The Political Economy of Anti-Bribery Enforcement*

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ABSTARCT

In this paper, we examine influence of political motives on regulatory enforcement against bribes. Using case-level data from the Securities and Exchange Commission and Department of Justice, we show that in the year leading up to elections, the probability of enforcement actions increases significantly for foreign firms, but not U.S. firms. We use exogenous variation in the timing and geographic location of U.S. Congressional elections to establish identification of our effects at the fine geographic level. Moreover, the actions appear to be related to measures of economic interest and political interest at these local levels.

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

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

There is a large literature documenting inefficiencies and distortions arising from bribing activities. Existing research shows that enforcement can be effective – from an ex-ante and ex-post perspective - within a country setting where government audits reduce corruption by enhancing political and judiciary accountability (Ferraz, and Finan 2008; Avis, Ferraz, and Finan 2018). However, it can be challenging to extend both the detection and enforcement of anti-bribery laws to extra-territorial jurisdictions against companies. For example, there are limited number of firms that Securities and Exchange Commission (SEC) and Department of Justice (DOJ) can target with the constraint on economic resources and information available to each. Moreover, it can be challenging for U.S. regulators to detect bribing activities given the lack of information on bribing activities abroad along with the need in many cases for some level of cooperation of the foreign domestic government. This may lead to discretion in anti-bribery enforcement for U.S. regulators, in terms of which cases to pursue, and when to pursue them.

As global markets become increasingly integrated – with S&P 500 firms realizing nearly 50% of their sales overseas – the need to keep a level playing field in foreign markets has become an increasingly important competitive dynamic for all firms. Realizing this, the U.S. government implemented stringent enforcement relative to other countries through the enactment of the Foreign Corrupt Practices Act of 1977 (FCPA) to bring a halt to the bribery of foreign officials and to restore public confidence in the integrity of the American business system. FCPA enforcement has generated a substantial surge in broader enforcement and became a priority for U.S. law enforcement agencies, conceivably to give confidence to U.S. firms of this level-playing field across their increasingly expansive competitive space.[1] In this paper, we provide evidence that the tool which was meant to level the playing field has been used – at least in part - for precisely the opposite purpose. Namely, that FCPA enforcement actions are correlated in geography, time, and usage with political motives, tipping the scales in ways that plausibly appear incentive-aligned along these dimensions. In particular, there are spikes in enforcement actions for firms: i.) operating in states just prior to important elections in those states; ii.) concentrated in foreign firms; and iii.) specifically at those firms that compete most intensely with domestic firms in dominant industries in the state.

Stepping back, we study the relationship between electoral politics and FCPA regulatory actions. FCPA enforcement policy is conducted in state courts, and brought by either of the US Securities and Exchange Commission (SEC) or US Department of Justice (DOJ). Our analysis in particular examines the enforcement actions initiated against publicly traded companies for foreign bribery by the DOJ and the SEC. In order to get a feel for the

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

time-series dynamics of these cases, see Figure 1. As can be seen, there has been a large rise in these actions in recent times. We explore one potential determinant of this rise, exploring the political determinants of anti-bribery enforcement. In particular, we examine US Senate elections. A nice aspect of US Senate elections is that they are staggered spatially and in time – with one third of the senate seats being up for re-election of 6-year terms every even-numbered year (outside of special election circumstances). The election timing is thus predetermined, and known in advance. Moreover, unlike presidential elections, there is substantial cross-state variation in the timing of treated states in each election cycle. This allows us to overcome the endogeneity issue and to evaluate the impact of electoral politics on enforcement actions. We exploit this exogenous variation in Senate election timing and examine whether anti-bribery enforcement can be explained by electoral concerns.

Our sample consists 8,677 publicly listed companies with subsidiaries both in the U.S. and in foreign countries from 1985-2017. To study whether political incentives influence the enforcement action of regulators, we use detailed subsidiary-level data of U.S. and foreign companies and link the location of subsidiaries to the state electoral cycles. There is strong evidence that election cycles affect regulators' enforcement actions. Our results indicate that regulators do not respond to equally to all firms, instead responding primarily to foreign firms. We find that the probability of a regulatory enforcement increases by 20% in the year leading up to an election for foreign companies. However, we do not observe that regulators target U.S. firms during the pre-election year. Together, these results suggest discretions in enforcement against foreign companies before elections.

Furthermore, we explore the potential underlying mechanism behind these empirical findings, finding evidence consistent with economic interest channel. We first show that

enforcement agencies are responsive to foreign competition and the exposure of global network in the year leading up to elections. Foreign companies have a higher probability of targeted if they compete with U.S. companies or have strong economic links with U.S. firms through supply chain networks. We further analyze the effectiveness of the Whistleblower Program on enforcement through enhanced monetary incentives and reduction in costs of identifying bribes. Therefore, the Whistleblower Program enables regulatory agencies to extend U.S. jurisdiction to companies and individuals outside of U.S. borders.

To examine the effect of constituent interest on the enforcement actions in the year leading up to elections, we focus on the state-level industry concentration to capture the interest groups. The geographical disaggregated data on constituent interests allows us to identify the political motivations behind enforcement actions. There is strong evidence that constituent interests affect the aggressiveness of regulators' enforcement actions. Regulators are more likely to reduce enforcement in industries with a large number of establishments. In addition, our results indicate that regulators respond precisely to constituent interests and target more aggressively toward firms in non-strategic industries to avoid the compliance costs associated with enforcement.

Our paper contributes to the literature on the role of political influence on the decision of regulatory agencies or legislative voting behavior (Kroszner and Strahan, 1996; Mian, Sufi, and Trebbi, 2010; Cohen and Malloy, 2014). Most paper in the political economy literature studies how connections to politicians affect banking regulation (Liu and Ngo, 2014; Kroszner and Stratmann, 1998; Kroszner and Strahan, 1999; Agarwal et al., 2014; Lambert, 2018). Few paper studies how Congressional influence on the SEC or DOJ's enforcement on corporate misconduct as well as the Federal Trade Commission (FTC)'s sanctions

(Weingast and Moran, 1983; Mehta and Zhao, 2020, and Mehta, Srinivasan, and Zhao, 2020). In this respect, we show the political variables may be considered when evaluating the impact of regulatory actions in a multinational context. By investigating the incentives of politicians, we provide empirical evidence on how political motives shape regulatory decisions and the mechanisms that lead to discretionary enforcement. Furthermore, our paper provide new evidence to support the view that the political influence over anti-bribery enforcement may have unintended consequences on the competitiveness of the U.S. economy.

Our work is related to a large literature in law and finance that documents the economic impact of corruption (e.g., see Shleifer and Vishny, 1993, 1994; Acemoglu and Verdier, 2000), and how regulatory enforcement shapes corrupt behavior (Fisman and Miguel, 2007). The economics of crime research Becker (1968) emphasizes the assumption that agents respond to the costs and benefits of committing crime, which determines the optimal amount of enforcement. Recently empirical research in this literature focused on micro-data to study the impact of anti-bribery enforcement activity on economic outcomes and resource allocation. Zeume (2016) examines changes in U.K firms' values around the passage of the U.K. Bribery Act and finds that the prospect of higher penalties decreased the firm values of U.K. firms. Karpoff, Lee, and Martin (2017) use foreign bribery-related enforcement actions initiated under the FCPA to examine firms' incentives to pay bribes and their costs. Our contribution to this literature by analyzing the anti-bribery enforcement by U.S. regulatory agencies across the universe of multinational firms. In particular, our paper provides direct empirical evidence on the political motives associated with enforcement actions and shed light on the discretionary bias against foreign companies.

I. Background of FCPA and a Case Study

A. Origins of Foreign Corruption Practices Act of 1977

As with most new laws, the FCPA did not appear out of the air – specific events and policy considerations motivated Congress to enact the FCPA. Discovery of the foreign corporate payments problem in the mid-1970s resulted from the Office of the Watergate Special Prosecutor, including investigations by the Securities and Exchange Commission (SEC). One notable case was Lockheed: the defense contractor received a $250 million government loan to avoid bankruptcy and spent over $100 million of those funds on bribes to various government officials. Brewster and Buell (2017) argue that the statute was predominately a response to a national security concern in the Cold War era in the late 1970s between the capitalist and the Soviet socialist model. Therefore, national security interests led to legislations that support a capitalist model in which large transnational corporations dominant in global markets.

In discussing how the Senate and House of Representatives influenced the anti-bribery legislation, it is important to emphasize that enforcement actions are substantially influenced by the politicians since the passage in 1977. Our main focus in the empirical analysis below is how political considerations actually affect SEC and DOJ's enforcement actions between US and foreign corporations. To further shed light on the political motives, we exploit how politicians respond to economic interests and political alignment by targeting discretionally and the economic consequences.

B. Controversial Legislations and Role Foreign Cooperation

Since the passage of the 1977 Act, there has been concerns about the adverse impact associated on American business abroad – the FCPA places U.S. businesses at a comparative

disadvantage. Specifically, security concerns that led to the passage of the FCPA did not guarantee robust enforcement of the law.

Despite the FCPA provided prosecutors with significant extraterritorial jurisdiction, the enforcement agencies were still territorially limited and international cooperation is essential to effective enforcement. The ability of a state to prosecute a foreign corporation is limited if foreign law enforcement officials are not cooperative in sharing internal corporate records. In fact, foreign governments often refused to impose civil or criminal rules against their domestic firms. American businesses faced a significant disadvantage in foreign markets as the FCPA has only been effectively be enforced against U.S. corporations.

In response to these criticisms, the Congress directed the Executive Branch actively to seek to level the playing field by encouraging trading partners to adopt similar anti-bribery policies. These efforts ultimately lead to the creation of the Organization for Economic Cooperation and Development Convention on Combating Bribery (the "OECD Convention").[2] On July 31, 1998, the Senate passed S. 2375 International Anti-Bribery and Fair Competition Act of 1998 by Unanimous Consent. The new legislation criminalizes the bribery of foreign public officials, require business accounting transparency and promote cooperation in the international investigation and enforcement of anti-bribery laws.[3] It

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

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

further calls on all parties to assert territorial jurisdiction broadly by expanding the extraterritorial scope of the FCPA through international cooperation in a wider range of cases.

