009			
	(0.009)	(0.009)	(0.014)	(0.010)	(0.010)			
Fixed Effects:								
Country Out × Country In	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country Out × Year	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country In × Year	No	No	No	No	No	Yes	Yes	Yes
Standard Error Clusters:								
Country Out	135	134	100	128	135	134	100	25
Country In	145	145	143	145	145	143	133	192
Adjusted R-Squared	0.57	0.57	0.46	0.56	0.56	0.58	0.47	0.16
Country-Pair-Year Observations	38,130	36,938	16,151	31,571	31,085	36,915	15,993	33,348

Notes: This table reports the coefficient estimates of OLS regressions estimating the effect of FCPA enforcement on foreign direct investment flows to corrupt countries. We define all variables in Appendix A. We describe the sample selection in Table IA7 of the Internet Appendix. The sample is from 2002 to 2012. FDI data is from the United Nations Conference on Trade and Development (UNCTAD) and FPI data is from the IMF Coordinated Portfolio Investment Survey. Control variable and GDP data are from the World Bank and the IMF. Standard errors clustered at the outflow-country level and inflow-country level are reported in parentheses.

Table 3 Continued: Effect of FCPA Enforcement on Foreign Direct Investment

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

Non-ABC Control Group:	Invested and Non-Invested		Invested		Strongly Invested	
Dependent Variable:	All Countries	Non-US Countries	All Countries	Non-US Countries	All Countries	Non-US Countries
Ln(1+*FDI/GDP In* × 100)	(1)	(2)	(3)	(4)	(5)	(6)
ABC × Post 2004 × High-Corruption-Risk Country	-0.031	-0.028	-0.039	-0.037	-0.046	-0.043
	(0.011)	(0.011)	(0.014)	(0.014)	(0.015)	(0.015)
Post 2004 × High-Corruption-Risk Country	0.004	0.004	0.013	0.013	0.020	0.020
	(0.005)	(0.005)	(0.007)	(0.007)	(0.009)	(0.009)
Sum of Coefficients (p-value):						
Post 2004 × High-Corruption-Risk Country +	-0.026	-0.024	-0.026	-0.023	-0.026	-0.023
ABC × Post 2004 × High-Corruption-Risk Country	(0.03)	(0.03)	(0.03)	(0.04)	(0.03)	(0.04)
Control Variables:						
Country In (see Table 5 Panel B)	Yes	Yes	Yes	Yes	Yes	Yes
Fixed Effects:						
Country Out × Country In	Yes	Yes	Yes	Yes	Yes	Yes
Country Out × Year	Yes	Yes	Yes	Yes	Yes	Yes
Standard Error Clusters:						
Country Out	136	135	125	124	119	118
Country In	144	144	144	144	144	144
Adjusted R-Squared	0.55	0.54	0.55	0.54	0.55	0.54
Country-Pair-Year Observations	38,117	36,982	31,151	30,016	28,248	27,113

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

Table 4: Effect of FCPA Enforcement on Non-US Firm-Level Capital Expenditures

Panel A: Descriptive Statistics

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

Notes: This table presents descriptive statistics for our non-US firm-level capital expenditures analysis in Table 4 Panel B. We define all variables in Appendix A. The sample is from 2001 to 2017. We collect segment data from Worldscope.

Panel B: Regression Results

						Internal Control Risk	
Dep Var: Ln(1+*Segment CAPEX* × 100)	High-Corruption-Risk Segments (1)	Low-Corruption-Risk Segments (2)	All Segments (3)	Incl. Parent Country × Year Fixed Effects (4)	All Segments excl. 2005-2006 (5)	High Internal Control Risk (6)	Low Internal Control Risk (7)
Post 2004 × US Jurisdiction	-0.200	-0.035					
	(0.070)	(0.029)					
Post 2004 × US Jurisdiction × High-Corruption-Risk Segment			-0.171	-0.174	-0.198	-0.274	0.024
			(0.079)	(0.092)	(0.109)	(0.159)	(0.090)
Fixed Effects:							
Parent Country × Segment Country	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Segment Country × Year	Yes	Yes	Yes	Yes	Yes	Yes	Yes
US Jurisdiction × Segment Country	Yes	Yes	Yes	Yes	Yes	Yes	Yes
US Jurisdiction × Year	No	No	Yes	Yes	Yes	Yes	Yes
Parent Country × Year	No	No	No	Yes	No	No	No
Difference in Coefficients (p-value)						0.06	
Standard Error Clusters:							
Segment Country	36	28	64	64	63	52	44
Adjusted R-Squared	0.41	0.25	0.29	0.29	0.28	0.29	0.32
Segment-Country-Year Observations	1,696	6,398	8,094	8,080	6,119	3,633	3,575

Notes: This table reports coefficient estimates of OLS regressions estimating the effect of FCPA enforcement on segment-level capital expenditures by non-US firms. We define all variables in Appendix A. The sample is from 2001 to 2017. We collect segment data from Worldscope. Standard errors clustered at the segment-country level are reported in parentheses.

Table 5: Effect of FCPA Enforcement on M&A Due Diligence Length

Panel A: Descriptive Statistics

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

Notes: This table presents descriptive statistics for our M&A due diligence length analysis in Table 5 Panel B. We define all variables in Appendix A. We trim the dependent variable, *M&A Due Diligence Length*, at the 99th percentile by year. The sample is from 2001 to 2017. M&A data are from ThomsonONE and SDC.

Panel B: Regression Results

Dep. Variable: *Ln(M&A Due Diligence Length)*	High-Corruption-Risk Targets (1)	Low-Corruption-Risk Targets (2)	All Targets (3)	Including Acquirer Country × Year Fixed Effects (4)	All Targets excluding 2005-2006 (5)
Post 2004 × US Jurisdiction	0.183	-0.113			
	(0.107)	(0.054)			
Post 2004 × US Jurisdiction × High-Corruption-Risk Target			0.296	0.305	0.277
			(0.108)	(0.159)	(0.146)
Deal Controls:					
Ln(Deal Size)	0.005	0.083	0.072	0.068	0.070
	(0.015)	(0.009)	(0.009)	(0.010)	(0.008)
Divestiture	-0.046	-0.191	-0.175	-0.163	-0.150
	(0.081)	(0.036)	(0.041)	(0.038)	(0.039)
Bankruptcy/Restructuring	-0.151	0.006	0.001	0.016	0.004
	(0.139)	(0.046)	(0.045)	(0.049)	(0.034)
Fixed Effects:					
Acquirer Country × Target Country	Yes	Yes	Yes	Yes	Yes
Target Country × Year	Yes	Yes	Yes	Yes	Yes
US Jurisdiction × Target Country	Yes	Yes	Yes	Yes	Yes
US Jurisdiction × Year	No	No	Yes	Yes	Yes
Acquirer Country × Year	No	No	No	Yes	No
Standard Error Clusters:					
Target Country	46	34	80	80	75
Adjusted R-Squared	0.16	0.14	0.16	0.17	0.16
Deal Observations	1,207	4,092	5,299	5,254	4,532

Notes: This table reports coefficient estimates of OLS regressions estimating the effect of FCPA enforcement on M&A due diligence length. We define all variables in Appendix A. The sample is from 2001 to 2017. M&A data are from ThomsonONE and SDC. Standard errors clustered at the target-country level are reported in parentheses.

Appendix A - Variable Definitions

Variables used in FCPA Enforcement Analysis

FCPA Enforcement Indicator	Binary indicator equal to one if a firm faced at least one FCPA enforcement action between 2005 and 2017.
US Firm	Binary indicator equal to one if the firm is headquartered in the US.
Foreign Firm US Segment	Binary indicator equal to one if the non-US firm has an operating segment in the United States.
US Cross Listing	Binary indicator equal to one if the non-US firm is cross-listed in the US and files financial reports with the SEC.
Internal Control Risk	The predicted likelihood of the firm having an internal control weakness (see Internet Appendix Section IA1).
Foreign Exposure	The firm's average ratio of international sales over total sales between 2005 and 2017.
Total Assets (bn. USD)	The firm's average total assets between 2005 and 2017 in billions of US dollars.
Return on Assets(%)	The firm's average return on assets between 2005 and 2017.

Variables used in FDI Analysis

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

Variables used in CAPEX Analysis

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

Variables used in M&A Analysis

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

Internet Appendix

Policeman for the World:
The Rise in Extraterritorial FCPA Enforcement
and Foreign Investment Competition

Table of Contents

Section IA1: Reasons for Mid-2000s FCPA Enforcement Increase

Figure IA1: FCPA Enforcement Actions from 1977 to 2017

Table IA1: FCPA Enforcement Actions

Section IA2: Geographical Reach of US Extraterritorial FCPA Enforcement

Table IA2: FCPA Cases by Country where Bribes were Paid

Section IA3: Estimation of Internal Control Risk Measure

Table IA3: Descriptive Statistics for Prediction of Internal Control Weaknesses

Table IA4: Predicting Internal Control Weaknesses

Section IA4: Country Characteristics of FCPA Enforcement Targets

Table IA5: Descriptive Statistics for Country-Level FCPA Enforcement Analysis

Table IA6: Country-Level Characteristics of FCPA Enforcement Targets

Section IA5: Supplementary Tests for Aggregate FDI Flow Analysis

Table IA7: Sample Selection for FDI Flow Analysis

Table IA8: Sensitivity Analyses for FDI Flow Tests

Table IA9: Country-Specific Treatment Dates in FDI Flow Tests

Table IA10: Scaling FDI Flows by Country-In GDP rather than Country-Out GDP

Table IA11: Alternative Control Groups in FDI Flow Analysis

Section IA6: Supplementary Tests for Firm-Segment-Level CAPEX Analysis

Figure IA2: Fraction of Aggregated Segments from 2001 to 2017

Figure IA3: Segment CAPEX of High Internal Control Risk Firms around FCPA Enforcement

Table IA12: Sensitivity Analyses for Segment CAPEX Tests

Section IA7: Supplementary Tests for M&A Due Diligence Length Analysis

Table IA13: Sensitivity Analyses for M&A Due Diligence Tests

Section IA8: Sample Composition

Table IA14: Descriptive Statistics for Inflow Countries

Table IA15: Descriptive Statistics for Outflow Countries

Section IA9: Variable Definitions

Table IA16: Variable Definitions for Analyses in Internet Appendix

Section IA1: Reasons for Mid-2000s FCPA Enforcement Increase

A confluence of (non-mutually exclusive) factors, all occurring around 2005, help to explain the timing of the increase in FCPA enforcement.

IA1.1 United States v. Kay

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

IA1.2 Deferred Prosecution and Non-Prosecution Agreements

In late 2004, the DOJ used a non-prosecution agreement for the first time in a case against InVision Technologies and General Electric. Previously, the DOJ relied on filing formal charges as its only enforcement option. In January of 2005, the DOJ, again for the first time, employed a deferred-prosecution agreement in a case against Monsanto. These alternative resolution vehicles forgo formal charges in favor of allowing the accused to acknowledge wrongdoing, pay a monetary penalty, and prospectively demonstrate good conduct. The possibility of using these agreements greatly reduced the likelihood that the DOJ would have to fulfill the burden of proof in court, and thus increased the agency's willingness to pursue cases. Although the possibility of using deferred and non-prosecution agreements existed before 2005, their usage in FCPA cases appears to reflect a change in tactics by the DOJ. Mark Mendelsohn, the former deputy chief of the DOJ's FCPA enforcement unit, whose tenure at the DOJ began in 2005, stated publicly that if the agency did not have the option of resolving FCPA enforcement cases with non-prosecution or deferred-prosecution agreements, it would "certainly bring fewer cases" (Corporate Crime Reporter 2010). Consistent with this argument, Martin et al. (2012) show that since 2004 the DOJ has resolved 75% of all corporate FCPA enforcement actions with non- or deferred-prosecution agreements.

