CEO personal reputation and financial misconduct

Zicheng Lei, *King's College London*

Dimitris Petmezas, *Durham University*

P. Raghavendra Rau, *University of Cambridge*

Chen Yang, *Durham University*

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Abstract

We examine the effect of CEO personal reputational capital on financial misconduct. We find that home CEOs (defined as those who manage firms located within 100 miles of their birthplaces) are associated with significantly less financial misconduct than firms with non-home CEOs. The effect is stronger for home CEOs who spend more time in their home state. Our results are robust to controlling for corporate governance and agency issues. Overall, our evidence suggests that CEOs' personal reputational capital acts to significantly deter firm financial misconduct.

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Keywords: CEO reputational capital, birthplace identity, financial misconduct

*Lei: King's Business School, King's College London, London, WC2B 4BG, UK, zicheng.lei@kcl.ac.uk. Petmezas and Yang: Durham University Business School, Durham University, Durham, DH1 3LB, UK, dimitris.petmezas@durham.ac.uk and chen.yang2@durham.ac.uk. Rau: Cambridge Judge Business School, University of Cambridge, Cambridge CB2 1AG, UK, r.rau@jbs.cam.ac.uk. We thank Rüdi Fahlenbrach for sharing data on founder CEOs, Kai Li for sharing data on corporate culture, and Scott Yonker for sharing data on home CEOs and CEO residences. All remaining errors are our own.

1. Introduction

Studying financial misconduct is important. Financial misconduct, an umbrella term capturing instances of financial misreporting, misrepresentation, and fraud (Amiram et al., 2018), reduces investor trust in firms. Dupont and Karpoff (2020) argue that investor trust is the foundation of most production and exchange activities. For example, a lack of trust results in investors being less willing to participate in financial markets (Giannetti and Wang, 2016), or invest in firms (Mayer, 2008).

Most studies on financial misconduct have primarily investigated the consequences of a loss in reputational capital from the *firms'* side.[1] Amiram et al. (2018) define reputational capital as the present value of the improvement in net cash flow and lower cost of capital that arises when the firm's counterparties trust that the firm will uphold its explicit and implicit contracts and will not act opportunistically to their counterparties' detriment. Researchers typically avoid measuring the value of firm reputation by examining situations in which trust is broken and the value of a firm's reputational capital is likely to have changed.

In contrast, in this paper, we examine the effect of personal (i.e., *executive-specific*) traits that are likely to be related to reputational capital on the propensity of firms to engage in financial misconduct. This stream of literature is relatively sparse with most papers examining traits that are unlikely to be correlated with reputational capital.[2] We show that CEOs with personal reputations at stake are significantly less likely to engage in financial misconduct.

[1] A significant body of research shows that financial misconduct is associated with negative consequences for firms. These negative consequences include the loss of future sales (Barber and Darrough, 1996; Karpoff et al., 1999; Johnson et al., 2014), stock price declines (e.g., Beneish, 1999b; Burns and Kedia, 2006; Karpoff et al., 2008a), increases in the cost of capital (Hribar and Jenkins, 2004; Murphy et al., 2009), and the loss of *firm's* reputation and trust (Karpoff et al., 2008a; Armour et al., 2017).

[2] As examples of this type of research, Liu (2016) and Schrand and Zechman (2012) examine how CEO ancestry and overconfidence, respectively, affect financial misconduct.

Specifically, we use the birthplace identity effect to proxy for CEO personal reputations. The birthplace identity effect is grounded in the psychology literature (Proshansky, 1978).[3] Place identity is "a component of personal identity, a process by which, through interaction with places, people describe themselves as belonging to a specific place" (Hernández et al., 2007, p. 311).[4]

We conjecture that home CEOs (i.e., CEOs who manage firms headquartered within 100 miles from their birthplace) value their reputational capital substantially more than non-home CEOs and this intrinsic incentive prompts them to be less likely to engage in financial misconduct. Home CEOs are likely to have a strong desire to live close to their family and friends. They have been shown to be willing to exchange part of their compensation for their preferred living location (Yonker, 2017b) and have constrained relocation mobilities.[5] Economic theory suggests that managers with significant reputations at stake will not engage in opportunistic rent-seeking behavior (e.g., Fama, 1980; Kreps et al., 1982; Kreps, 1990). This "efficient contracting" perspective predicts that home CEOs, who identify with the area where they work, value their reputation highly. Damaging their reputation would impact their employment in a local firm (either in the firm they manage or the value of their option to move to another firm in the same area). Prior literature provides evidence that CEOs' dismissals deter managers from engaging in misconduct (e.g., Feroz et al., 1991; Alexander, 1999; Desai et al., 2006; Arthaud-Day et al., 2006; Karpoff et al., 2008b; Agrawal and Cooper, 2017).

To examine whether birthplace identity acts as a deterrent against financial misconduct, we focus on the universe of non-financial, non-utility firms covered by the Standard & Poor's Executive Compensation (ExecuComp) database and manually collect data on the birthplace

[3] See Gieryn (2000) and Manzo (2003) for a review of this literature.
[4] Place identity forms a key element of an individual's personal identity (Proshansky, 1978) and is less likely to be an endogenous choice of the CEO because the birthplace is usually chosen by the CEO's parents.
[5] Yonker (2017b) finds that home CEOs are 20% less likely to experience turnover than non-home CEOs.

origins of their CEOs for the years 1992–2018. Using four proxies of financial misconduct commonly employed by the prior literature (e.g., accrual-based earnings management, accounting fraud, opportunistic insider trading and penalties for violation), we find that firms with home CEOs on board are significantly less likely to engage in misconduct relative to firms with non-home CEOs. The magnitude of the home CEO effect is economically sizable: firms with a home CEO on board are associated with lower abnormal accruals, corresponding to 9.19% of one standard deviation of the abnormal accruals' distribution. Furthermore, firms with a home CEO on board are associated with a decrease in the incidence of accounting fraud by 1.4% (representing 30.4% of the mean accounting fraud rate), a decrease in the insider trading price pattern measure by 2.4% and $977,000 lower penalties of violation (representing 67.6% of the average annual penalties of violation).

To shed further light on the reputational capital impact, we examine cross-sectional heterogeneity in our sample. Specifically, we expect that home CEOs who have lived for longer periods in their hometown should have stronger incentives not to damage their reputation. Hence, such home CEOs should be more reluctant to engage in financial misconduct activities. This is exactly what we find.

An alternative explanation for our results is that home CEOs are likely to be employed at firms with strong corporate governance. Hence the negative relationship between the presence of a home CEO and firm misconduct is actually driven by the strength of corporate governance at the firm. However, we show that the negative relation between home CEOs and FM is not driven by the strength of the firm's corporate governance (e.g., Beasley, 1996; Klein, 2002). Controlling for four

different proxies for the strength of corporate governance at the firm, we still find that the presence of a home CEO is negatively associated with financial misconduct.[6]

Our results are also robust to endogeneity issues. We find similar results when we conduct a propensity score matching (PSM) analysis and match firms that hire home CEOs with those exhibiting analogous characteristics but are managed by non-home CEOs. Our results are also unaltered when we run a two-stage instrumental variable (IV) analysis using the average temperature in CEO birthplace locations as an instrumental variable. It is plausible that individuals prefer to move to and work in more desirable areas with good weather (Yonker, 2017b). Therefore, firms with higher geographic desirability have a larger pool of potential CEO candidates across the country they can choose from, implying that they are less likely to select a home CEO. Hence, this instrument is likely to satisfy the relevance condition. Simultaneously, the average temperature of a specific area is relatively unlikely to be correlated with the firm's decision to engage in misconduct, satisfying the exclusion condition for instrumental variables. When we regress the instrumented home CEO on our measures of misconduct, our results are unchanged, reducing concerns of an omitted variable bias.

Our results remain unchanged following a battery of robustness tests. Specifically, they hold after including firm or county fixed effects, after removing the top 5 CEO home counties, after using different measures of home CEOs and financial misconduct, after removing highly educated CEOs with MBA or master's degrees, after removing founder CEOs, after controlling for CEO political preferences or CEO overconfidence, after controlling for county-level religiosity or

[6] Intuitively, the "rent extraction" hypothesis is a priori unlikely. Prior evidence indicates that when the misrepresentation of earnings and assets is detected, firm value decreases by much more than the original share price inflation (Karpoff et al., 2008b). Home CEOs value the location of the place they work at more than, for example, the compensation they will receive (Yonker, 2017b), so manipulating or misreporting firm's data to extract private rents is less likely.

lobbying activities, after controlling for firm financial constraints or enforcement strength. We also obtain similar results when we control for a change in corporate culture, which indicates that the home CEO effect we document is not simply a proxy for a firm culture effect. Finally, we document that financial distress does not change the relation between home CEOs and financial misconduct activities.

