



Cross-border effects of US FCPA enforcement: information and institutional spillovers in China through industry peers

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Abstract

We examine whether and how the US Foreign Corrupt Practices Act (FCPA) drives intra-industry information spillovers that propagate cross-border institutional spillovers in China. Regulatory disclosures of FCPA enforcement actions against US firms can influence non-violating Chinese firms in the same industry through either (1) contagion risk arising from increased anti-corruption scrutiny in China or (2) competitive advantage due to reduced competition from US counterparts. Consistent with the contagion risk (competitive advantage) effect, we provide evidence over the 2011–2023 sample period that Securities and Exchange Commission disclosures of China-related (non-China-related) FCPA violations by US peer firms generate valuation discounts (premiums) among non-violating Chinese focal firms that are more likely to be suspected of corruption. Further analyses reveal subsequent decreases (increases) in profitability and suspected corruption spending among these Chinese firms. Our findings suggest that FCPA-related regulatory disclosures play an information subsidy role given the lack of transparency regarding corruption activities and serve as a form of institutional subsidy that promotes monitoring against such practices in weaker regulatory environments. While the pros and cons of the FCPA for US firms remain debatable, our study implies that international coordination and collaboration in anti-corruption enforcement should be strengthened to curb bribery in international business.

Keywords Foreign Corrupt Practices Act · Corporate corruption · Intra-industry information spillover · Cross-border institutional spillover

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“What are we doing prosecuting people to keep China honest? ...It’s a horrible law and it should be changed ... It puts us at a huge disadvantage.”

*Donald Trump on the US Foreign Corrupt Practices Act (CNBC, 2012)*¹

Introduction

On February 10, 2025, President Trump signed an executive order suspending the US Foreign Corrupt Practices Act (FCPA). The FCPA was enacted by the US Congress in 1977 to prohibit US firms from bribing foreign officials and to curb widespread corporate corruption in international business activities; however, its impact has been controversial, and criticisms continue to reverberate today.² On the one

¹ CNBC. 2012. “Trump: Dimon’s Woes and Zuckerberg’s Prenuptial,” Squawk Box. May 15.

² The corruption activities in this study refer to those arising from the relationship between businesses and government officials (Kim et al., 2023) instead of those within or between businesses (Castro et al., 2020).



hand, proponents argue that the FCPA upholds the moral standing and leadership of the US in the global fight against corruption, which distorts economic resource allocation and interferes with US foreign policy objectives (Perlman & Sykes, 2017). On the other hand, opponents contend that the Act undermines the interests of US firms abroad by denying them business tactics available to foreign competitors (Seitzinger, 2016). The FCPA controversy is fueled by the substantial economic impact it exerts on US firms. For example, over the 10-year period from 2014 to 2023, FCPA violations resulted in an average financial penalty of US \$147.81 million, with maximum penalties reaching US \$2.9 billion for US firms.³

To inform this high-profile policy debate, we examine whether and how US regulatory disclosures of FCPA enforcement actions drive intra-industry information spillovers (Aobdia, 2015; Martens & Sextroh, 2021) that propagate cross-border institutional spillovers (Bosker & Garretsen, 2009; Kelejian et al., 2013) in China. In doing so, our analysis focuses on the impact of this US law on Chinese firms for two main reasons. First, China accounts for the highest number of violations by US firms in any single jurisdiction. Second, China has a weaker institutional framework in which corporate corruption is widespread (Ferguson, 2017; Raustiala & Barile, 2021). Specifically, we analyze the valuation impact among non-violating focal firms in China following US Securities and Exchange Commission (SEC) disclosures of FCPA enforcement actions against violations by US industry peer firms.⁴ Our research question is important to anti-corruption policymakers in at least two ways. First, we examine whether the content of such regulatory disclosures plays an “information subsidy” (de Fontenay, 2017; Palmiter, 2021) role for investors of non-violating firms within the same industry who are concerned about corporate corruption but face high information-acquisition costs due to the illicit nature of such activities. Second, we assess whether the transmission of enforcement information across borders, from a stronger regulatory environment such as the US, can serve as a form of “institutional subsidy” (North, 1990; Xu, 2025) that strengthens outside stakeholders’ attention and monitoring against corporate corruption in jurisdictions with relatively weaker regulatory environments.

The theoretical rationale and tension underlying our research question stem from two countervailing effects associated with information transmission within industries

(Foster, 1981; Schipper, 1990), namely (1) contagion risk and (2) competitive advantage (Kim et al., 2008; Lang & Stulz, 1992). The contagion risk effect refers to changes in the value of a focal firm in the same direction as the economic implications arising from news relating to an industry peer, as investors interpret such news as relevant to the focal firm due to industry-wide commonalities (Gleason et al., 2008). For example, on October 5, 2015, the SEC disclosed an FCPA violation by the US pharmaceutical firm Bristol-Myers Squibb for bribery in China, imposing a penalty of over US \$14 million.⁵ This disclosure triggered an industry-wide anti-corruption crackdown in China, leading directly to bribery convictions of three local pharmaceutical firms in late 2017.⁶ In contrast, the competitive advantage effect refers to changes in the value of a focal firm in the opposite direction relative to the economic implications of news associated with a peer firm, because investors interpret such news as a signal of shifts in the competitive balance or wealth redistribution within the industry (Guo et al., 2020). For example, on January 13, 2017, the SEC disclosed an FCPA violation by Sociedad Quimica y Minera (SQM) de Chile S.A., a US-listed, Chilean-based chemical and mining firm, for bribery in Chile, involving a penalty of over US \$30 million.⁷ During and after the investigation, SQM significantly underperformed, leading to its decision to sell a nearly 24% stake worth US \$4.1 billion to China’s Tianqi Corp., allowing Tianqi Corp. to secure strong influence in the global lithium market.⁸

⁵ <https://www.sec.gov/news/press-release/2015-229>.

⁶ Out of these three local Chinese pharmaceutical firms, one was a subsidiary of Bristol-Myers Squibb, while the other two were unaffiliated to this US firm. Among the two firms unaffiliated to Bristol-Myers Squibb was Tailing Pharmaceutical Information Consulting (Shanghai) Company Limited (hereafter Tailing), which is a subsidiary of the China NT Pharma Group Company Limited (hereafter NT Pharma). Due to the conviction of Tailing in late 2017, NT Pharma had to pay RMB11.42 million for illegal gains and announced in early 2018 its withdrawal from the drug distribution business. This results in its major shareholder, Shanghai Jiao Da Onlly Co. Ltd. (hereafter Jiao Da), a substantial impairment loss that amounts to RMB543 million on its long-term equity investment in the NT Pharma (https://business.sohu.com/a/625221360_121255906). This essentially amounts to an equivalent of nearly US \$132 million based on the IMF (International Monetary Fund) PPP (Purchasing Power Parity) rate between the US and China. Just using Jiao Da as an example, the wider economic impact it experienced already far surpasses the magnitude of the financial penalty of US \$14 million incurred by Bristol-Myers Squibb itself under the US FCPA enforcement as well as the financial penalty paid by NT Pharma following the conviction of its subsidiary Tailing by Chinese regulators. This example also demonstrates that even local Chinese firms unaffiliated with the FCPA-violating US firm can be affected and also incur substantial and wider economic impacts.

⁷ <https://www.sec.gov/news/press-release/2017-13>.

⁸ <https://www.reuters.com/article/us-chile-tianqi-lithium-idUSKBN1O217F>.

³ The financial penalty is based on cases listed on US Securities and Exchange Commission (SEC) website (<https://www.sec.gov/enforce/sec-enforcement-actions-fcpa-cases>).

⁴ The US FCPA-violating firms in this study refer to both types that FCPA enforcements apply to, i.e., firms with US headquarters or firms with a US nexus.