C. Anecdote evidence: the Total case

To relate elections to the enforcement actions, we take a case from the oil and gas industry, United States of America v. Total, S.A., from the DOJ and SOE. Total, S.A. ("Total") was a French corporation and engaged in the business of exploring for and developing oil and gas resources around the world. Total owned a number of subsidiaries that conducted major business in Texas in the United States. On May 29, 2013, the DOJ filed a three count Information in the Eastern District of Virginia against Total alleging conspiracy to violate the anti-bribery provisions of the FCPA as well as knowing violations of internal controls provisions of the FCPA. According to the district court filings, Total entered into a Deferred Prosecution Agreement with a term of three years and seven days with the DOJ. Total accepted responsibility for the conduct alleged in the Information and agreed to pay a criminal fine of $245.2 million, to implement enhanced anti-corruption compliance policies and procedures, and to hire an independent monitor for a period of three years.

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

Chevron Corporation, one of the world's six or seven largest publicly traded oil and gas companies, is an American multinational energy corporation headquartered in California with active subsidiaries operating in more than 180 countries. Exxon Mobil Corporation is an American multinational oil and gas corporation headquartered in Texas, which is also one of the world's six largest publicly traded oil and gas companies. Both Chevron and Exxon Mobil compete with Total in many aspects of the oil, natural gas, and energy industries as indicated from the disclose financial information and FactSet Revere data.

The 2014 United States Senate election in Texas was held on November 4, 2014, and Incumbent Republican Senator John Cornyn ran for re-election to a third term and won the Senate election. The enforcement action against Total was on May 29, 2013, which precedes the Senate election in Texas. Furthermore, Total's Deferred Prosecution Agreement was also reached on May 29, 2013, around the time when major business activities took place between Total and its competitors. In 2012, ExxonMobil confirmed a deal for production and exploration activities in the Kurdistan region of Iraq according to a Wall Street Journal article on Feb. 27, 2012. In September 2013, Total and its joint venture partner agreed to buy Chevron Corporation's retail distribution business in Pakistan for an undisclosed amount.[4]

In the following analysis, we conduct empirical test to study whether the probability of enforcement is higher for a foreign firm Total relative to a U.S. company Chevron Corporation when Texas is up to an election while California is not up to an election in November 2014.

[4] According to a Reuter's report on September 17, 2013, Total and its joint venture partner have agreed to buy Chevron Corp's retail distribution business in Pakistan. TOTAL PARCO Pakistan Limited, a joint venture between Total and Pak Arab Refinery Limited (PARCO), will acquire Chevron's fuel marketing, logistics and aviation business in Pakistan. Total did not provide a value for the transaction as a spokesman for Chevron was not available for comment because the matter was private.

II. Hypothesis, Data and Summary Statistics

A. Hypothesis of Congressional Influence and Interest Groups

From a theoretical perspective, the relationship between regulatory agencies and the political system is important but ambiguous as discussed in Weingast and Morgan (1983). The tradition view of bureaucracy of agency decisions considers agencies act relatively independent of the Congress. The traditional approach predicts the failure of the Congress to oversee and control agencies. For example, the lack of timely information in relevant policy areas and the high cost of congressional investigation on policy resolutions prevent congressional influence. Under the bureaucracy assumption, the government agencies therefore have discretions in policies and exert influence policy decisions.

There are several reasons why regulators would reduce the threat of enforcement against potentially corrupt U.S. firms relative to foreign firms. First, public officials may face questions about their competency when firms under their jurisdictions are targeted and therefore reduce their incentive to investigate local firms. Second, public officials can emphasize the interests of American companies by strategically select cases to protect the competitiveness in global markets. Our case-level data allows us to examine the types of caseload and political objective of cases brought by regulators. To evaluate the congressional influence on regulators' behavior, we examine how congressional preferences influence the distribution of cases and the resolution outcomes.

Regulatory interventions reflect the incentives of politicians who therefore influence regulators. The benefits are concentrated among U.S. firms face competition in global markets, while the cost of enforcement actions is bear by foreign firms and a small group of

U.S. corporations doing business with foreign companies through the supply chain network. Politicians are more likely to accommodate interest groups before elections by targeting foreign firms, which would increase the comparative advantage of U.S. corporations in global markets. Similarly, they have less incentive to target U.S. firms relative to foreign firms as the costs associated with enforcement (e.g., sanction payments, investment opportunities) are borne by local business owners, employees. In sum, enforcements are more likely when the benefit to local interest groups is high and the economic cost to local firms is sufficiently low. In the analysis, we study how political motive can increase scrutiny for corruption activities against foreign firms relative to U.S. firms to pursue electoral goals.

B. Data Sources

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

The election data covers state-level returns for US Senate elections from MIT Election Data and Science Lab (MEDSL). This data includes the years that Senate elections were held

between from 1985 to 2017. Each senators serves six years, where the terms are staggered and approximately one-third of the seats are up for election every two years. The election data includes information on party affiliation, election outcomes and vote margins. We also investigate the competitiveness of election outcomes and the incentive in determining the election year changes in enforcement actions. Our primary measure of electoral competition is margin of victory for the incumbent in the most recent Senate elections. We also obtain party affiliation and committee assignments of senators from the dataset of Charles Stewart III and Jonathan Woon, Congressional Committee Assignments, 103rd to 115th Congresses, 1993-2017. To capture the influence of powerful politicians on the strictness of anti-bribery enforcement, we examine the importance of the Senate Committee on Banking, Housing, and Urban Affairs and Senate Committee on the Judiciary for laws related to enforcement actions.

Our firm-level dataset covers all multinational firms listed on three major U.S. financial securities markets – NYSE, NASDAQ, and AMEX, which covers both foreign and U.S. firms that are listed on major U.S. stock exchanges from Compustat North America and global data. To focus on multinational corporations with active global operations, we keep U.S. companies doing business abroad with at least one foreign subsidiary and foreign firms operate in the U.S. with at least one subsidiarity form Bureau van Dijk Orbis Database (BVD). For each U.S. multinational company, we match the state-level electoral cycles with their U.S. headquarter location. For foreign firms that are have multiple subsidiaries in the U.S., we identify their most active state operation with the largest number of subsidiaries and match with the electoral cycles. The U.S. subsidiary location of foreign firms allows us to utilize disaggregated geographic information to study the effect of variation in state-level elections

on enforcement outcome.[5] State macroeconomic data on GDP, employment, and population are sourced from the US census Bureau of Economic Analysis and US Bureau of Labor Statistics.

We further investigate the influence of economic factors associated with global competition and political alignment on the decision to target specific firms. We first examine whether FCPA enforcements focus on targeting foreign companies that compete with U.S. firms or firms with greater foreign network exposure. We construct the foreign competition and network exposure measures using FactSet Revere Data, which captures global economic linkages based on supply-chain relationships. Regulation SFAS No. 14 and 131 requires firms to report information on operating segments in interim financial reports issued to shareholders. Specifically, firms need to disclose financial information on any industry segment that constitutes more than 10% of consolidated yearly sales, asset, or profits and hence identify major customer representing more than 10% of the firms' total reported sales. [6] Furthermore, by disaggregating the types of global supply-chain relationships, we study the heterogeneous effects associated with anti-bribery enforcement actions and their global networks.

Finally, to study the role of political alignment we obtain voting information across countries from the United Nations General Assembly votes from 40th session (1985-1986) to 72nd session (2017-2018). The Indexes to Proceedings is consist of a comprehensive subject

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

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

index to all the documents (reports, letters, meeting records, meeting dates, resolutions, voting charts, lists of resolutions adopted, etc.) during a particular session and year. The voting information is available for the United Nations member states and have equal representation in the UN General Assembly.[7]

C. Stylized Facts

Figure 1 shows the number of enforcement actions against foreign firms over years – the blue and red bars plot the number of enforcement actions against U.S. and foreign firms respectively. Prior to the OECD Convention initiated in 1998, the regulatory agencies mainly target U.S. companies doing businesses abroad. The increasing number of foreign enforcements after the OECD Convention provides a preliminary evidence that the SEC and DOJ frequently initiate foreign bribery-related enforcement actions since 1997. In our analysis, we study the role of politics on anti-bribery enforcement actions and the differences between in the pre-election period and the post-election period.

Figure 2 plots the number of anti-bribery enforcement actions around the nearest election date in US states where firms are headquartered or main business is located from 1978 to 2017. The lighter bars show the number of enforcements in twelve-month increments leading up to a Senate election, and the darker bars indicate the number of cases after a Senate election. Panel A shows the number of enforcement actions against US companies and there is insignificant change in the twelve months leading up to a Senate election than in the months after. Panel B presents the number of enforcement actions over the electoral cycle against foreign companies, which shows a striking difference between the

[7] According to the United Nations General Assembly votes, we have 158 member states voting recording among 152 resolutions for the 40th session and 193 member states voting recording among 95 resolutions for the 72nd session.

number of enforcements before and after the election. In the years leading up to an election, the number of enforcements increases from the six months (regulators filed 49 cases) to three months prior to the election (101 cases). The difference is statistically significant at the 1 percent level. In the twelve months after elections, the number of enforcement actions drops to an average of 43 cases. The raw number of cases indicates that regulators are about 135% more frequent to target foreign companies in the three months before an election relative to the twelve months after.

