Crime, Punishment and the Halo Effect of Corporate Social Responsibility[*]

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Abstract

Using enforcements of the Foreign Corrupt Practices Act, we find that prosecutors are more lenient toward socially responsible firms. A one standard deviation increase in corporate social responsibility (CSR) is associated with 5 million dollars less in fines, or 25% lower than the mean. Yet, CSR is not a mitigating factor in sentencing guidelines. It is also uncorrelated with bribe attributes, which should entirely determine sanctions following Becker (1974). Consistent with the halo effect from psychology, this prosecutorial bias is larger for firms that are more widely recognized by the general public; and more responsible firms also receive less negative prosecutorial press releases and experience better subsequent stock returns.

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1 Introduction

On August 15, 2015, the New York Times released an article exposing the poor treatment of workers by Amazon. The article received more comments than any other in the New York Times' digital history. Amazon, long known as a demanding employer more focused on the bottom line than on corporate social responsibility, faced intense national scrutiny. A number of commentators pointed to potential damage to the Amazon brand and sales. Reflecting the seriousness of the situation, Jeff Bezos founder and CEO engaged in a week-long damage control.

The Amazon episode is one of the dreaded scenarios that many company executives often claim they want to avoid when they regularly spend hundreds of millions of dollars on community, philanthropic, environmental and employee satisfaction programs.[1] According to a 2009 McKinsey Survey, two-thirds of CFOs and three-quarters of investment professionals embraced the notion that corporate social responsibility adds to shareholder value. In particular, they believed that the value added is tied to promoting a good corporate image.

A large literature, dubbed "doing well by doing good", has rightly recognized the importance of trying to ascertain the strategic value of a good corporate image. The existing approach has been to associate stock market valuation or firm profitability with a firm's CSR activities, hoping to show that higher CSR activities leads to higher valuations.[2] Yet the case of the Amazon also demonstrates the difficulty of this widely-used approach since valuations of Amazon subsequently reached an all time high on November 15, 2015, three months after the scandal.

In this paper, we propose a novel setting by examining the influence of firm CSR on penalties issued by the US Department of Justice and the SEC for violations of the Foreign Corrupt Practices Act (FPCA) during the period of 1990-2013. In contrast to studies that focus on the stock market, which lump together the value added of CSR for consumers, employees, shareholders and regulators, we try to gauge the effect of CSR on only a subset

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[1]For example, in the mid-2000s, Google initiated its famed 1% program, which invested 1% of its profits in philanthropic and non-profit interests. In the late 2000s, General Electric spent $160 million for community and employee philanthropic programs and earmarked billions more for the development of eco-friendly products. At the same time, Intel spent $100 million for global education programs and energy conservation.

[2]See (Benabou and Tirole, 2010; Heal, 2005; Margolis, Elfeinbein, and Walsh, 2009; Kitzmueller and Shimshack, 2012) for reviews.

of regulators.

Our setting, while more narrowly focused, offers a number of advantages relative to the earlier approach. First, DOJ and SEC sentencing guidelines largely follow a clear benchmark of optimal punishment and deterrence (Becker, 1974; Polinsky and Shavell, 1992) (hereafter Becker-Polinsky-Shavell), where bribe characteristics and the firm's cooperation with the investigation (Arlen, 1994; Arlen and Kraakman, 1997) should entirely determine the amount of the fine. Since Becker (1974), this body of work has argued that as long as the offending party can pay, optimal punishment should set fines proportional to the expected harm from the crime—after accounting for cooperation with authorities. This principle of proportionality gets the potential offending party to internalize the costs of the crime so that it can be properly weighed against its expected benefit.

Indeed, the DOJ and SEC issued detailed guidelines for how prosecutors should take into account severity of the bribe in calculating the fine amount. There is no mention of a firm's CSR as a mitigating factor.[3] This absence of CSR in sanctions guidelines makes the FCPA a setting in which we should not expect CSR to affect outcomes in the absence of prosecutorial bias. This null hypothesis stands in contrast to existing work correlating CSR with stock market valuations, where reverse causality issues loom large.

Second, the FCPA setting provides us with rich enough data on the firm's actions to control for the factors that should drive fine calculations. FCPA cases come with detailed information on bribe characteristics such as the size of payments and the number of years the bribery persisted, which allow us to proxy for expected harm and as well as any underlying differences in the bribing behavior of firms. These cases also have press releases, which we are able to text-mine to determine whether the firm was cooperative or compliant (see Choi and Davis (2013)).

Third, unlike other types of corporate crime such as accounting fraud, which almost always involves the CEO, CFO or other upper management, bribes often do not involve top firm executives.[4] The fraud is often committed by employees farther down the organizational

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[3]In fact, it is not clear whether CSR should increase or decrease fines, if it was to play a direct role in FCPA outcomes. A firm with a socially responsible corporate image can end up doing more harm to society if its stakeholders were more trusting to begin with.

[4]See Bergstresser and Philippon (2006) for instances and evidence of CEO manipulation and accounting fraud.

hierarchy. So FCPA enforcements are usually against a firm rather than just an individual, making it a more fitting setting than fraud to measure how corporate image influences fines.

Fourth, there is a natural mechanism through which prosecutors might be influenced by CSR. They are likely to be affected by the well-established halo effect in psychology literature, which was noted first by Thorndike (1920) and has been measured in the context of jury penalties for defendants (see, e.g., Efran (1974)). The similarities between our setting and these documented courtroom biases makes FCPA prosecutors likely candidates for the halo effect. Prosecutors might be influenced by the broad or global reputation of the firm for social responsibility and thereby harbor positive affect toward good companies. More precisely, Nisbett and Wilson (1977) state the halo effect as "global evaluations alter evaluations of attributes about which the individual has information fully sufficient to allow for an independent assessment" and describe this bias as "[representing] a fundamental inability to resist the affective influence of global evaluation on evaluation of specific attributes". In other words, prosecutors could go out and form an estimate of bribe harm but they are unable to resist the influence of firm's reputations for being socially responsible to assume that the bribe is less harmful than it really is.

Fifth, we can use a key comparative static from experimental halo studies to motivate a key additional test that helps with measuring a causal halo effect. The halo effect should be stronger when subjects are more strongly primed with the "attractiveness" of the person or firm in question. In our setting, we would expect the effect of the CSR scores on FCPA fines to be larger for more visible companies, those for which the prosecutors were more likely to be aware of their reputations.

Finally, announcement of fines are followed in the media and the stock market. We can use event study methodology to measure the stock price reactions to these announcements for high versus low KLD firms. These announcements also come with prosecutorial press releases which we can text-mine for additional evidence of halo bias.

We measure corporate social responsibility using the widely-used Kinder, Lydenberg and Domini (KLD) scores of CSR. KLD scores are developed by a for-profit company, akin to a credit rating agency. The scores measure firm-level social responsibility along the lines of community relations, product characteristics, environmental impact, employee relations,

diversity and governance. The final KLD score for a firm is a sum of indicators for various socially responsible attributes or actions.

According to KLD guidelines, a one point increase in KLD requires a firm to change one corporate social responsibility indicator from a concern to neutral, or from neutral to a strength. For example, a company would need to implement a "notable strong retirement benefits program" to get a strength. Or, if it had an underfunded or subpar retirement benefits program in place, it would need to improve its funding or increase benefits. As we discuss in Section 3, many of the indicators such as having a funded retirement plan involve substantial resources.

We first establish that there are no differences in bribe characteristics across low versus high KLD firms. In particular, there is no evidence that high KLD firms engage in less harmful bribery. We also find that high KLD firms are no more likely to be cooperative or compliant with the investigation, as measured by the textual analysis of prosecutorial press releases. Therefore CSR should not be correlated with fines absent prosecutorial bias.

We then show that KLD nonetheless significantly influences sanctions. Our best estimate is that a one-point increase in the KLD score results in an average reduction in sanctions of around 2 million dollars relative to the Becker-Polinsky-Shavell optimal fine benchmark. This is a substantial change in punishment, equal to 40% of the median sanction or 10% of the mean sanction. The point estimates from different specifications range from 1.5 to 2.5 million dollars for a one point increase in KLD.[5]

We also break down KLD scores into their subcomponents to determine which are the most relevant for FCPA fines. KLD related to community, products, and employees have the strongest explanatory power, whereas governance does not. These findings indicate that our overall results are not mechanically hard-wired to a firm having installed better governance practices that somehow inhibit violations of the FCPA.

We also exploit the fact that the FCPA only became widely enforced after 2007 to address the possibility of reverse causality. We show that KLD scores in 2007 and various measures of lagged KLD scores are also negatively correlated with sanctions. These past CSR scores were not set in response to FCPA fines. So we can rule out the alternative hypothesis that

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[5]A one standard deviation increase corresponds to fines that are 25% lower than the mean.

fines influence CSR, rather than the other way around.

Although we have established a bias in sanctions, this bias could have various root causes. Prosecutorial bias does not necessarily have to be due to a psychological or expectational bias in the form of the halo effect. It could be due to other prosecutorial incentives such as wanting to curry favor with powerful firms. To deal with these concerns, we first show that sanctions are not lower for those firms that contribute more to political campaigns and the effect of CSR is robust to controlling for other firm attributes such as firm size or firm profitability. In other words, among all the obvious firm characteristics, CSR is the most powerful explanatory variable for FCPA fines.

Second, motivated by halo experiments which predict that the halo effect matters more when the positive attributes are most visible, we show that the halo estimate is larger for more visible firms. We consider two measures of visibility. The first is a survey that exactly tracks visibility, the annual Harris Poll Reputation Quotient, by asking several thousand respondents each year (normal everyday individuals) to name the firms they perceive as having the best and worst reputations. The second is membership in the S&P 500, which has been shown to lead to more investor recognition and media coverage, all else equal (?). We find that the effect of CSR on fines is concentrated amongst the most visible companies, even controlling for firm size, consistent with the halo effect. Related, our KLD effect is distinct from a brand reputation effect, as measured by Businessweek 100 Top Brands list. While brand reputation might also confer halo and would be an interesting phenomenon in its own right, we find a much sharper KLD effect than a brand reputation effect, thereby pointing to the importance of CSR specifically.

We then examine whether the halo effect associated with FCPA fines have stock price implications. We first use text mining to establish that prosecutorial press releases accompanying announcement of fines are associated with higher KLD firms having less negative prosecutorial sentiment. Consistent with the preferential treatment by prosecutors, firms with higher KLD scores enjoy larger excess returns, an extra 2.4% in the six months after the announcement. This highlights the direct benefit of the halo effect to firm value via the prosecutorial decision.

Our study focuses exclusively on fines levied in FCPA cases. Conditional on being prose-

cuted under the FCPA, we establish that a firm's corporate social responsibility is associated with lower fines relative to the benchmark of optimal fines. We might also be interested in testing for a halo effect in the decision of whether or not to prosecute firms that may have violated the FCPA. However, this is much more challenging because we do not observe the sample of cases under consideration for prosecution, so we focus only on conditional fines in this paper.