We develop our hypotheses as follows. Because corporate corruption activities are illicit and concealed, US regulatory disclosures of FCPA violations can convey authoritative and salient industry-wide information across borders, drawing investor attention to non-violating focal firms in China within the same industry. This increase in investor attention is expected to be greater for non-violating Chinese firms that are more suspected of corruption, as there are greater information demands for these firms regarding such activities that industry peer information supplied by US FCPA disclosures can help address. For these Chinese focal firms, US regulatory disclosures could either (1) exacerbate the contagion risk effect by stimulating regulatory scrutiny from China's domestic anti-corruption authorities, or (2) generate a competitive advantage effect by weakening the reputations and business relationships of US industry peers that committed an FCPA violation. While both effects may exist simultaneously, Chinese focal firms would experience a valuation discount (premium) if contagion risk (competitive advantage) is perceived by investors to be the dominant effect. Investors of the Chinese focal firms are more likely to expect the contagion risk effect to be stronger (weaker) than the competitive advantage effect when a US industry peer violates the FCPA for bribery related to (not related to) China.

Our empirical evidence is consistent with these hypotheses. The valuation impacts we observe are economically significant and can amount to nearly 20% of the standard deviation in stock returns around the event window. When SEC disclosures of FCPA violations involve China-related bribery, we observe that share price responses are negative on average among non-violating Chinese firms in the same industry as the cited US firm. The valuation discount is greater among Chinese firms that are more suspected of corruption, and is consistent with the dominance of the contagion risk effect over the competitive advantage effect when US regulatory disclosures reveal evidence of corrupt activities within China. In contrast, when the SEC discloses FCPA violations that do not involve China, we find that share price responses are positive on average among Chinese firms in the same industry as the violating US firm. The valuation premium is also more pronounced among Chinese firms that are more suspected of corruption and is consistent with the competitive advantage effect outweighing the contagion risk effect when US regulatory disclosures do not identify corruption practices in China but do so elsewhere. Further analyses reveal that disclosures of China-related (non-China-related) FCPA violations are followed by a significant decrease (increase) in ex-post profitability and suspected corruption spending among Chinese focal firms. Taken together, these findings suggest that US FCPA

disclosures foster intra-industry information spillovers that, in turn, lead to cross-border institutional spillovers.

Our study contributes to two streams of literature. For the international business literature on corporate corruption (Chen et al., 2022; Cohen & Li, 2025; Cuervo-Cazurra, 2006; Delios et al., 2024), we provide evidence that cross-border institutional spillovers from jurisdictions with stronger regulatory environments to those with weaker ones can be propagated through intra-industry information spillovers following US SEC disclosures of FCPA enforcement actions. Unlike existing studies of the FCPA that examine its impact on investment and productivity (Arbatskaya & Mialon, 2020; Christensen, Maffett, & Rauter, 2022, 2024; Jia et al., 2022), we focus on the information economics channel through which it influences firm valuations in cross-border capital markets. The contagion risk effect we document can be interpreted as evidence that anti-corruption regulatory resources and expertise in developed economies are able to influence developing economies where corruption activities have been identified and effectively serve as a form of institutional subsidy (North, 1990; Xu, 2025). However, the competitive advantage effect we also document suggests that such institutional subsidies may come at the cost of generating windfall gains for business rivals located in jurisdictions unrelated to the anti-corruption cases. In this respect, our evidence implies that the global fight against corporate corruption could be strengthened through greater regulatory collaboration across jurisdictions (Arbatskaya & Mialon, 2020; Beck & Maher, 1989; Sanseverino, 2024).

For the accounting literature on information disclosure (Beyer et al., 2010; Blankespoor et al., 2020), our findings indicate that intra-industry information spillovers resulting from disclosures by regulators, rather than firms, can compensate for a lack of transparency in areas where corporate disclosures are scarce. Unlike existing accounting studies of regulatory disclosures that examine firm misconduct in financial reporting (Amiram et al., 2020; Bonner et al., 1998), we focus on corporate corruption, a context in which firms provide limited voluntary and mandatory disclosures. From an investor perspective, we interpret the valuation impact of anti-corruption regulatory disclosures on non-violating firms as evidence that the disseminated content plays an information subsidy role (de Fontenay, 2017; Palmiter, 2021) in capital markets with respect to opaque activities such as corporate corruption. From a firm perspective, this information subsidy may generate increased volatility in firm value, depending on whether it leads investors to anticipate contagion risk or competitive advantage effects. Overall, our findings suggest that anti-corruption regulatory disclosures can help deter corporate corruption activities (Gilbert & Aiken, 2015).



Background and hypothesis development

Corporate corruption and US FCPA enforcement

Corporate corruption can be broadly defined as an illicit exchange of interests between those offering bribes, such as firms, and those receiving bribes, such as government officials, in which the former seek to obtain business advantages by influencing the decision-making of the latter, who exploit their authority for private gain (Shleifer & Vishny, 1993). Although corporate corruption is detrimental to economic development and growth because it distorts economic resource allocation (Acemoglu & Verdier, 2000), it is widespread and economically significant worldwide. The International Monetary Fund (IMF) estimates that bribery exceeds US \$1 trillion per year globally.⁹ Based on a World Bank survey of countries worldwide, nearly 15% of firms are expected to offer bribes to obtain government contracts.¹⁰ According to a survey conducted by the Organization for Economic Co-operation and Development (OECD), the average bribe accounts for 10.9% of transaction value and 34.5% of profits.¹¹ The economic scale and prevalence of corporate corruption not only justify detection and deterrence through regulatory intervention (Svensson, 2000) but also motivate the study of the consequences and externalities of anti-corruption regulations.

The FCPA was enacted in 1977 following revelations that US firms were widely engaged in foreign bribery (Graham, 1984). It contains both anti-bribery and accounting provisions. The anti-bribery provision prohibits any payment, offer, promise, or authorization to pay anything of value to a foreign official, politician, or political party for the purpose of influencing decisions that may result in obtaining or retaining business (Oded, 2016). The accounting provision requires publicly traded firms to maintain accurate records and adequate internal controls to ensure accountability against bribery (Deming, 2010). Penalties for FCPA violations may be criminal or civil and can include fines of up to twice the amount of the benefit expected from the bribe, and independent auditor oversight may be imposed on violating firms (Karpoff et al., 2017).¹² Enforcement actions may target firms headquartered or based in the US, as well as firms with a US nexus through cross-listings or substantial business operations in countries that are signatories to the OECD

Anti-Bribery Convention (ABC) (Simonova, 2013).¹³ Since 2004, FCPA enforcement has increased substantially due to changes in implementation approaches, such as broader legal definitions of bribery and the use of deferred or non-prosecution agreements, as well as other regulatory developments, including the Sarbanes-Oxley Act and the OECD ABC (Perlman & Sykes, 2017). Among FCPA enforcement actions, bribery incidents related to China account for the largest number of cases (Chow, 2018; Pedersen, 2008).¹⁴

Hypothesis development

Intra-industry information spillovers from violators to non-violators may arise from disclosures of FCPA enforcement actions for several reasons. Corporate corruption activities can generate substantial downside risks related to litigation and reputational loss (Lyon & Maher, 2005; Serafeim, 2014), as well as potential upside gains through improved business advantages and competitiveness (Chen et al., 2013; Cheung et al., 2012). To the extent that these factors influence investors' expectations of future cash flows and uncertainty, information about corporate corruption is likely to exert a valuation impact on firms (Kim et al., 2023; Zeume, 2017). However, the impacts of corporate corruption are difficult to assess because such activities are illicit and concealed (Fisman & Svensson, 2007; Shleifer & Vishny, 1993), and firms tend to withhold negative information (Kothari et al., 2009; Piotroski et al., 2015). As a result, investors face high information awareness and acquisition costs related to corporate corruption (Blankespoor et al., 2020). Regulatory disclosures of anti-corruption enforcement actions may therefore serve as authoritative and salient sources of information that draw investor attention (Kahneman, 1973; Peng & Xiong, 2006). Because price-sensitive information about one firm can signal either industry-wide commonalities or wealth redistribution (Foster, 1981; Schipper, 1990), disclosures of anti-corruption violations by one firm are expected to have valuation implications for other non-violating firms

⁹ <http://www.imf.org/external/pubs/ft/sdn/2016/sdn1605.pdf>.

¹⁰ <http://www.enterprisesurveys.org/data/exploretopics/corruption#2>.

¹¹ https://read.oecd-ilibrary.org/governance/oecd-foreign-bribery-report_9789264226616-en#page1.