Panel A of Table 1 presents our case-level analysis by presenting the number of enforcement cases and firms were subject to enforcements in each country in 1985-2017. First, regulatory enforcement actions against bribery is prevalent in both developed and developing countries. The enforcement cations against U.S. companies represent close to 58% of all cases and is consistent with the intended purpose of FCPA regulations. We further analyze the distribution of enforcement actions across countries with different levels of corruption. The Corruption Perceptions Index is obtained from the Transparency International from 1998 to 2017. The index is calculated using different data sources from different institutions that capture perceptions of corruption with a focus on the public sector. Since 2012, the index has a scale of 0-100 where a 0 indicates the highest level of perceived corruption and 100 indicates the lowest level of perceived corruption. It has a scale of 0-10 prior to 2012, and we standardize the scores to a scale 0-10. Surprisingly, foreign multinationals with headquarters in low corruption countries (with low index scores) were frequently subject to anti-bribery enforcement. In 138 out of 181 (76%) of cases the regulators impose actions against foreign companies in countries with less corruption where corruption index exceeds the sample average 7.037. In fact, 34% of enforcement actions involves companies headquartered in least corrupt countries that are ranked top 10 in

Corruption Perceptions Index as of 2017, including Denmark, Norway, Switzerland, Singapore, Sweden, Canada, Netherlands, and UK. Contrary to common intuition, the high percentage of cases from less corrupt countries indicates that enforcement actions do not simply reflect corporate misconducts and the lack of governance.

Panel B of Table 1 reports the top ten industries in the number of anti-bribery cases. Firms in manufacturing and mining industries are more likely to be targeted, which represents 70% of total cases. Finance, professional services, and information industries experience substantial increases in enforcement given the global integration of service sectors. Similar to the country-level patterns, industries that are more exposed to enforcement do not necessary perceived to be corrupt. For example, firms operate in manufacturing and mining industries have better governance and headquarter in countries with a low level of perceived corruption. These firms have an average of 7.412 index scores, which is greater than the whole sample average value of 7.211 and the difference is statistically significant.

Table 2 reports summary statistics for our sample of US firms and foreign firms. The dependent variable in our analysis is the fraction of firm-year observations that is subject to anti-bribery enforcement. Given Senate elections are staggered and approximately one-third of the seats are up for election every two years, our sample average of *Pre-election* indicates that 35 percent of the firm-year observations are headquartered in states up for elections. The advantageous aspect of setting is that Senate elections occur, in large part, in different states and years. Our competition and foreign network exposure captures the ratio of foreign supplier chain relationships (including suppliers, customers, or competitors) to the total number of network linkages. [8] Our measure of political alignment is the fraction of UN

[8] Besides the intensive margin, our results are robust to the extensive margin of network, whether a firm has any foreign suppliers, customers, or competitors.

General Assembly votes when US and other countries' votes coincided in which both countries voting either yes or no. Following Faye and Niehaus (2012), if any country is absent, abstained, or was not a member of the UN, the vote is not counted. The political alignment measure is calculated for each of the session from 40th session (1985-1986) to 72nd session (2017-2018).

III. Empirical Results

A. Methodology

In this section, we first test the hypothesis of congressional influence over the DOJ and SEC's enforcements actions. We use a difference-in-difference estimator to compare the enforcement outcome in treated states and control states. Specifically, we compare the probability of enforcement in states with an upcoming Senate election (the treatment group) with the probability of enforcement in states without an upcoming election (the control group).

The advantage of our identification is that Senate elections, unlike presidential elections, occur in different states and years. Therefore, election in each state can be considered as independent testing samples for the effect of political incentives on enforcement actions. The substantial across-state variations allow us to exploit the exogenous in the timing of senate elections and the political incentives associated with enforcement actions. Moreover, the FCPA enforcement can be discretionary on the timing of targeting given the substantial gap between the year when corruption activities occurred and enforcement action took place. The delays in enforcement further raise the question whether electoral politics affects the behavior of regulatory agencies by choosing to target some firms

but not others. Figure 3 depicts the time lag between bribery activities and enforcement actions with an average of over eight years. Only 5% of enforcement actions (26 cases) against U.S. firms occurred within five years after the initial bribery, while for foreign companies merely 1% of enforcement actions (7 cases) occurred within five years. The delay in enforcement alleviates the concern that elections drive changes in firm performance, which would lead to changes in corruption activities.

We estimate the following model:

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

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

To address the concern that elections can be correlated with state-level unobserved characteristics and time-invariant attributes, we include a series of fixed effects (e.g., country fixed effect, state fixed effect, firm fixed effect). $\theta_c, \theta_s, \theta_i, \theta_t$ represent country fixed effect, state fixed effect, firm fixed effect, and year fixed effect to control for unobserved, time-varying differences across headquarter countries, states and firms. Another potential issue is that the time trend associated with elections year may leads to differences in enforcement actions. We include a set of time-varying factors, year fixed effect, country * year, state * year,

and firm * year as we do not assume treated and control groups to have the same average outcome. The unit of observation in these regressions is the firm-state-country year. All standard errors are clustered at the firm level to account for any correlations that could affect a firm in a given year.

In the following analysis, we estimate the pre-election effect δ_1 and compare the differences in anti-bribery enforcement between the subsample of U.S. and foreign companies. Our key identification assumption in Equation (1) is that treated and control firms share parallel trends in the absence of Senate elections, conditioning on firm and state-level covariates as well as on multi-dimensional fixed effects. The balanced treatment and control groups make the parallel trend assumption plausible, which gives the causal inference of elections on enforcements. The multiple treatment events across time and states with 575 separate Senate elections on 50 states over 32 years. This research design mitigates the concern about the validity of parallel trend assumption as the estimator δ_1 captures the average treatment effect across different years in different states for the sample of U.S. and foreign companies. The effect of election on regulatory enforcement in unlikely to be driven by the economic performance of foreign companies as they are more exposed to home-county policies. Nevertheless, we provide further evidence on the validity of parallel trend assumptions and conduct placebo tests on election cycles.

B. Baseline Results

We test the hypothesis that politicians influence anti-bribery enforcement in the year leading up to elections. Table 3 presents the linear probability regression estimates of the effect of senate election cycles on anti-bribery enforcements. Columns 1 to 3 presents results

with *Target* as the dependent variable, which captures the likelihood of enforcement for U.S. and foreign firms. We include country, states, industry and year fixed effects in column 1. The second regression (columns 2) adds firm-level controls (size, leverage, cash ratio, ROA, sales growth) and state-level variables (e.g., logarithm of GDP, employment rate, and logarithm of population). $PreElection$ has an insignificant effect on the probability of enforcement in the year leading up to senate elections. In columns 4-6 similar to the overall sample results, we find that electoral cycle does not have explanatory power for enforcement actions of U.S. companies.

We focus on the probability of enforcement against foreign companies in columns 7-9, where *Target Foreign* equals one if there is a regulatory enforcement on foreign firm *i* in year *t*, and equals zero otherwise. The coefficient on $PreElection$ is positive and is statistically significant at the 1 percent level in all specification of fixed effects and controls. Foreign firms experience increases in the probability of enforcement if their major subsidiaries are located in states leading up to an election. This suggests that political motives matters – regulatory agencies have incentive to target foreign companies in particular one year before the elections even controlling for time-varying firm and provincial characteristics. The magnitude of the effect is economically significant: the coefficient on *PreElection* is 0.0014 in column 8, which implies that the probability of a regulatory enforcement increases by 23% in the year leading up to an election (0.0014/0.006) for foreign companies. The differences in enforcement likelihood between U.S. and foreign firms indicate that politicians and regulators discretionally choosing to target foreign companies but not U.S. companies for political purposes.

The inclusion of firm- and state-level controls does not change the results, which suggests that elections are unlikely to be correlated with firm and state characteristics. Firm controls become insignificant after controlling for firm fixed effects, which have little explanatory power on the probability of regulatory enforcements. The results suggest that there is no discernible relationship between regulatory enforcement and firm size, ROA and sales growth. This implies that firm characteristics could not explain the enforcement patterns over the electoral cycles. The next section provides robustness checks of our main findings.

C. Congressional Influence

We further explore the political motive by focusing on the presence of a powerful committee chair. A congressman's accession to a powerful committee chair increase its political influence over the enforcement agencies that is virtually independent of the state's economic conditions. Specifically, we investigate the heterogeneous effect of the accession to a powerful committee chair in states with upcoming Senate elections.

The list of the top 10 most powerful Senate committees is from Edwards and Stewart (2006) and Cohen, Coval, and Malloy (2011), which includes Finance, Veterans Affairs, Appropriations, Rules, Armed Services, Foreign Relations, Intelligence, Judiciary, Budget, and Commerce. Seniority shocks begin in the year of appointment and are applied for 6 years. Table 4 reports the results of regressions that seeks to explain variation in the probability of enforcement with Senate elections and changes in congressional committee chairmanships. In columns 3 and 5, the analysis reveals a positive relationship between seniority shocks and the likelihood of enforcement only against foreign companies but not U.S. firms. Foreign companies with operations in state whose senator is appointed chair of one of the ten most powerful committees experience a 23-28 percent increase in the probability of enforcement.

In columns 2, 4, and 6, we also construct an alternative shock associated with the congressional influence. The senior committee captures the ranking minority members, who are the most senior committee members who is a member of the party not currently in control of the house of Congress. As we broaden the set of powerful committees, the political incentive gets stronger – the probability of foreign firms being targeted increases by roughly 42 percent if they are operated in states having its senators appointed to the senior committee and prior to Senate elections. In contrast, the coefficient in column 4 implies that U.S. companies experience a 26 percent reduction in the likelihood of being targeted in the year leading up to elections. Despite the extent that the senior committee members are less powerful than chair committees, their appointment substantially influence the behavior of enforcement agencies especially leading up to elections.

D. Corroborating Evidence

We further test the institutional differences across countries on the intensity of enforcement. Table 5 reports the regression that includes the same set of economic controls as in Table 3. To capture the direct effect of corruption on the probability of enforcement, we measure corruption perception as 10 minus the Corruption Perceptions Index. Columns 1, 3, and 5 control for the country-level corruption perception. The corruption perception has positive and statistically significant coefficient at the 1 percent level, which suggests that enforcement actions are more likely for firms headquartered in countries with a high level of perceived corruption. The coefficient on corruption index remain robust in the subsample of U.S. and foreign firms. Columns 2, 4, and 6 further control for pre-election dummy, and positive estimate on pre-election in column 6 indicates that the probability of enforcement against foreign companies increases in the year leading up to elections even when the country-

level corruption is controlled for. The interpretation of these results is that political motive are relevant for regulatory agencies and the country-level perception of corruption can not explain the discretion in enforcement around elections. This does not imply that firm fraudulent behavior has no effect on regulatory agencies' enforcement actions. The probability of enforcement is still larger for firms headquartered in countries with a higher level of corruption.