Our work cannot pin down whether the currently observed levels of CSR are optimal. Indeed, as we alluded to above, we are only measuring a small fraction of the potential marginal benefits of CSR whereas the marginal cost of obtaining a higher KLD score are quite substantial. Moreover, recent and well-identified work suggests that there is might be over-investment in CSR due to agency problems (Bertrand and Mullainathan, 2003; Cronqvist, Heyman, Nilsson, Svaleryd, and Vlachos, 2009; Cheng, Hong, and Shue, 2013). On the other hand, some have argued there is not enough CSR because stock markets are too short-termist (Bolton and Samama, 2013) and do not place enough value on the intangible aspects of CSR (Edmans, 2011). More broadly, our paper contributes to a burgeoning literature on moral finance as argued for in Haidt, Hirshleifer, and Teoh (2013) and Erhard and Jensen (2013) and also the already important literature of behavioral corporate finance (see Baker and Wurgler (2011) for a survey).

Our paper proceeds as follows. We provide background on FCPA sentencing guidelines, particularly as it relates to discretion over company character, in Section 2. We describe KLD scores in Section 3. We describe and summarize our data in Section 4. We collect our main empirical methodology and results in Section 5. We conclude in Section 6.

2 FCPA and Sentencing Guidelines

The Foreign Corrupt Practices Act (FCPA) of 1977 was passed in response to the realization that bribery was prevalent and the idea that bribery by some US firms was detrimental the the reputation of US firms overall. The report to the House of Representatives that initially introduced the FCPA outlined the reasoning behind this legislation. In recent years, more than 400 companies admitted making illegal payments to foreign government officials, 117 of

which were in the Fortune 500.[6] These actions were thought to undermine the free market system championed by the U.S. and harm foreign policy by lowering its credibility. Not only were these actions judged as harmful, but a survey of corporations cited in the report indicated that bribery was not deemed necessary by companies in a variety of industries and of various sizes. As a result, the FCPA made it illegal for any US issuer, domestic concern, or other person to bribe a foreign official in order to influence his acts or decisions or those of his government or political party.

The number of cases prosecuted under the FPCA have grown rapidly in recent years, prompting Choi and Davis (2013) to name the anti-bribery provisions of the FCPA as the most important rules in the regulation of US business abroad. As shown in Figure 1, there were quite few cases against corporations in the 1990s and early 2000s but the number ballooned after 2007. A total of 15 cases were brought against corporations in the period 1991-2000 but this rose to 185 in 2001-2010. This is partially due to the changing nature of US business involvement. At least twenty percent of the cases in the 2000s took place in Iraq and at least 15 percent took place in China. But much of the increasing popularity of the FCPA was due to the growing use of deferred prosecution and non-prosecution agreements (DPAs and NPAs) to settle these charges. These made it easier for prosecutors to pursue numerous cases. Regardless of the reasons, this surge in FCPA enforcement allows us to shed light on prosecutorial practices by comparing sanctions for companies with differing levels of corporate social responsibility.

The enforcement approach of the FCPA is detailed in *A Resource Guide to the U.S. Foreign Corrupt Practices Act*, published in the Criminal Division of the U.S. Department of Justice and the Enforcement Division of the U.S. Securities and Exchange Commission. There is no mention of firm CSR as a mitigating factor that prosecutors need consider. Rather, the initial "offense level" depends on the details of the bribe, such as the amount of money paid and the cooperation of the offender. This base is then scaled by a "culpability score", which depends on firm prior misconduct and can reduce the fine to 5% of the base or raise it to 400%. Nonetheless, prosecutors have some sentencing discretion, which makes their FCPA sanctions susceptible to the halo effect. So it is possible that a firm's reputation

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[6]http://www.justice.gov/criminal/fraud/fcpa/history/1977/houseprt-95-640.pdf

for social responsibility might influence their opinions of the severity of the crime.

The prosecutor's opinion is particularly influential for the enforcement of the FCPA. This is because most cases are decided by the prosecutor rather than a judge. The prevalent use of DPAs and NPAs in the criminal charges handled by the Department of Justice means that charges are not actually filed against many companies. In the cases when companies are actually charged, they are likely to be resolved through a plea agreement. The civil cases handled by the Securities and Exchange Commission follow a similar theme, with most resolved through a settled civil complaint. Both of these policies give prosecutors a good deal of discretion in setting sanction amounts.

3   Measuring Social Responsibility

To measure corporate social responsibility, we use annual scores compiled by Kinder, Lydenberg and Domini (KLD) Research & Analytics, Inc. These scores were first collected in 1991 for 488 firms and coverage grew over the years to include 2,894 firms in 2009. After 2009, the calculations of KLD scores changed. Therefore we use current KLD score to measure firm goodness if the FCPA action was before 2009. If the action is in 2009 or later, we use the KLD score from 2009. On average there are roughly 1,486 firms covered in every year. KLD scans public databases, such as those on employee strikes and Environmental Protection Agency (EPA) violations, and uses a team of analysts to measure these and other social responsibility dimensions of firm production.

To calculate corporate social responsibility, firms are graded on roughly 60 indicators. Each indicator represents a strength or a concern in one of six major areas: community, corporate governance, diversity, employee relations, environment, and product. The total strengths, net of the total concerns, are summed together to calculate a single KLD score. In Table 1, we list the firms with the highest and lowest KLD scores both within the sample of all firms with KLD scores and within firms that are in the FCPA sample. For the whole KLD sample, the most responsible firms have scores of 10, while the worst have scores of -8. These extreme scores are not dominated by any particular industry. For instance, the technology giant IBM and ice cream company Ben and Jerry's top the list and Walmart the

retailer and Goodyear Tire and Rubber round out the bottom of the list. We see similar dispersion for the FCPA list.

As we mentioned in the Introduction, a one point change is quite costly for the firm. One example we provided was changing to a well-funded retirement plan. Another indicator score is on firm philanthropy. A company would have to donate around a few percent of its capital expenditures each year to rank highly when it comes to philanthropic giving. Among the 60 indicators, there are some less costly than retirement plan funding or philanthropic giving. But presumably every firm can score well on the less costly indicators. Hence the dispersion of scores we are picking up reflect the more costly measures, which can be easily in the millions of dollars.[7]

Many of the companies on this list are well-known to consumers. One reason is that there is a positive correlation between KLD and the lists of top brands compiled by publications such as Businessweek and Forbes. The correlation is roughly 0.36, suggesting that KLD captures the types of firm characteristics that influence consumer and investor sentiment about the firm. It also suggests that the halo effect might come from a related source, which is how prosecutors perceive the brands of these companies. We will disentangle these related effects in our analysis.

4   Data and Summary Statistics

We start with a sample of 271 cases against corporations starting in 1991, the first year in which KLD scores are available. The data on FCPA cases is taken from the website of the law firm Shearman & Sterling LLP. In 101 of these cases, we can match the defendant's name to a company name in the KLD database. The characteristics of these cases are summarized in Table 2. The average firm involved in one of these FCPA cases has a market capitalization (Market Cap) of 27.86 billion dollars, with a median of 5.7 billion. These are larger than the average firm for which KLD is measured, consistent with the fact that multinational firms are larger and also have more opportunities to engage in foreign bribery. The mean

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[7]Related, KLD scores have been shown to influence mutual fund managers' portfolios and in particular the portfolios of mutual funds marketed as being socially responsible (Hong and Kostovetsky (2012)). Socially responsible funds typically own stocks with the highest KLD scores within an industry.

and median KLD score are both around -1. In contrast, the average KLD across all firms surveyed in similar years is 0.1 and the median is 0.[8] US Company is a dummy variable that is equal to 1 if the firm is headquartered in the US and zero otherwise. The majority of these companies, 87%, are headquartered in the US, as expected given the jurisdiction of the FCPA.

Table 2 also describes the details of the bribes for which the firms are being prosecuted. The mean sanction is 20.3 million dollars and the median is 5.23 million dollars. The mean bribe involves a payment (Payments) of 9.26 million dollars. The median payment is 2 million dollars. The number of years of bribery (i.e. how long the bribes went on) has a mean of 5.78 years and a median of 5 years. The FCPA cases also report the value of business gained by the firm as a result of the bribes. The mean gain is calculated to be 300 million dollars with a median of 98.2 million dollars. Notice that on average the value of business gained is much larger than the sanction. This is to be expected because the value represents the revenue gained by the business, not the profit, and because for some bribes the value to a business could exceed the harm to society. Optimal fines do not aim to recoup the business gained due to the bribe but only the harm it caused.

Many of the cases span multiple countries and jurisdictions; 40% take place in more than one country and 15% are part of a foreign investigation. The data also imply that the bribes in question are usually related to a wider pattern of firm bribery. Eighty percent of offending firms are involved in multiple ongoing trials at once, although these tend to be clustered in time since only 7% of cases stem from a repeat offense by a firm. Emphasizing the fact that these bribes are committed by larger firms, in 51.5% percent of the FCPA actions related companies are involved, generally subsidiaries.

Tables 3 and 4 further explore the types of industries and countries involved in these cases. We use the Fama-French 17 industry portfolios to classify firms but only 12 of the industry classifications have some representation. The majority of cases are assigned to the "Other" industry, meaning their industries are specific enough that they do not belong to any of the

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[8]Notice that the KLD scores of firms in the FCPA sample are slightly lower than those of other firms. This suggests that higher KLD firms are less likely to be prosecuted under the FCPA. This could be due to a number of different factors, one of which is a halo effect in the selection of firms to prosecute. We discuss this at the end of the paper.

sixteen other broad industry classification.[9] The most commonly represented industries are machinery, oil and food. In line with the report to the House of Representatives, offenses do not appear to be concentrated in any one industry.

There is also a good deal of disparity across countries, with a majority of bribes taking place in China (28 cases) and Iraq (20 cases). In this table, we do not display all countries but just those with at least 3 FCPA violations. The total number of observations is greater than the 101 cases in our sample because each FCPA case may involve multiple countries.

5 Results

5.1 Optimal Fines Benchmark

There is a sizeable literature in law and economics going back to Becker (1974) that has examined the determinants of sanctions or fines, notably modeled by Polinsky and Shavell (1992). Recent papers examining the empirical specifications for the FCPA include Choi and Davis (2013) and Karpoff, Lee, and Martin (2014). The optimal fine derived in the most basic version of Becker-Polinsky-Shavell type model has the following form:

$$E[Sanction_i] = a + kE[Harm_i]$$

where $Sanction$ is the sanction or fine. It is set equal to a, a constant that captures the fixed cost of enforcement, and is proportional to the harm done by the crime $E[Harm_i]$.[10] The intuition for this optimal fine is that sanctions are set to recoup the fixed costs of enforcement for society and to equate the firm's expected sanction (the sanctions level scaled by the probability of detection) with the expected harm. Because the firm trades off the private benefits of the bribe with the expected sanction, it will only choose to bribe when the private benefit outweighs the total harm.

The empirical literature on the FCPA has used observable bribe characteristics to proxy

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[9]In the sample, these include firm that deal with data processing, computer systems, radio and communications equipment, among others.

[10]The coefficient reflects factors such as the probability of detection.

for the harm done in each bribery case, i.e.

$$E[Harm_i] = dB_i$$

where B_i includes variables such as the size of the bribe payment, the estimated value that the firm gained from the bribe, and the number of years over which the bribery occurred. The types of countries in which the bribe occurred may also influence harm. Another important determinant of optimal fines following corporate crime is cooperation and compliance with the authorities, as detailed by Arlen (1994) and Arlen and Kraakman (1997). More cooperative firms should be assigned lower fines, all else equal, because they reduce the fixed cost of investigation for prosecutors. To account for this enrichment of the benchmark model, we control for these variables in later specifications. We will consider all the above bribe characteristics, and more, in our empirical analysis.