Our study makes four main contributions to the literature. First, our paper contributes to the home bias literature, which mainly focuses on the fields of economics and finance. Prior research in this area finds that CEOs' birthplace bias affects firms' employment policies (Yonker, 2017a), CEO compensation and turnover (Yonker, 2017b), merger and acquisition outcomes (Jiang et al., 2019), bank credit allocation (Lim and Nguyen, 2021), CSR activities (Lei et al., 2021), R&D expenses (Lai et al., 2020) and credit ratings (Cornaggia et al., 2020). We bring this fast-growing literature to the accounting discipline by documenting that CEOs' birthplace identity acts as a deterrent against financial misconduct.

Second, we highlight a cultural channel in deterring financial misconduct. Several studies argue that significant losses in reputational capital and direct penalties when firms are caught for misconduct act as channels to discipline and deter financial misconduct (e.g., Karpoff et al., 2008a; Armour et al., 2017). Despite the importance of trust and reputation in economic theory, the reputational impact on misconduct has received relatively little attention in the accounting and finance literature. One of the primary challenges for empirical research in this area is that it is difficult to measure reputational capital (Amiram et al., 2018). Our use of CEOs' birthplace identity to capture the level of CEOs' reputational capital offers a cultural channel through which reputational capital deters financial misconduct.

Third, we add to the literature that documents that home CEOs are more trustworthy. For instance, Lei et al. (2021) show that home CEOs are associated with higher CSR activities that add to firms' social capital and trust. Additionally, they show that local stakeholders trust home CEOs more as reflected by higher stock returns, firm value, gross margin, sales growth, and employee growth. Our study is in line with the findings of Lei et al. (2021) and supports the view that home CEOs are more trustworthy on other dimensions, as their priorities on their personal reputation in the local community deters them from engaging in financial misconduct.

Fourth, this study adds to the literature which examines determinants of financial misconduct.[7] We extend the scope of this emerging literature by showing an important determinant that systematically affects financial misconduct: CEO geographic origin. Our results suggest that non-monetary emotional reasons, related to CEOs' reputational capital and birthplace identity, reduce financial misconduct. Our study is most closely related to Francis et al. (2008) who also examine the effect of CEO reputational capital on discretionary accruals. Our paper differs from Francis et al. (2008) along two major dimensions. First, Francis et al. (2008) focus on only discretionary accruals while we examine the impact of CEO personal reputation on the broader topic of financial misconduct in general (which includes discretionary accruals as a proxy for misconduct). Second, Francis et al. (2008) use press-coverage-based proxies to define CEO reputation. Although such proxies rely on how CEOs are perceived by outsiders, press-coverage-based measures are "necessarily noisy and less precise measures" (Malmendier and Tate, 2008, p.38). In particular, media comments may lack objectivity because of media bias or the perceptional biases associated

[7] Among others, managers engage in financial misconduct activities to increase their own compensation (Bergstresser and Philippon, 2006; Denis et al., 2006; Wang et al., 2010); to attract new external financing (Efendi et al., 2007; Dechow et al., 2011); to meet certain earnings target and threshold (Degeorge et al., 1999; Payne and Robb, 2000; Richardson et al., 2003; Schilit, 2010); to relieve financial distress (Loebbecke et al., 1989; Maksimovic and Titman, 1991); to boost the share price (Beneish, 1999b; Peng and Roell, 2008); or to avoid the violation of covenants in debt contracts (Dechow et al., 1996; Burns and Kedia, 2006).

with the author of the article portraying the executive (Hill et al., 2014). Additionally, limited information might create selection bias. Finally, press coverage is likely to suffer from an endogeneity problem: the reputation of a CEO might simply capture the good performance of the firm or another omitted variable related with how business press portrays CEOs. In contrast, our measure of reputational capital is intrinsic and likely exogenous to the CEO – the birthplace identity of the CEO is driven by family decisions to settle in a place, not by the CEO's choice.

Our study also has several policy implications. First, our study offers a new proxy for CEO reputation. The birthplace identity of the CEO offers a new measure of CEO reputation which can be used in different contexts. Second, firm boards should also consider personal traits when deciding the selection of a CEO. To mitigate the firm's direct costs as well as the reputational losses from financial misconduct (Amiram et al., 2018), boards should consider home CEOs as "gatekeepers" who can act as shields against financial misconduct.

The remainder of the paper is organized as follows. Section 2 describes the data, our measures of home CEOs and financial misconduct. Section 3 presents our main empirical analyses. Section 4 provides further robustness tests. Section 5 examines the role of financial distress. Section 6 concludes.

2. Empirical methodology and data

2.1. Sample construction and measures of home CEOs

Our initial sample consists of the universe of firms covered by the ExecuComp database over the period 1992–2018. We exclude regulated utilities (SIC 4900–4999) and financial firms (SIC 6000–6999) because their corporate decisions are influenced by regulations. To create our measure of US home CEOs, we manually collect birthplace data of CEOs from Marquis Who's Who, Standard and Poor's Register of Directors and Executives, Lexis-Nexis, NNDB.com, or Google

searches. After excluding foreign-born CEOs and those for whom we cannot identify the birth county, we obtain birthplace information for 1,888 out of the 6,543 US-born CEOs in 1,674 non-financial, non-utility firms with 12,395 firm-year observations covered by ExecuComp from 1992 to 2018. We classify a CEO as a home CEO if the distance between her place of birth and the firm's headquarters is less than 100 miles.[8] Next, we follow the procedure in Vincenty (1975) and compute the distance between the CEO's hometown and the firm's headquarters.[9] After merging with financial data from Compustat and removing missing values of firm and CEO characteristics, our sample includes 1,594 unique CEOs in 1,268 firms and 10,694 firm-year observations.

2.2. Measure of corporate misconduct

To explore whether a CEO's birthplace identity impacts financial misconduct behavior, we examine four types of financial misconduct: earnings management, accounting fraud, opportunistic insider trading, and penalty of violation.[10]

2.2.1. Earnings management (discretionary accruals)

Earnings management is likely to mislead investors and results in earnings restatements, lawsuits, and Securities and Exchange (SEC) enforcement actions. Karpoff et al. (2008) show that on average, firms lose 38% of their market value upon the discovery of financial misrepresentations. Accruals are vulnerable for managerial manipulation because they require managers' estimation and judgement (Yu, 2008). In this study, we employ a model by Dechow et al. (1995) to capture earnings management.

[8] In robustness tests, we use several alternative methods to identify home CEOs. Specifically, we restrict the distance between the CEO's hometown and firm's headquarters to lie within 50 or 150 miles or use a continuous measure of distance (Ln (distance+1)). The results are qualitatively similar in these alternative models.

[9] We require that the geographic coordinates (longitude and latitude) can be obtained from the US Census (2014) Gazetteer in order to calculate the distance between the coordinates of the CEO's hometown and the firm's headquarters.

[10] In the robustness checks section, we also use options backdating as a measure of financial misconduct obtaining similar results.

For each calendar year, we estimate a cross-sectional model for every industry classified by 48 Fama–French (1997) industries with a minimum of 15 observations. We estimate discretionary accruals based on the following cross-sectional OLS regression:

$$\frac{TA_{it}}{Assets_{i,t-1}} = \alpha_1 \frac{1}{Assets_{i,t-1}} + \alpha_2 \frac{\Delta SALES_{it}}{Assets_{i,t-1}} + \alpha_3 \frac{PPE_{it}}{Assets_{i,t-1}} + \varepsilon_{it} \quad (1)$$

$Assets_{i,t-1}$ represents total assets (annual Compustat data item 6) of firm *i* at time *t-1*, $\Delta SALES_{it}$ is the change in revenues (annual Compustat data item 12) from the previous year, and PPE_{it} is the gross value of property, plant and equipment (annual Compustat data item 7) of firm *i* at time *t*.

TA_{it} represents the total accruals of firm *i* at time *t*, which is calculated as the following function:

$$TA_{it} = \frac{\Delta CA_{it} - \Delta CL_{it} - \Delta Cash_{it} + \Delta STD_{it} - DEP_{it}}{Assets_{i,t-1}} \quad (2)$$

ΔCA_{it} is the change in the current assets (annual Compustat data item 4) from the preceding year; ΔCL_{it} is the change in current liabilities (annual Compustat data item 5) from the preceding year; $\Delta Cash_{it}$ represents the change in cash holdings (annual Compustat data item 1) from the previous year; and ΔSTD_{it} is the change in short-term debt in current liabilities (annual Compustat data item 34) from the previous year. DEP_{it} is the depreciation and amortization expense (annual Compustat data item 14) of firm *i* at time *t*.