IA1.3 The Sarbanes-Oxley Act (SOX)

Regulatory changes arising from SOX increased the consequences to firms for failing to maintain adequate internal control systems, such as those required under the FCPA's accounting provisions. SOX Section 404, which became effective in November 2004 (for most firms), requires SEC registrants and their external auditors to assess the effectiveness of firms' internal control systems, including the firm's FCPA compliance programs, and to publicly disclose the results in

the auditor's report. Increased scrutiny under SOX made it more likely that internal control failures and questionable transactions would be detected. An increased awareness of potential improprieties, coupled with the requirement under SOX Section 302 that senior corporate officers certify the accuracy of the firm's financial statements, increased the incentives for managers to self-report potential FCPA violations.[1] Because the SEC and DOJ consider the extent of a company's cooperation, self-reporting misconduct upon discovery can also lead to less severe sanctions (SEC and DOJ 2012).

Our own analysis is consistent with SOX leading to an increase in self-reported violations. Table IA1 Panel A presents a breakdown of FCPA cases by the provision violated for all cases and separately for US and non-US firms. Consistent with the importance of the accounting provisions, of the 311 FCPA cases where provision data are available, nearly 75% include violations of the FCPA's accounting provisions (compared to 63% for the anti-bribery provision). These proportions are similar for cases against US and non-US firms. Figure IA1(a) shows that the use of the accounting provisions increased significantly after the 2004 effective date of SOX Section 404 for cases against both US and non-US firms (more so than the anti-bribery provision). In addition to SOX, the frequent use of the accounting provisions also likely reflects the fact that, unlike violations of the anti-bribery provision, accounting provision violations do not require prosecutors to prove intent to influence the recipient of the payment (DOJ and SEC 2012).

Table IA1 Panel B presents a breakdown of enforcement actions by method of violation detection. For both US and non-US firms, self-reporting is the most frequent source of revelation. Also consistent with SOX increasing firms' incentives to self-disclose, Figure IA1(b) shows that the proportion of self-reported violations has increased significantly since 2005.

IA1.4 Increased Foreign Cooperation under the OECD Anti-Bribery Convention (ABC)

The ABC requires international cooperation in anticorruption enforcement.[2] Without cooperation from foreign regulators it is difficult for US authorities to enforce the FCPA extraterritorially—particularly the accounting provisions, which require access to firms' internal

[1] The DOJ has referenced SOX Sections 404 and 302 as important drivers of the increase in FCPA enforcement. During a 2010 Senate FCPA hearing a DOJ representative stated: "We are getting a significant number of disclosures from corporations about their own criminal conduct. I think that, in part, relates to the passage of Sarbanes-Oxley legislation, which encourages corporations to review their own books and records." In 2011 the same official stated "…one likely cause for this increase in cases is disclosures by companies consistent with their obligations under the Sarbanes-Oxley Act, which requires senior corporate officers to certify the accuracy of their financial statements. This has led to more companies discovering FCPA violations and making the decision to disclose them to the SEC and DOJ" (Koehler 2019).

[2] Other efforts to increase international cooperation after September 2001 such as IOSCO's MMoU could also play a role in explaining the increase in extraterritorial FCPA enforcement (see Silvers 2016, 2019; and Lang et al. 2019). We examine this possibility in Internet Appendix Section IA3 and find that a country's signing of the MMoU, for example, does not explain the number of FCPA enforcement actions (incremental to the ABC).

records. In Figure IA1(c), we plot the number of enforcement actions with foreign cooperation over time for non-US firms. Enforcement actions with foreign cooperation were nonexistent before 2005, but increase significantly after 2005, around the same time as the increase in overall enforcement shown in Figure 1(a) of the manuscript. The increase in cooperation occurs well after the ABC was signed in the late-90s, which suggests that the ABC alone cannot explain the increase in enforcement activity—perhaps because the ABC is a necessary, but not sufficient, condition for an increase in cooperation.

Table IA1 Panel C reports the location of the cooperating foreign agency in relation to the defendant firm. Foreign cooperation is present in over 25% of all FCPA enforcement actions (95 out of 337) and in more than 50% of the cases against non-US firms (53 out of 101). In cases involving non-US defendants, the cooperating agencies are mostly located in the defendant's headquarters country (66%) or a prominent international financial center (13.2%), and not where the company allegedly paid bribes (7.5%). Similarly, in cases against US defendants, the cooperating agency is most often located in the offending subsidiary's headquarter country (38%) or in a financial center (40.5%), and not in the countries where bribes were paid (9.5%). Although we cannot observe what information regulators share, the cooperating agency is usually from the country where a firm has an administrative presence, suggesting that agencies share corporate records. The defendant's bookkeeping and internal control records are likely important sources of evidence for any enforcement action based on the FCPA's accounting provisions.

Section IA2: Geographical Reach of US Extraterritorial FCPA Enforcement

By identifying characteristics of the countries where FCPA-related bribes are paid, we can focus our investment analyses on the countries where the deterrent effect of the FCPA is likely the greatest. Table IA2 reports the number of enforcement actions by bribe-country along with the Transparency International CPI value for each country with more than three bribes paid (a single enforcement action can include multiple bribes paid in multiple countries, thus the number of incidents per country exceeds the total number of cases). The CPI is a composite score of how corrupt a country's public sector is perceived to be, ranging from 0 (most corrupt) to 100 (least corrupt).[3] Median bribe-country CPI is 28. Nearly all FCPA cases pertain to bribes paid in countries that Transparency International classifies as "highly corrupt" (i.e., a CPI value of 50 or less). The most bribes occur in China, Iraq, and Nigeria (67, 41, and 39, respectively); 41 other countries have four or more bribery incidents.

[3] For further information on the CPI methodology, see: https://www.transparency.org.

Section IA3: Estimation of Internal Control Risk Measure

In constructing the internal control risk measure used in Sections 2.3 and 3.2 of the Manuscript, our objective is to capture a firm's (unobservable) inherent internal control risk. One common proxy for internal control risk is a disclosed internal control weakness ("ICW"), as required for SEC registrants under SOX. Unfortunately, ICWs are available only for SEC registrants. To approximate the likelihood of an internal control weakness for a broad sample of non-SEC-registered firms, we use a two-stage estimation approach. First, we model the determinants of disclosed internal control weaknesses using a sample of SEC-registered firms. Then we use the estimated coefficients from the determinants model to predict the likelihood of internal control weaknesses for all firms.

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

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

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

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

Table IA3 Panel A reports descriptive statistics. 34% of firms have at least one reported ICW. The median firm has total assets of (approximately) $1.4 billion (*Ln(Total Assets)*) and *Return on Assets* of 4.3%. Average *Foreign Exposure* equals 43.7%, reflecting the sample of relatively large (multinational) companies with at least one foreign segment. Median *Sales Growth* and *Firm Age* are 7.3% and 16 years, respectively. The majority of firms (83.7%) obtain their financial statement and internal control audits from a *Big8 Auditor*.

In Table IA4 Column (1), we report estimates from Eq. (IA1). Consistent with prior research, we find that *Ln(Total Assets)* and *Return on Assets* are significantly negatively associated with internal control weaknesses (Doyle et al. 2007). *Foreign Exposure* is significantly positively related to ICWs, suggesting that the complexity of foreign business operations could be a significant driver of internal control weaknesses. Consistent with large audit firms providing higher-quality audits, we find that companies with reputable auditors are less likely to face internal control problems. The *Sales Growth* and *Firm Age* coefficient estimates are statistically indistinguishable from zero.

To compute the *Internal Control Risk* measure, we use the coefficient estimates from Eq. (IA1) to calculate fitted ICW values for all non-SEC-registered firms that have the necessary financial data available in Worldscope. The final row of Table IA3 Panel A reports descriptive statistics for estimated *Internal Control Risk*. We classify firms as having *High Internal Control Risk* if their predicted value exceeds the segment-CAPEX sample median.

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

$$\begin{aligned} \textit{FCPA Enforcement Action}_i = {} & \beta_1 \textit{Internal Control Weakness}_i + \beta_2 \textit{Ln(Total Assets)}_i \\ & + \beta_3 \textit{Return on Assets}_i + \beta_4 \textit{Foreign Exposure}_i + \beta_5 \textit{Sales Growth}_i \\ & + \beta_6 \textit{Firm Age}_i + \beta_7 \textit{Big8 Auditor}_i + \textit{Fixed Effects} + \varepsilon_i \end{aligned} \quad \text{(IA2)}$$

FCPA Enforcement Action$_i$ is an indicator equal to one if firm *i* is the target of an FCPA enforcement action at least once during our sample period, and zero otherwise. The other variables and fixed effects are identical to Eq. (IA1). Table IA3 Panel B reports summary statistics. 4.7% of firms face an enforcement action. The descriptive statistics for the remaining variables are similar to those in Panel A.

In Column (2) of Table IA4, the *Internal Control Weakness* coefficient estimate is positive and statistically significant at the 5% level, indicating that firms with disclosed internal control weaknesses are 2.6 percentage points more likely to face an FCPA violation. The results of this analysis indicate that our *Internal Control Risk* proxy is likely to capture meaningful variation in the firms' likelihood of facing an FCPA enforcement action.

Section IA4: Headquarters- and Bribe-Country Characteristics of FCPA Enforcement Targets

We present results from multivariate regressions (both static and time-series) intended to validate the importance of the headquarters- and bribe-country characteristics (discussed in Section 2 of the Manuscript) in explaining the number of FCPA enforcement actions against non-US firms. We examine which type of headquarters and bribe-payment countries are most frequently targeted by FCPA enforcement actions by estimating the following static, OLS, country-level regression:

$$\begin{aligned} \#\,FCPA\ Enforcement\ Actions_c = &\beta_1 ABC\ Country_c + \beta_2 High\text{-}Corruption\text{-}Risk\ Country_c \\ &+ Controls + Fixed\ Effects + \varepsilon_c \end{aligned} \quad \text{(IA3)}$$

 # FCPA Enforcement Actions is the total number of FCPA enforcement actions in country *c* from 2005 to 2017, where *c* is either the target firm's headquarter country or the country where the target paid bribes. *ABC Country* is an indicator equal to one if a country is an ABC-signatory country (see Table 1 of the Manuscript), and zero otherwise. *High-Corruption-Risk Country* is an indicator equal one if a country has a CPI score of less than or equal to 50 (measured in 2004), and zero otherwise. We include *Ln(GDP)*, the natural logarithm of GDP for country *c*, to control for country size and *FDI/*GDP, the ratio of FDI to GDP, to control for foreign capital flows (calculated based on the sample-period averages). *MMoU Country* is an indicator equal to one if country *c* ever signs the MMoU, and zero otherwise.[4]

Table IA5 Panels A and B report descriptive statistics at the headquarters- and bribe-country levels. Our sample includes all 177 sovereign UN member countries (except the US) and, given that our objective is to understand the determinants of the post-2004 FCPA enforcement increase, is based on enforcement actions between 2005 and 2017. In Panel A, the median headquarter country has zero FCPA enforcement actions, is a signatory of neither the ABC nor the MMoU, has high-corruption-risk, a GDP of about $28 billion, and FDI that is 3.6% of GDP—all of which indicates that the sample includes many relatively small, developing countries that are not part of major international agreements. The descriptive statistics in Panel B are similar, with the exception of average, bribe-country FCPA enforcement actions, which is larger (3.4) because, a single enforcement can apply to multiple bribe countries.

Table IA6 Column (1) presents regression results where the dependent variable is the aggregate number of enforcement actions against firms *headquartered* in a country. Consistent with Figure 1(b) in the Manuscript (which indicates that enforcement actions almost exclusively

[4] The Multilateral Memorandum of Understanding (MMoU) is an agreement coordinated by the International Organization of Securities Commissioners (IOSCO) whereby national securities regulators commit to share information and cooperate in securities enforcement (see Silvers 2016, 2019; and Lang et al. 2019).

target firms headquartered in ABC countries), the *ABC Country* coefficient is positive and statistically significant. The *High-Corruption-Risk Country* coefficient estimate is negative and statistically significant, indicating that FCPA enforcement actions rarely target firms *headquartered* in high-corruption-risk countries. The control-variable coefficients indicate that firms headquartered in larger countries are more likely to face an enforcement action and that firms headquartered in MMoU-signatory countries have significantly fewer FCPA enforcement actions (after controlling for the ABC).