Our regression specification is motivated by the following model

$$E[Harm_i|KLD_i] = -cKLD + dB_i,$$

whereby prosecutors over-extrapolate that a high KLD firm imposed less harm for any given set of bribe characteristics B_i. This halo effect is in the spirit of psychology studies such as Thorndike (1920) in which jurors assume some positive trait (such as good looks) spills over into estimates of guilt or harm.[11] We will show below that KLD is uncorrelated with B_i, makes it unlikely that KLD is a proxy for higher order moments of B_i or unobservable bribe characteristics.

Substituting the above expression for $E[Harm_i|KLD_i]$ into the equation for optimal sanction gives us an expression for $E[Sanction_i|KLD_i]$, the expected sanction upon getting caught, conditional on KLD. This motivates the regression specification for our test of the halo effect of corporate social responsibility. We estimate

$$Sanction_i = \beta_0 + \beta_H KLD_i + \beta_B B_i + \varepsilon_i$$

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[11]One might also think that d is a function of KLD where $d'(KLD) < 0$. This would be true if prosecutors assumed that equally egregious bribes translate into less harm for more socially responsible firms. We have examined both settings but our baseline case is the simpler one.

where the outcome variable $Sanction_i$ is the punishment, as measured by the sanction assigned for FCPA case i. The variable KLD_i is the firm's overall KLD score in our main specification. As we detailed earlier, FCPA sentencing guidelines do not list CSR as a mitigating factor. Since CSR is uncorrelated with B_i as we show below, our null hypothesis is that $\beta_H = 0$ under the benchmark of optimal fines by unbiased prosecutors. So β_H measures the halo effect. It represents the change in punishment for bribery offenses for firms with higher corporate social responsibility, holding all else equal.

In subsequent regressions we also explore the importance of various subcategories of KLD. In choosing relevant bribe and country characteristics for B_i, we are guided by our reading of the *Resource Guide* and by factors that Choi and Davis (2013) found relevant. For every bribe we include the amount of bribe payments and the value gained by the firm as a result of the bribe. When these variables are missing, we use the sample mean and include an indicator for missing variables. We also include in B_i the number of years the bribe spans and indicators for whether there are multiple parties involved in the bribe, whether it is being investigated by a foreign entity, whether it occurred in multiple countries, whether it is a repeat offense by the firm, and whether the offender is a US company. We also include fixed effects for the year in which the FCPA case was resolved and an indicator for whether the prosecution was by the DOJ or SEC.

Our main specification uses firm KLD without accounting for industry. However, we have also tried to account for the fact that more socially responsible industries may be looked upon more favorably in general. We have tried controlling for industry fixed effects and have also tried controlling for the average KLD score of a firm's industry, to reduce the number of explanatory variables. Results do not change quantitatively after controlling for average industry KLD and are qualitatively similar but understandably less significant when we use industry fixed effects instead.

5.2   Similar Bribe Characteristics in High and Low CSR Firms

In Table 5, we examine how KLD scores influence bribe characteristics. We show the relationship between KLD and every bribe characteristic that we have available and will used as a explanatory variable in our sanctions regressions. All regressions in this table include

year fixed effects.

The first result in Table 5 shows how bribe payments and value vary with firm KLD. If it were true that high KLD firms tend to engage in less harmful bribes, we would expect bribe payments and bribe value to decrease with KLD, as well as the likelihood of other harmful bribe characteristics. Columns (1) and (3) include all observations while columns (2) and (4) are winsorized at the 95% level. We see that in all columns, there is no significant relationship between KLD and payments or between KLD and the value gained from bribery.

The second set of results focuses on the details of the bribery itself: whether it occurred in multiple countries, the number of years it spanned, and whether a subsidiary or related party were involved. The third set of results focuses on prosecution: whether this was a repeat prosecution under the FCPA, whether there was an ongoing foreign investigation or other trial, and whether the prosecution was by the DOJ.[12] The final set of results focuses on the characteristics of the countries in which the bribery occurred.

Although there are some statistically significant differences in bribe characteristics, they do not portray higher KLD firms as consistently engaging in either more or less harmful bribery. Higher KLD firms are less likely to have a related party involved, making the firm itself more culpable. These firms are also more likely to be involved in a foreign investigation, increasing the expected harm. However, countries in which they bribe tend to be slightly richer and have stronger rule of law and more effective governments, which might suggest that bribes are less harmful. Altogether it seems that while higher KLD firms vary slightly on bribe characteristics, there is no indication that these differences display a systematic bias toward less harmful offenses.

When considering such a large number of dependent variables at once, it is important to remember that spurious but statistically significant coefficients might arise. To counteract this problem of multiple joint hypotheses, we apply the Bonferroni correction to the regressions in Table 5. After this correction, only the effects of KLD on Rule of Law are significant at either the 5% or 10% level. Even with this difference, the effect of KLD on sanctions

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[12]The repeat offense indicator generally measures staggered prosecutions. For all but one of the firms with a repeat offense, the offenses were discovered around the same time but prosecuted at different speeds. The one exception in our data is IBM, which faced a complaint in 2011 following a separate FCPA action in 2000. Despite being the only real repeat offender, IBM is also the most socially responsible firm in our sample.

extends far beyond the effects of rule of law.[13]

5.3   Firm CSR and Deviation from the Optimal Fines Benchmark

In short, there is little evidence that the bribes of higher KLD firms are less likely to be harmful. Yet, as we will now show, KLD ends up being one of the most significant explanatory variable for sanctions. The results of this sanctions regression analysis are presented in Table 6. Due to the small size of our sample, we are highly sensitive to relying on outliers for our result. To moderate the potential influence of outliers, we show the results for a number of different specifications. Column (1) includes all observations. In column (2), sanction, value, and payments are winsorized at 2.5% and 97.5%. In column (3), these variables are winsorized at 95%.[14]

In all three specifications of Table 6 firms with higher KLD receive significantly lower sanctions, all else equal. The results in column (3) reflect our preferred regression specification, which is careful to avoid any effects that may be driven by outliers. The coefficient on KLD is -1.736 and is significant at the 5% level. This means that a one point increase in the KLD score results in an average reduction in sanctions of 1.736 million dollars. The median sanction amount is 5.23 million dollars and the mean sanction amount is 20.3 million dollars. Therefore a one point increase in KLD corresponds to a decline equal to 33% of the median sanction and 9% of the mean sanction. By both measures, this is a sizeable change in punishment. A one standard deviation increase in KLD within the bribe sample would shift the KLD score up by 2.83 points, resulting in a sanction reduction of roughly 4.9 million dollars.

As a benchmark for comparing the explanatory power of KLD, it is also instructive to consider the effects of other covariates on the FCPA sanction. As found in the literature, the bribe payment amount (Payments) is associated with a higher sanction amount and is always statistically significant. A one million dollar increase in payments is linked to an increase

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[13]In Table 5 we estimate that a one point increase in KLD leads to an increase of 0.08 in Rule of Law. We later show in Table 7 that a one point increase in Rule of Law is associated with a 5.6 million decrease in sanctions. Multiplying the two together, this can only explain a decrease of 0.4 in the FCPA sanction.

[14]We have also run all regressions using the logs of sanctions, value, and payments. Results are qualitatively similar but have a lower R^2.

in the resulting sanction of .975 million dollars. So a one point increase in KLD offsets roughly an additional 1.8 million dollars in bribe payments. The amount of value gained from the bribe (Value) also has a positive coefficient, although it is much smaller than that on Payments. Because Value has quite a large standard deviation, the small coefficient still has a large economic effect in explaining sanctions. The relative larger importance of payments suggests that prosecutors consider bribe payments a better signal of harm than the value of business earned.

The other bribe characteristics to consistently and significantly affect sanctions relate to concurrent domestic and foreign investigation. These effects can be interpreted as a reaction to the true harm of a bribe. If the bribe under question is involved in ongoing foreign investigation, the sanction is 20.14 million dollars higher on average, and this is highly significant. This is consistent with the model of optimal fines if foreign involvement is an additional measure of harm. Similarly, bribes in multiple countries receive 7.4 million dollars more in sanctions than those that are narrower in scope. It seems that being involved in multiple ongoing trials and being a repeat offender both lead to a lower sanctions. This is understandable because earlier domestic investigations are almost always linked to the same actions as later ones, so these firms have already been partially punished.

By including both bribe payments, value and many other key bribe characteristics in our regression specification, we believe that we have picked up the heterogeneity in actual harm done by the bribes. This is reinforced by the high R^2 values for these regressions. Our inclusion of year fixed effects ensures that we are not identifying time trends in FCPA sanctions.[15] Therefore, we can reasonably interpret the coefficient on KLD as the effect of firm-specific corporate social responsibility on sanctions, holding fixed the harm of the bribe.

Our baseline results are quite consistent across our three specifications. Figure 2 demonstrates the raw data used to arrive at the relationships in each column. The three sub-figures plot the relationship between the sanction assigned to the case and the firm's KLD. Notice that even as more observations are winsorized, sanctions still decline with KLD.

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[15]For all results in the paper, we have run equivalent regressions that also control for a quadratic in the firm's market capitalization, allowing for non-linear effects of market capitalization on fines. Results do not change, suggesting that we are not identifying differences between large and small firms. Firm size is not part of the optimal fines benchmark and we verify that it does not seem to drive fines.

One remaining source of confounding variation is that bribery harm maybe larger when committed in countries less equipped to battle corruption or countries in which the reputation of the US is more important. To control for this possibility, we match in a number of country-specific variables for each country in which a bribe takes place. If the FCPA case covers multiple countries, we take the average over all countries involved. We control for the amount of US foreign direct investment (FDI) into the country in 2004, in millions. Bribery may be more harshly punished if it takes place in countries with valuable ties to the US. We also control for the country's gross national income per capita, in dollars, as well the Worldwide Governance Indicators (WGI) measures for government effectiveness and rule of law. Government effectiveness deals with issues such as the efficiency of the bureaucracy, education, and the extent to which there is trust in the government. The rule of law measure considers issues such as violent crime and property rights. For these four measures, we are able to match the data to these country-level variables for 77 of the 101 cases.

The results of these regressions are displayed in Table 7. Even taking into account country characteristics, it is still true that higher KLD firms are punished less for bribery. In fact the point estimates are now slightly larger. For columns (1) and (2), the coefficients on KLD are slightly smaller but similar to those in Table 6. However the point estimate for column (3) increases from -1.736 in Table 6 to -2.298 in Table 7. As this is our preferred specification, we estimate that a one point increase in KLD leads to 2.3 million dollars less in sanctions.

Notice that the coefficients on payments and value remain similar for the most part. In the first two columns, the amount of bribery payments increases sanctions assigned. In the third column, once data is winsorized at the 95% level, the value gained from the bribe becomes a more important predictor of sanctions. The other explanatory variables shown in Table 6 are not displayed but have similar coefficients. On the other hand, the newly added country characteristics are generally not statistically significant. In sum, the effect of KLD is larger than many other explanatory variables

Up until now, we have treated SEC and DOJ prosecutions of the same crime as different observations. We have also run these regressions while combining the SEC and DOJ sanctions when the firm subsidiary, country, and year are the same. This provides a robustness check to ensure that our results are not driven by joint decision-making by the DOJ and SEC.