The coefficient estimates from Eq.(1) are then used to estimate the firm-level normal accruals (NA_{it}):

$$NA_{it} = \hat{\alpha}_1 \frac{1}{Assets_{i,t-1}} + \hat{\alpha}_2 \frac{\Delta SALES_{it}}{Assets_{i,t-1}} + \hat{\alpha}_3 \frac{PPE_{it}}{Assets_{i,t-1}} \quad (3)$$

Our measure of discretionary accruals is the difference between total accruals and the fitted normal accruals, defined as $DA_{it} = \frac{TA_{it}}{Assets_{i,t-1}} - NA_{it}$.

Since managers have incentives to manipulate earnings in both directions, upward and downward, we follow the earnings management literature (e.g., Bergstresser and Philippon, 2006; Cohen, et al., 2008; Yu, 2008) and use the absolute value of discretionary accruals as the measure of earnings manipulation. Higher values of discretionary accruals imply that the firm is more likely to engage in accrual-based earnings manipulation. In our sample, we are able to calculate the discretionary accruals for 1,110 firms from 1992 to 2018 with 9,252 observations.[11]

2.2.2. Accounting fraud

Following Liu (2016), we construct an accounting fraud dummy that is equal to one if the firm has experienced one of the following three events in a given year, and zero otherwise. First, the firm is subject to class action lawsuits in a given year. We identify 216 lawsuit events in our sample using data from the Securities Class Action Clearinghouse (SCAC) Website from 1996 to 2018. SCAC is widely used in corporate misconduct literature to capture firm-level fraud (e.g., Dyck et al., 2010; and Wang et al., 2010). Second, earnings are misstated in that firm year. We use the SEC's Accounting and Auditing Enforcement Releases 10b-5 (AAER) to identify misstatement. AAER consists of firm misstatement events issued between May 1982 and December 2018. In our sample, we identify 122 misstatement events. Third, the firm restated its earnings in a given year according to General Accounting Office database (GAO) in 2003 and 2006. GAO (2003, 2006) contains earnings restatements announced in the period January 1997 to July 2006. In our sample, we identify 182 earnings restatement events. Overall, from 1992 to 2018, 4.6% of firm-year observations have a fraud dummy of one.

[11] In the robustness checks section, we also employ four alternative measures of discretionary accruals: i) the Cohen and Zarowin's (2010) model; ii) a modified version of Jones (1991) model; iii) we include two additional control variables, *Big 4* and *Litigation*; and iv) we follow the approach suggested by Chen et al. (2018) where we regress the residual from a first-step regression on the combination of all the second-step regressors and all the first-step regressors when calculating discretionary accruals. Our main results remain unaltered.

2.2.3. Opportunistic insider trading

Using their access to insider information, executives and directors could trade stock in their own company to receive personal benefits. In this study, we use the measure developed by Rozanov (2008) to detect insider trading that is more prone to be based on non-public information. Specifically, we construct a price pattern ratio, which is calculated as the market-adjusted gross return over 20 trading days after the insider transaction to the market-adjusted gross return over the 20 trading days before the insider transaction. A higher price pattern ratio reflects higher insider information advantage. Rozanov (2008) tests the validity of the price pattern ratio by documenting a positive relationship between the price pattern measure and the probability of subsequent class action lawsuits. This provides supportive evidence that this measure reflects information-based trades. Following Liu (2016), we average the price pattern ratios across different trading days within a given year into a single number for each firm-year observation.

We obtain insider trading data from Thomson Financial to identify insiders' purchase transactions (excluding option exercises). We only focus on purchase transactions as prior literature (e.g., Ravina and Sapienza, 2010) finds that executives do not receive positive abnormal returns on sale transactions, but they do on purchase transactions. In our sample, we construct the price pattern ratio for 1,028 unique firms from 1992 to 2018, representing 5,057 observations.

2.2.4. Penalty of violation

Penalty of violation is a direct cost of financial misconduct. Following Heese and Cavazos (2020) and Heese, Cavazos, and Peter (2021), we obtain firms' penalty records from Violation Tracker database, which is produced by the Corporate Research Project of Good Jobs First. Violation Tracker collected over 310,000 civil and criminal cases of firms from more than 40

federal regulatory agencies since 2000.[12] To compile the dataset, Violation Tracker also complements agency enforcements records with information collected on settlements announced in press releases.

From the 310,000 violations at facility-level, Violation Tracker links around 67,000 violations to 2,875 parent companies, representing close to 95% of the total penalty value. This linkage allows us to construct the penalty measure for our sample. We use a web-crawling program to download facility-level annual penalties from the website and aggregate to firm-level annual penalties for each year. Among 6,523 firm-year observations in our sample from 2000 to 2018, 1,695 firm-year observations have a positive value of annual penalties. The annual penalty of violation is set to zero for firm-year observations not covered in the Violation Tracker dataset.

2.3. Empirical strategy

We implement the following pooled OLS regression model in our main analysis:

$$Financial\ Misconduct_{i,t} = \alpha + \beta\ Home\ CEO_{jt} + \mu F_{it} + \lambda C_{jt} + \gamma_k + \delta_t + \varepsilon_{ijkmt} \qquad (4)$$

where *i* indexes firms, *j* indexes CEOs, *k* indexes the industries, and *t* indexes time. γ and δ denote industry and year fixed effects. ε is the error term.

The dependent variables are the four proxies for *Financial Misconduct*, i.e., earnings management, accounting fraud, price pattern and penalty of violation, in year *t*. The main independent variable, *Home CEO*, is a dummy variable that equals one if the distance between the CEO's birth county and the county of firm's headquarters is less than 100 miles, and zero otherwise. *F* and C are vectors of firm and CEO variables. We control for firm size, firm age, book-to-market, leverage, profitability, capital intensity, R&D expenditure, and a high-tech dummy for all regressions. For earnings management, accounting fraud and penalty of violation regressions, we

[12] Violation Tracker excludes violation records where the penalty or settlement is less than $5,000.

follow the previous literature (Hribar and Nichols, 2007; Liu, 2016) to control additionally for operating cycle, loss percentage, sales growth, sales volatility, and cash flow volatility. We also include the number of analysts covering a specific firm in a given year from I/B/E/S in the earnings management and penalty of violation regressions (Irani and Oesch, 2016) and include the number of shares traded in the opportunistic insider trading regression (Liu, 2016). CEO control variables include a female CEO indicator, CEO age, CEO tenure, and CEO ownership.

To control for time invariant industry–related variables that might affect financial misconduct activities, we use the Fama–French (1997) 48 industry classifications to define industry.[13] We also include year fixed effects to control for a possible time trend. Across all models, we use heteroscedasticity–robust standard errors clustered at the county-year level (Lim and Nguyen, 2021). Earnings management, opportunistic insider trading and penalty of violation regressions use ordinary least square (OLS) estimation, whereas accounting fraud uses probit estimation. Overall, our model compares firms with home CEOs versus those with non-home CEOs within the same industry, year, and with similar firm and CEO characteristics.

2.4. Descriptive statistics

Table 1 reports summary statistics for firm and CEO variables for the overall sample as well as for home and non-home CEOs, respectively. We winsorize all our non-binary variables at the 1st and 99th percentiles to remove the effect of outliers. Firms with home CEOs represent 27.7% of the firm-year observations in our sample, consistent with the figure documented by Yonker (2017b) and Lei et al. (2021).[14] Our sample firms are roughly similar to the samples in prior studies

[13] Our results hold when we use the two–digit Standard Industrial Classification (SIC) codes to define industry.
[14] Yonker (2017b) documents that the CEO's state of origin matches the firm's headquarters location for 30% of the firm-year observations in his sample. Lei et al. (2021) show that the distance between the CEO's birth county and the firm headquarters county is less than 100 miles for 27% of the firm-year observations in their samples.

using US public firms along firm and CEO characteristics (e.g., Irani and Oesch, 2016; Cronqvist and Yu, 2017).

Additionally, when we compare firms with home versus non-home CEOs, we find that firms with home CEOs are followed by fewer analysts, have lower growth opportunities and sales growth, but are less likely to experience losses than firms with non-home CEOs. Home CEOs also have higher equity ownership and longer tenure than non-home CEOs, consistent with the notion of birthplace identity for home CEOs. Panels A and E present summary statistics for our proxies of corporate misconduct. The mean value of our measure of earnings management is 0.202, which is very similar to the value reported by Irani and Oesch (2016). We identify accounting fraud in 4.6% of firm-year observations while the mean value of price pattern is 1.043, which are both close to the numbers documented by Liu (2016). The mean value of annual penalties is $1.446 million, consistent with the value in Heese, Perez-Cavazos and Peter (2021). The univariate tests in Panel E also show that home CEOs are associated with fewer financial misconduct activities compared to non-home CEOs which provides an initial confirmation of our hypothesis.