U.S. and Foreign Companies with Similar Global Exposure

Another challenge is to separate the enforcement actions through firms' global networks from common country and regional effects in which a firm is operating. In most specifications shown previously, we control for country fixed effects to filter out confounding effects due to common regional shocks. To further account for differential geographic exposure in foreign markets between U.S. and foreign companies, we focus on multinational firms that operate in similar foreign markets and thus vulnerable to corruption. For each U.S. firms, we match their foreign subsidiaries with the subsidiaries of foreign companies that operate in the same industry and location with the closest number of subsidiaries. Effectively, our analysis compares subsidiaries in the same foreign country and 4 digit SIC code industry that belongs to parents firms cater to similar foreign market segments. Table 6 shows that matching U.S. and foreign firms with similar geographic exposure has little effect on our results. In fact, the economic magnitude is even larger and statistically significant. For instance, the coefficient on pre-election in column 6 indicates that the probability of enforcement increases by 33 percent relative to the average probability of targeting foreign firm of 3.13%. This result suggests that firms operate in similar foreign

markets are more vulnerable to DOJ and SEC's enforcement actions given the potential competition effect.

We further conduct placebo tests on Senate election dates to investigate whether unobservable state-level characteristics can explain the enforcement patterns. The results are shown in Appendix Table A1. We randomly assign Senate elections with corresponding probability equals 1/3. This reflects the U.S. Senate election term: Senators serve terms of six years each and the terms are staggered so that approximately one-third of the seats are up for election every two years. The predicted probabilities are insignificant for both U.S. and foreign companies. It provides supporting evidence that treated and control firms exhibit similar trends after elections. Overall, these tests indicate that the impact of electoral politics on enforcements is concentrated in the pre-election period but not present in nonelection years.

IV. What Explains the Enforcement?

A. Competition with Foreign Companies

To strengthen our analysis on the determinant of enforcement on foreign relative to U.S. companies, we examine the sensitivity of enforcement actions to global networks among suppliers, customers, or competitors. We use FactSet Revere data to identify the relationships between suppliers, customers, or competitors. Different from the Compustat segment data, Revere covers global companies and identifies their comprehensive geographic revenue exposures from April 2003. In the following analysis, we test whether enforcement actions are sensitive to network exposures around election cycles. Given the interdependence among suppliers, customers, and competitors, the probability of investigation would not only depend

on regions in which a firm is operating but also its business networks in those regions. In particular, we focus on enforcement actions on foreign firms that compete with US firms, which would constitute a threat to the local firms and their competitive advantage.

Figure 3 illustrates an example of global supply-chain network used in the analysis of foreign versus domestic interests. In this figure, Chevron Corporation and Total S.A. operate in the same industry, where Chevron Corporation is a US company with headquarter located in California and Total S.A. is a French company with major operations located in Texas. Chevron Corporation has Toyota Electric Power Co. Holdings Inc. (a Japanese Company with major operations in California) and BP (a British company with major operations in Texas) in its production networks, which include suppliers, customer, or competitors. Total S.A. has ExxonMobil (a US Company headquartered in Texas) and Telsa (a US company headquartered in California) in its production networks.

In this section, we empirically investigate whether foreign competition have explanatory power for enforcement actions in the year leading up to elections. To examine the sensitivity of enforcement actions to the extent of foreign competition, we estimate Equation (2) as:

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

We define $Foreign\ Competitor_{dist}$ at the firm level as the fraction of company $j \neq i$ headquartered in other countries $d \neq c$ that compete with company i within its production network. FactSet Revere data identifies the relationships between suppliers, customers, or competitors. Regulation SFAS No. 14 and 131 requires firms to report information on

operating segments in interim financial reports issued to shareholders. Specifically, firms need to disclose financial information on any industry segment that constitutes more than 10% of consolidated yearly sales, asset, or profits and hence identify major customer representing more than 10% of the firms' total reported sales. [9] The disaggregated data on global production chains allows us to link anti-bribery enforcement actions to their global competitions.

In this specification, we exploit the time variation in the foreign competition on enforcement across election cycles. This approach controls for self-selection of firms in foreign businesses and the likelihood of being targeted, as well as any fixed firm-specific unobservables. Table 7 shows the effect of foreign competition on the probability of enforcement in the year leading up to elections. In all regressions, we control for year, country, state, industry, and firm fixed effects to isolate confounding effects due to common regional trends. In columns (1)-(2) for the overall sample of firms and U.S. firms, the effect of elections on the probability of enforcement is statistically insignificant.

However, for the sample of foreign companies, both the coefficient on the pre-election and its interaction with foreign competitor become positive and statistically significant at the 5% level as shown in column (6). This implies that enforcement agencies are responsive to competition from foreign countries and the effect is pronounced in the year leading up to elections. The point estimates implies that going from the 25th percentile to the 75th percentile of the sample distribution of the share of foreign competitors (i.e., from

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

0 to 0.167) magnifies the positive effect of pre-election on enforcement by 0.2 percentage points or 24%. Expansion of networks overseas is costly for foreign firms as it increases the probability of investigations given U.S. enforcement authorities' expansive interpretation of FCPA "territorial" jurisdiction.[10] Columns (7) and (8) show distinct effects when separating foreign competitors into U.S. and non-U.S. competitors. The positive estimate on the interaction terms indicates that competition with U.S. firms strengthens of positive effect of elections. A one-standard deviation increase in the fraction of U.S. competition (i.e., 0.094) increases the effect of elections by close to 0.003 percentage points or 40%. However, there is almost no response in the probability of targeting foreign firms if they compete with non-U.S. companies. The insignificant estimate shown in column (8) indicates that the exposure to non-U.S. competitors matters to a lesser extent – enforcement agencies have less incentive to target as they do not represent relevant interest groups.

Our analysis suggest that firms' exposure to competition may differentially affect enforcement actions for U.S. and foreign companies. In Figure 4, both Chevron Corporation and Total S.A. have suppliers and customers globally in the oil and natural gas industry (Chevron is connected with Toyota Electric Power Co. Holdings Inc. and BP, and Total S.A. is connected with ExxonMobil and Telsa). The asymmetric enforcement response to U.S. and foreign companies and the types of firms they compete with suggest that politicians favor the interests of their supporters within their constituency (e.g., US corporations headquartered in states leading up to elections).

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

We further access the whether the presence of global network affects the likelihood of anti-bribery enforcement and its implications on U.S. relative to foreign companies. Table 8 presents the results for the US companies in columns (3)-(4), and foreign companies in columns (5)-(6). We interact pre-election with foreign network, which captures the share of a company's supply-chain networks located in other countries. The insignificant results on the interaction terms in columns (3)-(4) indicate that U.S. companies do not experience increases in enforcement even if a substantial share of their suppliers or customers are foreign. In contrast, foreign companies face a higher probability of enforcement if they have strong economic links with U.S. firms as suppliers or customers as shown in columns (5) and (6). These results imply that enforcement agencies are responsive to country and firm-specific information contained in supply-chain networks.

B. The Whistleblower Program: Public and Private Enforcement

Despite the incentives associated with corruption activities, how to effectively detect bribes remains a challenge to regulators. Besides the political incentives involved in enforcement, the costs of identifying and gathering bribe-related information become crucial. With the financial integration and formation of linkages along the production network, non-traditional actors, competitors, suppliers, or customers, are in a better position to identify corruption activities. Which actors blow the whistle and bring corruption activities to light?

To answer this question, we study the U.S. Securities and Exchange Commission (SEC) whistleblower program went into effect on July 21, 2010, which established a whistleblower incentive program to incentivize reporting of violations of the Commodity Exchange Act. The SEC Whistleblower Program rewards people who submit tips related to violations of the federal securities law and whistleblowers are entitled to awards ranging from 10 to 30

percent of the monetary sanctions collected exceeding $1 million. Since 2011, the SEC has awarded more than $500 million to whistleblowers and whistleblower tips have enabled the SEC to recover over $2 billion in financial penalties from wrongdoers. The program also offers substantial protection against retaliation as under the rules of the SEC Whistleblower Program, whistleblowers have the ability to report anonymously if represented by an attorney.

At the meantime, over $30 million has been paid to non-U.S. citizens who reported bribes paid overseas, among other crimes, through no cost to taxpayers and exclusively from fines collected from the prosecuted parties. From 2011 thru 2018, 3,305 whistleblowers from 119 countries have filed claims under the Foreign Corrupt Practices Act whistleblower reward provision. Over $30 million has been paid to non-U.S. citizens who reported bribes paid overseas. According to reports released by the SEC Office of the Whistleblower, approximately 15% of whistleblower tips received by the SEC lead to some form of investigation. Furthermore, the DOJ has an intervention rate of nearly 25% in qui tam False Claims Act cases that are filed by whistleblowers. Examples of non-U.S. companies sanctioned under the FCPA include Zimmer Biomet in January 2017 paid about $30 million to settle the SEC and Justice Department probes and SEC Issues $4.5 Million Whistleblower Award as the company's client notified the SEC about an alleged kickback scheme in Brazil.[11]

To shed light on the monetary incentives stemming from the production network, we analyze the effect of the Whistleblower Program on the probability of targeting U.S. relative to foreign companies in Table 9. The positive coefficient on the interaction term suggests

[11] In fiscal year 2017, the U.S. government recovered over $3.7 billion through its civil fraud program, and whistleblowers contributed to the detection and reporting of over $3.4 billion (92%). As a result of their information, whistleblowers were awarded $392 million (11.5%) and whistleblower tips are by far the most used detection method for U.S. agencies.

that among foreign companies after the program as shown in column (6), those with greater foreign network exposure face higher probability of being targeted. The point estimates implies that going from the 25th percentile to the 75th percentile of the sample distribution of the share of foreign network (i.e., from 0 to 0.5) increases the positive effect of pre-election on enforcement by 0.3 percentage points or 42%. Foreign firms' global network increases the probability of enforcement as the monetary incentives and lower costs of whistleblowing by suppliers or customers. Our results are consistent with Dyck, Morse, and Zingales (2010) that monetary incentives help to explain the prevalence of whistblowing on corporate fraud. In the context of multinational anti-bribery enforcement, the Whistleblower Program is particularly powerful because it extends U.S. jurisdiction to companies and individuals outside of U.S. borders.