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Although omitted for brevity and available from the authors, the estimates are still generally significant at the 5% level and of similar magnitudes to prior estimates.

To add further credence to this argument, we check the effect of KLD on sanctions while not controlling for bribe characteristics. That is, we only control for year fixed effects and whether the firm was in the US. Regardless of winsorization, we find that the coefficients on KLD were similar to the specification with full controls. This demonstrates that bribe characteristics are likely to be orthogonal to the relationship between KLD and sanctions. Overall we can conclude that good and bad firms engage in similarly harmful bribery and that the variation in sanctions is driven by prosecutorial bias rather than by the true harm of the bribe.

5.4   Subcategories of CSR

To investigate what exactly drives the halo effect in corporate sentencing, we can break KLD down into its components, the six areas in which companies can demonstrate their responsibility. In Table 8 we display the estimates of β_H if we run the main regression using each subcategory of KLD in turn, rather than overall KLD. We include both bribe and country variables, as well as year fixed effects, which are all omitted for brevity. Three of the six categories seem to be consistently significant while one is consistently negative but not statistically significant. These results suggest that the halo effect is mostly generated by responsible behavior towards the community and employees, and by responsible products.

Community KLD, which measures the altruism of the company towards the communities where the firm's operations are located, comes in with the largest point estimates, between -10 and -12 million dollars for all three specifications. These estimates are all significant at the 10% level. The estimated effects of the product KLD score are also large. Product KLD is focused on product quality, the strength of the firm's R&D program, and the provision of products to the economically disadvantaged. The score is lowered by poor product safety, questionable advertising practices, and anti-trust violations. In the three specifications, the coefficients range from -4.7 to -5.1 million dollars. All coefficients are significant at the 5% level.

The next row shows the employee relations score, which is determined by union relations,

employee involvement in firm profits (though stock options, etc), the strength of health and safety programs, and the strength of retirement benefits. Across all three specifications, the coefficients on employee KLD are all large and negative, similar in magnitude to the effects for product KLD. In our preferred specification (column (3)) the estimate is statistically significant at the 5% level and suggests that a one point increase in employee KLD decreases sanctions by around 7.1 million dollars.

Turning to the diversity KLD score, we find point estimates are around -1 and none are statistically significant. This category of KLD attempts to capture how well a company promotes diversity and how accepting it is of the needs of its employees. It includes measures of the promotion of women and minorities, the presence of women and minorities on the board of directors and in businesses with which it contracts, programs enabling work/life balance, employment of the disabled, and tolerant policies towards gays and lesbians. The last two rows show that environment KLD and corporate governance KLD occasionally have positive point estimates and are not statistically significant at any point. These findings indicate that our overall results are not mechanically hard-wired to a firm having installed better governance practices that somehow inhibit violations of the FCPA.

The results in Table 8 makes it clear that our baseline effect, which uses total KLD, averages across these disparate subcategory effects. Earlier we estimated that a one point increase in KLD results in a 2.3 million dollar reduction in sanctions. For the subcategories of community, product, and employee KLD, the effects are always larger. They range from a minimum decrease of 3.5 million dollars to a maximum of 12 million dollars in sanction reduction for a one point increase in one of these three subcategories. Taken all together, these results imply that prosecutors consider a firm's CSR behavior in sentencing.

5.5 Addressing Reverse Causality

One of the first concerns that accompanies our baseline results is reverse causality. If firms changed their CSR efforts to compensate for bribery allegations, our specification would suffer from an endogeneity problem. A negative correlation between KLD scores and sanctions could be caused by firms with less egregious violations using KLD to overcome the bad publicity. In the first three rows of the Table 9, we address the worry that KLD scores

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might be driven by FCPA proceedings. To make sure this is not the case, we use KLD lagged by one, two, and three years as the explanatory variable. Each column is defined as in previous tables and each row shows the result of using a different lagged measure of KLD as opposed to the contemporaneous KLD that is the baseline specification explored in Table 7. The regression specifications control for all other bribe characteristics, as well as country variables, recreating the regressions shown in Table 7. In all three cases, the coefficients in column (3) are statistically significant at the 5% level and the effects are similar in magnitude to that of the current KLD score.

To further alleviate the worry that KLD scores might be partially caused by FCPA sanctions, we use KLD scores that predate the stringent enforcement of the FCPA. Even if firms did not choose KLD directly in response to FCPA sanctions, it could be true that decisions about KLD scores took into account the likelihood of FCPA prosecution. To show that this is not the case, in the last row of Table 9 we exploit the fact that the FCPA only became widely and unexpectedly enforced in 2007. We use as the explanatory variable the KLD score prior to the expansion of FCPA prosecution. In every year prior to 2007 we use that year's KLD but we use 2007 KLD for all cases prosecuted in or after 2007. Before 2007, very few FCPA cases were prosecuted and there was virtually no concern about the enforcement of the law. The explosion in the caseload right after 2007 is readily seen from Figure 1. Because of this it is unlikely that firms considered FCPA repercussions when deciding their CSR strategy in 2007. Nevertheless, these 2007 KLD scores are still negatively correlated with sanctions and are of similar economic magnitudes to our base specification. The estimate from our preferred specification in column (3) is again significant at the 5% level.

5.6 Accounting for Compliance or Cooperation

Having shown that KLD scores affect sanctions above and beyond what is warranted by bribe characteristics, we move on to show that this also exceeds the optimal fines driven by cooperation. In corporate criminal cases it is optimal for prosecutors to tie the sanction amount to the cooperation and compliance of the firm (Arlen, 1994; Arlen and Kraakman, 1997). So it is important to verify that any relationship between KLD and sanctions is not

driven by more socially responsible firms being more cooperative with prosecution.[16]

In order to study this effect, we use the press releases of the DOJ and SEC that accompany the settlement of every FCPA case (see as an example Figure 3). Following Choi and Davis (2013), we use text-mining to score the press releases by the frequency of words like "cooperation" or "compliance". More specifically, we take all the press releases associated with our cases and create a list of all the words (nouns, verbs, adjectives and adverbs) and the frequency of their occurrence. We then take only the words which occur at least 150 times, for a total 377 words. We assign each word a score of 2, 1, 0, -1, or -2. Words that reflect cooperation or compliance get a score of 2. Words that reflect non-cooperation or non-compliance get a score of -2. For instance, the word "compliance" occurs 1632 times and gets a score of 2. The word "cooperation", which occurs 266 times, also gets a score of 2. In contrast, the words "guilty" and "offense" get a score of -2. We then sum these scores to get a Collaboration Score for each case.

The mean collaboration score is -18.9 and the median is -17.5, as may be expected from states that detail wrongdoing. However, there is a significant standard deviation of 16.2. In Table 10, we re-run our baseline regression of sanctions on KLD (from Table 7) but now also control for the Collaboration Score. Our baseline results are largely unchanged. To further demonstrate the divergence between KLD and cooperation, in column (1) of Table 14 we directly test the relationship between the two. Higher KLD scores do not lead to a significantly higher collaboration score. This analysis serves to rule out heterogeneity in collaboration as the channel through which high KLD firms have lower sanctions.

5.7 Accounting for Other Firm Characteristics

We have established a bias in sanctions, a deviation from the optimal benchmark where unbiased prosecutors set fines taking into account only bribe characteristics and cooperation. But this prosecutorial bias need not be due to the psychological and expectational bias of the halo effect. It could instead be due to biased incentives or conflicts of interest, where the prosecutors may take into account the political sway of firms to avoid angering those that

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[16]Compliance with prosecution is especially important to control for because it may also alter the probability of detection in each firm.

are more powerful (Johnson, 1973).[17]

If existent, this political bias could manifest itself in two different ways. The first is if more liberal firms, those more likely to be associated with the Democratic party, tend to be more socially responsible. If prosecutors from the DOJ and SEC favor Democrats, this affiliation could lead to lower fines. This would be plausible if the prosecutors were indeed liberal. However, it is important to note that the explosion in FCPA enforcement was driven not by Democrats, but by Republicans. Prosecutions picked up sharply in 2007, under the leadership of appointees of George W. Bush. Leading the charge were a Republican deputy attorney general, assistant attorney general, and new assistant chief of the DOJ's Fraud Section, who is known as a conservative pundit.[18] Therefore it would seem that political favoritism is not responsible for the beneficial treatment of more socially responsible firms.[19]

The other way in which political bias might influence the assignment of FCPA fines is if more socially responsible firms are more politically active in general, and this affects the career concerns of prosecutors. Then KLD may capture the effect of political clout rather than CSR. This could also be driven to firm size, which has been shown to be closely related to KLD scores as larger firms may have more political sway. To account for size, we control for a quadratic in market capitalization. In order to further address the issue of political power, we collect data on firm's donations to politicians and elections. The Federal Election Commission records contributions from all individuals and firms of at least $200, as long as they are not made through a Political Action Committee. This provides a measure of how politically active each company is.

Donations allow us to construct two measures of political influence. Lagged donations, those between ten and five years before the FCPA action, capture historical political involvement. These contributions precede FCPA action and therefore are unlikely to be related to

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[17]One might also worry that prosecutors are intentionally assigning lower sanctions to firms if their revenue is more likely to go to charitable purposes. However, considering the difference in sanctions is on the order of a few million dollars, it is unlikely that this contributes significantly to corporate social responsibility. A large part of the cost of being subject to an FCPA investigation is the legal fees.

[18]The rise of FCPA enforcement under this leadership is described by the law firm Gibson, Dunn & Crutcher LLP: http:www.gibsondunn.compublicationspagesFCPAEnforcementExplosionContinues.aspx

[19]If political considerations were key, we might also expect to see differential treatment of more socially responsible firms under Democratic and Republican administrations. Instead, we found that the effect of KLD on sanctions does not differ systematically with the party in power, in tables not shown.

recent charges. Recent donations, those beginning five years before the FCPA action, potentially reflect responses to prosecution. This would pick up increases in political contributions meant to sway prosecutors during the time the fine is determined. The median firm in the sample does not have any documented contributions in any of these years. However, the mean amount of lagged donations is $103,000, with a standard deviation of $211,000. The mean contribution for the five years preceding the FCPA action is $50,000, with a standard deviation of $226,000. These numbers reflect the wide dispersion of political involvement amongst prosecuted firms. It seems that involvement in FCPA actions causes firms to dampen their political contributions rather than increase them, perhaps to avoid political scrutiny during the investigation.

First we investigate the relationship between political donation and corporate social responsibility. Table 11 shows how political donations vary with KLD, after controlling for year fixed effects. The first column focuses on lagged donations, those from 10 to 5 years before the resolution of the FCPA action. The second column focuses on recent donations, during the 5 years prior to the FCPA action. In both cases, donations are actually negatively related to KLD scores, although this is not statistically significant. More socially responsible firms are historically less politically active. The dependent variable is measured in millions of dollars, so a one-point increase in KLD is associated with $12,000 less in donations. This suggests that rather than going hand in hand, political activity is either orthogonal to CSR or may be an alternate route to achieving influence. This casts doubt on the idea of political donations as a driver of sanction outcomes.

However, we can further verify that political donations are not likely to influence sanctions. We directly test the relationship between donations and FCPA fines in Table 12. These regressions revisit the baseline specification for the effects of KLD on sanctions but also control for the amount of recent political donations by the company. A qualitatively similar pattern emerges when using lagged donations, rather than recent donations.