3. Results

3.1. Home CEOs and financial misconduct

In this section, we begin our empirical analysis by examining the impact of CEOs' birthplace identity on the financial misconduct behavior of firms after controlling for firm and CEO characteristics. Table 2 presents the results for our baseline models. In column (1), we perform an OLS regression where the dependent variable is the level of abnormal accruals. We find an economically sizeable and strong negative association between home CEOs and earnings management, significant at the 1% level. In economic terms, firms with a home CEO on board are

associated with lower abnormal accruals, corresponding to approximately 9.19% (= 0.049/0.533) of one standard deviation of the abnormal accruals' distribution.

Column (2) examines the relation between CEOs' birthplace identity and accounting fraud, which is a dummy variable that is equal to one if the firm-year observation is within a class action lawsuit period or has misstated earnings based on the AAER or GAO databases. Column (2) reports marginal effects for coefficients from a probit regression to facilitate interpretation of the economic significance of our results. Firms with a home CEO appear negatively associated with incidences of accounting fraud. In economic terms, the marginal effect associated with the home CEO coefficient indicates that firms with a home CEO on board is associated with a decrease in the incidence of accounting fraud of 1.4%. Given that the mean accounting fraud rate is 4.6%, a 1.4% decrease is economically sizable, representing 30.4% of the unconditional probability.

Column (3) presents results for the opportunistic insider trading regression. The coefficient on home CEO is 0.024. Economically, the estimate indicates that firms with a home CEO is associated with a decrease in the price pattern measure by 2.4%. The average price pattern measure is 1.043, meaning that the 20-trading day post-transaction abnormal return is 1.043 times the 20-trading day pre-transaction abnormal return for a typical insider purchase. Thus, a reduction of 2.4% brings the price pattern measure 55.8% closer to 1 (where the trades are non-opportunistic).

In the last column, we perform an OLS regression where the dependent variable is the dollar amount of annual penalties. We find that the home CEO variable carries a negative and statistically significant (at the 1% level) coefficient, which suggests that home CEOs are associated with smaller amount of penalties of violation. In economic terms, firms with a home CEO on board are associated with $977,000 lower penalties of violation. This number is economically significant as it represents 67.6% of the average annual penalties of violation in our sample (=1.446 million).

To sum up, the coefficients on home CEO variable are negative and statistically significant at the 1% level across all four specifications. These findings indicate that firms with a home CEO on board are negatively associated with the presence of financial misconduct.

3.2. Length of residence near place of birth or headquarters

If home CEOs' reputation drives their decision to avoid financial misconduct, then this effect should be stronger for home CEOs with stronger home ties. These CEOs should have even higher incentives not to damage their reputational capital. In Panel A of Table 3, we divide the sample based on the length of residence (above/below sample median) for both home and non-home CEOs and compare the mean values of the four financial misconduct variables used in Table 2 between home CEOs and non-home CEOs with similar length of residence.[15,16] Out of 10,694 firm-year observations, we identify the CEO residence for 5,872 firm-year observations. Controlling for the length of residence, the mean values of earnings management, accounting fraud, price patterns, and penalties of violation of firms with home CEOs are significantly lower than the values for firms with non-home CEOs. This indicates that our results in Table 2 are driven by CEOs' birthplace identity.

To further capture the strength of the home bond, we follow Pool et al. (2012) and Jiang et al. (2019) and use "long home tenure" as a proxy for home bond strength. Long home tenure is a dummy set to one if the number of years that the CEO lived in her home state is greater than the sample median, and zero otherwise. The coefficients from an OLS regression using this variable are presented in Panel B of Table 3. In particular, we augment the four baseline models in Table 2, by interacting home CEOs with the long home tenure variable. The negative

[15] We thank Scott Yonker for sharing data on CEO residences.
[16] Our results are robust to using different cutoff points for the length of residence (for example, tercile or quartile).

association between home CEOs and financial misconduct remains statistically significant at better than 5% level in all four models. Importantly, in all models, the interaction terms between the home CEO indicator and the long home tenure variable are negatively and significantly related to the financial misconduct variables at conventional levels. This suggests that home CEOs who spend more time in their home state engage in lower levels of financial misconduct activities.

3.3. Endogeneity issues

A potential concern with our causal interpretation of the relation between home CEOs and financial misconduct might be endogeneity. There are two possible sources of endogeneity. The first source is a self-selection bias, arising from the possibility that boards select CEOs to implement the earnings management or other strategies that might result in financial misconduct. The second source is an omitted variable bias, which arises from unobservable characteristics that are related to both financial misconduct activities and the selection of home CEOs for the firm's board. We deal with both issues below.

3.3.1. Propensity score matching (PSM)

To solve the self-selection bias issue, we implement a propensity score matching (PSM) analysis. We match firms that hire home CEOs (treated group) with firms exhibiting similar characteristics but do not have home CEOs (control group). The treatment effect from the PSM estimation is the difference between the treated sample and the matched control sample, as measured by the home CEO coefficient. To match firms, we calculate a one-dimensional propensity score, which is a function of observable characteristics used in our baseline analysis in Table 2 plus six county–level variables. These are: i) population ii) income per capita; iii) employment; iv) education; v) number of establishments; and vi) religiosity levels. We implement

a one–to–one (i.e., nearest neighbor) matching estimator with replacement and require that the absolute difference in propensity scores between pairs does not exceed 0.01.

Table 4 reports the PSM results. Panel A reports the difference–in–means of the independent variables for firms with home CEOs versus firms with non–home CEOs for both the unmatched and matched samples, respectively. This diagnostic test aims to ensure that our PSM analysis removes sample selection biases that are related to observable firm characteristics. The *t*–statistics of the corresponding difference–in–means indicate that many variables differ significantly for the unmatched sample. After the PSM implementation, all independent variables are comparable for the matched sample which indicates that the PSM process removes obvious sample selection biases. Using the matched sample in Panel B, we re–run the regression with the same control variables and fixed effects as the baseline models in Table 2. The results remain robust, confirming that selection bias on observable characteristics does not affect the negative impact of home CEOs on financial misconduct activities.

3.3.2. Corporate governance as an omitted variable

Prior literature has shown that firms with strong corporate governance are associated with less financial misconduct (e.g., Beasley, 1996; Klein, 2002; Fich and Shivdasani, 2007; Zhao and Chen, 2008). Therefore, an alternative explanation for our results could be that home CEOs happen to be employed in firms with strong corporate governance. In this section, we rule out this alternative explanation.

We use four proxies to measure strong corporate governance. These proxies are: (1) *small board size* as in Yermack (1996); (2) *low E-index* as in Bebchuk et al. (2009); (3) *high institutional ownership* as in Chung and Zhang (2011); and (4) *high percentage of independent directors* as in Dahya et al. (2002). *Small board size* is a binary variable that is equal to one if the board size is

lower than the sample median, and zero otherwise.[17] The entrenchment index is the sum of binary variables concerning the following provisions: (i) classified boards; (ii) limitations to shareholders' ability to amend the bylaws; (iii) supermajority voting for business combinations; (iv) supermajority requirements for charter amendments; (v) poison pills; and (vi) golden parachutes. *Low E-index* is a dummy variable that equals one if the entrenchment index is lower than the sample median, and zero otherwise. *High institutional ownership* is a dummy variable that takes the value of one if the proportion of outstanding shares held by institutions is higher than the sample median, and zero otherwise. *High percentage of independent directors* is a dummy variable that takes the value of one if the proportion of independent directors in the board is higher than the sample median, and zero otherwise.

Table 5 reports the results. Panel A presents the results for small board size, Panel B for low E-index, Panel C for high institutional ownership and Panel D for high percentage of independent directors. In each panel, we run four regressions, one for each measure of financial misconduct where we include each corporate governance indicator variable and its interaction term with home CEO. Even after controlling for the level of corporate governance in the firm, firms with home CEOs are associated with significantly less financial misconduct in all models. Importantly, all interaction variables are statistically insignificant at conventional levels, indicating that regardless of the strength of corporate governance in the firm, financial misconduct activities of home CEOs are similar and comparable. In other words, corporate governance is unlikely to be an omitted variable driving our results.

[17] Jensen (1993) finds that large boards are more likely to experience free-rider problems and are less effective than small boards.

3.3.3. Two-stage instrumental variable (IV) analysis

To address the possibility that other omitted variables drive our results, we perform a two–stage instrumental variable (IV) analysis (2SLS) and present the results in Table 6. This approach requires an instrumental variable that is correlated with the choice of home CEOs to manage the firm but is uncorrelated with financial misconduct activities. As an instrument, we use the average percentage of high temperature days per year in the county of the firm's headquarters. US NOAA defines high temperature days as those with a maximum temperature 90°F or higher. For every county, this variable is measured with the historical data from the nearest weather station (the average distance is 7.456 miles). The rationale for using this variable as an instrument is offered by Lai et al. (2020) who argue that people in general prefer sunny weather. Therefore, firms in regions with more desirable weather can more easily attract talented CEOs from across the country and are, thus, less likely to hire locally. Hence, we expect a negative relation between high temperature days and the selection of home CEOs.[18] Hence, our instrument is likely to satisfy the relevance requirement of instrumental variables. Simultaneously, good weather in a county is unlikely to be correlated with home CEOs' financial misconduct activities, satisfying the exclusion condition of instrumental variables.