C. Local interests and Enforcement Actions

A novel channel associate with anti-bribery investigation is that it allows regulators to target a specific group and influence the political process. There are important distinctions between this channel and the traditional political activities through lobbying and campaign contributions –enforcement agencies can target foreign or U.S. firms in specific industries. In contrast, campaign contributions are subject to limits and are less effective in targeting voters precisely (e.g., television advertisements coverage extend beyond interest groups). Having shown the importance of constituent interests, we now study the precision of enforcement in targeting interest groups.

Specifically, we study the extent to which electoral considerations can influence the likelihood of enforcement at the local level. Specifically, we examine whether regulatory enforcement is sensitive to constituent interests. We focus primarily on constituent interests

using local concentration, the fraction of establishments operate in industry *j* in state *s*, which captures the extensive margin with the number of firms.[12] In the analysis, we interact the election cycles with the predetermined industry structure.

Table 10 presents the linear probability regression estimates of the effect of local industry concentration on anti-bribery enforcement. In particular, we estimate the difference-in-differences between election year effects for more or less concentrated industries. We include the state-level control and fixed effects as in the baseline regression. In column 1, the interaction term between pre-election dummy and local industry concentration is negative and statistically significant at the 1 percent level. This implies that regulators are more likely to reduce enforcement in states and industries with large number of establishments. In Columns 2-4, we include industry and firm fixed effects, the magnitude of the coefficient is almost identical across all specifications. The interpretation is that politicians and regulators would weight heavily on the electoral prospects by decrease the likelihood of enforcement, which can place U.S. businesses at a competitive disadvantage.

In columns 5-8, we conduct a similar test with the probability of foreign firms targeted as the dependent variable. The coefficient estimate on the interaction term of pre-election and concentration of local firms is negative and significant. This implies that regulators have less incentive to target foreign firms if they operate in the same industry as the locally concentrated industry *j* measured by the number of establishments. The lower probability suggests that investigations of foreign firms involve substantial costs that are borne by local businesses, especially when foreign and U.S. firms are connected. Therefore, regulators have

[12] The extensive margin analysis provide a conservative estimate of the effect of constituent interests on enforcement. Alternatively, we can measure constituent interests using an intensive margin to account for sales for each firms.

less incentive to investigate in the year leading up to elections to avoid the political costs associated with the possible threat to local firms. In addition, given the local concentration of industry is unlikely to change dramatically prior to elections, these results mitigate the concern that reduction in the enforcement is driven by contemporaneous changes in industry performance. Hence, given a large size of interest groups and the potential costs associated enforcement, the results indicate that regulators respond less aggressively to their constituencies.

Discussions

Investigations

Previous findings in this paper focus on resolutions associated with the anti-bribery enforcement. Prior to enforcement actions, DOJ and SEC first monitor potential corruption activities and many cases that grow into anti-bribery investigations, which are subsequently resolved through guilty pleas or non-prosecution agreements. It is possible that the higher likelihood of enforcement on foreign firms reflects that these firms will be subjects to bribery investigations. An alternative explanation is that the political motives do not affect enforcement outcomes, possibly because foreign firms face a higher likelihood of investigated from alleged bribery cases.

To investigate this alternative explanation, we compare the probability of investigations between U.S. and foreign firms using data from 390 investigation announcements from 1985-2019. The estimates reported in Table 11, however, do not support the differences in the probability of investigated in all specifications. Specifically, the point estimates indicate that foreign companies have a higher likelihood of being investigated

than U.S. firms in years leading up to elections. These findings are inconsistent with the argument that foreign firms are subject to more investigations given their greater chance of paying bribes. If anything, the regulatory agencies do not have discretion in investigations over U.S. and foreign firms.

V. Conclusion

This paper exploits the political motivations associated with the anti-bribery enforcement actions. Using case-level data from the DOJ and SEC and the subsidiary data of global firms, we provide empirical evidence on how election cycles influence regulators' incentive to target firms. In the year leading up to elections, the probability of enforcement increases for foreign firms but not U.S. firms.

We document the specific role of constituent interests and political alignment on the aggressiveness of enforcement. Our evidence indicates that constituent interests strongly influence regulators' enforcement decisions: firms located in states with concentrated industries are less likely to be targeted. Specifically, regulators are remarkably precise in in responding to constituent interests, and they have less incentive to investigate their supporters within electorate from strategic sectors. In addition, we demonstrate the important role of political alignment between U.S. and a country, where regulators respond less aggressively towards firms in headquartered in politically aligned administrations. Our research provides a first step to understand the role of political economy in regulatory enforcement against corruption. The enforcement actions would shape the competitiveness of U.S. and foreign companies doing business aboard.

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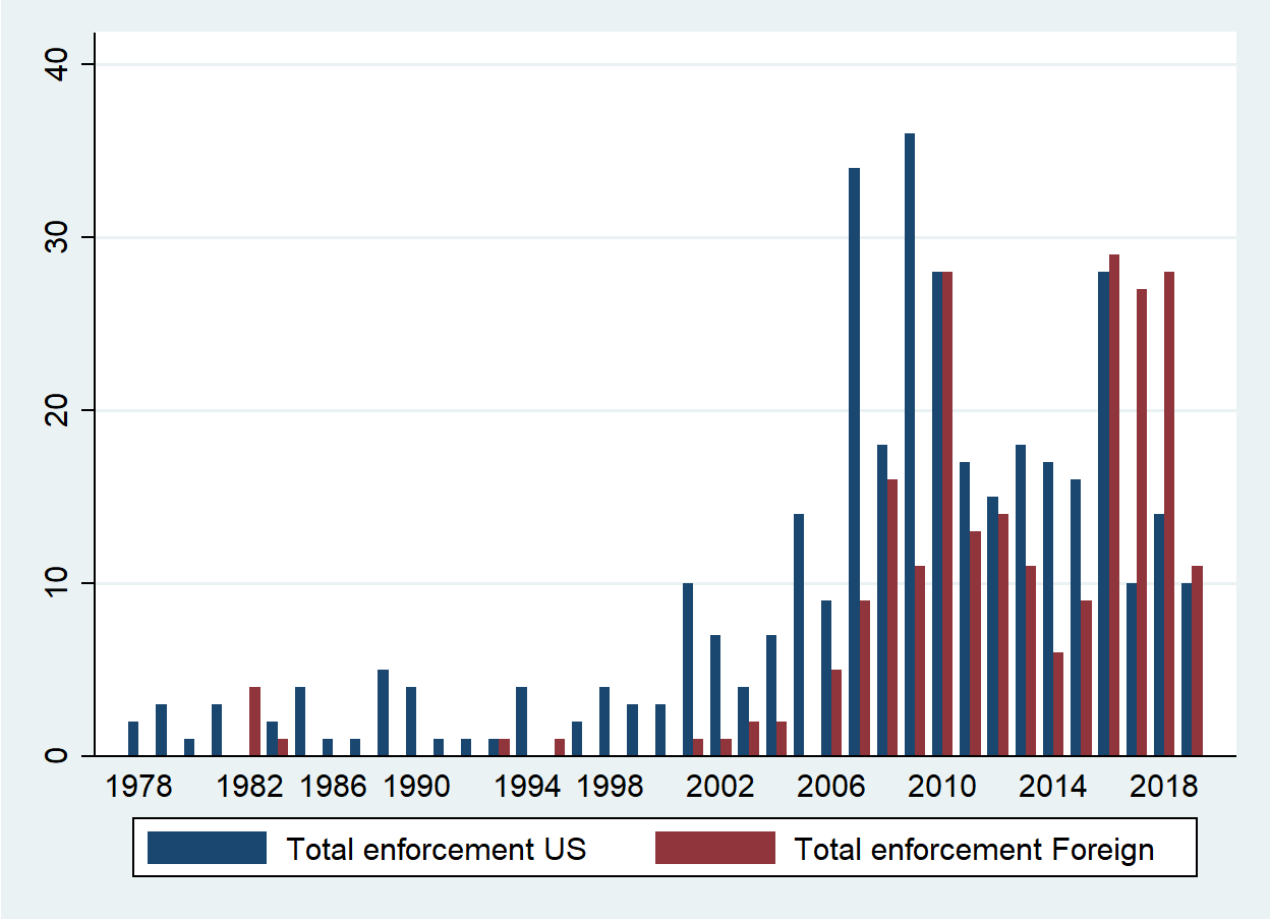
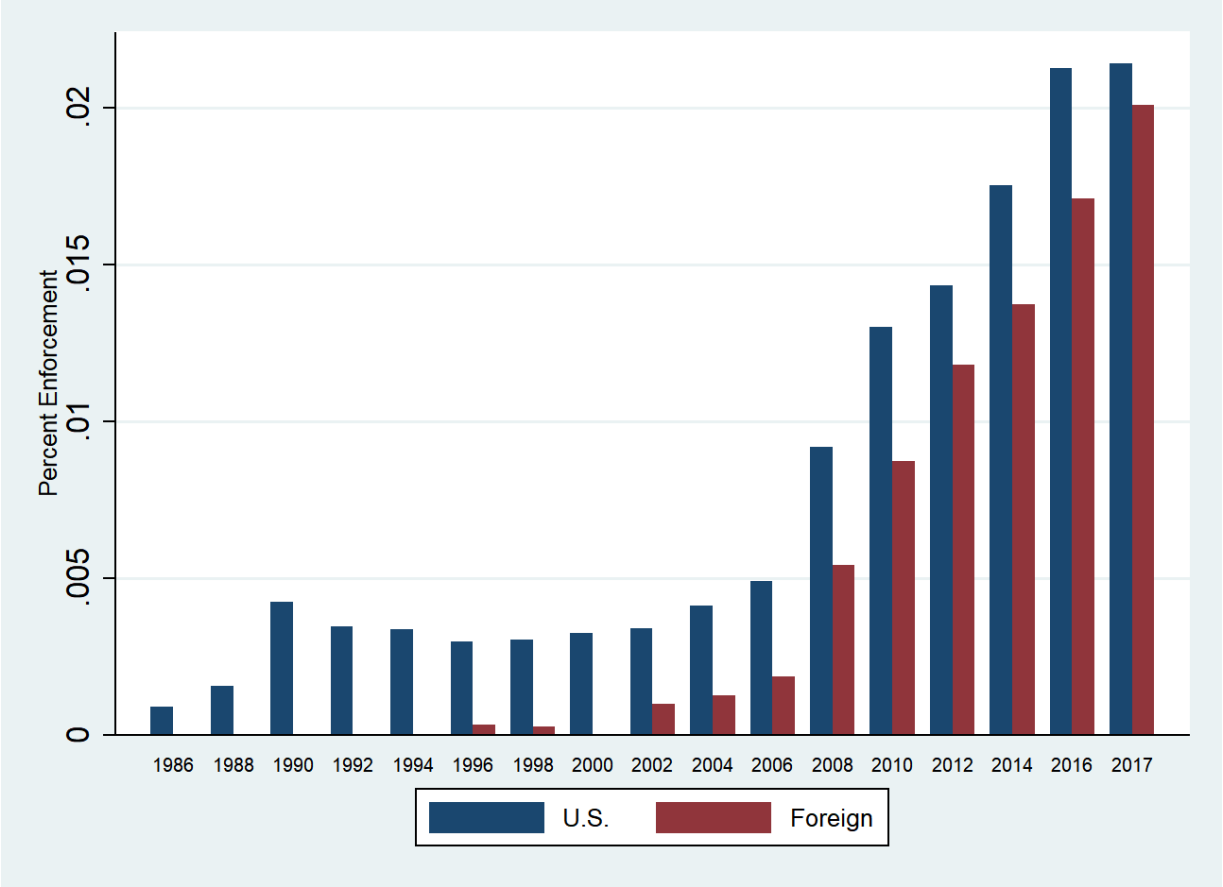
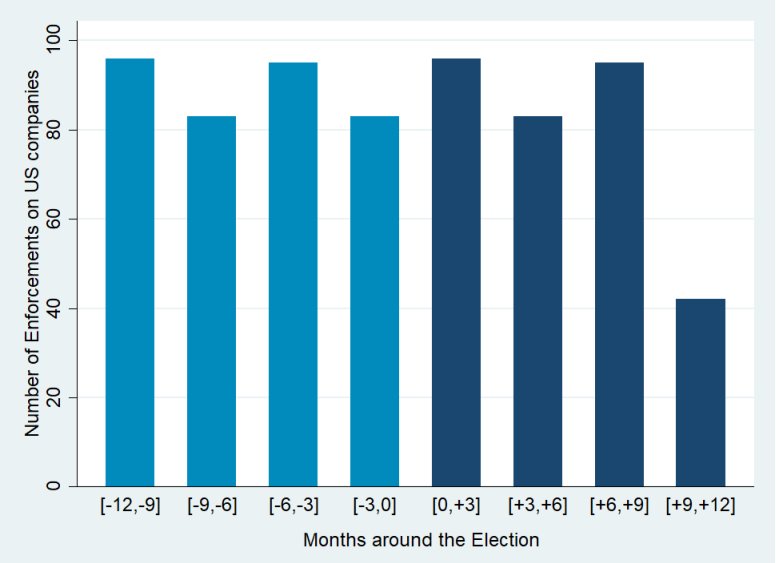