¹² FCPA enforcement actions come under the joint jurisdiction of the US SEC and the Department of Justice. The former has investigative jurisdiction and can refer cases to the latter for criminal prosecution.

¹³ An example of FCPA enforcement against a US headquartered/ based firm is the case of Kellogg Brown and Root, which pleaded guilty in 2009 for spending over US \$180 million in bribing Nigerian officials to secure construction contracts and was fined over US \$579 million as a penalty (<https://www.justice.gov/opa/pr/kellogg-brown-root-llc-pleads-guilty-foreign-bribery-charges-and-agrees-pay-402-million>). An example of FCPA enforcement against a US nexus firm is the case of US-listed German firm Fresenius Medical Care AG & Co KGaA (FMC), which was charged in 2019 for paying nearly US \$30 million to government officials in multiple countries and was fined more than US \$231 million (<https://www.sec.gov/newsroom/press-releases/2019-48>).

¹⁴ The dominance of China in FCPA cases is followed by other countries, including Brazil, Mexico, Iraq, Nigeria, India, and Indonesia (<https://fcpa.stanford.edu/geography.html>).



in the same industry. We further expect these valuation impacts to be stronger among non-violating firms that are more likely to be suspected of corruption, as their investors have greater demand for information on such activities and are more reliant on, and responsive to the supply of relevant industry peer information (Brown et al., 2024; Fang et al., 2025) from regulatory disclosures.

Following FCPA regulatory disclosures, we expect that intra-industry information spillovers will propagate cross-border institutional spillovers from the US to China for the following reasons. When US firms are identified as having bribed officials in China (i.e., China-related bribery), US regulatory disclosures are likely to trigger Chinese local authorities to suspect that corruption may be an industry-wide commonality within China. This suspicion can affect non-FCPA-violating Chinese firms in the same industry regardless of whether they are subsequently identified by the local authorities to breach domestic anti-corruption regulations in China. While financial penalties apply only to firms that offend against the domestic regulations, wider economic impacts are likely to affect both offending and non-offending firms.¹⁵ For non-FCPA-violating Chinese focal firms in the same industry, the competitive advantage gained from the weakening of a US competitor is therefore less likely to outweigh the contagion risk arising from heightened scrutiny and pressure from Chinese anti-corruption authorities. If the contagion risk effect dominates the competitive advantage effect, it would generate a valuation discount, particularly for non-violating Chinese firms that are more likely to be suspected of corruption, as their shareholders would anticipate (1) an increased likelihood of anti-corruption investigations and/or (2) reduced opportunities to engage in corrupt practices that might be essential to maintain performance.¹⁶

¹⁵ For the local Chinese firms within the same industry that are later identified to breach domestic anti-corruption regulations, the wider economic impact can arise from factors such as (but not limited to) damages in reputation and credibility, changes in managers and executives, a loss of customers and suppliers, an increase in compliance requirement and external monitoring, and relevant regulatory reforms in business practices and activities that could escalate costs and inhibit growth. For the local Chinese firms within the same industry that did not breach domestic anti-corruption regulations, the wider economic impact can arise from flight to quality by stakeholders (e.g., investors, suppliers, and/or customers) for concerns that corruption violations may be identified subsequently, and broader relevant regulatory reforms in business practices and activities that could escalate cost and inhibit growth.

¹⁶ Investor valuation of firms is based on their anticipation of future cash flows and uncertainty, and they are likely to incorporate into their trading decisions all sources of price-sensitive information that can influence their anticipation. Since we are examining the share price responses of Chinese investors to SEC disclosure of FCPA violations by US firms, at that time, such investors will not be able to tell which Chinese local firms within the same industry will be identified subsequently by local authorities to breach domestic anti-corruption regulations in China, and how much financial penalty will be charged

However, when US peer firms are exposed for bribing officials in countries other than China (i.e., non-China-related bribery), although US regulatory disclosures may still prompt anti-corruption scrutiny in China, the Chinese regulatory attention is likely to be weaker than in cases involving bribery within China. In this setting, among non-violating Chinese focal firms in the same industry, the competitive advantage gained over FCPA-violating US peers is more likely to exceed potential contagion risk from local Chinese regulatory monitoring. If the competitive advantage effect dominates, it would result in a valuation premium, particularly for non-violating Chinese firms that are more suspected of corruption, as shareholders would expect that the weakening of a US competitor could create opportunities for Chinese firms to (1) gain market share and/or (2) engage in corrupt practices.

Figure 1 illustrates the logical arguments discussed above regarding whether and how FCPA regulatory disclosures could drive intra-industry information spillovers from violating to non-violating firms and lead to cross-border institutional spillovers from the US to China. To provide large-sample, systematic evidence on our research question, we propose and test the following hypotheses, stated in alternative form:

Hypothesis 1 (Contagion risk effect): US SEC disclosures of FCPA enforcement actions against US firms for committing *China-related* bribery will drive a *valuation discount* among non-violating Chinese focal firms in the same industry, and this valuation discount effect is greater for firms that are more likely to be suspected of corruption.

Hypothesis 2 (Competitive advantage effect): US SEC disclosures of FCPA enforcement actions against US firms for committing *non-China-related* bribery will drive a *valuation premium* among non-violating Chinese focal firms in the same industry, and this valuation premium effect is greater for firms that are more likely to be suspected of corruption.

Research design

Methodology

To test hypotheses H1 and H2, we apply an event-study methodology to analyze market reactions of non-violating focal firms in China to disclosures of FCPA enforcement

Footnote 16 (continued)

to such firms. Therefore, the main driver of the market reactions among local Chinese firms in the same industry as the FCPA violating US firm is likely to be the wider economic impact anticipated by investors, irrespective of whether these Chinese firms are later identified to breach domestic anti-corruption regulations.