Table IA6 Column (2) presents regression results where the dependent variable is the aggregate number of enforcement actions against firms for *bribes paid* in a country. Consistent with the results in Table IA2 of the Internet Appendix (which indicate that enforcement actions are almost exclusively based on bribes paid in high-corruption-risk countries), the *High-Corruption-Risk Country* coefficient estimate is positive and statistically significant. In contrast, the *ABC Country* coefficient estimate is significantly negative, indicating that few FCPA cases are based on bribes paid in ABC countries. The control-variable coefficient estimates are similar to those in Column (1), except for *MMoU Country*, which is not statistically significant.

Two factors not discussed in Section 2 of the Manuscript that could also explain the timing of the FCPA enforcement increase are increases in outflow-country FDI over our sample period (e.g., from ABC countries to high-corruption-risk countries) or an increase in corruption. To assess this, we estimate the following country-year-level OLS regressions for both the defendant's headquarter and bribe country:

$$\begin{aligned} \#\ of\ FCPA Enforcement\ Actions_{c,t} = \beta_t Post2004_t \times ABC(or\ High\text{-}Corruption\text{-}Risk)\ Country_c \\ + Controls + Fixed\ Effects + e_{c,t} \end{aligned} \quad \text{(IA4)}$$

$\#\ of\ FCPA\ Enforcement\ Actions_{c,t}$ is the number of enforcement actions pursued against firms headquartered, or alternatively paying bribes, in country *c* and year *t*. *Post 2004* is an indicator equal to one if year *t* is after 2004, and zero otherwise. *ABC Country* and *High-Corruption-Risk* Country are defined as in Eq. (IA3) above. In addition to *Ln(GDP)*, *FDI/GDP*, and *MMoU Country* (which are now measured at the country-year level), we include a (time-varying) control for the level of corruption (*CPI*), the *Post 2004* main effect, and country fixed effects. We cluster standard errors at the country level. Evidence of a positive association between either the level of outflow-country FDI (*FDI/GDP*) or inflow-country corruption would suggest that a change in economic conditions, rather than, for example, a policy shift by US regulators, explains the increase in FCPA enforcement.

Table IA5 Panels C and D report descriptive statistics. In general, the descriptive statistics are similar across the two panels. The samples includes 2,683 country-year observations between 1998 and 2017. The median country-year has zero FCPA enforcement actions, the majority of observations are from high-corruption-risk countries, median GDP is approximately $32 billion, and median FDI is 3.1% of GDP.

Table IA6 Column (3) presents results where the dependent variable is the number of enforcement actions against firms *headquartered* in country *c* in year *t*. Consistent with the sharp increase in enforcement actions against non-US firms headquartered in ABC countries after 2004 (as shown in Figure 1(a) of the Manuscript), the *Post 2004×ABC Country* coefficient estimate is positive and statistically significant. Column (4) of Table IA6 presents results where the dependent variable is the number of enforcement actions for *bribes paid* in country *c* and year *t*. Consistent with Table IA2 of the Internet Appendix, the *Post 2004×High-Corruption-Risk Country* coefficient estimate is positive and statistically significant. The coefficient estimates for *CPI* and *FDI/GDP* are statistically indistinguishable from zero, suggesting that the post-2004 period was an inflection point for FCPA enforcement against non-US firms that was independent of changes in economic conditions.

Section IA5: Supplementary Data and Tests for the Aggregate FDI Flow Analysis

IA5.1 Sample Selection

In Table IA7, we describe how we construct the regression sample for our aggregate-FDI-flow analysis and provide a breakdown of the number of observations affected by each step of the sample selection. We obtain aggregate FDI flow data from the *Bilateral FDI Statistics* database of the *United Nations Conference on Trade and Development* (UNCTAD). The raw dataset contains 67,862 bilateral country-pair-year observations between 220 outflow and inflow countries from 2001 to 2012.

We only consider country-out/country-in pairs with bilateral investment flows in at least one year. We drop country pairs that have zero cross-border investment throughout the sample period; by definition, these observations cannot contribute to the identification of the FCPA enforcement effect. Among the set of countries with some non-missing data, we assume that missing observations correspond to FDI flows of zero (+6,094 observations). This approach is consistent with prior research (e.g., Blundell-Wignall and Roulet 2017) and allows us to maintain a more balanced panel of observations. In Table IA8 Row (1), we show that our inferences are similar if we drop FDI flows assumed to be zero.

In our regression analysis, we log-transform FDI flows to mitigate the impact of outliers, and therefore exclude country-pair-year observations with negative FDI flows (-8,887 observations). In Table IA8 Row (2), we show that our results are robust to including negative observations and not log-transforming *FDI*.

We exclude outflow and inflow countries with annual GDP of less than $1 billion (-2,504 observations) because these small nations are likely to be fundamentally different from developed OECD countries and not a good control group. We also exclude countries that are not sovereign nations according to the UN because FDI flows to and from these countries could be driven by an affiliated sovereign state (-7,709 observations).[5] We also exclude outflow and inflow countries that the IMF classifies as offshore financial centers (OFCs) (-8,515 observations) because we cannot observe the underlying nationality of firms investing through OFCs (i.e., both ABC and non-ABC firms use OFCs) and because FDI in OFCs are likely financial rather than real investments.[6]

In our baseline specification in the Manuscript (see, Table 3 Panel B Column 1), we compare changes in FDI by "core" ABC countries (those that signed the ABC in 1997) to non-

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

ABC countries. However, some non-core (non-OECD member) countries signed the ABC later (see Table 1 of the Manuscript). To facilitate easier interpretation of our regression model, so that there is a uniform rather than staggered post period, we exclude these late-ABC signers (-2,794 observations). In Table IA8 Row (3), we include late-ABC adopters in both our treatment and control groups, thereby exploiting the staggered (albeit limited) variation in ABC signatory dates, and find that the treatment effect remains significantly negative.

To mitigate the impact of extreme (and possibly erroneous) values in the right tail of the *FDI/GDP* distribution, we drop observations above the 99th percentile (-455 observations). This restriction has very little impact on our results (untabulated).

We exclude observations with missing control variables (primarily missing *World Governance Indicators* in 2001 (-4,918 observations) and singletons (-44 observations). Our final FDI regression sample consists of 38,130 country out-country in-year observations.

IA5.2 Sensitivity Analyses for FDI Flow Tests

Starting in Table IA8 Rows (4)-(11), we report the results of several sensitivity tests for the FDI flow analyses in Section 3.1 of the Manuscript. We use Table 3 Panel B Column (1) of the Manuscript as our benchmark specification (*ABC×Post 2004×High-Corruption-Risk Country* coefficient -0.028, standard error 0.010).

Table IA8 Row (4) reports results excluding time-varying, inflow-country controls. The results are almost identical to those reported in the Manuscript. Row (5) reports results controlling for the Multilateral Memorandum of Understanding (MMoU)—an agreement coordinated by the International Organization of Securities Commissioners whereby national securities regulators commit to share information and cooperate in securities enforcement (see Silvers 2016, 2019; and Lang et al. 2019). We create an indicator equal to one after an outflow country signs the MMoU, and zero otherwise. Consistent with the results in Table IA6 of the Internet Appendix, where we find that a country's signing of the MMoU does not explain the number of FCPA enforcement actions, the *ABC×Post2004×High-Corruption-Risk Country* coefficient estimate is almost identical (-0.029) to our baseline specification and is statistically significant.

In Row (6), we limit the treatment group to the subset of non-US, ABC countries with firms targeted by FCPA enforcement actions and we find a very similar (albeit slightly larger) decrease in FDI for ABC countries with FCPA enforcement actions (-0.031)–suggesting that firms from countries without a prior enforcement action respond to the increase in FCPA enforcement. Similarly, in Row (7), we restrict our treatment group to low-corruption-risk ABC outflow

countries and find a slightly larger decrease in FDI (-0.035), suggesting that low-corruption-risk countries are more willing to cooperate than countries with high corruption risk.

In Rows (8) and (9), we consider two alternative measures of corruption risk. First, instead of a binary classification of high- and low-corruption risk countries (based on a CPI value of 50 or below), we use the continuous CPI index value (measured in 2004 or the next year with available data) to measure the level of inflow-country corruption risk. For ease of exposition, we define our continuous corruption measure as 100 minus the CPI so that higher values imply higher levels of perceived public sector corruption.[7] In Table IA8 Row (8), we continue to find a statistically significant reduction in FDI flows from ABC to high-corruption-risk countries after 2004.

In Row (9), we use the *Control of Corruption* (CC) index from Kaufmann, Kraay, and Mastruzzi (2009) to classify high- and low-corruption risk countries instead of the CPI. The CC index is constructed annually by the World Bank and aims to capture perceptions of the extent to which public power is exercised for private gain (Kaufmann, Kraay, and Mastruzzi 2009). We find that the treatment effect using this alternative corruption measure is very similar to our baseline specification, which is not surprising given that the CPI and CC index draw on many of the same surveys and data sources.

In Rows (10) and (11), we consider alternative ways of clustering standard errors. In our main specification, we cluster by segment country (country-in) and parent country (country-out). Our estimates remain statistically significant when we cluster standard errors at (only) the outflow- (Row 10) or inflow-country (Row 11) levels.

IA5.3 Assigning Treatment Based on First Enforcement Action in a Country

In Table 3 of the Manuscript, we assign treatment to all firms in 2005. An alternative is to use home-country or investment-host-country specific enforcement dates based on the timing of the first FCPA enforcement action against a firm headquartered or paying bribes in a particular country. This approach assumes that firms use their home or host country as a reference point for FCPA enforcement risk, which is not obvious given we focus on multinational corporations that likely monitor the enforcement activities of US regulators across all countries. Nevertheless, in Table IA9 we assign treatment to each outflow country after the first enforcement actions against a firm headquartered in that country in Columns (1) and (2) and to each inflow country based on the first enforcement action involving a bribe paid in that country in Columns (3) and (4).

[7] The raw CPI score ranges from 0 (most corrupt) to 100 (least corrupt). For further information on the CPI methodology, see: https://www.transparency.org.

In these alternative specifications, we find no significant changes in FDI flows from outflow countries to corrupt countries after the first enforcement action against a firm headquartered in a particular outflow country. However, we do find a significant (at the 10% level) reduction in FDI flows to countries after the first FCPA enforcement action involving a bribe paid in that country. The results are consistent with multinational corporations not using other multinational corporations in their home country as a reference point for increased FCPA enforcement but rather with them updating on the threat of enforcement actions when the countries they invest in are involved in enforcement actions (as a bribe recipient).

IA5.4 Scaling FDI Flows by Country-In rather than Country-Out GDP

In Table 3 of the Manuscript, we define the dependent variable as *Ln(1+FDI/GDP Out×100)*. Here, we discuss results replacing outflow-country GDP with inflow-country GDP as the denominator. This alternative scalar allows us to speak to the overall effect of the FCPA enforcement increase on high-corruption-risk countries, but is less suitable for assessing the FCPA's deterrent effects—when we use the inflow-country GDP for large and small outflow countries changes in scaled FDI flows are mechanically larger for large countries, which distorts the economic impact of the investment change.

In Table IA10, the results are qualitatively similar to the main results reported in Table 3 Panel B of the Manuscript, except that the effect for the US alone is economically larger (i.e., the reduction in FDI outflows to high-corruption-risk countries scaled by high-corruption-risk country GDP is larger for the US than other ABC countries), which is not surprising given the relative size of US GDP. We find no evidence of investment substitution from non-ABC countries, which suggests that overall FDI flows to high-corruption-risk countries declined after 2004 (relative to flows to low-corruption-risk countries).

IA5.5 Alternative Control Groups in FDI Flow Analysis

In Table IA11, we assess changes in FDI outflows to high-corruption-risk countries from subsets of non-ABC countries, where an offsetting increase in FDI flows could be more likely. First, we examine the possibility that firms attempt to avoid FCPA enforcement by investing indirectly through offshore legal entities located in non-ABC countries (e.g., setting up a shell corporation in the Cayman Islands). Prior research shows that jurisdictions known as "offshore financial centers" (OFCs) have relatively lax regimes that can be used to avoid regulation (Dyreng and Lindsey 2009; Hanlon, Maydew, and Thornock 2015; Omartian 2017; De Simone et al. 2019). We expect that if firms shift investment activities offshore to weaker regulatory jurisdictions, FDI flows from OFCs to high-corruption-risk countries should increase. In Row (1), we find no

evidence that investments from OFCs to high-corruption-risk countries increase after the ramp-up in FCPA enforcement (i.e., the *Post2004×High-Corruption-Risk Country* coefficient is small in magnitude and statistically insignificant). In Row (2), we assess the possibility that high-corruption-risk, non-ABC countries might be more likely candidates to substitute for the reduction in investment by ABC countries, but find no evidence of a significant increase in post-2004 FDI outflows from outflow countries with high corruption risk. Overall, the results in this subsection corroborate our main FDI results, and we find no evidence of significant investment substitution from non-ABC OFC or high-corruption-risk countries.