To further account for firm characteristics we also control for size, using a quadratic in firm market capitalization, as well as ROA. The main takeaway from this table is that the effects of KLD remains the same as before. One extra point of KLD is associated with a 2.5 million dollar reduction in sanctions, and this result is statistically significant at the 5% level.

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Meanwhile, the coefficients on donations are never significant. Likewise, the coefficients on market capitalization and on ROA are not significant. In other words, our effect is not driven by some talented CEOs being better at generating firm profits and at evading sanctions. In sum, we conclude that KLD is the strongest explanatory variable when compared to other firm characteristics, that would be expected to influence sanctions.

5.8   Estimates using Interaction with Firm Visibility

Experimental studies of the halo effect find that it is stronger when there is more priming on the global reputation of the subject being evaluated. In our context, we should observe that prosecutors are more influenced by a halo effect if they are more aware of a firm's socially responsible reputation. Firms that are more visible or recognizable to the public (which presumably includes prosecutors) will be easier to strongly associate with either high or low corporate social responsibility. Therefore we would expect prosecutorial bias to be stronger for more visible firms.

Our measure of Visibility is membership in the Harris Poll's Reputation Quotient Survey. This is an annual survey that asks respondents (normal everyday people or consumers) to name the companies with the 2 best and 2 worst reputations. These responses are combined to form a list of most visible companies. We measure visibility by using an indicator for being on the list of the 60 most visible companies in 2008, a year that is close to the years of FCPA prosecution in our sample.

To test whether this is the case, in Table 13 we compare the effect of KLD on sanctions for differently visible firms. The regressions shown in this table follow those presented before, but they allow effects to differ by firm visibility. Because visibility is likely to be highly correlated with size, all columns also control for a quadratic in market capitalization. In the first column, the effect of KLD is no longer large or significant, at -.408, but the coefficient on the interaction between Visibility and KLD is -5.761 and is significant at the 5% level. The effect of KLD on sanctions is driven by highly visible firms, who are assigned a sanction that is 5.76 million dollars lower for every one point increase in KLD, and is not strong for less visible firms.

Another measure of visibility is membership in the S&P 500. Index members are widely

followed by analysts, investors and media, making it more likely that prosecutors would be familiar with their reputations. In the second column we control for S&P 500 membership and its interaction with KLD. Again KLD on its own does not have a large or significant impact on sanctions. However, for firms that are in the S&P500, a one point increase in KLD leads to 4.074 million less in sanctions. These differential effects for more and less visible firms confirm that the leniency towards more socially responsible firms is likely to be driven by a halo effect, rather than by any other considerations.

The final column controls for whether or not the firm's name is considered a top brand, according to The 100 Top Brands, a list compiled by Businessweek from 2001 through 2007. Firms with top brands are not only more visible to the public but are likely to have higher KLD scores. The coefficients on both KLD and Top Brand are both negative but only the coefficient on KLD is significant. The estimated effect of Top Brand is highly imprecise, partially reflecting the fact that only 13 firms in the FCPA sample appear in these lists. KLD has a similar effect to previous specification, leading to a 2.5 million dollar decrease in sanctions. This suggests that corporate social responsibility generates a halo effect distinct from and sharper than brand reputation.

5.9   Prosecutor Press Releases and Stock Market Price Reactions

We next consider the effect of these prosecutorial fine outcomes on a firm's stock price. These fine announcements are accompanied by prosecutorial press releases. Since prosecutors describe the basis for their decisions, it is likely that high KLD firms receiving abnormally low fines will also get a less negative (or more positive) press release describing the punishment than low KLD firms. A large body of recent research finds that positive sentiment is associated with higher stock prices (see, e.g., Tetlock (2007)). As such, we expect that high KLD firms, because they have both lower fines and a less negative press release, ought to out-perform low KLD firms subsequent to announcement. The assumption is that the market did not already anticipate all these outcomes, which we think is reasonable given that the FCPA only began to be enforced in our sample and there was little history for the market to learn from.

To this end, we first use three text mining algorithms to measure the positive and negative

emotional or sentimental content of the press releases. There is a long history in psychology and linguistics of inferring emotional or mental states from written passages,[20] and this has been successfully applied in the context of financial markets as well by Loughran and Mc-Donald (2011). To capture a wide range of emotional scores, we use the positive sentiment score from SentiWordNet, both positive and negative scores from LIWC, and negative scores developed by Loughran and McDonald (2011).[21] These algorithms score passages by using dictionaries trained on a broad population of documents. This allows us to rely on a large dataset that captures how humans tend to express their opinions in text, and how corporations convey negative news. In other words, while we focused on words associated with cooperation or non-cooperation when building the dictionary for our Collaboration score, the dictionaries for LIWC, SentiWordNet, and the Loughran-McDonald score (hereafter LM) are built to pick up broader sentiment.

For the SentiWordNet method, we scan press releases, extract words from them, and then sum up the scores for all words to produce a score for the whole passage.[22] For the LIWC method, we similarly generate the score by using software from LIWC.[23] For the LM approach, we count the number of words that have negative connotation in business terminology, as determined by Loughran and McDonald by looking at 10-Ks from 1994 through 2008.[24]

The positive emotion measures are similar to those found in the broader population of non-legal text documents. The Senti Score from SentiWordNet has a mean of 2.17 and median of 1.98 with a standard deviation of 1.73. The Positive Emotion score from the LIWC has a mean of 2.58 and a median of 2.44. The standard deviation of the score is smaller, at 0.71. This means that on average, positive words make up 2.58% of each documents in the FCPA sample. The LIWC negative emotion score is lower, at 0.67 and a standard

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[20]see Christopher Potts' website for a tutorial http://sentiment.christopherpotts.net/

[21]Another popular algorithm, named General Inquirer from Harvard University, is widely used in classifying sentiment from financial media, which generally tends to yield results very similar to LIWC.

[22]The official website is http://sentiwordnet.isti.cnr.it and the documentation of SentiwordNet 3.0 is http://nmis.isti.cnr.it/sebastiani/Publications/LREC10.pdf

[23]The software us available on its official website at http://www.liwc.net and a description is available at http://www.liwc.net/howliwcworks.php.

[24]We present the results of the simple proportion of negative words but all calculations are similar using the td.idf weighted measure.

deviation of 0.42. So prosecutors tend to use much more positive than negative words in the press releases. In order to verify that we are not mis-measuring negative words, we also use the LM negative word measure. It is significantly higher, with an average of 21.1 and a standard deviation of 14.1 in our sample. As expected from a negative news announcement, the documents have more negative business words than the general sample of 10-Ks.

In the second and third columns of Table 14, we find that higher KLD firms are more likely to have positive sentiment in their press releases, as measure by the LIWC Positive Emotion score. For the Senti score in the second column, the coefficient is .258 and has a t-statistic of 1.33. For the Positive Emotion score from LIWC in the third column, the coefficient on KLD is .149 and it is significant at the 10% level. This implies that a one score increase in KLD leads to a 6% increase in positive emotion relative to the mean. In the last two columns we measure the relationship between KLD and negative press releases. We find that there is no significant effect on the LIWC Negative Emotion measure but that KLD is linked to lower values of the LM Negative measure, the more reliable score for business documents. The coefficient is -1.659 and is significant at the 10% level, implying that a one point increase in KLD is associated with a 8% decrease in negative tone relative to the mean. Overall, it appears that the lower sanctions obtained by high KLD firms are reflected in the emotional or sentimental tones in these press releases, consistent with the halo effect.

We then study the stock market reactions following these press releases. We measure abnormal returns preceding and following the announcement for every firm in order to track shareholder's reactions. We are only interested in measuring the difference in price reactions between high and low KLD firms because ex ante, it is not clear whether the average stock price reaction to FCPA announcements should be negative, positive, or flat. On the one hand, the reminder of the FCPA charges may make negative aspects of the firm more prevalent, or sanctions might be consistently higher than expected, as the DOJ and SEC crack down on bribery throughout the 2000s. In that case we would expect to see negative abnormal returns following announcements. However, if shareholders are generally able to accurately predict sanctions, we would expect to see no abnormal returns. On the other hand, it may be that FCPA announcements convey positive news. Sanctions might be lower than expected by the market, and these announcements also signal the end of a costly and uncertain process, the

FCPA inquiry.[25]

The realized cumulative abnormal returns following these announcements are shown in Figure 4. Cumulative returns are measured starting 30 days prior to the FCPA press release and ending 120 days after. We follow the literature on earnings announcements (see, e.g., ?) by using a wide window to track the effect of press release announcements. It can take the market as much as 120 days to fully recognize earnings news. It stands to reason that a similar horizon applies for FCPA news.

In the top graph, abnormal returns are measured relative to the Fama-French three factor model. In the lower graph, they are measured relative to weighted market returns. The solid lines mark average cumulative abnormal returns and the dotted lines represent 95% confidence intervals. The sample of FCPA firms is split into high KLD and low KLD firms to compare the effects for more or less socially responsible companies. It is apparent that regardless of the measure of abnormal returns, cumulative abnormal returns are positive in the months following the FCPA announcement, and this effect seems to be more pronounced for higher KLD firms.

To measure the effects of these press releases more formally, Table 15 shows daily abnormal returns in various periods relative to the announcement date. Following ?, we regress abnormal returns on dummies for two periods. The first is an event window of 5 days around the announcement: from 5 days before to 5 days after ($[-5, 5]$). The second is the half year following the announcement: from 6 days after to 126 days after the event ($[6, 126]$). For both time periods, we first allow the effect to vary linearly with a firm's KLD score in the first two columns.

From the first two columns it is clear that although there are no significant abnormal returns in the 5-day event window surrounding the announcement, abnormal returns are significantly higher in the months following the announcement, consistent with the graphical results in Figure 4. In both columns, the coefficients on $[6, 126]$ demonstrate that daily abnormal returns are roughly 10 bps higher in the six months following the announcement

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[25]Karpoff, Lee, and Martin (2014), for instance, who study not just the settlement announcements but also the intial announcements that the firm is subject to an FCPA investigation, find on average a small negative effect. This suggests that initial announcements are substantially negative given that the settlement announcements are on average positive.

(or a total of 12% over the six months). Interacting with KLD shows that although higher KLD firms do not experience any higher returns directly around the announcement, daily abnormal returns over the following 6 months rise by a statistically significant 2 bps daily for a one-point increase in KLD (or an additional 2.4% over the six months).

5.10   Selection of Cases

Our study has focused exclusively on fines levied in FCPA cases. We take the FCPA cases as given and establish a halo effect in sentencing relative to the benchmark of optimal fines along the lines of Becker (1974) and Polinsky and Shavell (1992). However, there may also be a halo effect in the selection of cases to prosecute, since prosecutors have discretion in that domain as well.

In Table 16 we examine whether firm KLD scores are correlated with the probability of ending up in our FCPA sample. The regression estimates a linear probability model using all firms with a KLD score, and controls for an indicator for whether the firm is a US company and for year and industry fixed effects. Column (2) also controls for a quadratic in firm market capitalization. The coefficient on KLD is consistent across the two specifications, implying that a one point increase in KLD decreases the likelihood of ending up in the FCPA sample by 0.04 percentage points. In column (2) this is significant at the 10% level but it is still an economically small effect.