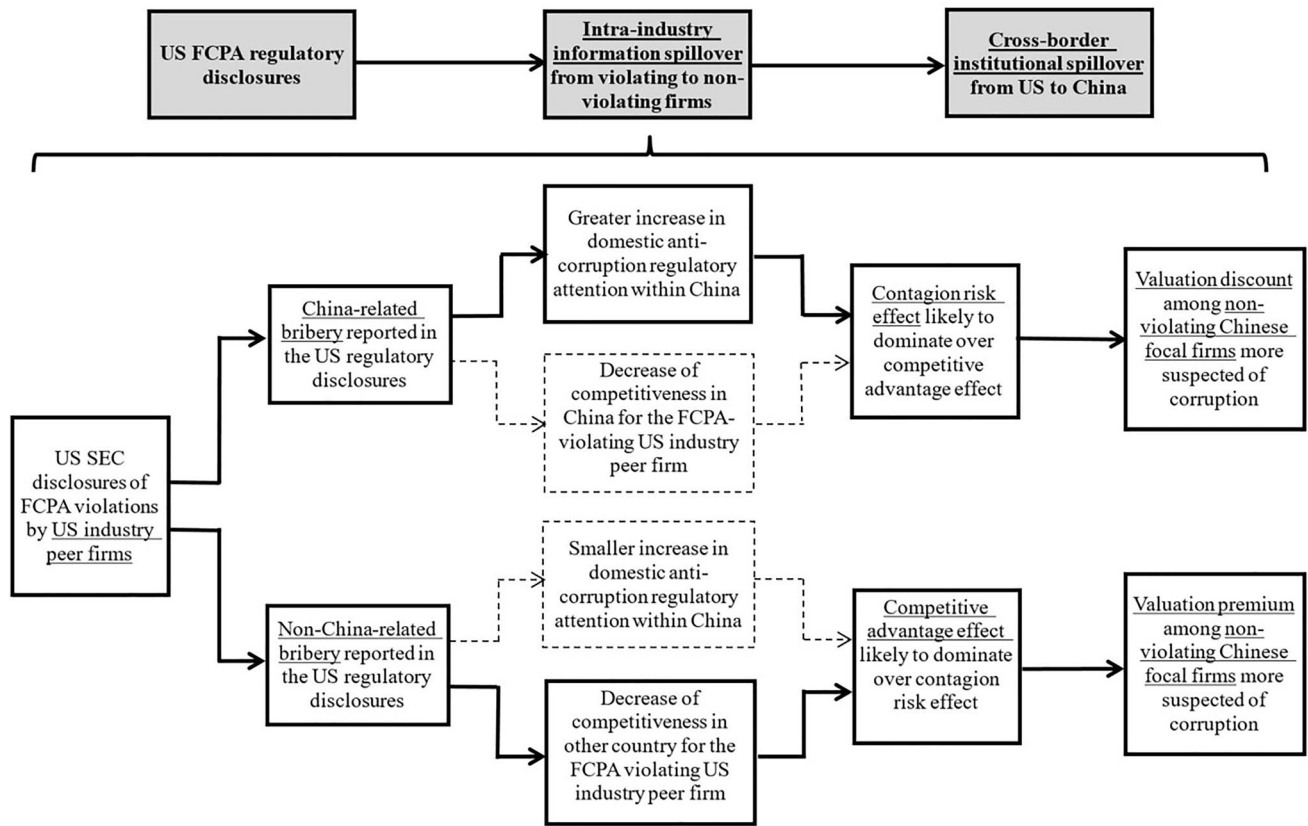


Fig. 1 Hypothesis development. Note: This figure illustrates our hypothesis development by showing the mechanism in which US regulatory disclosures of FCPA enforcement actions could drive intra-industry information spillover from violating US peer firms to

non-violating Chinese focal firms and lead to a propagation of cross-border institutional spillover in anti-corruption effect from the US to China.

actions against US firms in the same industry. To this end, we estimate the following regression:

$$\begin{aligned}
 \text{Cumulative Returns} = & \beta_0 + \beta_1 \text{Treatment} + \beta_2 \text{China} \\
 & + \beta_3 \text{Treatment} \times \text{China} + \beta_4 \text{Suspected Corruption} \\
 & + \beta_5 \text{Treatment} \times \text{Suspected Corruption} + \beta_6 \text{China} \\
 & \times \text{Suspected Corruption} + \beta_7 \text{Treatment} \times \text{China} \\
 & \times \text{Suspected Corruption} + \text{Controls} \\
 & + \text{Firm} + \text{Year} + \epsilon
 \end{aligned} \quad (1)$$

In Eq. (1), *Cumulative Returns* is the cumulative return of Chinese focal firms around the event date of a US SEC disclosure over the 2-day window (day 0, +1).¹⁷ *Treatment*

¹⁷ Our research design assumes that Chinese investors respond to US regulatory disclosures with a lag of 1 trading day due to the time differences between the two countries. As such, we follow Gaertner et al. (2020) to assign day 0 of our event study in China as equivalent to 1 trading day after the corresponding event in the US. Our measure of *Cumulative Returns* follows existing studies such as Gaertner et al. (2020), which also examines market reactions in China, and draws on the rationale of Kothari and Warner (2007) that short window event studies are unlikely to benefit from market adjustment of returns and could even incur additional noise.

equals 1 for non-violating Chinese focal firms in the same industry (i.e., the treatment group) as the FCPA-violating US peer firm named in the SEC enforcement disclosure, and 0 for firms in other industries (i.e., the control group).¹⁸ *China* equals 1 if the SEC disclosures of FCPA enforcement actions against US industry peer firms report bribery activities committed either exclusively in China or in multiple jurisdictions that include China, and 0 otherwise. *Suspected Corruption* equals 1 if firm-specific abnormal entertainment and travel costs are positive, and 0 otherwise.¹⁹ The coefficient β_1 on

¹⁸ Industry classifications are indicated in Online Appendix Part B and follow the approach of Jian and Wong (2010) that is based on China Securities Regulatory Commission (CSRC) alphanumeric codes and applies (1) the 1st character for non-manufacturing industries and (2) the 1st character and 1 subsequent digit for manufacturing industries. In Online Appendix Part D, we show that our findings are robust to alternative industry classifications with either broader or more granular categories.

¹⁹ Cai et al. (2011) suggest entertainment and travel costs disclosed in financial statements of Chinese firms comprise three components: (i) managerial excess spending, (ii) relational capital spending with customers and suppliers, and (iii) corruption-related spending. Kim et al. (2023) estimate corruption-related spending based on abnor-

Treatment captures the valuation impact for treatment firms following disclosures of non-China-related bribery incidents (*China* = 0). The coefficient β_3 on *Treatment* $\times$ *China* captures the incremental effect of China-related bribery cases. The coefficient β_5 on *Treatment* $\times$ *Suspected Corruption* reflects the incremental effect of corruption suspicion on the valuation impact of non-China-related bribery incidents for treatment firms. The coefficient β_7 on *Treatment* $\times$ *China* $\times$ *Suspected Corruption* captures the incremental effect of both suspected corruption spending and China-related bribery. *Controls*, *Firm*, and *Year* refer to a set of control variables, firm fixed effects, and year fixed effects, respectively.²⁰

Research sample

We collect the dates of SEC disclosures of US FCPA anti-corruption enforcement actions from the SEC website (<https://www.sec.gov/enforce/sec-enforcement-actions-fcpa-cases>). Using the detailed descriptions provided for each case, we identify (1) the industry of each violating US firm and (2) the home country of the corrupt officials involved in the bribery. Based on our selection criteria, we identify a total of 116 events from 2011 to 2023, including 43 China-related and 73 non-China-related bribery incidents. Our sample begins in 2011 due to data availability for entertainment and travel costs, which we use to estimate the level of suspected corruption among Chinese firms. We exclude observations associated with financial firms due to a lack of data on determinants of entertainment and travel costs that would be required to identify suspected corruption of Chinese firms in this industry. We also exclude enforcement disclosures targeting individuals to maximize comparability and consistency across events. The 43 China-related events include 17 mixed cases in which bribery activities by FCPA-violating US industry peer firms involve multiple jurisdictions, including China. We classify these mixed cases as China-related because the part of corruption activities that involves China is expected to provoke a contagion risk effect for non-violating Chinese focal firms.²¹ Our main analysis

Footnote 19 (continued)

mal entertainment and travel costs as the residual from a regression of entertainment and travel costs on determinants of managerial excess (executive pay, ownership concentration, and board size) and relational capital (accounts payable, accounts receivable, and total assets). We follow the rationale of Cai et al. (2011) and the approach in Kim et al. (2023) to estimate abnormal entertainment and travel costs and report the estimation regression in Online Appendix Part C.

²⁰ Our control variables include firm size, leverage, profitability, sales growth, firm age, control ownership, board independence, institutional ownership, penalty, and provisions. Detailed definitions of these variables are provided in Online Appendix Part A.

²¹ In the Online Appendix Part D, we provide additional and robustness tests to show (i) the valuation discount associated with the contagion risk effect related to the China-related events are mainly driven

to test hypotheses H1 and H2 is based on 301,659 event-firm-year observations, including 113,467 observations associated with China-related bribery incidents and 188,192 observations associated with non-China-related incidents. The archival data are obtained from the China Stock Market and Accounting Research (CSMAR), Chinese Research Data Service Platform (CNRDS), and WIND databases.²² Event selection and the yearly and industry distributions of the sample are reported in Online Appendix Part B.

Empirical evidence

Summary statistics

Table 1, panel A (B) reports summary statistics for variables used in valuation (ex-post) impact tests. In panel A, *Cumulative Returns* has a mean value of 0.275%, indicating that cumulative returns for firms listed on Chinese stock exchanges are positive, on average, around the dates of US SEC disclosures of FCPA enforcement actions during the 2011–2023 sample period. The mean value of *Treatment* is 0.159, indicating that the treatment group accounts for nearly one-sixth of the event-firm-year observations in our sample. The mean value of *China* is 0.376, indicating that more than one-third of observations are associated with FCPA enforcement cases against US firms for China-related bribery. The mean value of *Suspected Corruption* is 0.369, indicating that more than one-third of Chinese firms have positive abnormal entertainment and travel costs and thus may be suspected of corruption by investors.