To perform the IV analysis, we regress in the first stage regressions (columns (1), (3), (5) and (7)), the variable *Home CEO* on "high temperature days" as well as on all other control variables used in previous analysis. We find a strong negative relation between "high temperature days" and *Home CEO*. The coefficient on the instrumental variable is statistically significant at the 1% level, indicating that firms in counties with better weather are less likely to appoint a home CEO.

[18] In a similar vein, Yonker (2017b) finds that "the number of clear days in the headquarters' county" is negatively related to likelihood that a home CEO is hired.

Importantly, we find that in all first stage regressions, the effective F statistics for the weak identification test is comfortably higher than the critical value and satisfies the relevance condition (23.109), allowing us to reject the null of weak identification. In columns (2), (4), (6) and (8), we run the same regressions as in the baseline analysis in Table 2 where the "instrumented home CEO" is our main variable of interest. Our results continue to show a significantly negative relation between the instrumented "home CEO" and financial misconduct variables, indicating that home CEOs are less likely to get involved into financial misconduct activities. This result, combined with our extensive set of controls, helps to alleviate endogeneity concerns, and confirms the robustness of our finding that home CEOs engage in less financial misconduct.

4. Robustness checks

In this section we perform several robustness tests to further ensure the validity of our previous findings.

4.1. Firm fixed effects

Fee et al. (2013) argue that CEO turnover events do not occur randomly. Even if turnover events do occur randomly, the selection of incoming managers is endogenous and will likely reflect firm/board preferences. To address this issue, we use a firm fixed effects model to test whether the idiosyncratic styles of CEOs affect financial misconduct activities within firms. A firm fixed effects model allows us to control for time invariant unobservable firm–specific variation that may be related to a specific financial misconduct practice, i.e., it captures differences in financial misconduct activities between home and non-home CEOs within the same firm. Table 7 presents point estimates for the firm fixed effects model. We find similar and robust results after controlling for firm fixed effects. The economic effects are generally larger than the corresponding effects

from the baseline model. This suggests that our baseline results are not subsumed by omitted time-invariant firm-specific factors.[19]

4.2. Location effects

A second concern is that our results could be driven by observations from some specific locations. For instance, 18.75% of the CEOs in our sample were born in one of the top 5 birth counties (i.e., New York City, Cook County, Philadelphia, Boston, and Pittsburgh). Additionally, Parsons et al. (2018) show that a firm's likelihood of engaging in misconduct is related to the misconduct rates of firms in the same locale and that the relation is likely driven by social interactions among neighboring firms. Finally, other local factors such as local economic conditions and political environment may also impact the incidence of financial misconduct. To eliminate concerns that our results are driven by specific location effects, we perform several tests: First, in Panel A of Table 8, we remove observations with CEOs born in top 5 birth counties which dominate the observations of the "home CEO" variable. Our results remain unchanged. Second, we include county fixed effects in Panel B of Table 8, and our results hold. The economic effects are similar to the corresponding effects from the baseline model in Table 2. Third, we include several county-level variables to ensure that our results are not driven by specific location characteristics: population, income per capita, employment, education, and number of establishments. Our results remain after controlling for these characteristics (Panel C of Table 8). Fourth, we follow Parsons et al. (2018) and rank 20 US cities based on the level of financial misconduct. To ease the concern that our results are driven by some specific locations, we generate

[19] An alternative way to examine the within–firm effects of CEO reputational capital effect on financial misconduct activities is to investigate CEO turnovers. Unfortunately, we do not have enough observations for meaningful analysis of CEO changes (we are able to identify less than 25 CEO changes from a non–home CEO to a home CEO and less than 35 CEO changes from a home CEO to a non–home CEO).

and control for two dummy variables: *Top 10 financial misconduct areas* and *Bottom 10 financial misconduct areas*. We find similar baseline results after controlling for these two additional indicator variables.

4.3. Alternative measures of financial misconduct

In addition to the four main proxies of financial misconduct used in our analysis, for robustness, we also use another measure: option backdating. Insiders might have a stronger desire to extract more private benefits from shareholders by raising the level of their compensation. Options backdating provides an effective way for company insiders to obtain attractive compensation packages without reporting higher expenses to shareholders (Lie, 2005). To identify potential backdated options, we follow the procedure in Bebchuk, et al. (2010) and use the insider trading database from Thomson Financial. The dependent variable is an insider backdating dummy, which is equal to one if the strike price of at least one insider's option grant is at the lowest price of the month, and zero otherwise. Our sample consists of 8,498 firm-year observations from 1996 to 2018, where 14.6% of the observations have a backdating dummy of one.

In column (1) of Table 9, we report the estimated marginal effect for option backdating using probit regressions. A coefficient of 0.026 on the home CEO variable indicates that firms with a home CEO on board is associated with a 2.6% decrease in the probability of insider backdating. This effect is economically sizable as it represents 17.8% of the mean value of the insider backdating dummy.

We also use two alternative measures of accrual-based earnings management, one of the four main proxies of financial misconduct used in our main analysis. In particular, we obtain data from firms' reported income statements to compute another measure of total accruals (Cohen and Zarowin, 2010) in column (2). In column (3), we use the modified version of the Jones (1991)

model. We also include two additional control variables in column (4), which are *Big 4* and *Litigation*. Chen, et al. (2018) show that the two-step procedure used to calculate discretionary accruals generates biased coefficients and standard errors that can lead to incorrect inferences. Therefore, in column (5) we follow the advice by Chen et al. (2018) and regress the residual from a first-step regression on the combination of all the second-step regressors and all the first-step regressors when calculating accrual-based earnings management. In all four regressions, we find a negative relation between home CEOs and accrual-based earnings management, which implies that our results are not sensitive to alternative measures of earnings management.

4.4. Alternative definitions of home CEOs

In our main analysis, we use 100 miles as a distance cutoff and define a CEO as a home CEO if the distance between her birth county and the headquarters' county is less than 100 miles. In this section, we examine if our results are robust to different definitions of home CEOs and alternative distances as cutoffs to define home CEOs (e.g., 50 miles, or 150 miles as cutoffs, respectively).

We report the results in Table 10. In columns (1) to (4) of Panel A, we use a state-level measure of home CEOs based on hometown CEO data collected by Yonker (2017b).[20] Yonker manually gathers the Social Security Number (SSN) from the LexisNexis online public records database for CEOs covered by ExecuComp database.[21] The 5-digit SSN is issued by the state when a resident applies for the first job or driver's license. Specifically, the first 3 digits indicate the state of issuance, while the fourth and fifth digits are linked to the sequence of issuance. Therefore, the Social Security number identifies the year and state in which a CEO acquired her Social Security number. Yonker (2017b) shows that more than 80% of CEOs in his sample receive the SSN before

[20] We again thank Scott Yonker for sharing his home CEO data.
[21] The SSN has been used by several studies in the literature as a measure of CEO origin (see, e.g., Pool et al., 2012; Bernile et al., 2017; Jiang et al., 2019).

the age of 17 years old. He argues that SSN efficiently identifies CEO home states. Using this state-level measure of home CEO, we still find a negative association between home CEOs and all four measures of financial misconduct.

In columns (5) to (8) of Panel A, we use the *Ln* (*Distance*+1) as an alternative main variable of interest to measure the intensity of the home CEO effect. *Ln* (*Distance*+1) is the natural logarithm of the physical distance (in miles) between the CEO's birth county and the county in which the firm's headquarters is located. Using this continuous variable, we find that the coefficient on the home CEO variable is positive and statistically significant in all specifications, confirming the validity of our previous findings.

Similarly, in Panel B of Table 10, the home CEO variable is constructed using 50 miles (columns (1) to (4)) and 150 miles (columns (5) to (8)) as alternative distance cutoffs to define whether a CEO is a home CEO. We repeat our baseline analysis using these alternative measures and find that the coefficients on Home CEO retain their significance with a similar economic magnitude in all specifications.

4.5. Controlling for the change in corporate culture

An alternative explanation is that corporate culture at the firm may also change over time and our results would be attributable to a change in corporate culture. To rule out this explanation, we use the score of five time-varying corporate cultural values of integrity, teamwork, innovation, respect, and quality as in Li et al. (2021).[22] We then create a dummy variable that takes the value of one if the firm-year integrity score, or teamwork score, or innovation score, or respect score, or quality score is lower or higher than 50% relative to the corresponding score of the previous year,

[22] We would like to thank Kai Li for sharing data on corporate culture from 2001 to 2018. Each firm-year's score is the weighted-frequency count of each of the five cultural values-related words and phrases in the QA section of firm's earnings calls transcripts averaged based on three-year moving averages of annual scores.

and zero otherwise.[23] Table 11 presents the results. Across all specifications, the coefficient on the home CEO variable is negative and statistically significant for our measures of financial misconduct, suggesting that corporate culture does not affect the relation between home CEOs and financial misconduct activities.