Section IA6: Supplementary Tests for Firm-Segment-Level CAPEX Analysis

IA6.1 Changes in Segment Aggregation around the FCPA Enforcement Increase

We examine whether firms systematically change their segment-level reporting behavior around the increase in FCPA enforcement. Prior research suggests that proprietary and agency costs are important determinants of firms' segment-reporting decisions (Bens et al. 2011). If these costs disproportionately change around the increase in FCPA enforcement for segments in high-corruption-risk countries relative to segments in low-corruption-risk countries and/or for firms under US jurisdiction it could confound our inferences. The most plausible possibility is that the increase in FCPA enforcement itself leads firms to systematically change their segment-reporting behavior in high- versus to low-corruption-risk countries by aggregating segment reporting to the regional level to obfuscate activities in high-corruption-risk countries (e.g., reporting a segment as being located in "Africa" instead of the Democratic Republic of Congo). Such a change in reporting could lead us to overestimate the decline in CAPEX for segments in high-corruption-risk countries.

To address this concern, we examine whether firms are more likely to aggregate single-country segments into regions following the increase in FCPA enforcement. In Figure IA2, we plot the average (within-firm) fraction of aggregated segments to total disclosed geographic segments by segment-country, country-level corruption, and US jurisdiction over time. We find similar changes in the fraction of aggregated segments firms report around the increase in FCPA enforcement for high- and low-corruption-risk countries and for firms under US jurisdiction relative to those that are not. If anything, the graphical evidence indicates a decrease in the aggregation of high-corruption-risk segments for firms that are under US jurisdiction (relative to segments in low-corruption-risk countries and firms not under US jurisdiction). These findings suggest that our segment CAPEX results are *unlikely* to be driven by a change in segment reporting behavior.

IA6.2 Segment CAPEX of High-Internal-Control-Risk Firms around the FCPA Enforcement Increase

In Figure IA3, we assess the validity of the parallel-trends assumption for the high- versus low-internal control risk analysis in Table 4 Panel B Columns (6) and (7) of the Manuscript by replacing *Post2004×US Jurisdiction×High-Corruption-Risk Segment×High-Internal-Control Risk* with a separate interaction for each sample year (except for the 2004, which serves as the benchmark) and mapping out the treatment effect over time. In the pre-period, we find no difference in *Segment CAPEX* trends between high- and low-internal-control risk-firms,

suggesting that the parallel-trends assumption is reasonable. In the post-period, the treatment effect is negative in 2005 and becomes more negative after 2007.

IA6.3 Sensitivity Analyses for Segment CAPEX Tests

In Table IA12, we present several robustness tests for our segment CAPEX analysis. We use Column (3) from Table 4 Panel B as our baseline specification, and report results for the estimated *Post 2004×US Jurisdiction×High-Corruption-Risk Segment* coefficient.

First, we assess whether measurement error in our US Jurisdiction indicator biases our estimates towards zero. Some non-US firms are under US jurisdiction for unobservable reasons and thus it is likely that we misclassify some treated firms in the control group. The results in Table 2 Panel B in the Manuscript suggest that this problem is particularly pronounced for large firms, which are more likely to be targeted by FCPA enforcement actions, so we reestimate our baseline specification excluding the largest 25% of firms. Consistent with our *US Jurisdiction* indicator being measured with noise, in Row (1), the magnitude of the CAPEX reduction in the size-restricted sample is nearly twice as large as in the unrestricted sample (30% versus 17%).

Second, we consider two alternative measures of corruption risk. First, instead of a binary classification of high- and low-corruption risk countries (based on a CPI value of 50 or below), we use the continuous CPI index value measured in in 2004 (or the next year with available data) to measure the level of inflow-country corruption risk. For ease of exposition, we define our continuous corruption measure as 100 minus the CPI so that higher values imply higher levels of perceived public sector corruption.[8] In Row (2), we find that the effect of increased FCPA enforcement on segment CAPEX remains negative and statistically significant when we use a continuous measure of corruption.

Third, instead of the CPI, we use the *Control of Corruption* (CC) index by Kaufmann et al. (2009) to classify high- and low-corruption risk countries. The CC index is constructed annually by the World Bank and aims to capture perceptions of the extent to which public power is exercised for private gain (Kaufmann, Kraay, and Mastruzzi 2009). We find that our segment CAPEX effect is robust and similar using the median of the CC index to classify countries as high- versus low-corruption risk.

Fourth, in Row (4), we estimate our baseline specification, but do not log-transform *Segment CAPEX/Total Assets$_{t-1}$×100.* We continue to find a negative and statistically significant coefficient estimate for *Post2004×US Jurisdiction×High-Corruption-Risk-Segment*. However, the

[8] The raw CPI score ranges from 0 (most corrupt) to 100 (least corrupt). For further information on the CPI methodology, see: https://www.transparency.org.

coefficient estimate is more negative (-2.894) and statistically significant at only the 10% level, which likely reflects the influence of extreme values.

Finally, we consider alternative standard error clusters. In our baseline specification, we cluster by segment country (i.e., country-in). In Rows (5) and (6), we show that our estimates remain significant at the 10% level when we cluster by parent country only or by parent *and* segment country. The lower level of significance likely reflects the small number of parent country clusters (i.e., 23).

Overall, the results in Table IA12 indicate that our segment CAPEX results are robust to a variety of different sampling and research-design choices.

Section IA7: Supplementary Tests for M&A Analysis

In Internet Appendix Table IA13, we present robustness tests to corroborate our M&A due diligence analysis in Section 3.3 of the Manuscript. We use Column (3) from Table 5 Panel B as our baseline specification and report results for the *Post 2004×US Jurisdiction×High-Corruption-Risk Target* coefficient estimate (baseline from the Manuscript: coefficient 0.296, standard error 0.108).

First, we consider an alternative sample of acquisition targets. In our main analysis, we focus on public targets. Prior research (e.g., Wangerin 2019) argues that, in acquisitions involving private targets, most due diligence occurs prior to signing the acquisition agreement. Given that we measure due diligence length based on the number of days between signing the acquisition agreement and the deal's closing date, our measure is likely to be less accurate for private targets. In Row (1), we include private targets and find a positive, statistically significant increase in due diligence length for deals involving private targets.

Second, in Row (2), we show that the *Post2004×US Jurisdiction×High-Corruption-Risk Target* coefficient estimate remains positive and statistically significant if we do not take the natural log of due diligence length.

Third, in Rows (3) and (4), we consider two alternative measures of corruption, a continuous CPI measure and the Kaufman et al. (2009) *CC* index, and find similar results.

Finally, in Rows (5) and (6), we assess the sensitivity of our findings to clustering standard errors at the acquirer-country level only and at both the acquirer-and target-country levels. In Row (5), the *Post2004×US Jurisdiction×High-Corruption-Risk Target* coefficient estimate is insignificant, potentially because of the small number of acquirer-country clusters (28). In Row (6), the *Post2004×US Jurisdiction×High-Corruption-Risk Target* coefficient estimate is positive and statistically significant.

Overall, the results in Table IA13 indicate that our due-diligence-length results are robust to a variety of different sampling and research-design choices.

Section IA8: Sample Composition

In Table IA14, we report descriptive statistics by inflow country and, in Table IA15, we report descriptive statistics by outflow country.

Section IA9: Variable Definitions

In Table IA16, we define all variables used in the empirical analyses reported in this Internet Appendix.

Internet Appendix References

Bens, D. A., Berger, P. G., and Monahan, S. J. (2011). "Discretionary Disclosure in Financial Reporting: An Examination Comparing Internal Firm Data to Externally Reported Segment Data." *The Accounting Review*, 86(2): 417–449.

Blundell-Wignall, A., and Roulet, C. (2017). "Foreign Direct Investment, Corruption and the OECD Anti-Bribery Convention." *OECD Working Papers on International Investment*, 2017/01. Paris: OECD Publishing.

De Simone, L., Lester, R., and Markle, K. (2019). "Transparency and Tax Evasion: Evidence from the Foreign Account Tax Compliance Act (FATCA)." *Journal of Accounting Research,* forthcoming.

Doyle, J., Ge, W., and McVay, S. (2007). "Determinants of Weaknesses in Internal Control over Financial Reporting." *Journal of Accounting and Economics*, 44(1-2): 193–223.

Dyreng, S. D., and Lindsey, B. P. (2009). "Using Financial Accounting Data to Examine the Effect of Foreign Operations Located in Tax Havens and Other Countries on US Multinational Firms' Tax Rates." *Journal of Accounting Research* 47(5): 1283–1316.

Hanlon, M., Maydew, E. L., and Thornock, J. R. (2015). "Taking the Long Way Home: US Tax Evasion and Offshore Investments in US Equity and Debt Markets." *The Journal of Finance* 70(1): 257–287.

Kaufmann, D., Kraay, A., and Mastruzzi, M. (2009). "Governance Matters VIII: Aggregate and Individual Governance Indicators, 1996–2008." Working Paper.

Lang, M., Maffett, M., Omartian, J., and Silvers, R. (2019). "Regulatory Cooperation and Foreign Portfolio Investment." *Journal of Financial Economics*, forthcoming.

Omartian, J. D. (2017). "Do Banks Aid and Abet Asset Concealment: Evidence from the Panama Papers." Working Paper.

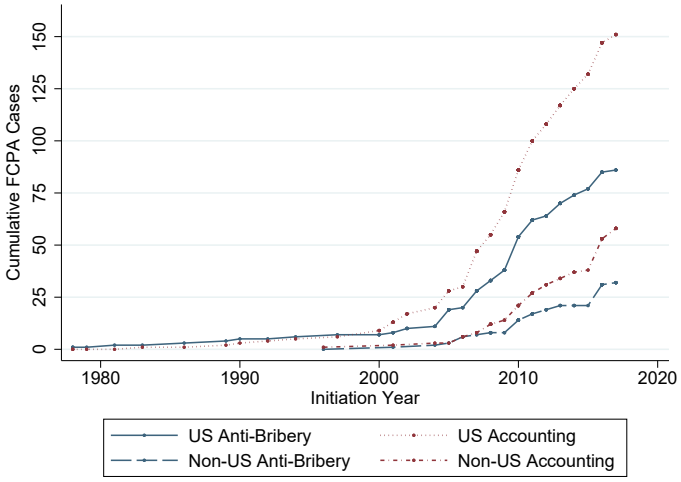
Silvers, R. (2016). "The Valuation Impact of SEC Enforcement Actions on Nontarget Foreign Firms." *Journal of Accounting Research* 54(1): 187–234.

Silvers, R. (2019). "Cross-border Cooperation between Regulators." Working Paper.

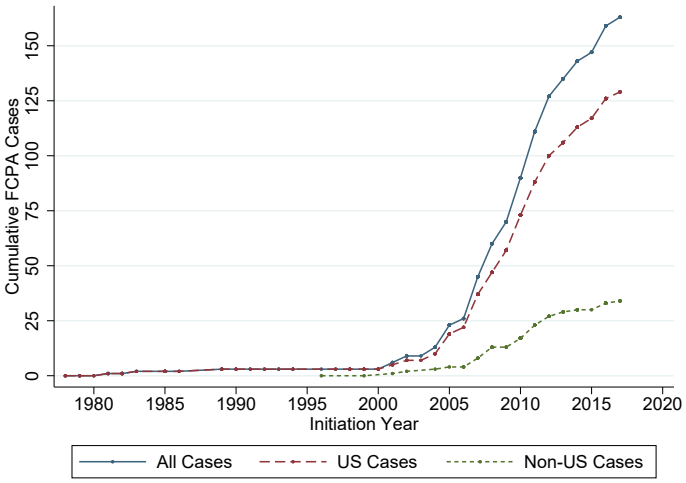
Wangerin, D. (2019). "M&A Due Diligence, Post-Acquisition Performance, and Financial Reporting for Business Combinations." *Contemporary Accounting Research*, forthcoming.