Main hypotheses tests

Table 2 presents the results of the main tests of our hypotheses. Columns (1) and (2) report preliminary analyses before including interaction terms with *Suspected Corruption*. In column (2), which includes year and firm fixed effects, the coefficient on *Treatment* (β_1) is significantly positive (0.499, p value = 0.000), suggesting that treatment firms experience positive valuation impacts following SEC disclosures of non-China-related FCPA bribery cases (*China* = 0), consistent with the competitive advantage effect. In contrast,

Footnote 21 (continued)

by those that involve corruption activities committed only in China rather than by the mixed cases, and (ii) the coefficient on explanatory variable that separately identifies mixed cases are negative, consistent with expectation of valuation discount but statistically insignificant, possibly because the contagion risk and competitive advantage effects offset each other.

²² We winsorize all continuous variables at the 1% level in both tails to mitigate the effects of outliers.



Table 1 Summary statistics

Variable	Observations	Mean	Std. Dev.	25th percentile	50th percentile	75th percentile
<i>Panel A: valuation impact tests</i>						
Cumulative Returns (%)	301,659	0.275	4.255	− 2.108	0.005	2.350
Treatment	301,659	0.159	0.366	0	0	0
China	301,659	0.376	0.484	0	0	1
Suspected Corruption	301,659	0.369	0.483	0	0	1
Firm Size	301,659	15.247	1.060	14.515	15.199	15.901
Leverage	301,659	0.413	0.209	0.244	0.402	0.566
Profitability	301,659	0.036	0.065	0.014	0.038	0.068
Sales Growth	301,659	0.155	0.351	− 0.027	0.107	0.269
Firm Age	301,659	2.166	0.782	1.609	2.303	2.833
Control Ownership (%)	301,659	33.905	14.826	22.500	31.700	43.520
Board Independence	301,659	0.383	0.074	0.333	0.364	0.429
Institutional Ownership (%)	301,659	7.752	10.259	0.780	3.586	10.480
Penalty	301,659	3.199	1.675	2.015	2.845	4.369
Provisions	301,659	0.497	0.500	0	0	1
NSOE	301,659	0.653	0.476	0	1	1
More Overseas Subsidiaries	301,659	0.500	0.500	0	1	1
<i>Panel B: ex-post impact tests</i>						
Operating Performance	34,892	0.007	0.256	− 0.046	0.018	0.083
Suspected Corruption Spending (%)	34,892	0.092	0.599	− 0.169	0.001	0.200
China-related Cases	34,892	0.301	0.459	0	0	1
Non-China-related Cases	34,892	0.380	0.485	0	0	1
Firm Size	34,892	15.292	1.198	14.506	15.169	15.901
Leverage	34,892	0.411	0.204	0.246	0.402	0.561
Profitability	34,892	0.036	0.070	0.013	0.038	0.069
Sales Growth	34,892	0.146	0.340	− 0.029	0.103	0.259
Firm Age	34,892	2.160	0.808	1.609	2.303	2.833
Control Ownership (%)	34,892	33.745	14.775	22.350	31.310	43.295
Board Independence	34,892	0.383	0.073	0.333	0.375	0.429
Institutional Ownership (%)	34,892	7.231	9.920	0.580	3.108	9.696
Herfindahl Index	34,892	0.045	0.077	0.006	0.009	0.049

This table presents the summary statistics for the variables used in our valuation impact tests (panel A) and ex-post impact tests (panel B). All variables are defined in Online Appendix Part A. All variables, except for the dummy variables, are winsorized at the 1% and 99% levels.

the coefficient on *Treatment* × *China* (β_3) is significantly negative (− 0.672, p value = 0.000). The sum of the coefficients on *Treatment* and *Treatment* × *China* [$\beta_1 + \beta_3 = 0.499 + (− 0.672) = − 0.173$] is also significantly negative (sum test p value = 0.000, F -value = 40.21), indicating a negative valuation impact following disclosures of China-related FCPA violations, consistent with the contagion risk effect predicted in H1.

Columns (3) and (4) report full-model analyses including interactions with *Suspected Corruption*. In column (4), which includes year and firm fixed effects, the coefficients on *Treatment* (0.323, p value = 0.000) and *Treatment* × *Suspected Corruption* (0.481, p value = 0.000) are both significantly positive. This indicates that the positive valuation impact associated with treatment firms following

disclosures of non-China-related FCPA cases is incrementally more pronounced among firms that are more likely to be suspected of corruption. The sum of the coefficients on *Treatment* and *Treatment* × *Suspected Corruption* ($\beta_1 + \beta_5 = 0.323 + 0.481 = 0.804$) is significantly positive (sum test p value = 0.000, F -value = 245.17) and economically significant relative to the standard deviation ($0.804/4.255 = 18.895\%$) of the dependent variable.²³ This is consistent with

²³ The magnitude of valuation impact we observe throughout our study is either greater or broadly in line with other previous research of market reactions in China based on event-study methodology such as Chen et al. (2018) and Gaertner et al. (2020). Our estimation of economic significance follows the approach of existing studies such as Li and Srinivasan (2011) and Mitton (2024).

Table 2 Main hypotheses tests: US FCPA regulatory disclosures' valuation impact on Chinese firms

Y = Cumulative Returns (days 0, +1)	(1)	(2)	(3)	(4)
Treatment	0.495 (0.000)	0.499 (0.000)	0.329 (0.000)	0.323 (0.000)
China	– 0.197 (0.000)	– 0.200 (0.000)	– 0.257 (0.000)	– 0.261 (0.000)
Treatment × China	– 0.688 (0.000)	– 0.672 (0.000)	– 0.616 (0.000)	– 0.597 (0.000)
Suspected Corruption			– 0.149 (0.000)	– 0.148 (0.000)
Treatment × Suspected Corruption			0.452 (0.000)	0.481 (0.000)
China × Suspected Corruption			0.161 (0.000)	0.160 (0.000)
Treatment × China × Suspected Corruption			– 0.188 (0.023)	– 0.194 (0.019)
Firm Size	– 0.054 (0.000)	– 0.319 (0.000)	– 0.053 (0.000)	– 0.319 (0.000)
Leverage	– 0.079 (0.063)	– 0.117 (0.186)	– 0.079 (0.065)	– 0.118 (0.181)
Profitability	– 0.231 (0.117)	– 0.079 (0.677)	– 0.241 (0.102)	– 0.085 (0.655)
Sales Growth	0.008 (0.754)	0.016 (0.558)	0.006 (0.814)	0.014 (0.622)
Firm Age	0.008 (0.523)	0.563 (0.000)	0.006 (0.603)	0.561 (0.000)
Control Ownership	0.001 (0.142)	0.000 (0.917)	0.001 (0.145)	0.000 (0.928)
Board Independence	0.032 (0.743)	– 0.245 (0.058)	0.036 (0.714)	– 0.244 (0.059)
Institutional Ownership	– 0.005 (0.000)	– 0.004 (0.000)	– 0.005 (0.000)	– 0.004 (0.000)
Penalty	– 0.150 (0.000)	– 0.151 (0.000)	– 0.151 (0.000)	– 0.152 (0.000)
Provisions	– 0.538 (0.000)	– 0.538 (0.000)	– 0.537 (0.000)	– 0.536 (0.000)
Constant	1.912 (0.000)	4.889 (0.000)	1.962 (0.000)	4.955 (0.000)
Year fixed effect	Yes	Yes	Yes	Yes
Firm fixed effect	No	Yes	No	Yes
Observation	301,659	301,659	301,659	301,659
Adjusted R^2	0.069	0.069	0.069	0.070

This table presents the results of the main tests of hypotheses H1 and H2 over the sample period of 2011–2023. All variables are defined in Online Appendix Part A. The p values are reported in parentheses. Robust standard errors are clustered at the firm level.

our prediction in hypothesis H2 of a competitive advantage effect. The coefficients on *Treatment × China* (– 0.597, p value = 0.000) and *Treatment × China × Suspected Corruption* (– 0.194, p value = 0.019) are both significantly negative. This indicates that the negative valuation impact associated with treatment firms following disclosures of China-related FCPA cases is incrementally stronger among

firms in which corruption is more likely to be suspected. The sum of the coefficients on *Treatment × China* and *Treatment × China × Suspected Corruption* [$\beta_3 + \beta_7 = -0.597 + (-0.194) = -0.791$] is significantly negative (sum test p value = 0.000, F -value = 140.12) and economically significant relative to the standard deviation (– 0.791/4.255 = – 18.589%) of the dependent variable. This lends further



support to our prediction in hypothesis H1 of a contagion risk effect.