4.6. Further auxiliary tests

4.6.1. Educated CEOs (MBA or MSc)

To address concerns that higher education might affect engagement of CEOs in financial misconduct, we remove observations of firms with CEOs possessing an MBA or other master's degree. We present the estimates in Panel A of Table 12 (columns (1) to (4)). Our results remain.

4.6.2. Founder CEOs

Anderson et al. (2015) show that the majority of financial misconduct activities occur in firms with founder CEOs. In Panel A of Table 12 (columns (5) to (8)), we remove founder CEOs to address the issue that firms with founder CEOs might be more likely to be associated with engagement in financial misconduct activities (Dechow et al., 1996).[24] Our results are qualitatively similar except for accounting fraud.

4.6.3. Republican CEOs

Next, to control for the political preferences of CEOs, we rely on personal political contributions data from Hutton et al. (2014). We use an indicator variable "Republican CEO", which equals one if a CEO is identified as a Republican CEO, and zero otherwise. In Panel B of

[23] We obtain similar results when we use a 75% or 100% change in the score of each corporate culture value. Creating the dummies based on the changes in the five corporate culture scores relative to the median value of the score instead of the score of the previous year does not alter our results.
[24] We thank Rüdi Fahlenbrach for sharing data on founder CEOs.

Table 12 (columns (1) to (4)), we obtain similar results which implies that our previous findings are not affected by the political preferences of CEOs.

4.6.4. Overconfident CEOs

Schrand and Zechman (2012) find that overconfident executives are more likely to conduct financial misreporting activities to cover up their initial bias. In Panel B of Table 12 (columns (5) to (8)), we control for CEO overconfidence. Following Malmendier and Tate (2015), we use the status of CEOs' option packages to measure CEO overconfidence. Specifically, the overconfidence dummy is set to one from the first year in which CEOs did not exercise 67% in-the-money options in at least two occasions, and zero otherwise. Our results hold after controlling for overconfident CEOs.

4.6.5. Religiosity

Several studies (e.g., Grullon et al., 2010; McGuire et al., 2012; Cai et al., 2020) provide evidence that religiosity in the county of a firm's headquarters is significantly associated with the firm's incidence of misconduct. To address this issue, we control for religiosity using the definition of Hilary and Hui (2009).[25] Panel C of Table 12 (columns (1) to (4)) shows that controlling for county-level religiosity does not alter our main results.

4.6.6. Political lobbying

Political activity also plays an important role in financial misconduct. Firms with high political lobbying expenses are less likely to face charges for financial misconduct. For example, Wu et al. (2014) find that political connections may reduce the incidence of enforcement against corporate fraud. To address this concern, we obtain lobbying data from the Center for Responsive Politics

[25] Religiosity is defined as the number of religious adherents in the county to the total population in the county.

and control for firms' political lobby expenditures from 1998 in Panel C of Table 12 (columns (5) to (8)). Our baseline results remain unchanged after controlling for political lobbying activities.

4.6.7. Financial constraints

To further ensure that financial constraints do not capture the effect of the home CEO variable on financial misconduct activities (e.g., Burns and Kedia, 2006), we use the SA index of Hadlock and Pierce (2010) to measure financial constraints.[26] The results are qualitatively similar after controlling for the level of financial constraints in the firm (columns (1) to (4) in Panel D of Table 12).

4.6.8. The strength of enforcement

Kedia and Rajgopal (2011) use the location of SEC regional offices as a proxy for enforcement strength and find that financial misconduct rates are significantly lower for firms headquartered in or around SEC offices. Dyck et al. (2010) show that another way to proxy for the strength of enforcement is to use firm size. In order to rule out a potential role for strength of enforcement as a determinant of our main findings, we create a variable using the natural log of the distance between firms' headquarters and the closest SEC regional office. We also generate an indicator variable that is equal to one if the total asset of a firm is greater than $750 million, and zero otherwise. We report the results in Panel D of Table 12 (columns (5) to (8)) and find that the "home CEO" variable is still negatively associated with our measures of financial misconduct after controlling for the two proxies of enforcement strength.

[26] For robustness, we also use the Kaplan and Zingales (1997) KZ index as an alternative measure of financial constraints and obtain similar results.

5. Do CEOs engage in financial misconduct when their firms are in financial distress?

A firm could engage in financial misconduct to conceal financial distress, the disclosure of which could threaten the company's survival (Amiram et al., 2018). Maksimovic and Titman (1991) show that financially distressed firms have less reputational capital and have less to lose from the risk of getting caught. Loebbecke et al. (1989) find that approximately 20% of their sample firms had solvency issues before engaging in financial misconduct.

Therefore, an alternative hypothesis is that CEOs manipulate earnings to maintain their reputation when the firm is in financial distress, not during normal circumstances. To rule out this explanation, we examine how the effect of CEOs' birthplace identity on financial misconduct varies in a cross-section of firms based on measures of financial distress. We use three different measures of financial constraints: i) negative net income as in John et al. (1992); ii) industry distress as in Yonker (2017a); and iii) coverage ratio as in Andrade and Kaplan (1998).[27] *Negative Income* is a dummy variable that is equal to one if the net income of the firm is negative in the previous fiscal year, and zero otherwise. *Industry Distress* is a binary variable that is equal to one if a firm belongs to industries in economic distress. *Coverage Ratio* is the sum of income before extraordinary items and interest expense, divided by interest expense.

Table 13 presents the results. Across all panels, the coefficient on the home CEO variable is negative and statistically significant for our measures of financial misconduct. Importantly, 10 out of 12 interaction variables are insignificant at conventional levels, indicating that financial distress does not drive the relation between home CEOs and financial misconduct activities. Home CEOs

[27] We also use two alternative measures of financial distress: Altman's Z score and industry distress dummy with a different cutoff point (i.e., distressed industries are those whose median stock market return is less than −30%). Results are qualitatively similar.

value their reputational capital in the local community and are less prone to engage in financial misconduct regardless of the health of the firm.

6. Conclusions

In this paper, we examine whether CEO birthplace identity affects financial misconduct. We provide robust evidence that CEOs who manage firms headquartered close to where they were born engage in less financial misconduct than non-home CEOs. We also show that the longer the period the home CEOs have lived in their birthplaces, the lower the level of financial misconduct activities is at their firms. Our results hold after addressing endogeneity concerns and an exhaustive set of robustness checks.

The investigation of the relation between CEO birthplace identity and financial misconduct is important because the determinants of financial misconduct activities are still not fully understood (Amiram et al., 2018). Our results suggest that having a home CEO on board acts as a "shield" against financial misconduct because it enhances trust with investors, stakeholders and, generally, the overall local community. Apart from investors, auditors and regulators, this finding is important for corporate boards. Board members should also consider non-monetary reasons (i.e., CEOs' reputational capital) when take decisions on CEO hirings. Finally, the birthplace identity of the CEO could be used by future studies as a proxy for CEO reputational capital in other setting.

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Table 1. Descriptive statistics

This table reports summary statistics of the variables used in the empirical analysis. Our sample consists of firm-year observations of US firms from 1992 to 2018. Panels A–D report the number of observations, mean, standard deviation, 25th percentile, median, and 75th percentile of each variable for the overall sample. Panels E-H report the same statistics for home CEOs and non-home CEOs, respectively. Statistical tests for differences in means for each variable for home CEOs versus non-home CEOs are also presented. *Home CEO* is a dummy variable that is equal to one if the distance between the CEO's birth county and the firm headquarters county is less than 100 miles, and zero otherwise. Detailed definitions of all variables can be found in the Appendix A.