Figure IA1: FCPA Enforcement Actions from 1977 to 2017

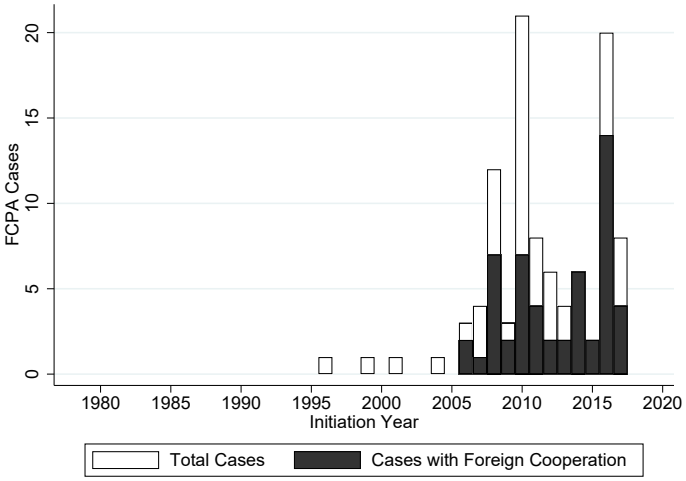
(a): FCPA Enforcement Actions by Parent Company Origin and Provision



(b): FCPA Enforcement Actions on Self-Reported Cases



(c): FCPA Enforcement Actions against Non-US Firms



Notes: Figure IA1.a shows the cumulative annual number of firm-related FCPA enforcement actions initiated by the SEC and DOJ by type of defendent headquarter country and type of provision from 1977 to 2017. Figure IA1.b shows the cumulative annual number of firm-related FCPA enforcement actions initiated by the SEC and DOJ on self-reported cases from 1977 to 2017. Figure IA1.c shows the annual number of firm-related FCPA enforcement actions against non-US firms initiated by the SEC and DOJ and the number of cases with foreign cooperation from 1977 to 2017. We collect all (337) enforcement actions against corporations from the Stanford Law School FCPA Database.

Table IA1: FCPA Enforcement Actions

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

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

Panel B: FCPA Cases by Type of Detection

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

Panel C: Relation of Defendant to Foreign Assisting Country

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

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

Table IA2: FCPA Enforcement Actions by Country where Bribes were Paid

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

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

Table IA3: Descriptive Statistics for Prediction of Internal Control Weaknesses

Panel A

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

Panel B

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

Notes: This table presents descriptive statistics for the analysis of internal control weaknesses in Table IA4. Panel A presents descriptive statistics for the sample in Column (1) of Table IA4. Panel B presents descriptive statistics for the sample in Column (2) of Table IA4. We define all variables in Section IA9 of this Internet Appendix. The sample is from 2005 to 2017. We collect geographic segment-level data from Worldscope, enforcement actions from the Stanford Law School FCPA Database, and internal control data from Audit Analytics.

Table IA4: Predicting Internal Control Weaknesses

	SEC-Registered Firms	
Dependent Variable:	Weak Internal Controls	FCPA Enforcement Indicator
	(1)	(2)
Weak Internal Controls (Reported)		0.026
		(0.012)
Ln(Total Assets)	-0.050	0.023
	(0.008)	(0.005)
Return on Assets	-0.215	-0.004
	(0.087)	(0.025)
Foreign Exposure	0.116	0.072
	(0.050)	(0.022)
Sales Growth	-0.002	-0.001
	(0.014)	(0.002)
Firm Age	0.001	0.002
	(0.002)	(0.001)
Big 8 Auditor	-0.136	-0.018
	(0.040)	(0.014)
Fixed Effects:		
Industry	Yes	Yes
Number of Standard Error Clusters:		
Firm	1,493	1,460
Adjusted R-Squared	0.12	0.08
Firm Observations	1,493	1,460

Notes: This table reports coefficient estimates from OLS regressions examining the firm-level determinants of internal control weaknesses and FCPA enforcement actions. In Column (1), we estimate a determinants model for disclosed internal control weaknesses using a sample of SEC-registered firms. In Column (2), we estimate the effect of reported internal control weaknesses on the probability that SEC-registered firms become targets of FCPA enforcement actions. We define all variables in Section IA9 of this Internet Appendix. The sample is from 2005 to 2017. We collect geographic segment-level data from Worldscope, enforcement actions from the Stanford Law School FCPA Database, and internal control data from Audit Analytics. Standard errors clustered at the firm level are reported in parentheses.

Table IA5: Descriptive Statistics for Country-Level FCPA Enforcement Analysis

Panel A: HQ-Country-Level Variables

	N	Mean	SD	P1	P25	P50	P75	P99
FCPA Enforcement Actions (HQ Country)	177	0.548	2.020	0.000	0.000	0.000	0.000	13.000
ABC Country	177	0.232	0.423	0.000	0.000	0.000	0.000	1.000
High-Corruption-Risk Country	177	0.774	0.419	0.000	1.000	1.000	1.000	1.000
GDP(bn.USD)	177	286.952	820.665	0.244	9.232	27.878	198.520	5,104.126
FDI/GDP (%)	177	5.960	10.810	-0.610	1.927	3.565	6.379	33.257
MMoU Country	177	0.401	0.492	0.000	0.000	0.000	1.000	1.000

Panel B: Bribe-Country-Level Variables

	N	Mean	SD	P1	P25	P50	P75	P99
FCPA Enforcement Actions (Bribe Country)	177	3.367	7.729	0.000	0.000	1.000	3.000	40.000
ABC Country	177	0.232	0.423	0.000	0.000	0.000	0.000	1.000
High-Corruption-Risk Country	177	0.774	0.419	0.000	1.000	1.000	1.000	1.000
GDP(bn.USD)	177	286.952	820.665	0.244	9.232	27.878	198.520	5,104.126
FDI/GDP (%)	177	5.960	10.810	-0.610	1.927	3.565	6.379	33.257
MMoU Country	177	0.401	0.492	0.000	0.000	0.000	1.000	1.000

Panel C: HQ-Country-Year-Level Variables

	N	Mean	SD	P1	P25	P50	P75	P99
FCPA Enforcement Actions (HQ Country)	2,683	0.034	0.293	0.000	0.000	0.000	0.000	1.000
Post 2004 × ABC Country	2,683	0.183	0.387	0.000	0.000	0.000	0.000	1.000
High-Corruption-Risk Country	2,683	0.756	0.429	0.000	1.000	1.000	1.000	1.000
GDP(bn.USD)	2,683	283.990	800.671	0.489	9.402	32.726	193.241	4,115.116
FDI/GDP (%)	2,683	5.603	16.217	-4.229	1.351	3.109	6.069	47.477
MMoU Country	2,683	0.356	0.479	0.000	0.000	0.000	1.000	1.000
CPI	2,683	41.979	21.255	14.000	26.000	35.000	53.000	95.000
Post 2004	2,683	0.736	0.441	0.000	0.000	1.000	1.000	1.000

Panel D: Bribe-Country-Year-Level Variables

	N	Mean	SD	P1	P25	P50	P75	P99
FCPA Enforcement Actions (Bribe Country)	2,683	0.225	0.952	0.000	0.000	0.000	0.000	4.000
Post 2004 × High-Corruption-Risk Country	2,683	0.566	0.496	0.000	0.000	1.000	1.000	1.000
High-Corruption-Risk Country	2,683	0.756	0.429	0.000	1.000	1.000	1.000	1.000
GDP(bn.USD)	2,683	283.990	800.671	0.489	9.402	32.726	193.241	4,115.116
FDI/GDP (%)	2,683	5.603	16.217	-4.229	1.351	3.109	6.069	47.477
MMoU Country	2,683	0.356	0.479	0.000	0.000	0.000	1.000	1.000
CPI	2,683	41.979	21.255	14.000	26.000	35.000	53.000	95.000
Post 2004	2,683	0.736	0.441	0.000	0.000	1.000	1.000	1.000

Notes: This table presents descriptive statistics for the country-level FCPA enforcement analysis in Table IA6. We define all variables in Section IA9 of this Internet Appendix. Panels A and B present statistics for variables at the headquarter-country and bribe-country level. Panels C and D present statistics for variables at the headquarter-country-year and bribe-country-year level. We collect enforcement actions from the Stanford Law School FCPA Database.

Table IA6: Country-Level Characteristics of FCPA Enforcement Targets

	Country-Level Analysis (UN excl. US)		Country-Year Level Analysis	
	HQ Country	Bribe Country	HQ Country	Bribe Country
Dependent Variable: *Number of FCPA Enforcement Actions*	(1)	(2)	(3)	(4)
ABC Country	1.010	-4.939		
	(0.397)	(1.493)		
High-Corruption-Risk Country	-1.153	5.163		
	(0.364)	(1.368)		
Time Variation:				
Post 2004 × ABC Country			0.155	
			(0.043)	
Post 2004 × High-Corruption-Risk Country				0.441
				(0.092)
Country Controls:				
Ln(GDP)	0.279	2.260	-0.009	0.278
	(0.075)	(0.283)	(0.011)	(0.087)
FDI/GDP (%)	0.005	0.020	0.000	0.001
	(0.013)	(0.047)	(0.000)	(0.000)
MMoU Country	-0.604	0.509	-0.023	-0.252
	(0.290)	(1.091)	(0.022)	(0.090)
CPI			-0.000	-0.001
			(0.001)	(0.003)
Post 2004			0.006	-0.350
			(0.008)	(0.106)
Fixed Effects:				
Country	No	No	Yes	Yes
Industry	No	No	No	No
Unit of Observation	Country	Country	Country-Year	Country-Year
Sample Period	2005-2017	2005-2017	1998-2017	1998-2017
Number of Standard Error Clusters:				
Country	177	177	176	176
Adjusted R-Squared	0.30	0.32	0.11	0.23
Observations	177	177	2,683	2,683

Notes: This table reports coefficient estimates from OLS regressions estimating the associations between several country-level characteristics and the probability of firms within a given country facing FCPA enforcement actions. In Columns (1) and (3), we focus on firms' headquarter country. In Columns (2) and (4), we focus on countries where bribes were paid. Our sample includes all sovereign UN-member countries excluding the United States. We define all variables in Section IA9 of this Internet Appendix. We collect enforcement actions from the Stanford Law School FCPA Database. Standard errors clustered at the country level are reported in parentheses.

Table IA7: Sample Selection for FDI Flow Analysis

	Sample Selection Step	# of Observations	Δ
(1)	FDI country-pair-year observations from the United Nations Conference on Trade and Development (UNCTAD)	67,862	
(2)	Adding zeros to country-pairs with some non-missing yearly data	73,956	+6,094
(3)	Excluding negative FDI values	65,069	-8,887
(4)	Excluding inflow and outflow countries with GDP less than 1 billion USD	62,565	-2,504
(5)	Excluding non-UN inflow and outflow countries	54,856	-7,709
(6)	Excluding Off-shore Financial Center inflow and outflow countries	46,341	-8,515
(7)	Excluding late ABC adopter outflow countries	43,547	-2,794
(8)	Excluding 99th percentile and missing values of FDI outflows/GDP	43,092	-455
(9)	Excluding missing controls	38,174	-4,918
(10)	Excluding singleton observations	38,130	-44
	Final Baseline Sample of Country-Pair-Year Observations	38,130	

Notes: This table describes the sample selection process for our FDI flow analysis in Table 3 Panels A and B of the Manuscript. The sample is from 2002 to 2012. We obtain bilateral FDI flow data from the Bilateral FDI Statistics database of the United Nations Conference on Trade and Development (UNCTAD).