Because we cannot observe actual bribery, we do not know if this decreased likelihood of FCPA prosecution is due to lower incidence of bribery in higher KLD firms or if it is due to a halo effect in prosecution. However, there is evidence to suggest that bribery is extremely common across many different types of firms, lending credence to the possibility that the halo effect is at play. Indeed, the realization that bribery was widespread is what drove the passage of the FCPA. Although we cannot make any definitive statements about selection into the FCPA without more data on the pool of offenders, it is possible that all else equal, prosecutors are less willing to prosecute more socially responsible firms.

6 Conclusion

Corporate social responsibility is becoming an ever more important part of corporate strategy. As a result it is increasingly important to understand what motivates CSR and how it can benefit companies. We are able to measure a particular benefit of CSR by studying a novel setting. We compare the punishment of crimes by more and less socially responsible corporations. Using data on the prosecution of the Foreign Corrupt Practices Act (FCPA) by the US Department of Justice and the SEC, we compare fines to the optimal fines benchmark following Becker (1974) and Polinsky and Shavell (1992). We find that firms with higher social responsibility scores, as measured by KLD scores, pay $2 million dollars less, or 40% less than the median fine, for bribing foreign officials.

We establish that these results are not driven by reverse causality or outliers, and verify that our results are consistent with the halo effect rather than any other potential sources of prosecutorial bias. We show that it is only the more visible firms that are affected by this bias. We use text-mining to identify emotional differences in prosecutor's treatment of more socially responsible firms and find that abnormal returns following FCPA fine announcements are higher for more socially responsible firms, highlighting an important channel through which CSR may benefit shareholders.

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Figure 1: FCPA Actions by Year

Note: All FCPA actions are shown by the year in which the case was filed.
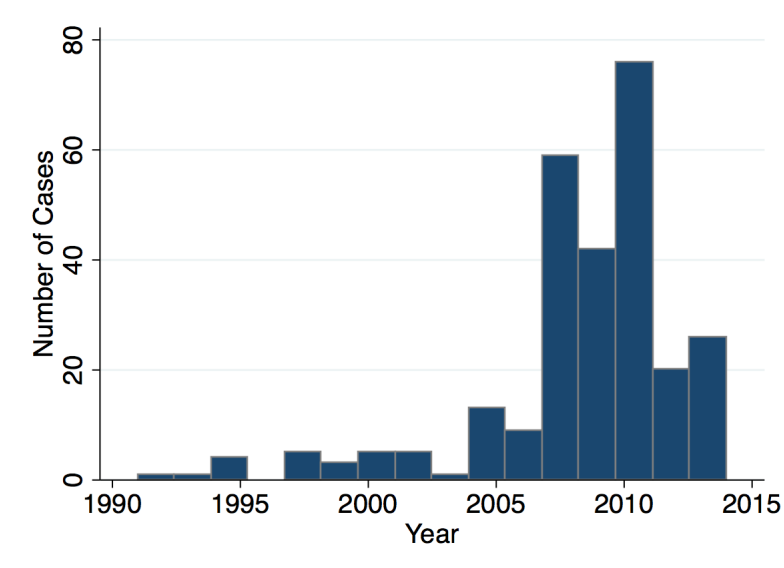
Figure 2: Sanctions by KLD

Note: The figures show the raw relationship between the sanction amount and KLD. Sub-figure (a) includes all observations. In sub-figure (b) the sanction amount is winsorized at 2.5% and 97.5%. In sub-figure (c) the sanction amount is winsorized at 95%.
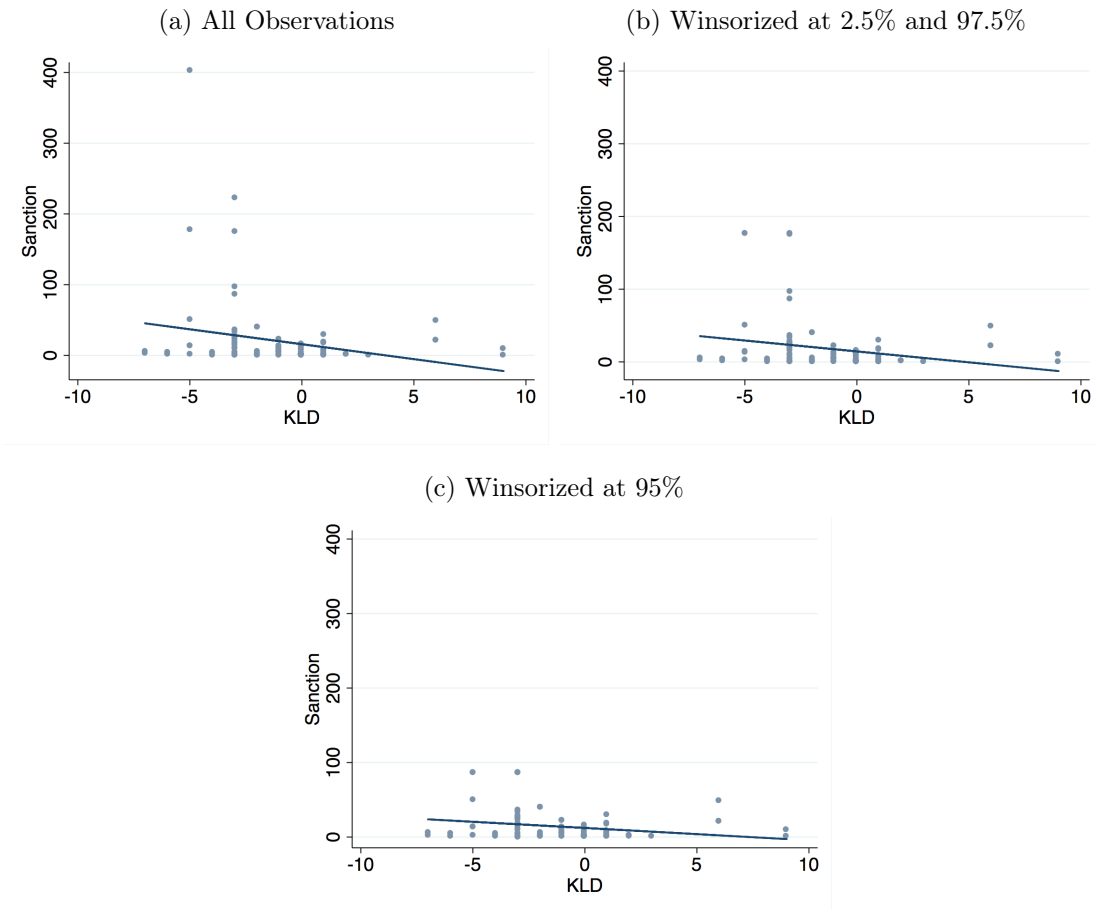
(a) All Observations

(b) Winsorized at 2.5% and 97.5%

(c) Winsorized at 95%

Figure 3: FCPA Press Release: SEC on Oracle Corporation

SEC Charges Oracle Corporation With FCPA Violations Related to Secret Side Funds in India

FOR IMMEDIATE RELEASE
2012-158

Washington, D.C., Aug. 16, 2012 — The Securities and Exchange Commission today charged Oracle Corporation with violating the Foreign Corrupt Practices Act (FCPA) by failing to prevent a subsidiary from secretly setting aside money off the company's books that was eventually used to make unauthorized payments to phony vendors in India.

The SEC alleges that certain employees of the India subsidiary of the Redwood Shores, Calif.-based enterprise systems firm structured transactions with India's government on more than a dozen occasions in a way that enabled Oracle India's distributors to hold approximately $2.2 million of the proceeds in unauthorized side funds. Those Oracle India employees then directed the distributors to make payments out of these side funds to purported local vendors, several of which were merely storefronts that did not provide any services to Oracle. Oracle's subsidiary documented certain payments with fake invoices.

Oracle agreed to pay a $2 million penalty to settle the SEC's charges.

"Through its subsidiary's use of secret cash cushions, Oracle exposed itself to the risk that these hidden funds would be put to illegal use," said Marc J. Fagel, Director of the SEC's San Francisco Regional Office. "It is important for U.S. companies to proactively establish policies and procedures to minimize the potential for payments to foreign officials or other unauthorized uses of company funds."

According to the SEC's complaint filed in U.S. District Court for the Northern District of California, the misconduct at Oracle's India subsidiary - Oracle India Private Limited - occurred from 2005 to 2007. Oracle India sold software licenses and services to India's government through local distributors, and then had the distributors "park" excess funds from the sales outside Oracle India's books and records.

For example, according to the SEC's complaint, Oracle India secured a $3.9 million deal with India's Ministry of Information Technology and Communications in May 2006. As instructed by Oracle India's then-sales director, only $2.1 million was sent to Oracle to record as revenue on the transaction, and the distributor kept $151,000 for services rendered. Certain other Oracle India employees further instructed the distributor to park the remaining $1.7 million for "marketing development purposes." Two months later, one of those same Oracle India employees created and provided to the distributor eight invoices for payments to purported third-party vendors ranging from $110,000 to $396,000. In fact, none of these storefront-only third parties provided any services or were included on Oracle's approved vendor list. The third-party payments created the risk that the funds could be used for illicit purposes such as bribery or embezzlement.

The SEC's complaint alleges that Oracle violated the FCPA's books and records provisions and internal controls provisions by failing to accurately record the side funds that Oracle India maintained with its distributors. Oracle failed to devise and maintain a system of effective internal controls that would have prevented the improper use of company funds.

Without admitting or denying the SEC's allegations, Oracle consented to the entry of a final judgment ordering the company to pay the $2 million penalty and permanently enjoining it from future violations of these provisions. The settlement takes into account Oracle's voluntary disclosure of the conduct in India and its cooperation with the SEC's investigation, as well as remedial measures taken by the company, including firing the employees involved in the misconduct and making significant enhancements to its FCPA compliance program.

The SEC's investigation was conducted by staff attorney Elena Ro and Assistant Regional Director Jina Choi in the San Francisco Regional Office. The SEC acknowledges the assistance of the U.S. Department of Justice, Federal Bureau of Investigation, and Internal Revenue Service.

Figure 4: Cumulative Abnormal Returns Around FCPA Announcements

Note: The figures show the cumulative abnormal returns around FCPA press releases, measured as time 0. Cumulative returns begin 30 days before the announcement and end 120 after. Sub-figure (a) measures returns net of 3 Fama-French factors. In sub-figure (b) returns are measured net of weighted market returns, from CRSP. High and Low KLD are defined as firms above and below the median KLD score in the FCPA sample. The dotted lines represent 95% confidence intervals.