Panel A. Financial misconduct variables (full sample)

Variable	N	Mean	Standard Deviation	P25	Median	P75
Discretionary Accruals	9,252	0.202	0.533	0.020	0.053	0.140
Accounting Fraud	10,694	0.046	0.210	0	0	0
Price Pattern	5,057	1.043	0.238	0.974	1.035	1.121
Annual Penalties ($ million)	6,523	1.446	7.087	0	0	0.006
Panel B. Firm characteristics (full sample)						
Ln (Total Assets)	10,694	8.038	1.740	6.769	7.965	9.330
Firm Age	10,694	27.181	17.483	12	24	43
B/M	10,694	0.458	0.733	0.249	0.418	0.640
Leverage	10,694	0.254	0.219	0.100	0.235	0.363
ROA	10,694	0.131	0.202	0.085	0.132	0.186
Capital Intensity	10,694	0.602	0.461	0.241	0.506	0.901
R&D	10,694	0.027	0.180	0	0	0.021
High Tech	10,694	0.141	0.348	0	0	0
Ln (Operating Cycle)	10,424	4.695	1.120	4.137	4.616	5.057
Loss Percentage	10,543	0.138	0.203	0	0	0.200
Sales Growth	10,689	0.129	0.367	0.004	0.077	0.183
Sales Volatility	10,681	5.820	1.551	4.727	5.823	6.958
Cash Flow Volatility	10,334	4.469	1.465	3.345	4.408	5.493
Num. of Analysts	9,130	4.930	3.171	2.333	4.111	6.800
Shares Traded	10,694	0.013	0.016	0.001	0.006	0.018
Panel C. CEO characteristics (full sample)						
Home CEO	10,694	0.277	0.447	0	0	1
Female CEO	10,694	0.022	0.147	0	0	0
CEO Age	10,694	59.157	8.553	54	59	64
CEO Tenure	10,694	6.853	5.010	3	5	9
CEO Ownership (%)	10,694	3.583	7.928	0	0.286	2.429
Panel D. County characteristics (full sample)						
Population	10,559	1.487	1.653	0.593	0.944	1.652
Income per Capita	10,559	44.437	23.096	29.833	38.058	50.966
Employment	10,249	0.599	0.268	0.456	0.528	0.625
Education	10,684	25.708	4.742	23.036	26.224	28.880
Num. of Establishments	10,369	48.527	56.227	17.490	31.530	67.130
Religiosity	10,474	585.237	128.06	481.917	589.497	663.608

Panel E. Financial misconduct variables (home CEOs vs non-home CEOs)

	Home CEOs		Non-Home CEOs		Difference	
	N	Mean	N	Mean	Difference	p-Value
Discretionary Accruals	2,464	0.167	6,788	0.214	-0.047	0.000***
Accounting Fraud	2,959	0.033	7,735	0.051	-0.018	0.000***
Price Pattern	1,431	1.023	3,626	1.051	-0.028	0.000***
Annual Penalties ($ million)	1,742	1.181	4,781	1.542	-0.361	0.069*
Panel F. Firm characteristics (home CEOs vs non-home CEOs)						
Ln(Total Assets)	2,959	8.052	7,735	8.033	0.020	0.597
Firm Age	2,959	28.277	7,735	26.761	1.516	0.000***
B/M	2,959	0.539	7,735	0.427	0.112	0.000***
Leverage	2,959	0.251	7,735	0.255	-0.003	0.498
ROA	2,959	0.130	7,735	0.131	0	0.952
Capital Intensity	2,959	0.580	7,735	0.610	-0.030	0.003***
R&D	2,959	0.014	7,735	0.032	-0.018	0.000***
High Tech	2,959	0.109	7,735	0.153	-0.044	0.000***
Ln (Operating Cycle)	2,859	4.791	7,565	4.658	0.133	0.000***
Loss Percentage	2,916	0.122	7,627	0.144	-0.022	0.000***
Sales Growth	2,958	0.110	7,731	0.137	-0.027	0.001***
Sales Volatility	2,955	5.774	7,726	5.837	-0.063	0.059*
Cash Flow Volatility	2,808	4.388	7,526	4.499	-0.111	0.001***
Num. of Analysts	2,433	4.617	6,697	5.044	-0.426	0.000***
Shares Traded	2,959	0.013	7,735	0.013	0	0.848
Panel G. CEO characteristics (home CEOs vs non-home CEOs)						
Female CEO	2,959	0.016	7,735	0.024	-0.008	0.012**
CEO Age	2,959	58.944	7,735	59.239	-0.295	0.110
CEO Tenure	2,959	7.481	7,735	6.613	0.867	0.000***
CEO Ownership (%)	2,959	4.968	7,735	3.053	1.915	0.000***
Panel H. County characteristics (home CEOs vs non-home CEOs)						
Population	2,951	1.186	7,608	1.604	-0.418	-11.748***
Income per Capita	2,951	44.406	7,608	44.450	-0.044	-0.087
Employment	2,860	0.629	7,389	0.587	0.042	7.184***
Education	2,951	25.102	7,733	25.939	-0.837	-8.182***
Num. of Establishments	2,860	40.121	7,509	51.728	-11.607	-9.435***
Religiosity	2,923	605.476	7,551	577.402	28.075	10.112***

Table 2. Home CEOs and financial misconduct

We examine the relation between home CEOs and financial misconduct activities for a sample of US firms with available data for the period between 1992 and 2018. In columns (1), (3), and (4), we perform OLS regression, and the dependent variables are *Discretionary Accruals*, which is the absolute value of abnormal discretionary accruals; *price pattern ratio*, which is calculated as the market-adjusted gross return over the 20 trading days following the insider purchase transactions to the market-adjusted gross return over the 20 trading days preceding the insider transactions, averaged across all insider transactions in the same firm and year; and *Annual Penalties*, which is the dollar value of penalties recorded by Violation Tracker in given year, respectively. In column (2), we perform probit regression, and the dependent variable is the *accounting fraud dummy*, which is equal to one if the firm-year is within a class action lawsuit period or has misstated earnings according to AAER or GAO, and zero otherwise. *Home CEO* is a dummy variable that is equal to one if the distance between the CEO's birth county and the firm headquarters is less than 100 miles, and zero otherwise. Detailed definitions of other variables can be found in the Appendix A. Year and (48 Fama-French) industry fixed effects are included. t-statistics (in parentheses) are computed using heteroskedasticity-robust standard errors that are corrected for clustering at the county-year level. ***, **, and * represent significance at the 1%, 5%, and 10% levels, respectively.

	Discretionary Accruals	**Accounting Fraud**	**Price Pattern**	**Annual Penalties**
	(1)	**(2)**	**(3)**	**(4)**
Home CEO	-0.049***	-0.014***	-0.024***	-0.977***
	(-4.128)	(-2.684)	(-3.232)	(-2.885)
Ln (Total Assets)	-0.005	-0.005	-0.017***	-0.039
	(-0.470)	(-1.426)	(-6.036)	(-0.160)
Firm Age	-0.015*	-0.001	-0.004	0.836***
	(-1.766)	(-0.315)	(-0.825)	(4.438)
B/M	0.007	0.005	0.006	-0.003
	(0.880)	(1.396)	(0.592)	(-0.205)
Leverage	0.006	0.005	-0.032	-1.269*
	(0.183)	(0.478)	(-1.228)	(-1.839)
ROA	0.068	-0.025**	-0.127**	-4.472***
	(0.764)	(-2.559)	(-2.199)	(-3.603)
Capital Intensity	0.233***	-0.006	0.018*	1.535***
	(9.292)	(-0.823)	(1.657)	(2.772)
R&D	0.015	-0.019	-0.192***	-2.136**
	(0.088)	(-1.478)	(-2.732)	(-2.293)
High Tech	0.010	0.002	0.045**	2.291***
	(0.332)	(0.216)	(2.345)	(2.597)
Operating Cycle	0.036***	0.007**		0.981***
	(2.789)	(1.966)		(3.359)
Loss Percentage	-0.013	0.017		-2.577***
	(-0.310)	(1.365)		(-3.246)
Sales Growth	0.071*	0.010*		-0.153
	(1.716)	(1.840)		(-0.488)
Sales Volatility	0.033***	0.014***		0.434**
	(3.831)	(4.537)		(2.081)
Cash Flow Volatility	-0.015	0.003		0.903***
	(-1.316)	(0.912)		(4.021)
Female CEO	0.000	0.005	-0.009	1.063
	(0.011)	(0.384)	(-0.268)	(1.082)
CEO Age	-0.062	-0.040**	0.030	-2.182**
	(-1.361)	(-2.394)	(0.889)	(-2.265)
CEO Tenure	0.003	0.001	-0.001	0.049
	(1.575)	(1.564)	(-0.568)	(1.386)
CEO Ownership	0.000	-0.000	-0.001	0.020
	(0.016)	(-0.945)	(-1.073)	(0.839)
Number of Analysts	-0.007**			-0.035
	(-2.337)			(-0.457)
Shares Traded			-0.037	
			(-1.599)	
Year FEs	Yes	Yes	Yes	Yes
Industry FEs	Yes	Yes	Yes	Yes
Observations	7,693	9,448	5,057	5,362
R-squared	0.164	0.143	0.097	0.092

Table 3. Length of residence near place of birth or headquarters

This table reports how the effect of birthplace identity on financial misconduct activities varies based on home CEOs with different levels of home ties. In Panel A, we follow Pool et al. (2012) and define *Length of Residence* as the number of years that a CEO resides in a county that is no more than 100 miles away from the headquarters location during her CEO tenure. In Panel B, we investigate the cross-sectional heterogeneity and *Long Home Tenure* is a dummy variable that is equal to one if the home tenure of a CEO is higher than the industry median in a given year, and zero otherwise. *Home CEO* is a dummy variable that is equal to one if the distance between the CEO's birth county and the firm headquarters is less than 100 miles, and zero otherwise. Detailed definitions of other variables can be found in the Appendix A. In Panel B, year and (48 Fama-French) industry fixed effects are included. t-statistics (in parentheses) are computed using heteroskedasticity-robust standard errors that are corrected for clustering at the county-year level. ***, **, and * represent significance at the 1%, 5%, and 10% levels, respectively.