Table IA8: Sensitivity Analyses for FDI Flow Tests

Using the Table 3 Panel B Column (1) specification from the Manuscript	N	*ABC* × *Post 2004* × *High-Corruption-Risk Country*
Alternative Samples:		
(1) Excluding Assumed Zero FDI Flows	34,737	-0.037
		(0.011)
(2) Incl. Negative Values + FDI/GDP Out (× 100)	43,557	-0.026
		(0.012)
(3) Including Late ABC Signers	40,363	-0.029
		(0.011)
Alternative Regression Specifications:		
(4) Excluding Country-In Controls	38,130	-0.028
		(0.010)
(5) Controlling for the MMoU	38,130	-0.029
		(0.010)
(6) ABC Countries with Enforcement Actions	30,276	-0.031
		(0.012)
(7) Non-Corrupt ABC Countries	32,057	-0.035
		(0.013)
Alternative Variable Definitions:		
(8) Continuous CPI	38,130	-0.001
		(0.000)
(9) Control of Corruption Index	38,130	-0.031
		(0.011)
Alternative Clustering:		
(10) Clustering by Country Out	38,130	-0.028
		(0.007)
(11) Clustering by Country In	38,130	-0.028
		(0.010)

Notes: This table reports coefficient estimates from OLS regressions assessing the sensitivity of our FDI flow results. We define all variables in Section IA9 of this Internet Appendix. The sample is from 2002 to 2012. For all sensitivity tests, we use Column (1) of Table 3 Panel B in the Manuscript as our baseline specification. In Row (1), we exclude missing FDI values that we assume to be zero in the main analysis. In Row (2), we run the baseline specification including negative values and do not log-transform FDI/GDP Out (× 100). In Row (3), we include inflow and outflow countries that signed the OECD Anti-Bribery Convention (ABC) after 1997. In Row (4), we exclude the inflow-country control variables. In Row (5), we additionally control for the Multilateral Memorandum of Understanding (MMoU). In Row (6), we only consider ABC-outflow countries where at least one firm from that country has faced an FCPA enforcement action. In Row (7), we limit our sample to low-corruption-risk ABC outflow countries. In Row (8), we use the continuous CPI and in Row (9), we use the *Control of Corruption* index from the World Bank to classify inflow countries as high-corruption-risk or low-corruption-risk. In Row (10) and (11), we cluster standard errors by outflow country only and inflow country only, respectively. Standard errors clustered at the outflow country level and inflow country level (except for Rows (10) and (11)) are reported in parentheses.

Table IA9: Country-Specific Treatment Dates in FDI Flow Tests

	HQ Country Enforcement		Bribe Country Enforcement	
Dependent Variable:	All Countries	Non-US Countries	All Countries	Non-US Countries
Ln(1+*FDI/GDP Out* × 100)	(1)	(2)	(3)	(4)
Post First Enforcement Action × *High-Corruption-Risk Country*	-0.011	-0.011	-0.032	-0.033
	(0.015)	(0.015)	(0.016)	(0.017)
Post First Enforcement Action			0.034	0.035
			(0.015)	(0.016)
Country In Controls:				
GDP Growth	0.000	0.000	0.000	0.000
	(0.000)	(0.000)	(0.000)	(0.000)
Export Orientation	0.000	0.000	0.000	0.000
	(0.000)	(0.000)	(0.000)	(0.000)
Political Stability	0.005	0.005	0.006	0.006
	(0.003)	(0.003)	(0.003)	(0.003)
Regulatory Quality	-0.004	-0.005	-0.005	-0.005
	(0.007)	(0.008)	(0.007)	(0.007)
Rule of Law	0.010	0.011	0.008	0.008
	(0.008)	(0.008)	(0.009)	(0.009)
Government Effectiveness	-0.009	-0.009	-0.004	-0.004
	(0.009)	(0.010)	(0.010)	(0.011)
Fixed Effects:				
Country Out × Country In	Yes	Yes	Yes	Yes
Country Out × Year	Yes	Yes	Yes	Yes
Country In × Year	No	No	No	No
Standard Error Clusters:				
Country Out	135	134	135	134
Country In	145	145	145	145
Adjusted R-Squared	0.57	0.57	0.57	0.57
Country-Pair-Year Observations	38,130	36,938	38,130	36,938

Notes: This table reports the coefficient estimates of OLS regressions estimating the effect of FCPA enforcement on foreign direct investment flows to corrupt countries. We use the specification from Table 3 Panel B Column (1) of the Manuscript but replace the *Post 2004* variable with country-specific treatment dates. In Column (1) and (2), *Post First Enforcement Action* is a binary indicator equal to one after the year of the first enforcement action against a firm heaquartered in the given outflow country. In Column (3) and (4), *Post First Enforcement Action* is a binary indicator equal to one after the year of the first enforcement action against a firm that paid bribes in the given inflow country. We define all variables in Section IA9 of this Internet Appendix. We describe the sample selection in Table IA7 of the Internet Appendix. The sample is from 2002 to 2012. FDI data is from the United Nations Conference on Trade and Development (UNCTAD). Control variable and GDP data are from the World Bank and the IMF. Standard errors clustered at the outflow-country level and inflow-country level are reported in parentheses.

Table IA10: Scaling FDI Flows on Country-In GDP instead of Country-Out GDP

						Within Country-In		
Dependent Variable: Ln(1+*FDI/GDP In* × 100)	All Countries (1)	Non-US Countries (2)	United States (3)	Never Active Enforcement (4)	Excluding 2005-2006 (5)	Non-US Countries (6)	United States (7)	Placebo Test: Foreign Portfolio Investment (8)
ABC × Post 2004 × High-Corruption-Risk Country	-0.031	-0.028	-0.089	-0.027	-0.034	-0.024	-0.091	0.005
	(0.011)	(0.011)	(0.008)	(0.011)	(0.013)	(0.014)	(0.026)	(0.025)
Post First Enforcement Action × High-Corruption-Risk Country	0.004	0.004	0.001	0.004	0.002			
	(0.005)	(0.005)	(0.006)	(0.005)	(0.007)			
Country In Controls:								
GDP Growth	0.001	0.000	0.000	0.000	0.000			
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)			
Export Orientation	0.001	0.001	0.000	0.001	0.000			
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)			
Political Stability	0.006	0.008	0.005	0.008	0.009			
	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)			
Regulatory Quality	0.004	0.004	0.007	0.005	0.010			
	(0.011)	(0.010)	(0.012)	(0.010)	(0.012)			
Rule of Law	0.000	-0.002	-0.012	-0.007	-0.008			
	(0.013)	(0.013)	(0.014)	(0.012)	(0.015)			
Government Effectiveness	-0.003	-0.005	0.014	0.001	-0.005			
	(0.014)	(0.013)	(0.015)	(0.013)	(0.016)			
Fixed Effects:								
Country Out × Country In	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country Out × Year	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country In × Year	No	No	No	No	No	Yes	Yes	Yes
Standard Error Clusters:								
Country Out	136	135	101	129	136	135	101	25
Country In	144	144	143	144	144	143	133	190
Adjusted R-Squared	0.55	0.54	0.53	0.54	0.54	0.58	0.60	0.14
Country-Pair-Year Observations	38,117	36,982	16,283	31,695	31,088	36,969	16,121	32,902

Notes: This table reports coefficient estimates from OLS regressions estimating the effect of FCPA enforcement on foreign direct investment flows scaled by inflow-country GDP. We define all variables in Section IA9 of this Internet Appendix. The sample is from 2002 to 2012. FDI data are from the United Nations Conference on Trade and Development (UNCTAD) and FPI data are from the IMF Coordinated Portfolio Investment Survey. We obtain our control and GDP data from the World Bank and the IMF. Standard errors clustered at the outflow-country level and inflow-country level are reported in parentheses.

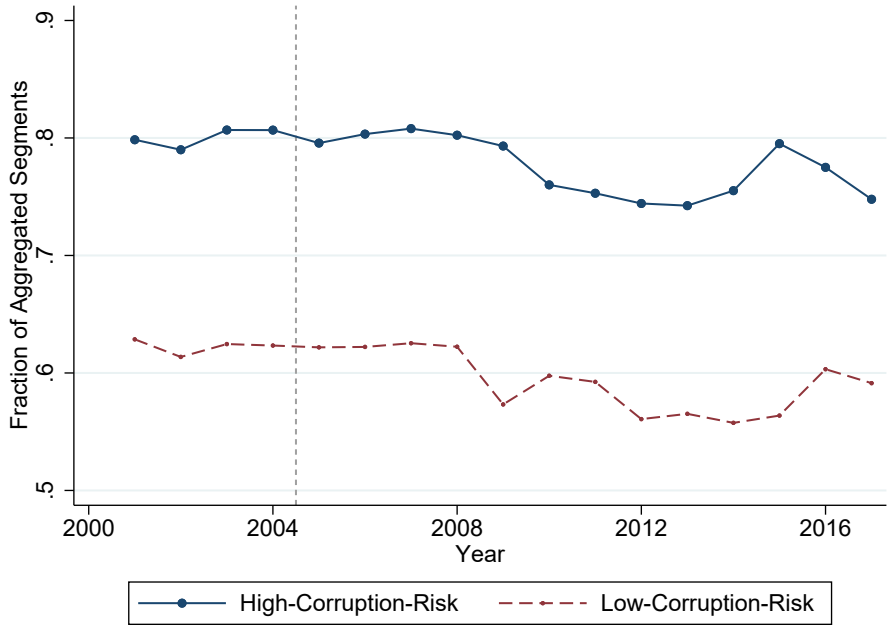
Table IA11: Alternative Control Groups in FDI Flow Analysis

Using the Table IA10 Column (1) specification	N	*ABC* × *Post 2004* × *High-Corruption-Risk Country*	*Post 2004* × *High-Corruption-Risk Country*
Alternative Control Groups:			
(1) Offshore Financial Center Control Group	28,060	-0.028	0.003
		(0.010)	(0.008)
(2) High-Corruption-Risk Countries Control Group	38,038	-0.032	0.006
		(0.011)	(0.005)

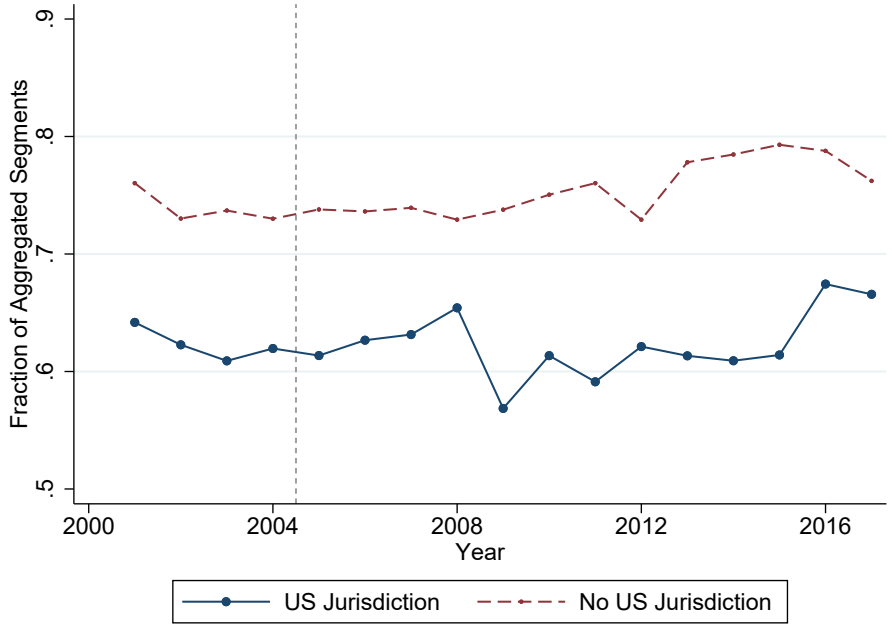
Notes: This table reports coefficient estimates from OLS regressions using alternative control groups to assess changes in FDI outflows to corrupt countries from subsets of non-ABC countries. Our alternative control groups are (1) offshore financial centers and (2) high-corruption-risk, non-ABC outflow countries with a CPI of 50 or less in 2004 (or the next year with available data). We use Column (1) from Table IA10 as our baseline specification and define all variables in Section IA9 of this Internet Appendix. The sample is from 2002 to 2012. Standard errors clustered at the outflow-country level and inflow-country level are reported in parentheses.