(a) Cumulative Returns Net of 3 Fama-French Factors

(b) Cumulative Returns Net of Market
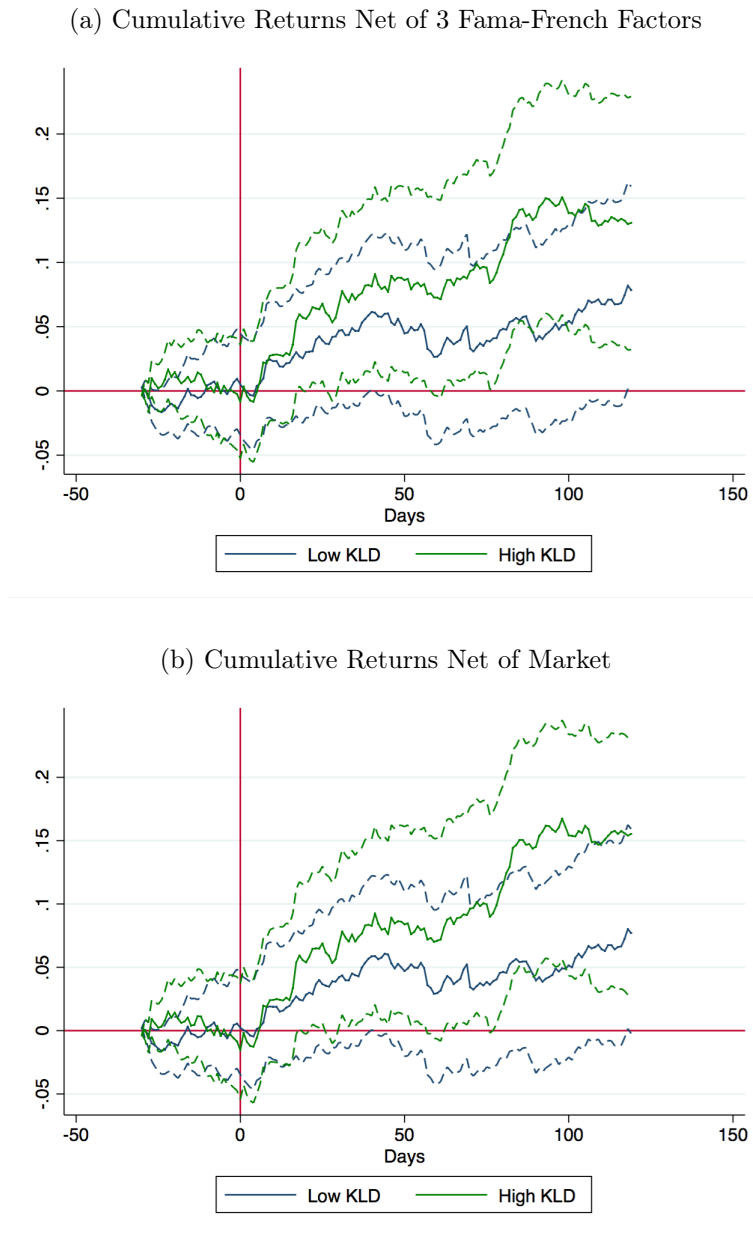
Table 1: High and Low KLD Firms

Note: The firms with the highest and lowest KLD scores are displayed, both within the sample of all firms with observable KLD scores, and within firms that are in the FCPA sample.

All Firms		FCPA Sample	
Xerox Corp	10	IBM	9
IBM	10	Johnson & Johnson	6
Hewlett-Packard	10	Nature's Sunshine	3
General Mills	10	Lucent Technologies	2
Ben & Jerry's	10	ITT	2
...	...	...	...
Wal-Mart Stores	-7	Con-way Inc.	-4
Chevron	-7	Tyco	-5
Conagra Foods	-8	Halliburton and KBR	-5
Goodyear Tire & Rubber	-8	Tyson Foods	-6
Republic Services	-8	El Paso Corporation	-7

Table 2: Summary Statistics

Note: Summary statistics are shown for the 101 FCPA cases that match to KLD data. Market capitalization, sanction, payments, and value are measured in millions of dollars.

	Mean	Median	StDev
Market Cap (millions)	27,863	5,725	55,342
KLD	-1.06	-1	2.83
US Company	.871	1	.337
Sanction (millions)	20.3	5.23	51.9
Payments (millions)	9.26	2	27.2
Value (millions)	300	98.2	892
# Years Bribery	5.78	5	3.21
Related Party Involved	.515	1	.502
Foreign Investigation Ongoing	.149	0	.357
Multiple Countries	.396	0	.492
Multiple Ongoing Trials	.802	1	.4
Repeat Offense	.0693	0	.255

Table 3: Cases by Industry

Note: Industries are shown for the 101 FCPA cases that match to KLD data. Industries are defined as the 17 Fama-French industry portfolios.

Food	10
Oil	13
Apparel	2
Chemicals	3
Consumer Goods	9
Construction	3
Steel	2
Fabricated Products	2
Machinery	19
Transportation	5
Utilities	2
Other	31
Total	101

Table 4: Cases by Country

Note: The country in which bribery occurred is shown for the 101 FCPA cases that match to KLD data. For brevity, we only display the countries for which there are more than 3 FCPA cases. The number of observations is greater than 101 because each FCPA case can involve multiple countries.

Angola	4
Argentina	8
Bahrain	4
Brazil	5
China	28
Croatia	4
Egypt	6
Greece	7
India	10
Indonesia	12
Iraq	20
Kazakhstan	4
Mexico	5
Nigeria	9
Poland	6
Russia	6
Saudi Arabia	4
South Korea	4
Thailand	9
Turkey	4
United Arab Emirates	7
Venezuela	4
Total	170

Table 5: The Effect of CSR on Bribe Characteristics

Note: The regressions include all observations and the dependent variables cover all observable bribe characteristics. All regressions include year fixed effects. Payments and value are measured in millions of dollars. In the first panel covering bribe payments and value, columns (1) and (3) include all observations while columns (2) and (4) are winsorized at 95%. Standard errors are robust and clustered at firm level. $*$ $p < .05$, $+$ $p < .10$

	(1) Payments	(2) Payments	(3) Value	(4) Value
KLD	-2.994	-0.291	-73.115	-1.062
	(-1.53)	(-0.98)	(-1.06)	(-0.13)
Year FE	Yes	Yes	Yes	Yes
Observations	101	101	101	101
R^2	0.263	0.184	0.167	0.114

	Multiple Countries	Years of Bribery	Subsidiary	Related Party
KLD	0.028	0.183	0.016	-0.059*
	(1.45)	(1.19)	(0.67)	(-2.40)
Year FE	Yes	Yes	Yes	Yes
Observations	101	101	101	101
R^2	0.213	0.263	0.329	0.249

	Repeat Offense	Foreign Investigation	Multiple Trials	DOJ
KLD	-0.003	0.039*	-0.028	-0.013
	(-0.19)	(2.03)	(-1.63)	(-0.84)
Year FE	Yes	Yes	Yes	Yes
Observations	101	101	101	101
R^2	0.287	0.247	0.262	0.034

	US FDI	Country GNI	Rule of Law	Govt Effectiveness
KLD	-920.432	355.473+	0.083*	0.067*
	(-0.65)	(1.74)	(4.15)	(2.41)
Year FE	Yes	Yes	Yes	Yes
Observations	82	92	97	97
R^2	0.215	0.468	0.453	0.488

Table 6: Effect of CSR on Sanctions

Note: The dependent variable in all regressions is the sanction assigned by the prosecutor. All regressions include year fixed effects, an indicator for DOJ cases, an indicator for US companies, and indicators for whether payments or value are missing. Sanction, payments, and value are measured in millions of dollars. Column (1) includes all observations. In column (2), sanction, value, and payments are winsorized at 2.5% and 97.5%. In column (3), these variables are winsorized at 95%. Standard errors are robust and clustered at firm level. $* p < .05, + p < .10$

	(1)	(2)	(3)
	Sanction	Sanction	Sanction
KLD	-1.818*	-1.863*	-1.736*
	(-2.49)	(-2.99)	(-2.86)
Payments	0.879+	0.836*	0.975*
	(1.68)	(2.67)	(2.07)
Value	0.018	0.015	0.039+
	(1.36)	(1.61)	(1.94)
Related Party Involved	0.389	2.058	1.565
	(0.12)	(0.82)	(0.63)
Foreign Investigation Ongoing	21.242*	20.989*	20.141*
	(3.10)	(3.80)	(4.02)
Number of Years of Bribery	-1.337	-0.624	0.739
	(-0.90)	(-0.64)	(1.06)
Multiple Countries	15.379*	13.238*	7.445+
	(3.03)	(2.99)	(1.77)
Multiple Ongoing Trials	-9.730+	-6.022+	-6.222+
	(-1.93)	(-1.77)	(-1.82)
Repeat Offense	-15.675*	-15.084*	-13.040*
	(-2.23)	(-2.32)	(-2.18)
Year FE	Yes	Yes	Yes
Observations	101	101	101
R^2	0.825	0.866	0.714

Table 7: Effect of CSR on Sanctions, With Country Variables

Note: The dependent variable in all regressions is the sanction assigned by the prosecutor. All regressions include year fixed effects, an indicator for DOJ cases, an indicator for US companies, and indicators for whether payments or value are missing. Also omitted for brevity but included in the regression are all variables shown in Table 6. Sanction, payments, and value are measured in millions of dollars. Column (1) includes all observations. In column (2), sanction, value, and payments are winsorized at 2.5% and 97.5%. In column (3), these variables are winsorized at 95%. Standard errors are robust and clustered at firm level. $* \, p < .05, \, + \, p < .10$

	(1)	(2)	(3)
	Sanction	Sanction	Sanction
KLD	-1.649^{+}	-1.715^{*}	-2.298^{*}
	(-1.69)	(-2.13)	(-3.89)
Payments	1.076^{+}	0.852^{*}	-0.040
	(1.87)	(2.28)	(-0.08)
Value	0.010	0.010^{+}	0.063^{*}
	(1.20)	(1.69)	(3.88)
US FDI to Country	-0.000	-0.000	-0.000
	(-0.63)	(-0.91)	(-1.24)
Government GNI	0.001	0.001^{+}	0.000
	(1.58)	(1.98)	(0.93)
Government Rule of Law	-0.291	-5.768	-5.613
	(-0.02)	(-0.48)	(-0.53)
Government Effectiveness	-25.202	-22.134	-14.060
	(-1.54)	(-1.60)	(-1.19)
Observations	77	77	77
R^2	0.825	0.872	0.752

Table 8: Effect of CSR Subcategories on Sanctions

Note: The dependent variable in all regressions is the sanction assigned by the prosecutor. The regression specifications are the same as in Table 7 but differ in the variable used for KLD. Each row represents a separate regression, where KLD is measured by using a different subcategory. There are 77 observations in each regression. For brevity, only the coefficients on KLD are displayed. Column (1) includes all observations. In column (2), sanction, value, and payments are winsorized at 2.5% and 97.5%. In column (3), these variables are winsorized at 95%. Standard errors are robust and clustered at firm level. $* p < .05, + p < .10$

	(1) Sanction	(2) Sanction	(3) Sanction
Community KLD	-11.990$^+$	-11.165$^+$	-10.487*
	(-1.84)	(-1.98)	(-2.29)
Product KLD	-5.013*	-4.676*	-5.139*
	(-2.62)	(-2.73)	(-2.83)
Employee KLD	-3.527	-3.770$^+$	-7.124*
	(-1.38)	(-1.73)	(-3.28)
Diversity KLD	-1.158	-1.023	-0.771
	(-0.54)	(-0.64)	(-0.61)
Environment KLD	3.735	2.210	-3.229
	(1.10)	(0.78)	(-1.33)
Corp Gov KLD	1.265	1.925	-0.757
	(0.26)	(0.44)	(-0.19)