Figure 1. Number of anti-bribery enforcement cases. This figure shows the number of anti-bribery enforcement actions initiated by both the U.S. Department of Justice (DOJ) and Securities and Exchange Commission (SEC) in each year between 1978 and 2017.


Percent Enforcement
0
.005
.01
.015
.02
1986
1988
1990
1992
1994
1996
1998
2000
2002
2004
2006
2008
2010
2012
2014
2016
2017
U.S.
Foreign

Panel A: Enforcement on US companies



Panel B: Enforcement on foreign companies

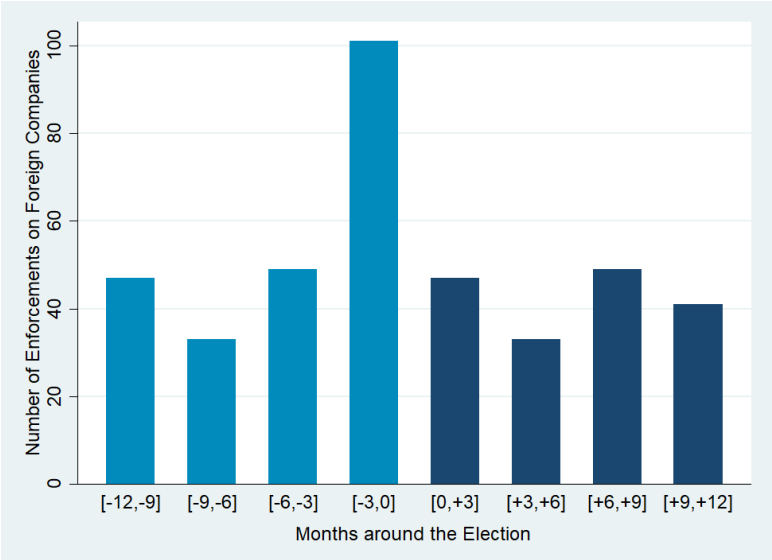
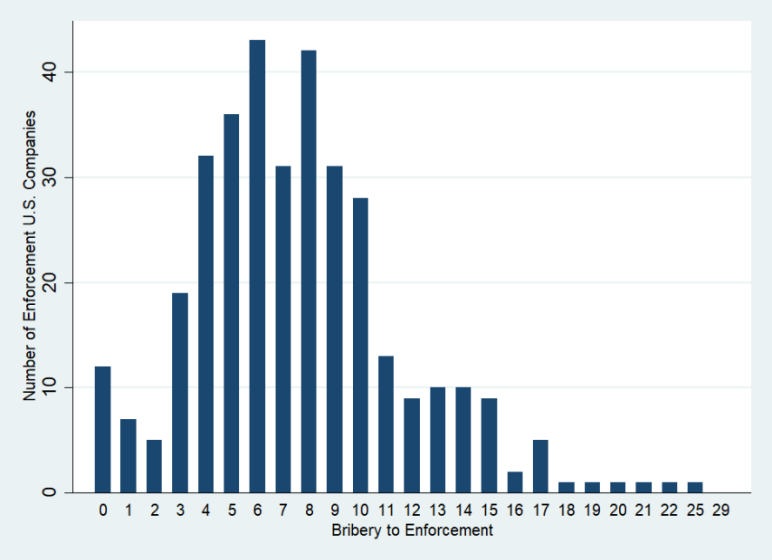


Figure 2: Electoral cycle and anti-bribery enforcements. These figures plot the number of anti-bribery enforcement actions around the nearest election date in US states where firms are headquartered or main business is located from 1978 to 2017. Panel A shows the number of enforcement actions against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

Panel A: The Duration of Bribery to Enforcement for US companies



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

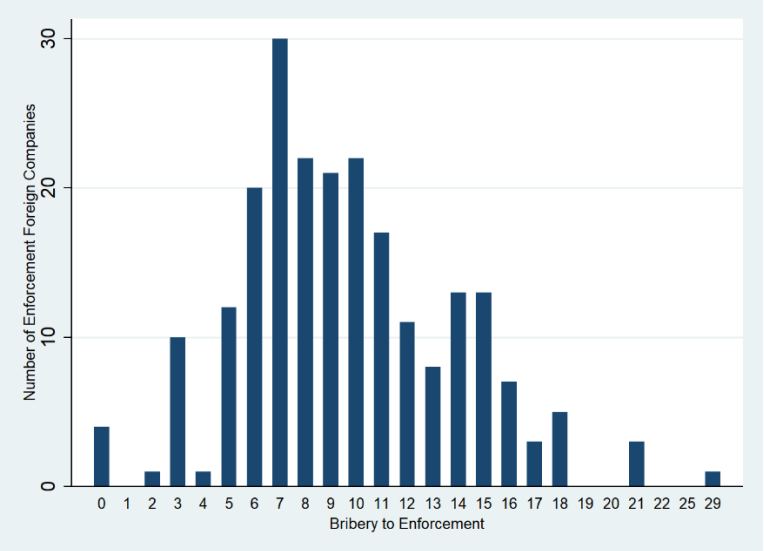


Figure 3: The time lag between bribery actions and anti-bribery enforcements. These graphs plot the number of anti-bribery enforcement and the number of years between bribery actions initially occurred and enforcement actions. Panel A shows the number of enforcement actions against US companies and Panel B presents the number of enforcement cations against foreign companies.