Figure IA2: Fraction of Aggregated Segments from 2001 to 2017

Panel A: High-Corruption-Risk Segments vs. Low-Corruption-Risk Segments

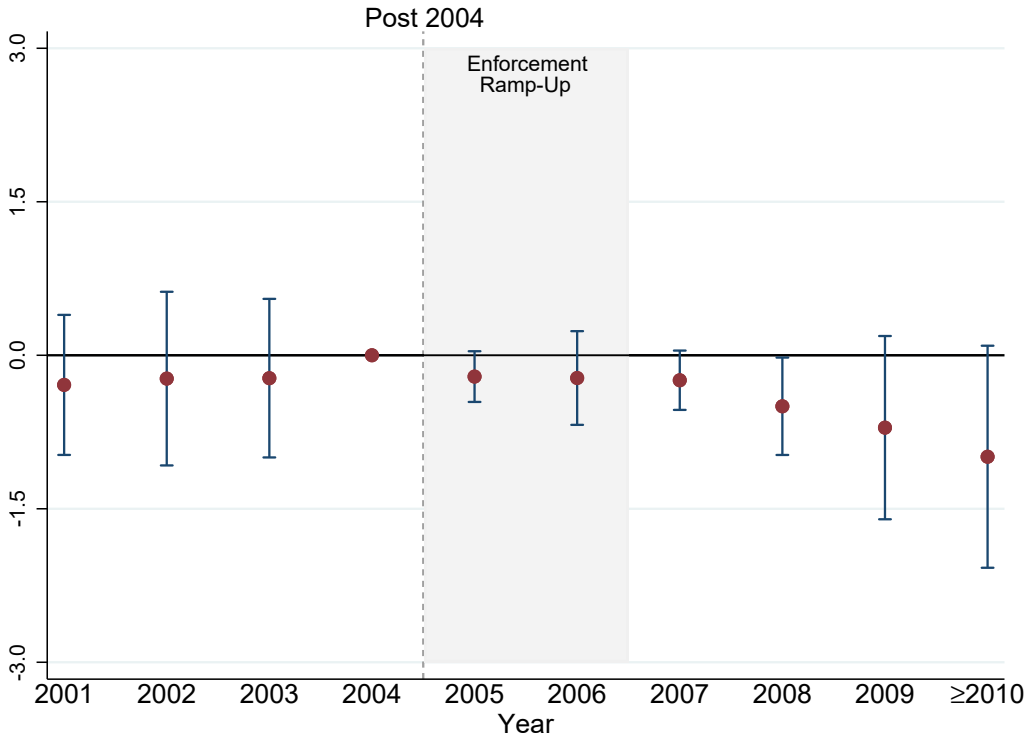


Panel B: Firms under US Jurisdiction vs. Firms not under US Jurisdiction



Notes: This figure shows the average (within-firm) fraction of aggregated segments to total disclosed geographic segments of companies in our firm-segment-level CAPEX analysis in the Manuscript between 2001 and 2017. Panel A compares high-corruption-risk to low-corruption-risk segments and Panel B compares firms under US jurisdiction to firms that are not under US jurisdiction. High-corruption-risk regions include Africa, Asia, Eastern Europe, the Middle East, the Baltic states, South and Central America, and any region which lists a high-corruption-risk country. We classify countries as high-corruption-risk if their CPI equals 50 or less in 2004 (or the next year with available data). We define all variables in Section IA9 of this Internet Appendix. We obtain geographic segment-level data from Worldscope.

Figure IA3: Segment-level CAPEX of High Internal Control Risk Firms around the Increase in FCPA Enforcement



Notes: This figure shows coefficient estimates and 90% confidence intervals for OLS regressions estimating the effect of the post-2004 increase in FCPA enforcement on segment-level investments by high-internal-control-risk, ABC-country firms in high-corruption-risk countries. We estimate a quadruple-differences model and replace the *Post 2004* × *US Jurisdiction* × *High-Corruption-Risk Segment* × *High Internal Control Risk* indicator with separate interactions for each of the years in our sample (except for 2004, which serves as the benchmark).

Table IA12: Sensitivity Analyses for Segment-level CAPEX Tests

Using the Table 4 Panel B Column (3) specification from the Manuscript	N	*Post 2004 × US Jurisdiction × High-Corruption-Risk Segment*
Alternative Sample:		
(1) Excluding Large Firms	5,919	-0.284
		(0.136)
Alternative Variable Definitions:		
(2) Continuous CPI	8,094	-0.003
		(0.002)
(3) Control of Corruption Index	8,042	-0.171
		(0.079)
(4) Segment CAPEX/Total Assets$_{t-1}$ × 100	8,094	-2.894
		(1.653)
Alternative Clustering:		
(5) Clustering by Parent Country	8,094	-0.171
		(0.092)
(6) Clustering by Parent & Segment Country	8,094	-0.171
		(0.091)

Notes: This table reports coefficient estimates from OLS regressions assessing the sensitivity of our segment-level CAPEX results. We define all variables in Section IA9 of this Internet Appendix. The sample is from 2001 to 2017. For all sensitivity tests, we use Column (3) of Table 4 Panel B in the Manuscript as our baseline specification. In Row (1), we exclude the largest 25% of firms from the sample. In Row (2), we use the continuous CPI and in Row (3), we use the *Control of Corruption* index from the World Bank to classify inflow countries as high-corruption-risk or low-corruption-risk. In Row (4), we do not log-transform the dependent variable. In Row (5) and (6), we cluster standard errors by parent country and by parent and segment country, respectively. Standard errors clustered at the segment country level (except for Rows (5) and (6)) are reported in parentheses.

Table IA13: Sensitivity Analyses for M&A Due Diligence Length Tests

Using the Table 5 Panel B Column (3) specification from the Manuscript	N	*Post 2004* × *US Jurisdiction* × *High-Corruption-Risk Target*
Alternative Sample:		
(1) Private Targets	4,372	1.781
		(0.530)
Alternative Variable Definitions:		
(2) M&A Due Diligence Length	5,252	41.199
		(19.272)
(3) Continuous CPI	5,299	0.005
		(0.003)
(4) Control of Corruption Index	3,512	0.650
		(0.238)
Alternative Clustering:		
(5) Clustering by Acquirer Country	5,299	0.296
		(0.184)
(6) Clustering by Acquirer & Target Country	5,299	0.296
		(0.097)

Notes: This table reports coefficient estimates from OLS regressions assessing the sensitivity of our M&A due diligence length results. We define all variables in Section IA9 of this Internet Appendix. The sample is from 2001 to 2017. For all sensitivity tests, we use Column (3) of Table 5 Panel B in the Manuscript as our baseline specification. In Row (1), we re-estimate our main specification using private target firms. In Row (2), we do not log-transform the dependent variable. In Row (3), we use the continuous CPI and in Row (4), we use the *Control of Corruption* index from the World Bank to classify inflow countries as high-corruption-risk or low-corruption-risk. In Row (5) and (6), we cluster standard errors by acquirer country and by acquirer and target country, respectively. Standard errors clustered at the target country level (except for Rows (5) and (6)) are reported in parentheses.

Table IA14: Descriptive Statistics for Inflow Countries

	# Observations in Regression Samples					FDI Inflows
	FDI Flows	CAPEX	M&A	CPI	Corrupt	(M.USD)
Afghanistan	22	.	.	25	1	38
Albania	131	.	.	25	1	376
Algeria	399	4	.	27	1	1,327
Angola	96	.	.	20	1	810
Argentina	465	51	24	25	1	6,450
Armenia	274	.	.	31	1	487
Australia	338	134	280	88	0	26,917
Austria	288	173	24	84	0	7,638
Azerbaijan	154	.	.	19	1	390
Bahamas	.	.	2	73	0	2,920
Bangladesh	396	.	2	15	1	768
Barbados	.	.	2	73	0	970
Belarus	11	.	.	33	1	745
Belgium	927	184	54	75	0	54,125
Benin	151	.	.	32	1	23
Bhutan	38	.	.	60	0	10
Bolivia	255	8	4	22	1	800
Bosnia and Herzegovina	281	.	.	31	1	504
Botswana	69	.	.	60	0	18
Brazil	287	121	139	39	1	29,200
Brunei	121	.	.	55	0	212
Bulgaria	728	14	4	41	1	4,419
Burundi	39	.	.	23	1	1
Cambodia	315	.	.	23	1	571
Cameroon	94	.	.	21	1	55
Canada	31	90	258	85	0	23,514
Cape Verde	23	.	.	49	1	-13
Central African Republic	38	.	.	24	1	4
Chad	50	.	.	17	1	29
Chile	287	76	42	74	0	7,884
China	261	178	53	34	1	75,634
Colombia	314	39	18	38	1	7,848
Congo	99	.	.	23	1	436
Cote dIvoire	122	.	.	20	1	122
Croatia	480	8	6	35	1	2,426
Cyprus	.	.	11	54	0	1,419
Czech Republic	495	77	13	42	1	6,516
Denmark	572	187	45	95	0	3,471
Dominican Republic	157	.	.	29	1	1,566
Ecuador	274	.	2	24	1	519
Egypt	418	56	8	32	1	7,911
El Salvador	265	.	.	42	1	400
Equatorial Guinea	100	.	.	19	1	65
Eritrea	30	.	.	26	1	-3
Estonia	423	14	6	60	0	1,487
Ethiopia	18	.	.	23	1	43
Fiji	67	19	.	40	1	52
Finland	311	180	62	97	0	4,632
France	753	620	238	71	0	51,132
Gabon	97	.	.	33	1	122
Georgia	466	.	.	20	1	856

Continued on next page...

	# Observations in Regression Samples					FDI Inflows
	FDI Flows	CAPEX	M&A	CPI	Corrupt	(M.USD)
Germany	813	751	221	82	0	36,036
Ghana	155	.	.	36	1	256
Greece	256	26	22	43	1	2,036
Guatemala	206	.	.	22	1	520
Guinea	96	.	2	19	1	34
Guyana	.	.	6	25	1	0
Haiti	47	.	.	15	1	13
Honduras	177	.	.	23	1	694
Hong Kong	.	26	66	80	0	45,042
Hungary	436	75	2	48	1	4,250
Iceland	164	.	2	95	0	1,629
India	581	45	169	28	1	11,701
Indonesia	250	50	50	20	1	7,478
Iran	142	.	.	29	1	245
Iraq	102	.	.	21	1	78
Ireland	83	52	25	75	0	5,934
Israel	189	.	19	64	0	1,132
Italy	836	155	100	48	1	17,640
Jamaica	87	.	4	33	1	-148
Japan	417	165	43	69	0	7,002
Jordan	156	.	4	53	0	77
Kazakhstan	615	.	4	22	1	15,184
Kenya	125	.	2	21	1	185
Kuwait	112	.	2	46	1	189
Kyrgyz Republic	273	.	.	22	1	215
Laos	110	.	.	33	1	119
Latvia	442	10	2	40	1	825
Lesotho	50	.	.	34	1	14
Liberia	57	.	.	22	1	225
Libya	141	.	.	25	1	150
Lithuania	423	28	4	46	1	1,053
Luxembourg	1,020	6	19	84	0	177,382
Macedonia	373	.	.	27	1	286
Madagascar	174	.	.	31	1	494
Malawi	230	.	.	28	1	19
Malaysia	.	.	54	50	1	4,673
Maldives	57	.	.	33	1	7
Mali	103	.	2	32	1	66
Mauritania	72	.	.	31	1	13
Mexico	584	59	76	36	1	23,098
Moldova	32	.	.	23	1	57
Mongolia	358	.	.	30	1	1,134
Montenegro	321	.	2	33	1	575
Morocco	565	36	8	32	1	2,542
Mozambique	346	.	.	28	1	957
Myanmar	163	.	.	17	1	3,155
Namibia	115	.	.	41	1	90
Nepal	65	.	.	28	1	4
Netherlands	291	166	142	87	0	26,860
New Zealand	264	300	65	96	0	1,578
Nicaragua	82	.	.	27	1	14
Niger	87	.	.	22	1	-132
Nigeria	313	.	2	16	1	5,906
Norway	49	195	87	89	0	2,442

Continued on next page...