Cross-sectional variations tests

Table 3 provides the results of our cross-sectional variation tests. Panel A partitions non-violating Chinese focal firms into non-state-owned enterprises (NSOEs) and state-owned enterprises (SOEs). Prior literature suggests that NSOEs in China have weaker political connections but stronger

operational efficiency than SOEs (Allen, Qian, & Qian, 2005; Lin, Lu, Zhang, & Zheng, 2020). Previous studies also provide evidence that firms' political connections help them to reduce regulatory scrutiny (Correia, 2014), while operational efficiency strengthens firms' competitiveness in international business (Hejazi, Tang, & Wang, 2021). Accordingly, we expect both the valuation discount associated with contagion risk effect in H1 and the valuation premium associated with the competitive advantage effect in H2 to be more pronounced among NSOEs. Consistent

Table 3 Cross-sectional variations tests: US FCPA regulatory disclosures' valuation impact on Chinese firms conditional on their state ownership and overseas subsidiaries

Y = Cumulative Returns (days 0,+1)	Panel A: State ownership				Panel B: Overseas subsidiaries			
	NSOE = 1		NSOE = 0		More Overseas Subsidiaries = 0		More Overseas Subsidiaries = 1	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Treatment	0.403 (0.000)	0.404 (0.000)	0.218 (0.000)	0.191 (0.002)	0.281 (0.000)	0.264 (0.000)	0.376 (0.000)	0.375 (0.000)
China	-0.235 (0.000)	-0.242 (0.000)	-0.289 (0.000)	-0.285 (0.000)	-0.246 (0.000)	-0.250 (0.000)	-0.269 (0.000)	-0.272 (0.000)
Treatment × China	-0.737 (0.000)	-0.707 (0.000)	-0.400 (0.000)	-0.411 (0.000)	-0.474 (0.000)	-0.442 (0.000)	-0.759 (0.000)	-0.743 (0.000)
Suspected Corruption	-0.179 (0.000)	-0.180 (0.000)	-0.031 (0.341)	-0.056 (0.161)	-0.085 (0.002)	-0.065 (0.066)	-0.213 (0.000)	-0.244 (0.000)
Treatment × Suspected Corruption	0.503 (0.000)	0.527 (0.000)	0.241 (0.020)	0.271 (0.011)	0.369 (0.000)	0.399 (0.000)	0.526 (0.000)	0.562 (0.000)
China × Suspected Corruption	0.242 (0.000)	0.245 (0.000)	-0.073 (0.185)	-0.079 (0.156)	0.110 (0.025)	0.107 (0.030)	0.211 (0.000)	0.207 (0.000)
Treatment × China × Suspected Corruption	-0.249 (0.013)	-0.271 (0.007)	0.069 (0.640)	0.101 (0.493)	-0.409 (0.000)	-0.436 (0.000)	0.027 (0.816)	0.029 (0.799)
Constant	2.547 (0.000)	5.203 (0.000)	1.428 (0.000)	4.358 (0.000)	2.184 (0.000)	5.169 (0.000)	1.965 (0.000)	5.020 (0.000)
Control variables	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year fixed effect	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Firm fixed effect	No	Yes	No	Yes	No	Yes	No	Yes
Observation	197,017	197,017	104,642	104,642	150,798	150,798	150,861	150,861
Adjusted R^2	0.067	0.068	0.076	0.076	0.071	0.071	0.068	0.069
	Column (1) ver- sus (3)	Column (2) ver- sus (4)			Column (5) ver- sus (7)	Column (6) ver- sus (8)		
Difference in Treatment	(0.007)	(0.004)			(0.094)	(0.069)		
Difference in Treatment × China	(0.002)	(0.007)			(0.002)	(0.004)		
Difference in Treatment × Suspected Corruption	(0.011)	(0.017)			(0.078)	(0.077)		
Difference in Treatment × China × Suspected Corruption	(0.044)	(0.028)			(0.004)	(0.001)		

This table presents tests of cross-sectional variations in state ownership (panel A) and overseas subsidiaries (panel B) among non-violating Chinese focal firms over the sample period of 2011–2023. Panel A partitions Chinese firms into non-state-owned enterprises (NSOEs) and state-owned enterprises (SOEs). *NSOE* equals 1 for firms whose ultimate controlling shareholder is not the government, and 0 otherwise. Panel B partitions Chinese firms into those with more or fewer number of overseas subsidiaries. *More Overseas Subsidiaries* equals 1 for firms whose number of overseas subsidiaries is above the sample median by enforcement case, and 0 otherwise. All variables are defined in Online Appendix Part A. The *p* values are reported in parentheses. Robust standard errors are clustered at the firm level. The *p* values of the coefficient difference tests between groups are reported in parentheses and based on the bootstrap procedures of Cleary (1999).



with this expectation, column (2) shows that for NSOEs, the coefficient on *Treatment* $\times$ *Suspected Corruption* (0.527, p value = 0.000) is significantly positive and the coefficient on *Treatment* $\times$ *China* $\times$ *Suspected Corruption* (− 0.271, p value = 0.007) is significantly negative. Both effects are economically significant relative to the standard deviation of the dependent variable ($0.527/4.255 = 12.385\%$ and $-0.271/4.255 = -6.368\%$, respectively). In contrast, for SOEs, evidence of both effects is substantially weaker. Column (4) shows that while the coefficient on *Treatment* $\times$ *Suspected Corruption* is positive and significant (0.271, p value = 0.011), it is significantly smaller than that for NSOEs (difference test p value = 0.017), and the coefficient on *Treatment* $\times$ *China* $\times$ *Suspected Corruption* is statistically insignificant (0.101, p value = 0.493). Overall, these results indicate that both of our main findings are significantly more pronounced among NSOEs, where political connections are weaker and operational efficiency is stronger relative to SOEs.

Panel B partitions non-violating Chinese focal firms based on the number of their overseas subsidiaries. Existing literature suggests that firms with more overseas subsidiaries tend to exhibit greater international competitiveness (Wang, Luo, Lu, Sun, & Maksimov, 2014) and lower dependence on the domestic market (Witt & Lewin, 2007). Investors are therefore more likely to anticipate (1) better performance among Chinese firms with more overseas subsidiaries when opportunities for foreign market expansion arise, and greater uncertainty among firms with fewer overseas subsidiaries when domestic regulatory pressure increases. Accordingly, we expect the valuation discount (premium) associated with contagion risk (competitive advantage) effects in H1 (H2) to be more pronounced among Chinese firms with fewer (more) overseas subsidiaries. Consistent with this expectation, column (6) shows that the coefficient on *Treatment* $\times$ *China* $\times$ *Suspected Corruption* is significantly negative for firms with fewer overseas subsidiaries (− 0.436, p value = 0.000), while column (8) shows that it is statistically insignificant for firms with more overseas subsidiaries. The former effect is economically significant relative to the standard deviation of the dependent variable ($-0.436/4.255 = -10.246\%$). In contrast, the coefficient on *Treatment* $\times$ *Suspected Corruption* is significantly positive for firms with fewer overseas subsidiaries in column (6) (0.399, p value = 0.000) and for firms with more overseas subsidiaries in column (8) (0.562, p value = 0.000), with the latter being significantly larger in magnitude (difference test p value = 0.077) and economically significant relative to the standard deviation of the dependent variable ($0.562/4.255 = 13.207\%$). These findings indicate that the contagion risk effect is more pronounced among Chinese firms with greater domestic market dependence, while the competitive advantage effect is

stronger among Chinese firms with greater international business competitiveness.

Ex-post impact tests

Table 4 Panels A and B examine ex-post impacts on treatment firms in terms of operating performance and suspected corruption spending, respectively. We evaluate ex-post operating performance and suspected corruption spending to determine whether variations in these measures are consistent with the underlying rationale associated with either contagion risk or competitive advantage effect. Such evidence would help justify the direction of the valuation impact we observe through the ex-ante market reactions in China to US regulatory disclosures. With ex-post operating performance, we are testing whether intra-industry information spillovers convey a useful signal that helps Chinese investors to correctly anticipate a firm's future performance. In the case of ex-post suspected corruption spending, we are examining whether cross-country institutional spillovers exert influence on corporate corruption behavior in China.