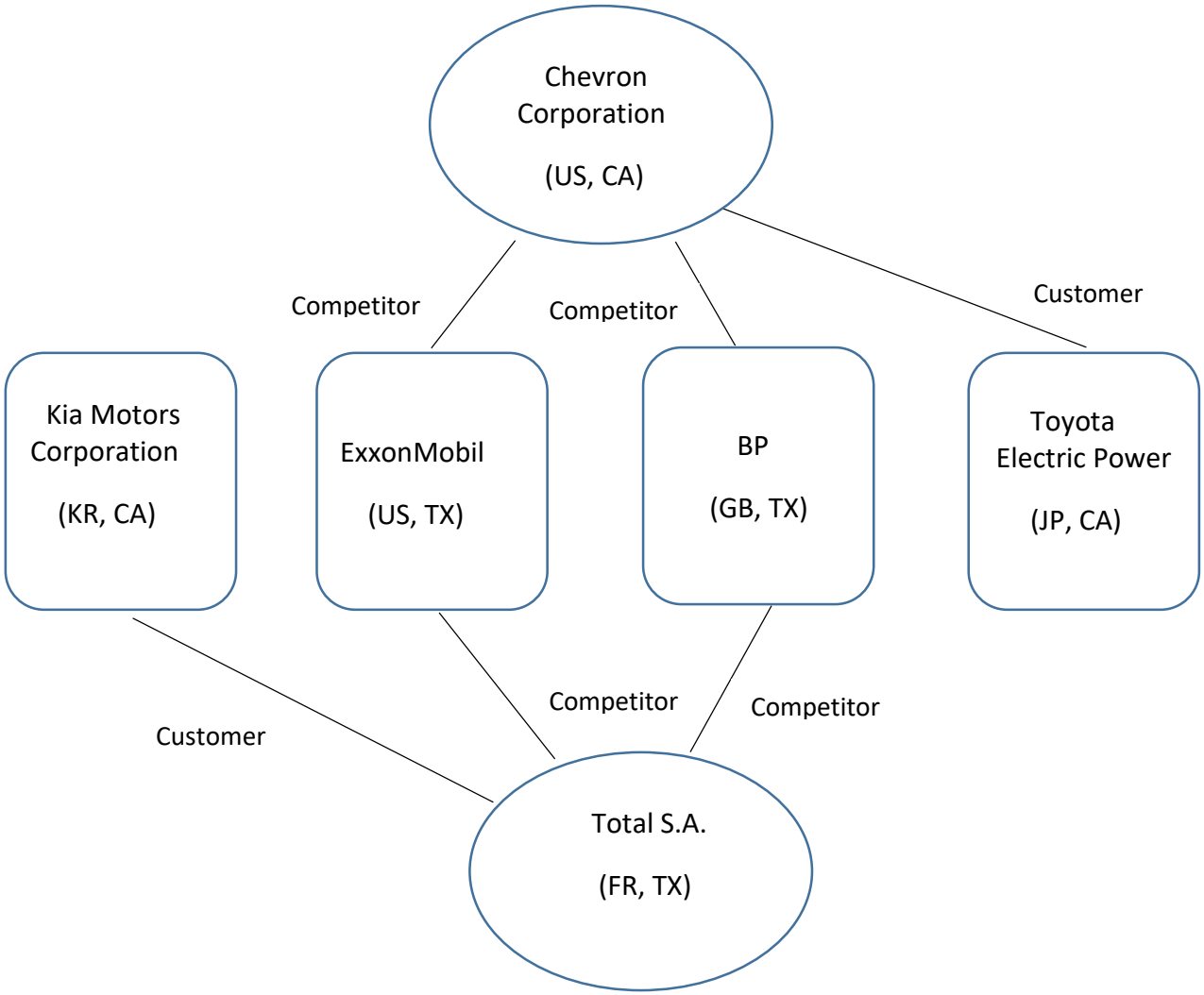


Figure 4. Global Networks. This figure illustrates the global supply-chain networks used in the analysis of foreign versus domestic interests. In this figure, Chevron Corporation and Total S.A. operate in the same industry, where Chevron Corporation is a US company with headquarter located in California and Total S.A. is a French company with major operations located in Texas. Chevron Corporation has Toyota Electric Power Co. Holdings Inc. (a Japanese Company with major operations in California) as its customer and BP as its competitors (a British company with major operations in Texas) within its production networks. Total S.A. has Kia Motors Corporation (a Korean company headquartered in California) as its customer and ExxonMobil as its competitors (a US Company headquartered in Texas).

Table 1
Enforcements by Countries and Industries

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

Panel A: Enforcement by Target Industry

Country	Total number of cases	Total number of firms	Corruption Perceptions
United States	254	126	2.529
France	21	7	2.865
United Kingdom	18	9	1.737
Germany	17	8	2.107
Venezuela	17	2	7.446
Switzerland	15	4	1.111
Japan	11	6	2.803
Netherlands	11	4	1.475
Ireland	7	3	6.136
Brazil	7	3	1.965
Chile	6	2	2.879
Canada	5	3	0.885
Mexico	5	1	1.334
Sweden	5	2	6.627
Hungary	4	1	4.957
Taiwan	4	1	2.500
Israel	3	1	0.977
Russian Federation	3	1	7.477
Singapore	3	1	3.605
Norway	2	1	1.315
Bermuda	2	1	1.589
Hong Kong	2	1	2.107
Luxembourg	2	1	1.286
Denmark	2	1	0.615
Italy	2	2	5.322
Australia	1	1	2.107
Cayman Islands	1	1	2.107
Portugal	1	1	2.529
Belgium	1	1	2.865
China	1	1	1.737
Spain	1	1	2.107
Bangladesh	1	1	7.446
Total	435	199	

Panel B: Enforcement by Targeted Industry

Targeted Industry	NAICS2	Total number of cases	Total number of firms	Corruption Perceptions
Manufacturing	31-33	229	110	2.609
Mining, Quarrying, and Oil and Gas Extraction	21	60	21	2.234
Finance and Insurance	52	29	13	2.352
Professional, Scientific, and Technical Services	54	19	10	2.559
Information	51	19	7	3.894
Wholesale Trade	42	15	7	2.605
Transportation and Warehousing	48-49	14	7	2.158
Construction	23	10	3	2.532
Agriculture, Forestry, Fishing and Hunting	11	8	3	2.549
Health Care and Social Assistance	62	5	2	2.381

Table 2
Descriptive Statistics

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

	Mean	Median	Standard Deviation	Observation
	Panel A: Firm-level annual variables, years 1985-2017, firms = 8,677			
Target	0.015	0.000	0.121	137,844
Target US	0.009	0.000	0.095	137,844
Target Foreign	0.006	0.000	0.076	137,844
PreElection	0.350	0.000	0.477	137,844
Size	7.101	6.833	3.169	137,844
Leverage	0.543	0.543	0.242	137,844
Cash	0.156	0.101	0.166	137,844
ROA	0.086	0.099	0.153	137,844
Sales Growth	0.216	0.125	0.561	137,844
	Panel A: state-level annual variables, years 1985-2017, states = 50			
State Employment Rate	0.580	0.578	0.054	1,628
State Population	15.082	15.194	1.001	1,628
State GDP	11.674	11.678	1.122	1,628
	Panel A: country-level annual variables, years 1998-2017, countries = 71			
Corruption Perceptions	4.153	4.300	2.246	1,050

Table 3
Senate Elections and Anti-bribery Enforcement

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

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

Table 4
Powerful Committee

This table reports panel regressions of the probability of enforcement on election cycles and the presence of powerful chairman. The list of the top 10 most powerful Senate committees is from Edwards and Stewart (2006), which includes Finance, Veterans Affairs, Appropriations, Rules, Armed Services, Foreign Relations, Intelligence, Judiciary, Budget, and Commerce. Seniority shocks begin in the year of appointment and are applied for 6 years. *Pre-election* equals one if the enforcement occurs one year prior to the election, or the firm's accounting year is one year before the election in the case of no enforcement. *Foreign Competitor* is the share of a company's competitors that are headquartered in other countries. *Target* indicates whether firms were subject to the U.S. Department of Justice (DOJ) and Securities and Exchange Commission (SEC) enforcement during the sample period. *Target US* equals one if a US firm was subject to anti-bribery enforcement during the sample period and equals zero otherwise. *Target Foreign* equals one if a foreign firm was subject to anti-bribery enforcement during the sample period and equals zero otherwise.

	Target		Target US		Target Foreign	
outcome	(1)	(2)	(3)	(4)	(5)	(6)
Pre-election	0.0006	0.0007	-0.0007	-0.0005	0.0013**	0.0012**
	(0.0010)	(0.0008)	(0.0007)	(0.0006)	(0.0007)	(0.0006)
Powerful Committee	-0.0039*		-0.0024		-0.0016	
	(0.0021)		(0.0016)		(0.0014)	
Pre-election × Powerful Committee	0.0014		0.0000		0.0014*	
	(0.0011)		(0.0007)		(0.0008)	
Senior Committee		0.0049**		0.0033**		0.0016
		(0.0021)		(0.0016)		(0.0013)
Pre-election × Senior Committee		0.0001		-0.0024***		0.0025**
		(0.0015)		(0.0009)		(0.0012)
State and firm controls	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Country, state, industry FE	Subsumed	Subsumed	Subsumed	Subsumed	Subsumed	Subsumed
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	124,288	124,276	124,288	124,276	124,288	124,276
R-squared	0.1782	0.5119	0.1437	0.5318	0.1595	0.4477

Table 5
Impact of Corruption Perception

This table reports alternative specifications. Column 1, 3, and 5 control for country-level corruption risk. Corruption Perceptions Index is obtained from the Transparency International from 1998 to 2019 and calculated using different data sources from different institutions that capture perceptions of corruption with a focus on the public sector. Since 2012, the index has a scale of 0-100 where a 0 indicates the highest level of perceived corruption and 100 indicates the lowest level of perceived corruption (it has a scale of 0-10 prior to 2012). In all analysis, we transform the index using the "corruption perception" measure, where 0 indicates the lowest level of perceived corruption and 10 indicates the highest level of perceived corruption.