Table 9: Effect of Prior CSR on Sanctions

Note: The dependent variable in all regressions is the sanction assigned by the prosecutor. The regression specifications are the same as in Table 7 but differ in the variable used for KLD. For brevity, only the coefficients on KLD are displayed. KLD $t - n$ is the KLD score lagged n years. KLD 2007 is the KLD score in year 2007, or the year of the case if it preceded 2006. There are 75 observations in the regression using KLD t-1, 72 for KLD t-2, 67 for KLD t-3, and 71 for 2007 KLD. Column (1) includes all observations. In column (2), sanction, value, and payments are winsorized at 2.5% and 97.5%. In column (3), these variables are winsorized at 95%. Standard errors are robust and clustered at firm level. $* p < .05, + p < .10$

	(1) Sanction	(2) Sanction	(3) Sanction
KLD t-1	-1.496	-1.616^{+}	-2.188^{*}
	(-1.49)	(-2.00)	(-4.00)
KLD t-2	-0.971	-1.396	-1.835^{*}
	(-0.74)	(-1.30)	(-2.69)
KLD t-3	-1.520	-1.964^{+}	-2.330^{*}
	(-1.07)	(-1.75)	(-2.90)
2007 KLD	-1.490^{+}	-1.342^{+}	-2.107^{*}
	(-1.71)	(-1.85)	(-4.02)

Table 10: Effect of CSR on Sanctions, with Collaboration Score

Note: The dependent variable in all regressions is the sanction assigned by the prosecutor. The regression specifications are the same as those in Table 7 but include an additional explanatory variable: the collaboration score of the text. The score is calculated by text-mining the DOJ or SEC press release for each case. Sanction, payments, and value are in millions of dollars. Column (1) includes all observations. In column (2), sanction, value, and payments are winsorized at 2.5% and 97.5%. In column (3), these variables are winsorized at 95%. Standard errors are robust and clustered at firm level. $* p < .05, + p < .10$

	(1) Sanction	(2) Sanction	(3) Sanction
KLD	-1.921	-2.123$^+$	-2.401*
	(-1.35)	(-1.80)	(-2.85)
Collaboration Score	0.212	0.103	0.239
	(0.89)	(0.60)	(1.66)
Payments	1.066$^+$	0.855*	-0.098
	(1.75)	(2.11)	(-0.20)
Value	0.009	0.010	0.060*
	(1.04)	(1.63)	(3.91)
Number of Years of Bribery	1.224	0.954	1.953$^+$
	(0.83)	(0.85)	(1.87)
Related Party Involved	-1.655	-3.294	3.022
	(-0.20)	(-0.61)	(0.70)
Foreign Investigation Ongoing	19.827$^+$	21.092*	26.415*
	(1.82)	(2.33)	(4.36)
Multiple Ongoing Trials	-22.940*	-15.917*	-15.231*
	(-2.15)	(-2.29)	(-2.52)
Multiple Countries	7.911	4.835	5.342
	(0.72)	(0.52)	(0.76)
Repeat Offense	-23.112	-17.541	-24.712$^+$
	(-1.28)	(-1.13)	(-1.71)
Year FE	Yes	Yes	Yes
Observations	69	69	69
R^2	0.827	0.879	0.767

Table 11: Effect of CSR on Donations

Note: The dependent variable in both regressions is political donations, in millions of dollars. The first column measures all donations from ten years before the FCPA action up until 5 years before the action. the second column measures all donations starting from five years before the FCPA action. Both regressions control for year fixed effects.Standard errors are robust and clustered at firm level. $* p < .05, + p < .10$

	Donations 10 to 5 Years Prior	Donations 5 Years Prior
KLD	-0.013	-0.012
	(-1.10)	(-1.63)
Year FE	Yes	Yes
Observations	100	100
R^2	0.282	0.685

Table 12: Effect of CSR on Sanctions, with Recent Donations

Note: The dependent variable in all regressions is the sanction assigned by the prosecutor. The regression specifications are the same as those in Table 7 but includes a few additional explanatory variable: political donations, a quadratic in market capitalization, and ROA. The donations measure includes all donations in the five years leading up to the FCPA action. Donations, market capitalization, sanction, payments, and value are in millions of dollars. Column (1) includes all observations. In column (2), sanction, value, and payments are winsorized at 2.5% and 97.5%. In column (3), these variables are winsorized at 95%. Standard errors are robust and clustered at firm level. $* \; p < .05, \; + \; p < .10$

	(1) Sanction	(2) Sanction	(3) Sanction
KLD	-0.953	-0.894	-1.343^{+}
	(-0.59)	(-0.79)	(-1.93)
Donations 5 Years Prior	-1.701	-15.267	-11.455
	(-0.06)	(-1.03)	(-1.16)
Payments	1.331^{+}	1.014^{*}	-0.121
	(1.92)	(3.14)	(-0.30)
Value	0.005	0.008	0.055^{*}
	(0.61)	(1.44)	(3.29)
Market Cap	-0.000	-0.000	0.000
	(-0.79)	(-0.31)	(1.13)
Market Cap ^ 2	0.000	0.000	-0.000
	(0.84)	(0.32)	(-1.16)
Return on Assets (Of Current Period)	12.869	27.815	-5.300
	(0.27)	(0.85)	(-0.21)
Country X's	Yes	Yes	Yes
Bribe X's	Yes	Yes	Yes
Year FE	Yes	Yes	Yes
Observations	58	58	58
R^2	0.854	0.962	0.922

Table 13: Effect of CSR on Sanctions, by Visibility

Note: The dependent variable in all regressions is the sanction assigned by the prosecutor. The regression specifications are the same as those in Table 7 but in the first column also includes a dummy for Visibility, as measured by membership in the Harris Poll's annual list of most visible companies in 2008, and an interaction between Visibility and KLD. The second column includes a dummy for S&P 500 membership and an interaction between S&P 500 membership and KLD. The third column includes a dummy for membership in Businessweek's list of The 100 Top Brands from 2001 through 2007. All columns also control for a quadratic in market capitalization. Market capitalization, sanction, payments, and value are in millions of dollars. These variables are winsorized at 95%. Standard errors are robust and clustered at firm level. $*$ $p < .05$, $+$ $p < .10$

	Sanction	Sanction	Sanction
KLD	-0.408	-0.440	-2.483*
	(-0.44)	(-0.36)	(-2.65)
Visibility	14.150		
	(1.12)		
Visibility x KLD	-5.761*		
	(-2.29)		
S&P 500		-19.005+	
		(-1.92)	
S&P 500 x KLD		-4.047+	
		(-1.77)	
Top Brand			-4.466
			(-0.24)
Payments	-0.233	-0.314	-0.161
	(-0.55)	(-0.69)	(-0.35)
Value	0.037*	0.048*	0.058*
	(2.28)	(2.50)	(3.65)
US FDI to Country	-0.000	-0.000	-0.000
	(-0.34)	(-1.49)	(-1.11)
Government GNI	0.000	0.001+	0.000
	(0.79)	(1.86)	(0.49)
Government Rule of Law	-4.781	-14.883	-7.513
	(-0.44)	(-1.35)	(-0.68)
Government Effectiveness	-11.961	-14.198	-10.687
	(-0.82)	(-1.07)	(-0.73)
Observations	77	77	77
R^2	0.794	0.808	0.767

Table 14: Effect of CSR on Press Releases

Note: The dependent variables in all regressions are the three different scores of the FCPA press releases. Each score is calculated by text-mining the DOJ or SEC press release for each case. The explanatory variables are the same as those in Table 7. Sanction, payments, and value are measured in millions of dollars. Standard errors are robust and clustered at firm level. $* p < .05, + p < .10$

	Collaboration	Senti	LIWC Pos	LIWC Neg	LM Neg
KLD	1.451	0.258	0.149^+	-0.014	-1.659^+
	(1.09)	(1.33)	(1.86)	(-0.40)	(-1.75)
Payments	0.338	0.013	0.013	0.002	-0.224
	(1.33)	(0.66)	(1.28)	(0.29)	(-1.49)
Value	-0.001	-0.000	-0.000	-0.000	0.001
	(-0.19)	(-0.73)	(-0.32)	(-0.31)	(0.66)
Number of Years of Bribery	-2.175	0.030	-0.024	-0.001	1.386^+
	(-1.49)	(0.19)	(-0.33)	(-0.03)	(1.89)
Related Party Involved	-9.468	-0.756	0.346	-0.436	11.733^*
	(-0.67)	(-0.75)	(0.56)	(-1.52)	(2.28)
Foreign Investigation Ongoing	-7.827	-2.143	-0.247	-0.644	14.279^*
	(-0.44)	(-1.34)	(-0.30)	(-1.61)	(2.05)
Multiple Ongoing Trials	11.653	2.286^*	0.144	0.036	3.246
	(1.39)	(2.61)	(0.34)	(0.15)	(0.60)
Multiple Countries	-1.064	0.713	0.649	-0.256	0.039
	(-0.10)	(0.59)	(1.09)	(-0.96)	(0.01)
Repeat Offense	26.467	1.782	-0.384	0.733	-15.911^*
	(1.56)	(1.40)	(-0.45)	(1.53)	(-2.86)
Year FE	Yes	Yes	Yes	Yes	Yes
Observations	52	52	56	56	56
R^2	0.763	0.719	0.546	0.655	0.905

Table 15: Abnormal Returns Following FCPA Announcements

Note: The dependent variable is daily abnormal returns, calculated as daily returns net of either the Fama-French factors or net of value-weighted market returns from CRSP. Days are measured relative to the FCPA press release announcing the sanction for each FCPA violation. Generally SEC and DOJ announcements happen on the same day, although sometimes they are a few days apart. In that case we use the first announcement day as the date of the event. Explanatory variables include dummy variables indicating days in the 5-event window ($[-5, 5]$) or the six months following the event ($[6, 126]$). The base period against which these indicators compare the same is from 30 to 5 days before the event. All specifications also control for KLD and interactions between these dummies and KLD. Standard errors are clustered for each FCPA announcement.

$** p < .01, * p < .05, + p < .10$

	Returns Net FF	Returns Net Mkt
[-5,5]	0.00036	0.00012
	(0.56)	(0.18)
[-5,5] x KLD	0.00000	-0.00006
	(0.01)	(-0.35)
[6,126]	0.00095**	0.00104**
	(2.73)	(2.94)
[6,126] x KLD	0.00018*	0.00021**
	(2.21)	(2.74)
KLD	-0.00007	-0.00006
	(-1.63)	(-1.41)
Observations	17751	18151
R^2	0.000	0.001

Table 16: The Effect of CSR on Probability of FCPA Offense

Note: The dependent variable is an indicator for whether a company was caught in violation of the FCPA. The regression uses all firms with a known KLD score. We estimate a linear regression model which controls for year and industry fixed effects. The first column controls for whether the company is in the US while the second column also controls for a quadratic in market capitalization, measured in in millions of dollars. Standard errors are clustered at the firm level. $* p < .05, + p < .10$

	(1) FCPA Offender	(2) FCPA Offender
KLD	-0.0004	-0.0004^{+}
	(-1.46)	(-1.78)
US Company	-0.0039	-0.0036
	(-1.51)	(-1.42)
Market Cap		0.0000*
		(3.73)
Market Cap ^ 2		-0.0000*
		(-3.29)
Year FE	Yes	Yes
Industry FE	Yes	Yes
Observations	40560	40473
R^2	0.003	0.006