We define the explanatory variable *China-related Cases* (*Non-China-related Cases*) as an indicator equal to 1 for treatment firms if at least one China-related (non-China-related) bribery case is disclosed during the year through US SEC FCPA enforcement actions against US industry peers, and 0 otherwise. In panel A, we use the industry-adjusted return on equity (*Operating Performance*) from the subsequent year (i.e., 1 year after the FCPA enforcement year) as the dependent variable. From these analyses, we find that the contagion risk (competitive advantage) effect is significantly associated with lower (higher) subsequent operating performance among the treatment firms. Specifically, column (2) shows that the coefficient on *China-related Cases* is significantly negative (− 0.008, p value = 0.021), while the coefficient on *Non-China-related Cases* is significantly positive (0.024, p value = 0.000), controlling for year and firm fixed effects. Both effects are economically significant relative to the standard deviation of the dependent variable ($-0.008/0.256 = -3.125\%$ and $0.024/0.256 = 9.375\%$, respectively). These results indicate that intra-industry information spillovers from violating to non-violating firms through anti-corruption regulatory disclosures disseminate price-sensitive information that is consistent with variations in firms' subsequent fundamentals. In panel B, the dependent variable is abnormal entertainment and travel costs (*Suspected Corruption Spending*) of the following year (i.e., 1 year after the FCPA enforcement year). This set of tests reveals that the contagion risk (competitive advantage) effect is significantly associated with lower (higher) subsequent suspected corruption spending among the treatment firms. Column (4) shows that the coefficient on *China-related Cases* is significantly negative (− 0.016, p



Table 4 Ex-post impact tests: US FCPA regulatory disclosures' impact on future operating performance and suspected corruption spending of Chinese firms

	Panel A: Y = Operating Performance (year t+1)		Panel B: Y = Suspected Corruption Spending (year t+1)	
	(1)	(2)	(3)	(4)
China-related Cases	− 0.038 (0.000)	− 0.008 (0.021)	− 0.016 (0.012)	− 0.016 (0.042)
Non-China-related Cases	0.018 (0.000)	0.024 (0.000)	0.028 (0.000)	0.025 (0.001)
Firm Size	0.005 (0.000)	0.001 (0.368)	0.002 (0.582)	0.014 (0.001)
Leverage	0.009 (0.291)	0.019 (0.262)	− 0.070 (0.098)	− 0.064 (0.127)
Profitability	0.746 (0.000)	0.208 (0.000)	0.080 (0.300)	0.081 (0.295)
Sales Growth	0.014 (0.010)	0.034 (0.000)	− 0.037 (0.003)	− 0.043 (0.001)
Firm Age	0.001 (0.403)	− 0.020 (0.002)	− 0.050 (0.000)	0.058 (0.004)
Control Ownership	0.001 (0.000)	0.002 (0.000)	− 0.000 (0.870)	− 0.000 (0.675)
Board Independence	0.014 (0.456)	0.010 (0.688)	− 0.033 (0.483)	− 0.043 (0.362)
Institutional Ownership	0.002 (0.000)	0.001 (0.000)	0.002 (0.005)	0.001 (0.022)
Herfindahl Index	0.142 (0.000)	− 0.260 (0.000)	0.269 (0.104)	0.262 (0.113)
Constant	− 0.150 (0.000)	− 0.054 (0.088)	0.186 (0.013)	− 0.211 (0.024)
Firm fixed effect	Yes	Yes	Yes	Yes
Year fixed effect	No	Yes	No	Yes
Observation	34,892	34,892	34,892	34,892
Adjusted R ²	0.133	0.150	0.468	0.471

This table presents the analysis of ex-post impact on non-violating Chinese focal firms over the sample period of 2011–2022. The sample period of this analysis ends in 2022 because of the need for data to measure 1-year-ahead operating performance and suspected corruption spending of 2023. All variables are defined in Online Appendix Part A. The *p* values are reported in parentheses. Robust standard errors are clustered at the firm level.

value = 0.042), while the coefficient on *Non-China-related Cases* is significantly positive (0.025, *p* value = 0.001), controlling for year and firm fixed effects. Both effects are economically significant relative to the standard deviation of the dependent variable ($-0.016/0.599 = -2.671\%$ and $0.025/0.599 = 4.174\%$, respectively). These results indicate that cross-border institutional spillovers from the US to China, propagated through intra-industry information

spillovers following FCPA violation disclosures, generate real effects on corporate corruption.

Additional tests

Table 5 Panels A, B, and C report the results of additional tests of the effect associated with FCPA enforcement severity, measured by financial penalties, provisions violated, and economic loss, respectively. The valuation impact on non-violating Chinese focal firms generated by US FCPA violation disclosure is expected to be stronger for more severe enforcement actions against violating US firms. More severe penalties associated with China-related bribery are more likely to attract attention from Chinese anti-corruption authorities, intensifying the contagion risk effect. In contrast, severe penalties associated with non-China-related bribery incidents could signal to Chinese investors that the violating US industry peer firm is likely to suffer greater economic and reputational damage, and therefore strengthen the competitive advantage effect for non-violating Chinese focal firms. The positive relation between SEC enforcement severity for FCPA-violating US firms and the valuation discount (premium) among non-violating Chinese industry peers for China-related (non-China-related) cases is in alignment with the view that the contagion risk (competitive advantage) effect is indeed driven by the severity of the FCPA enforcement.

In panel A, we define *Severity* as an indicator variable that equals 1 if the magnitude of the financial penalty for the FCPA violation reported in the US regulatory disclosure is greater than the enforcement case-level median, and 0 otherwise. Column (2) shows that, after controlling for year fixed effects and firm fixed effects, the coefficient on *Treatment* × *Severity* (0.093, *p* value = 0.096) is significantly positive, while the coefficient on *Treatment* × *China* × *Severity* (− 0.496, *p* value = 0.000) is significantly negative.

In panel B, *Severity* is defined as an indicator variable that equals 1 for cases that violate both the FCPA anti-bribery and accounting provisions, and 0 for cases that violate only the accounting provision. Of the 116 cases examined during the sample period, 58 involve violations of both provisions and 58 involve only accounting provisions. As shown in column (4), after controlling for year and firm fixed effects, the coefficient on *Treatment* × *Severity* (0.347, *p* value = 0.000) is significantly positive, and the coefficient on *Treatment* × *China* × *Severity* (− 0.328, *p* value = 0.000) is significantly negative.²⁴

²⁴ The findings here also suggest that the intra-industry information spillover from violating to non-violating firms driven by FCPA cases is stronger among those that violate both accounting and anti-bribery provisions than those that only violate accounting provisions. One potential implication of this evidence is that the accounting provision itself may need to be strengthened to improve its deterrence against

Table 5 Additional tests: US FCPA regulatory disclosures' valuation impact on Chinese firms further controlling for US FCPA enforcement severity