	Target		Target US		Target Foreign	
	(1)	(2)	(3)	(4)	(5)	(6)
PreElection		0.0015*		-0.0004		0.0019***
		(0.0008)		(0.0006)		(0.0006)
Corruption Perceptions	0.0128***	0.0128***	0.0065***	0.0065***	0.0063**	0.0063**
	(0.0028)	(0.0028)	(0.0011)	(0.0011)	(0.0026)	(0.0026)
Size	0.0001	0.0001	0.0010	0.0010	-0.0009	-0.0009
	(0.0012)	(0.0012)	(0.0008)	(0.0008)	(0.0010)	(0.0010)
Leverage	-0.0027	-0.0027	-0.0006	-0.0006	-0.0020	-0.0021
	(0.0069)	(0.0069)	(0.0053)	(0.0053)	(0.0042)	(0.0042)
Cash	0.0181***	0.0181***	0.0189***	0.0190***	-0.0008	-0.0008
	(0.0062)	(0.0062)	(0.0050)	(0.0050)	(0.0037)	(0.0037)
ROA	-0.0044	-0.0045	-0.0032	-0.0032	-0.0012	-0.0013
	(0.0055)	(0.0055)	(0.0037)	(0.0037)	(0.0041)	(0.0041)
Sales Growth	-0.0001	-0.0001	-0.0007	-0.0007	0.0006	0.0006
	(0.0010)	(0.0010)	(0.0005)	(0.0005)	(0.0009)	(0.0009)
State-level controls	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Country, state, industry FE	Subsumed	Subsumed	Subsumed	Subsumed	Subsumed	Subsumed
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	108,639	108,639	108,639	108,639	108,639	108,639
R-squared	0.5589	0.5589	0.5782	0.5782	0.4977	0.4977

Table 6
U.S. and Foreign Companies with Similar Geographic Exposure

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

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

Table 7
Foreign Competition

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

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

Table 8
Foreign Supply Chain Network

This table presents coefficient estimates of fixed effects regressions of enforcement on the presence of foreign networks and election cycles. *Pre-election* equals one if the enforcement occurs one year prior to the election, or the firm's accounting year is one year before the election in the case of no enforcement. We use FactSet Revere to identify network connectedness of customer-supplier relationships in global supply chains. The global supply chain data contains important stakeholders in global supply chains corporate competitors, customers, and suppliers. Revere identifies a companies' global geographic revenue exposures, starting from April 2003, with information extracted from company regulatory lings, websites, and daily updates based on new lings, press releases, and corporate actions releases. Revere gathers information on corporate direct relationships disclosed by the reporting company and on indirect relationships not disclosed by the reporting company but by companies doing business with the reporting company.
Foreign Network is the share of a company's supply-chain networks with headquarters in other countries. *Target* indicates whether firms were subject to the U.S. Department of Justice (DOJ) and Securities and Exchange Commission (SEC) enforcement during the sample period. *Target US* equals one if a US firm was subject to anti-bribery enforcement during the sample period and equals zero otherwise. *Target Foreign* equals one if a foreign firm was subject to anti-bribery enforcement during the sample period and equals zero otherwise. In all regressions, standard errors are clustered at the firm level, which are shown in the parentheses. ***, **, or * indicates that the regression coefficient is statistically significant at the 1%, 5%, and 10% level respectively.

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

Table 9
The Effectiveness of the Whistleblower Program

This table presents the effect of foreign networks and after the passage of the SEC's Whistleblower Program on July 21, 2010. An individual whose claim is successful is eligible for a percentage between 10% and 30% of the money collected when the monetary sanctions exceed $1 million. *Pre-election* equals one if the enforcement occurs one year prior to the election, or the firm's accounting year is one year before the election in the case of no enforcement. *Foreign Network* is the share of a company's supply-chain networks with headquarters in other countries. In all regressions, standard errors are clustered at the firm level, which are shown in the parentheses. ***, **, or * indicates that the regression coefficient is statistically significant at the 1%, 5%, and 10% level respectively.

	Target		Target US		Target Foreign	
	Before Whistleblower Program	After Whistleblower Program	Before Whistleblower Program	After Whistleblower Program	Before Whistleblower Program	After Whistleblower Program
outcome	(1)	(2)	(3)	(4)	(5)	(6)
Pre-election	0.0042	0.0006	-0.0007	0.0000	0.0049*	0.0006
	(0.0037)	(0.0021)	(0.0027)	(0.0019)	(0.0027)	(0.0010)
ForeignNetwork	0.0013	-0.0126**	0.0015	-0.0100**	-0.0001	-0.0027
	(0.0139)	(0.0057)	(0.0135)	(0.0049)	(0.0041)	(0.0028)
Pre-election × ForeignNetwork	-0.0087	0.0063	-0.0007	-0.0010	-0.0080	0.0073*
	(0.0116)	(0.0042)	(0.0041)	(0.0017)	(0.0096)	(0.0039)
State controls	Yes	Yes	Yes	Yes	Yes	Yes
Firm controls	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Country FE	Subsumed	Subsumed	Subsumed	Subsumed	Subsumed	Subsumed
State FE	Subsumed	Subsumed	Subsumed	Subsumed	Subsumed	Subsumed
Industry FE	Subsumed	Subsumed	Subsumed	Subsumed	Subsumed	Subsumed
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	14,497	24,575	14,497	24,575	14,497	24,575
R-squared	0.6119	0.8806	0.6602	0.8734	0.4255	0.8464

Table 10
Interest Groups: Concentrated Industries

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

outcome	*Target*				*Target Foreign*			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Pre-election	0.0007	0.0011	0.0013	0.0012	0.0012**	0.0016***	0.0018***	0.0017***
	(0.0008)	(0.0008)	(0.0008)	(0.0008)	(0.0005)	(0.0005)	(0.0005)	(0.0005)
Local Concentration	-0.1384***	-0.1384***	-0.1241*	-0.1982**	-0.0510***	-0.0508***	0.0476	-0.0735
	(0.0428)	(0.0427)	(0.0733)	(0.0852)	(0.0192)	(0.0192)	(0.0518)	(0.0509)
Pre-election×	-0.0195**	-0.0212**	-0.0247**	-0.0227**	-0.0139***	-0.0152***	-0.0177***	-0.0161***
Local Concentration	(0.0099)	(0.0101)	(0.0103)	(0.0096)	(0.0049)	(0.0051)	(0.0054)	(0.0050)
Employment Rate		0.3802***	0.3983***	0.5114***		0.2507**	0.2556**	0.3175**
		(0.1282)	(0.1304)	(0.1519)		(0.1017)	(0.1031)	(0.1249)
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country FE	Yes	Yes	Yes	Subsumed	Yes	Yes	Yes	Subsumed
State FE	Yes	Yes	Yes	Subsumed	Yes	Yes	Yes	Subsumed
Industry FE	No	No	Yes	Subsumed	No	No	Yes	Subsumed
Firm FE	No	No	No	Yes	No	No	No	Yes
State controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	141,495	141,495	141,494	141,376	141,495	141,495	141,494	141,376
R-squared	0.0357	0.0364	0.1528	0.5720	0.0627	0.0633	0.1591	0.5115

Table 11
Investigations

	Target			Target US			Target Foreign		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
PreElection	0.0003	0.0006	0.0008	0.0004	0.0004	-0.0006	-0.0000	0.0002	0.0005
	(0.0007)	(0.0008)	(0.0008)	(0.0004)	(0.0005)	(0.0005)	(0.0005)	(0.0006)	(0.0006)
Size		0.0127***	0.0034*		0.0059***	0.0012		0.0068***	0.0011
		(0.0011)	(0.0019)		(0.0009)	(0.0008)		(0.0008)	(0.0016)
Leverage		0.0123*	0.0239***		0.0078	0.0089		0.0045	0.0070
		(0.0069)	(0.0079)		(0.0052)	(0.0061)		(0.0050)	(0.0043)
Cash		0.0109	0.0247***		0.0030	0.0196***		0.0079	0.0002
		(0.0073)	(0.0091)		(0.0054)	(0.0047)		(0.0051)	(0.0064)
ROA		-0.0158**	0.0017		-0.0012	-0.0021		-0.0146***	0.0008
		(0.0071)	(0.0076)		(0.0048)	(0.0044)		(0.0055)	(0.0046)
Sales Growth		-0.0085***	-0.0022		-0.0047***	-0.0007		-0.0037***	-0.0003
		(0.0012)	(0.0015)		(0.0009)	(0.0008)		(0.0008)	(0.0011)
State Employment Rate		0.4027***	0.4818***		0.1205	0.1415		0.2822**	0.3520**
		(0.1384)	(0.1846)		(0.0835)	(0.0921)		(0.1125)	(0.1582)
State Population		0.1403***	0.1746***		0.0248	0.0633		0.1155***	0.1415***
		(0.0488)	(0.0673)		(0.0323)	(0.0419)		(0.0375)	(0.0528)
State GDP		-0.0906**	-0.1040**		-0.0182	-0.0087		-0.0724**	-0.0897**
		(0.0402)	(0.0525)		(0.0243)	(0.0259)		(0.0327)	(0.0425)
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country, state, industry FE	Yes	Yes	Subsumed	Yes	Yes	Subsumed	Yes	Yes	Subsumed
Firm FE	No	No	Yes	No	No	Yes	No	No	Yes
Observations	137,844	137,844	137,840	137,844	137,844	137,840	137,844	137,844	137,840
R-squared	0.1561	0.1814	0.5160	0.1275	0.1392	0.4703	0.1334	0.1471	0.4942

Appendix
Table A1

Placebo of Elections

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

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

Table A2
The Role of Competition

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

outcome	Target		Target US		Target Foreign	
	(1)	(2)	(3)	(4)	(5)	(6)
Pre-election	0.0064**	0.0053**	0.0023	0.0004	0.0041***	0.0049***
	(0.0026)	(0.0023)	(0.0022)	(0.0018)	(0.0014)	(0.0014)
Competition	0.0084	0.0078	-0.0098	0.0040	0.0183***	0.0038
	(0.0072)	(0.0085)	(0.0063)	(0.0063)	(0.0050)	(0.0054)
Pre-election × Competition	-0.0046	-0.0038	-0.0036	-0.0021	-0.0010	-0.0017
	(0.0031)	(0.0024)	(0.0025)	(0.0020)	(0.0018)	(0.0014)
Firm controls	Yes	Yes	Yes	Yes	Yes	Yes
State controls	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Country FE	Subsumed	Subsumed	Subsumed	Subsumed	Subsumed	Subsumed
State FE	Subsumed	Subsumed	Subsumed	Subsumed	Subsumed	Subsumed
Industry FE	Subsumed	Subsumed	Subsumed	Subsumed	Subsumed	Subsumed
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	39,841	39,363	39,841	39,363	39,841	39,363
R-squared	0.3125	0.6711	0.2690	0.6681	0.2769	0.6297