	# Observations in Regression Samples					FDI Inflows
	FDI Flows	CAPEX	M&A	CPI	Corrupt	(M.USD)
Oman	236	.	.	61	0	981
Pakistan	362	.	4	21	1	2,102
Panama	.	6	.	37	1	1,568
Papua New Guinea	88	20	13	26	1	204
Paraguay	145	8	.	19	1	132
Peru	290	10	40	35	1	844
Philippines	282	8	15	26	1	763
Poland	583	150	72	35	1	12,733
Portugal	443	39	13	63	0	5,021
Puerto Rico	.	.	4	58	0	5
Qatar	151	2	.	52	0	715
Romania	.	52	15	29	1	5,680
Russia	691	79	44	28	1	26,121
Rwanda	132	.	.	31	1	31
Saudi Arabia	445	.	.	34	1	13,175
Senegal	115	.	.	30	1	68
Serbia	508	.	2	30	1	1,743
Sierra Leone	73	.	.	23	1	7
Singapore	224	40	70	93	0	17,387
Slovak Republic	457	22	.	40	1	2,229
Slovenia	310	6	14	60	0	785
Somalia	10	.	.	21	1	-0
South Africa	246	64	56	46	1	6,756
South Korea	683	22	60	45	1	6,107
Spain	429	335	97	71	0	34,679
Sri Lanka	132	.	.	35	1	152
Sudan	94	.	.	22	1	118
Suriname	40	.	.	43	1	20
Swaziland	59	.	.	27	1	-7
Sweden	452	163	133	92	0	12,546
Switzerland	95	189	76	91	0	13,895
Syria	90	.	.	34	1	77
Taiwan	.	.	24	56	0	5,063
Tajikistan	65	.	.	20	1	38
Tanzania	456	.	.	28	1	779
Thailand	363	45	17	36	1	7,288
Togo	42	.	.	24	1	20
Trinidad and Tobago	.	.	4	42	1	1,161
Tunisia	394	18	.	50	1	1,473
Turkey	591	61	58	32	1	9,232
Uganda	92	.	.	26	1	495
Ukraine	555	.	4	22	1	4,382
United Arab Emirates	110	4	2	61	0	11,962
United Kingdom	293	809	375	86	0	77,986
United States	768	1,484	1,567	75	0	166,712
Uruguay	248	8	.	62	0	891
Venezuela	189	68	2	23	1	1,225
Vietnam	363	.	15	26	1	1,423
Yemen	79	4	.	24	1	284
Zambia	360	.	.	26	1	569
Total # Observations	38,130	8,094	5,299			

Notes: The first four columns of this table show the number of observations by inflow country for each analysis sample. CPI (Corruption Perception Index) is the CPI used to determine whether a country is classified as high-corruption-risk or not. It is taken from 2004 or the next year with available data. A high-corruption-risk country is a country with CPI$\leq$50. FDI Inflows is the average total annual inflows to the country from 2002-2012 in millions of USD. The CPI data comes from Transparency International and the FDI data comes from the United Nation's Conference on Trade and Development.

Table IA15: Descriptive Statistics for Outflow Countries

	# Observations in Regression Samples		
	FDI Flows	CAPEX	M&A
Afghanistan	61	.	.
Albania	110	.	.
Algeria	109	.	.
Angola	78	.	.
Argentina	311	.	.
Armenia	67	.	.
Australia	670	695	355
Austria	618	354	46
Azerbaijan	148	.	.
Bangladesh	139	.	.
Belarus	189	.	.
Belgium	886	289	104
Bolivia	97	.	.
Bosnia and Herzegovina	146	.	.
Botswana	51	.	.
Brazil	422	.	.
Brunei	139	.	.
Bulgaria	319	.	.
Burkina Faso	43	.	.
Cameroon	55	.	.
Canada	748	499	914
Cape Verde	30	.	.
Chile	298	.	.
China	1,146	.	.
Congo	48	.	.
Cote d'Ivoire	75	.	.
Czech Republic	408	.	6
Democratic Republic of Congo	80	.	.
Denmark	831	87	78
Dominican Republic	136	.	.
Ecuador	176	.	.
Egypt	298	.	.
Eritrea	29	.	.
Ethiopia	41	.	.
Fiji	27	.	.
Finland	494	394	99
France	1,129	417	486
Gabon	54	.	.
Georgia	229	.	.
Germany	1,184	934	366
Ghana	106	.	.
Guinea	65	.	.
Spain	748	167	171
Switzerland	810	283	265
United Arab Emirates	496	.	.
United Kingdom	875	481	678

Continued on next page...

	# Observations in Regression Samples		
	FDI Flows	CAPEX	M&A
Cambodia	95	.	.
Croatia	314	.	.
Equatorial Guinea	61	.	.
Greece	408	.	23
Guatemala	97	.	.
Guyana	26	.	.
Haiti	22	.	.
Honduras	70	.	.
Hungary	394	35	.
Iceland	347	.	28
India	639	.	.
Indonesia	338	.	.
Iran	276	.	.
Iraq	94	.	.
Ireland	524	134	78
Israel	489	51	82
Italy	1,135	265	152
Jamaica	45	.	.
Japan	966	.	511
Jordan	263	.	.
Kazakhstan	205	.	.
Kenya	137	.	.
Kuwait	331	.	.
Kyrgyz Republic	112	.	.
Liberia	51	.	.
Libya	200	.	.
Luxembourg	867	226	51
Macedonia	159	.	.
Madagascar	52	.	.
Malawi	32	.	.
Mali	43	.	.
Mauritania	64	.	.
Mexico	372	262	57
Moldova	101	.	.
Mongolia	48	.	.
Montenegro	133	.	.
Morocco	285	.	.
Mozambique	81	.	.
Myanmar	31	.	.
Namibia	70	.	.
Nepal	76	.	.
Netherlands	831	1,191	287
New Zealand	407	.	18
Nicaragua	84	.	.
Niger	49	.	.
Nigeria	162	.	.
Norway	532	381	68
Oman	200	.	.
South Korea	862	.	99
Sri Lanka	109	.	.

Continued on next page...

	# Observations in Regression Samples		
	FDI Flows	CAPEX	M&A
El Salvador	89	.	.
Pakistan	210	.	.
Papua New Guinea	40	.	.
Paraguay	77	.	.
Philippines	271	.	.
Poland	536	45	19
Portugal	539	82	9
Qatar	243	.	.
Romania	377	.	.
Rwanda	16	.	.
Saudi Arabia	428	.	.
Senegal	81	.	.
Serbia	199	.	.
Sierra Leone	75	.	.
Singapore	627	.	.
Slovak Republic	324	10	.
Slovenia	293	.	.
Sudan	76	.	.
Suriname	54	.	.
Swaziland	90	.	.
Sweden	820	812	243
Syria	82	.	.
Tajikistan	33	.	.
Tanzania	84	.	.
Thailand	337	.	.
Togo	84	.	.
Trinidad and Tobago	103	.	.
Tunisia	151	.	.
Turkey	582	.	6
Uganda	74	.	.
Ukraine	314	.	.
United States	1,192	.	.
Uruguay	250	.	.
Uzbekistan	178	.	.
Venezuela	230	.	.
Vietnam	254	.	.
Yemen	78	.	.
Zambia	48	.	.
Zimbabwe	83	.	.
Total # Observations	38,130	8,094	5,299

Notes: This table reports the number of observations by outflow country for each analysis sample.

Table IA16: Variable Definitions for Internet Appendix Analyses

Variables used in Estimation of Internal-Control-Risk Measure

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

Variables used in Country-Level FCPA Enforcement Analysis

FCPA Enforcement Actions (HQ Country)	Total number of FCPA enforcement actions in headquarter-country c between 2005 and 2017.
FCPA Enforcement Actions (Bribe Country)	Total number of FCPA enforcement actions in bribe-country b between 2005 and 2017.
ABC Country	Binary indicator equal to one if the country has signed the OECD Anti-Bribery Convention (see Table 2 of the Manuscript).
High-Corruption-Risk Country	Binary indicator equal to one if the country has a CPI of 50 or less in 2004 (or the next year with available data).
GDP (bn. USD)	The country's real GDP in billions of US dollars.
FDI/GDP (%)	The country's foreign direct investment flows divided by GDP.
MMoU Country	Binary indicator equal to one if a country has signed the Multilateral Memorandum of Understanding (MMoU).
Post 2004	Binary indicator equal to one beginning in 2004.
CPI	Corruption Perceptions Index (CPI) assigned to a given country by Transparency International in 2004 (or the next year with available data).

Variables used in FDI Flows Sensitivity Tests

FDI/GDP Out	The aggregate, bilateral foreign direct investment flow in US dollars from Country Out to Country In divided by the US dollar GDP of the outflow country.
FDI/GDP In	The aggregate, bilateral foreign direct investment flow in US dollars from Country Out to Country In divided by the US dollar GDP of the inflow country.
Post First Enforcement Action	Binary indicator equal to one after the year of the first enforcement action against a firm that is headquartered (paid bribes) in the given outflow (inflow) country.
ABC	Binary indicator equal to one after an outflow country has signed the OECD Anti-Bribery Convention (see Table 2 of the Manuscript).
Post 2004	Binary indicator equal to one beginning in 2004.
High-Corruption-Risk Country	Binary indicator equal to one if the inflow country has a CPI of 50 or less in 2004 (or the next year with available data).
Never Active Enforcement	Binary indicator equal to one for outflow countries that Transparency International never classifies as active enforcers of the ABC.
Foreign Portfolio Investment	The aggregate, bilateral foreign portfolio investment in US dollars from Country Out to Country In divided by the US dollar GDP of the outflow country.
GDP Growth	The inflow country's lagged annual percentage growth rate of real GDP per capita.
Export Orientation	Total exports from the inflow country to the outflow country divided by the inflow country's GDP.
Political Stability	The inflow country's perceived likelihood of political instability and/or politically motivated violence, including acts of terrorism.
Regulatory Quality	The inflow country's perceived ability to implement sound policies and regulations that promote private sector development.

Rule of Law	The inflow country's perceived strength of practices, institutions, or norms that support the equality of all citizens and institutions before the law and more generally prevent the arbitrary use of power.
Government Effectiveness	The inflow country's perceived quality of public services, including the quality and independence of its civil service, the effectiveness of policy formulation and implementation, as well as the credibility of the government's commitment to implement such policies.
Continuous Corruption Index	100 - Corruption Perception Index (CPI) of a given inflow country in 2004 (or the next year with available data).
Control of Corruption Index	Binary indicator equal to one if the inflow country has an above-median Control of Corruption (CC) index in 2004 (or the next year with available data).

Variables used in Segment-level CAPEX Sensitivity Tests

Segment CAPEX	The firm's yearly capital expenditures in a given segment country divided by lagged consolidated assets.
Post 2004	Binary indicator equal to one beginning in 2004.
High-Corruption-Risk Segment	Binary indicator equal to one if the segment country has a CPI of 50 or less in 2004 (or the next year with available data).
US Jurisdiction	Binary indicator equal to one if the firm is a US-cross-listed SEC filer or operates a segment in the US in 2004 or before.
High Internal Control Risk	Binary indicator equal to one if the firm's likelihood of having an internal control weakness is higher than the sample median.
Continuous Corruption Index	100 - Corruption Perception Index (CPI) of a given segment country in 2004 (or the next year with available data).
Control of Corruption Index	Binary indicator equal to one if the segment country has an above-median Control of Corruption (CC) index in 2004 (or the next year with available data).

Variables used in M&A Sensitivity Tests

M&A Due Diligence Length	Number of days between the signing of the acquisition agreement and the closing of the transaction.
Post 2004	Binary indicator equal to one beginning in 2004.
High-Corruption-Risk Target	Binary indicator equal to one if the target firm's headquarter country has a CPI of 50 or less in 2004 (or the next year with available data).
US Jurisdiction	Binary indicator equal to one if the firm is a US-cross-listed SEC filer or operates a segment in the US.
Deal Size (bn. USD)	The size of the M&A transaction in billions of US dollars.
Divestiture	Binary indicator equal to one if the deal is a divestiture transaction.
Bankruptcy/Restructuring	Binary indicator equal to one if the deal is a bankruptcy or restructuring transaction.
Continuous Corruption Index	100 - Corruption Perception Index (CPI) of a given target country in 2004 (or the next year with available data).
Control of Corruption Index	Binary indicator equal to one if the target country has an above-median Control of Corruption (CC) index in 2004 (or the next year with available data).