Y = Cumulative Returns (days 0, +1)	Panel A: Financial penalty		Panel B: Provision violated		Panel C: Economic loss	
	(1)	(2)	(3)	(4)	(5)	(6)
Treatment	0.302 (0.000)	0.301 (0.000)	0.097 (0.074)	0.090 (0.100)	0.153 (0.002)	0.142 (0.005)
China	−0.793 (0.000)	−0.794 (0.000)	0.246 (0.000)	0.243 (0.000)	−0.550 (0.000)	−0.560 (0.000)
Treatment × China	−0.315 (0.000)	−0.312 (0.000)	−0.385 (0.000)	−0.361 (0.000)	−0.083 (0.213)	−0.037 (0.586)
Suspected Corruption	−0.152 (0.000)	−0.152 (0.000)	−0.150 (0.000)	−0.150 (0.000)	−0.171 (0.000)	−0.163 (0.000)
Treatment × Suspected Corruption	0.456 (0.000)	0.484 (0.000)	0.425 (0.000)	0.451 (0.000)	0.536 (0.000)	0.566 (0.000)
China × Suspected Corruption	0.164 (0.000)	0.163 (0.000)	0.181 (0.000)	0.180 (0.000)	0.226 (0.000)	0.227 (0.000)
Treatment × China × Suspected Corruption	−0.190 (0.022)	−0.195 (0.019)	−0.222 (0.007)	−0.229 (0.005)	−0.301 (0.000)	−0.303 (0.000)
Severity	−1.243 (0.000)	−1.245 (0.000)	−0.066 (0.001)	−0.065 (0.001)	−0.131 (0.000)	−0.132 (0.000)
Treatment × Severity	0.096 (0.081)	0.093 (0.096)	0.347 (0.000)	0.347 (0.000)	0.269 (0.000)	0.274 (0.000)
China × Severity	1.170 (0.000)	1.167 (0.000)	−1.204 (0.000)	−1.205 (0.000)	0.653 (0.000)	0.656 (0.000)
Treatment × China × Severity	−0.527 (0.000)	−0.496 (0.000)	−0.324 (0.000)	−0.328 (0.000)	−0.595 (0.000)	−0.610 (0.000)
Constant	2.050 (0.000)	5.041 (0.000)	1.827 (0.000)	4.840 (0.000)	2.266 (0.000)	4.926 (0.000)
Control variables	Yes	Yes	Yes	Yes	Yes	Yes
Year fixed effect	Yes	Yes	Yes	Yes	Yes	Yes
Firm fixed effect	No	Yes	No	Yes	No	Yes
Observation	301,659	301,659	301,659	301,659	275,342	275,342
Adjusted R ²	0.077	0.077	0.074	0.074	0.091	0.091

This table presents the results of additional tests on the effect of FCPA enforcement severity over the sample period of 2011–2023. In panel A, *Severity* is proxied by financial penalty and equals 1 if the magnitude of the penalty is greater than the enforcement case-level median, and 0 otherwise. In panel B, *Severity* is proxied by the provisions violated and equals 1 if the enforcement includes both anti-bribery and accounting provisions, and 0 in case of only accounting provision. In panel C, *Severity* is proxied by the ex-post economic loss of the FCPA-violating US industry peer firms and equals 1 if the change in 3 years' average total revenue scaled by total assets from before to after the enforcement action is below the enforcement case-level median, and 0 otherwise. All other variables are defined in Online Appendix Part A. The *p* values are reported in parentheses. Robust standard errors are clustered at the firm level.

In panel C, *Severity* is defined as an indicator variable equal to 1 for FCPA-violating US firms that experience a greater decline in revenue growth than the enforcement case-level median following enforcement actions, and 0 otherwise. Column (6) shows that, after controlling for year and firm fixed effects, the coefficient on *Treatment × Severity*

(0.274, *p* value = 0.000) is significantly positive, while the coefficient on *Treatment × China × Severity* (−0.610, *p* value = 0.000) is significantly negative.

The findings for interaction terms involving *Severity* across all three measures, namely financial penalty, provisions violated, and economic loss, are not subsumed by interaction terms involving *Suspected Corruption*, which remain significant across all columns in Table 5. These results indicate that the observed valuation impacts are indeed driven by FCPA enforcement rather than unidentified confounding factors and further demonstrate that the

Footnote 24 (continued)

corporate corruption. Heterogeneity in the violated provisions is an interesting avenue for future research.



baseline evidence supporting hypotheses H1 and H2 is robust to additional controls.²⁵

Discussion and conclusions

Our study informs long-standing and ongoing policy debates surrounding the controversial US FCPA by examining its impact on Chinese firms. China is a jurisdiction in which violations by US firms most frequently occur and also has a weaker institutional framework in which corporate corruption is widespread. From an information economics perspective, we provide evidence that US regulatory disclosures of FCPA enforcement actions drive intra-industry information spillovers from violating US firms to non-violating Chinese firms, which in turn propagate cross-border institutional spillovers from the US to China. When US disclosures report China-related (non-China-related) bribery by FCPA-violating US industry peers, we observe a significant valuation discount (premium) among non-violating Chinese focal firms in the same industry that are more likely to be suspected of corruption. The valuation discount is consistent with a contagion risk effect, which increases litigation risk and regulatory scrutiny within the same industry in China due to increased domestic anti-corruption regulatory attention following such events. The valuation premium is consistent with a competitive advantage effect, which enhances business opportunities for the non-violating Chinese focal firms following economic and reputational damages of their US industry peers. Further analyses show that Chinese firms subsequently experience a decrease (increase) in operating performance and suspected corruption-related spending following contagion risk (competitive advantage) effects. As such, not only do we observe that the direction of the valuation impact reflects investors' correct anticipation of the ex-post economic implications of these effects, but we also provide evidence of subsequent influences on real corruption-related activities among Chinese firms.

We contribute to the international business literature on corporate corruption by showing that US regulatory disclosures of FCPA enforcement can serve as a form of institutional subsidy (North, 1990; Xu, 2025) that spreads governance norms from stronger to weaker regulatory jurisdictions through the contagion risk effect. From this perspective, the recent suspension of the FCPA would not only undermine US leadership in the global fight against corruption but

may also weaken regulatory pressure against such activities in other countries. At the same time, we show that cross-border institutional spillovers following US disclosures of FCPA violations can generate windfall gains through the competitive advantage effect for firms located in jurisdictions not targeted by the FCPA enforcement actions. While these findings could be interpreted by critics of the FCPA as supporting its suspension, improved coordination and collaboration in anti-corruption regulatory efforts across countries may offer a more fundamental and lasting solution to addressing uneven regulatory enforcement globally (Beck & Maher, 1989; Chen, et al., 2022). For example, the US enacted the Foreign Extortion Prevention Act (FEPA) in 2023 to complement the FCPA by prosecuting foreign officials who demand or accept bribes from US firms. If FEPA-type regulations were adopted by more jurisdictions, particularly those in which corruption is prevalent, this could help mitigate the competitive advantage effect without suspending the FCPA or relinquishing its role in promoting cross-border institutional spillovers.²⁶

Our study also contributes to the accounting literature on information disclosure by suggesting that US disclosures of FCPA enforcement actions can play an information subsidy role by meeting the demand of investors of non-violating firms for greater transparency regarding business activities such as corruption, for which voluntary and mandatory corporate disclosures are limited (Hess, 2012; Hung, Kim, & Li, 2018). From this perspective, suspending the FCPA would not only damage the credibility and commitment of US authorities to anti-corruption enforcement but would also increase information awareness and acquisition costs for investors (Blankespoor et al., 2020; Kahneman, 1973) among non-violating firms in the US and other jurisdictions. At the same time, our evidence indicates that industry-wide regulatory disclosures can produce both winners and losers among non-violating firms (Johnson, 2020; Silvers, 2016), including firms that suffer valuation discounts due to contagion risk and firms that gain valuation premiums through competitive advantage. Although such effects may attract criticism for increasing valuation volatility across industries and be cited in support of suspending the FCPA, our findings also suggest that these information externalities are more likely to affect firms suspected of engaging in corruption. Firms may therefore reduce valuation uncertainty by proactively signaling governance quality in a manner consistent with unraveling theory (Beyer et al., 2010; Verrecchia, 1982). In this way, the FCPA may not only deter corruption globally but also strengthen investor protection

²⁵ In Online Appendix Part D, we present additional and robustness tests, including alternative windows, alternative industry classifications, matched sample tests, longer sample period, mixed events tests, individual cases inclusion, placebo events tests, and determinants of China-related cases.

²⁶ Future research could also examine the impact of the OECD Anti-Bribery Convention and other anti-bribery laws around the world to provide additional insights to policymakers and regulators.



and corporate disclosure incentives through intra-industry information spillovers.

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Data availability The authors will not make the data fully available due to third-party property rights. The dataset used in this study was compiled from three licensed sources: China Stock Market and Accounting Research (CSMAR), Chinese Research Data Service Platform (CNRDS), and WIND databases. Access to these databases is restricted and was obtained under institutional licenses granted to the authors' universities.

Conflict of interest None.

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