Panel A. Length of residence and financial misconduct

	N	Mean of Discretionary Accruals (Home CEOs)	N	Mean of Discretionary Accruals (Non-Home CEOs)	Diff.	T-Stats.
Length of Residence near HQ (> median)	997	0.162	926	0.217	-0.055	-2.331**
Length of Residence near HQ (< median)	439	0.121	2568	0.163	-0.042	-1.925*
	N	Mean of Annual Penalties (Home CEOs)	N	Mean of Annual Penalties (Non-Home CEOs)	Diff.	T-Stats.
Length of Residence near HQ (> median)	785	1.033	1006	1.602	-0.569	-2.775***
Length of Residence near HQ (< median)	214	0.844	1026	1.157	-0.313	-1.711*
	N	Mean of Accounting Fraud (Home CEOs)	N	Mean of Accounting Fraud (Non-Home CEOs)	Diff.	T-Stats.
Length of Residence near HQ (> median)	1325	0.038	1401	0.061	-0.024	-2.838***
Length of Residence near HQ (< median)	456	0.018	2638	0.041	-0.024	-2.459**
	N	Mean of Price Pattern (Home CEOs)	N	Mean of Price Pattern (Non-Home CEOs)	Diff.	T-Stats.
Length of Residence near HQ (> median)	757	1.051	928	1.069	-0.018	-1.790*
Length of Residence near HQ (< median)	247	1.047	1350	1.076	-0.028	-2.473**

Panel B. Cross-sectional heterogeneity

	Discretionary Accruals	***Accounting Fraud***	***Price Pattern***	***Annual Penalties***
	(1)	**(2)**	**(3)**	**(4)**
Home CEO	-0.128***	-0.049**	-0.103***	-1.456***
	(-4.482)	(-2.429)	(-4.037)	(--2.673)
Long Home Tenure	0.015	0.003	-0.008	0.557*
	(0.747)	(0.417)	(-0.770)	(1.777)
Home CEO × Long Home Tenure	-0.080**	-0.036*	-0.083***	-0.434*
	(-2.380)	(-1.717)	(-3.024)	(-1.731)
Control Variables in Table 2	Yes	Yes	Yes	Yes
Year FEs	Yes	Yes	Yes	Yes
Industry FEs	Yes	Yes	Yes	Yes
Observations	6,222	7,427	4,031	4,474
R-squared	0.171	0.148	0.114	0.108

Table 4. Propensity score matching (PSM)

This table presents the results on propensity score matching (PSM) analysis for treatment (home CEOs) and control (non-home CEOs) firm-year observations. Panel A presents the results for the difference-in-means of control variables between the home CEOs and non-home CEOs subsamples together with the corresponding t-statistics before and after the matching. Panel B re-estimates the baseline model (Table 2) using the PSM matched sample. The propensity score is estimated as a probit function of Ln (Total assets), firm age, MB, leverage, ROA, capital intensity, R&D, high tech, female CEO, CEO age, CEO tenure, CEO ownership, population, income per capita, employment, education, number of establishments, and religiosity at county-level. Detailed definitions of other variables can be found in the Appendix A. We match each home CEO observation with a non-home CEO observation using the nearest neighbor (i.e., one-to-one matching) with replacement subject to caliper (i.e., maximum difference in propensity score) of 0.05 using *psmatch2*, a STATA function written by Leuven and Sianesi (2003). In Panel B, we include all control variables used in Table 2 as well as year and (48 Fama-French) industry fixed effects. t-statistics (in parentheses) are computed using heteroskedasticity-robust standard errors that are corrected for clustering at the county-year level. ***, **, and * represent significance at the 1%, 5%, and 10% levels, respectively.

Panel A. Difference-in-means of control variables between home CEO and non-home CEO subsamples

	Before PSM				After PSM			
	Home CEO	**Non-Home CEO**	**Diff.**	**T-Stats**	**Home CEO**	**Non-Home CEO**	**Diff.**	**T-Stats**
Ln (Total Assets)	8.052	8.033	0.019	0.529	7.998	8.029	-0.031	-0.586
Firm Age	30.277	28.761	1.516	4.015***	29.854	29.298	0.556	1.045
B/M	0.539	0.427	0.112	7.068***	0.517	0.510	0.007	0.361
Leverage	0.251	0.255	-0.004	-0.678	0.250	0.249	0.001	0.073
ROA	0.130	0.131	-0.001	-0.060	0.134	0.131	0.003	0.746
Capital Intensity	0.580	0.610	-0.030	-3.006***	0.588	0.583	0.005	0.297
R&D	0.014	0.032	-0.018	-4.692***	0.017	0.016	0.001	0.923
High Tech	0.109	0.153	-0.044	-5.863***	0.132	0.119	0.013	1.252
Female CEO	0.016	0.024	-0.008	-2.511**	0.017	0.018	-0.001	-0.267
Age	60.944	61.239	-0.295	-1.598	61.121	60.969	0.152	0.560
Tenure	7.481	6.613	0.868	8.034***	7.001	6.851	0.150	0.992
CEO Ownership	4.968	3.053	1.915	11.238***	4.391	4.254	0.137	0.501
Population	1.186	1.604	-0.418	-11.748***	1.300	1.263	0.037	0.921
Income per Capita	44.406	44.450	-0.044	-0.087	43.871	43.663	0.208	0.287
Employment	0.629	0.587	0.042	7.184***	0.624	0.622	0.002	0.222
Education	25.102	25.939	-0.837	-8.182***	25.092	25.304	-0.212	-1.437
Num. of Establishments	40.121	51.728	-11.607	-9.435***	43.690	42.272	1.418	1.063
Religiosity	605.476	577.402	28.074	10.112***	603.173	601.568	1.605	0.408

Panel B. Regression analysis with PSM matched sample

	Discretionary Accruals (1)	Accounting Fraud (2)	Price Pattern (3)	Annual Penalties (4)
Home CEO	-0.050***	-0.014*	-0.030***	-0.817*
	(-2.943)	(-1.738)	(-2.848)	(-1.835)
Ln (Total Assets)	-0.016	-0.003	-0.014***	-0.004
	(-1.130)	(-0.418)	(-3.576)	(-0.012)
Firm Age	-0.022	0.002	-0.004	0.837***
	(-1.629)	(0.350)	(-0.501)	(2.775)
B/M	-0.008	0.003	0.009	-0.195
	(-0.558)	(0.433)	(0.517)	(-0.637)
Leverage	0.040	-0.002	0.014	-1.010
	(0.781)	(-0.099)	(0.379)	(-0.734)
ROA	0.035	-0.164***	-0.125	-4.731**
	(0.250)	(-3.147)	(-1.140)	(-2.378)
Capital Intensity	0.196***	0.011	0.040**	2.041**
	(5.707)	(0.842)	(2.023)	(2.554)
R&D	-0.324	-0.073	0.415*	-3.599
	(-0.916)	(-0.560)	(1.774)	(-0.674)
High Tech	0.040	-0.024	0.030	3.129**
	(0.832)	(-1.457)	(0.940)	(2.164)
Operating Cycle	0.041***	-0.006		0.920
	(2.716)	(-0.941)		(1.617)
Loss Percentage	-0.043	-0.011		-2.766**
	(-0.702)	(-0.413)		(-2.450)
Sales Growth	-0.016	-0.012		-0.655
	(-0.532)	(-0.776)		(-0.965)
Sales Volatility	0.040***	0.007		0.356
	(3.532)	(1.064)		(1.079)
Cash Flow Volatility	-0.012	0.014**		0.802**
	(-0.753)	(1.966)		(2.408)
Female CEO	0.017	0.007	-0.018	4.357*
	(0.343)	(0.206)	(-0.308)	(1.946)
CEO Age	-0.069	-0.044	0.036	-1.636
	(-1.086)	(-1.451)	(0.709)	(-1.202)
CEO Tenure	0.007**	0.002	0.002	0.044
	(2.110)	(1.629)	(1.257)	(0.811)
CEO Ownership	0.001	-0.000	-0.000	-0.019
	(0.734)	(-1.004)	(-0.520)	(-1.281)
Number of Analysts	-0.008*			-0.036
	(-1.709)			(-0.473)
Shares Traded			-0.057**	
			(-2.086)	
Year FEs	Yes	Yes	Yes	Yes
Industry FEs	Yes	Yes	Yes	Yes
Observations	2,873	2,813	2,011	2,208
R-squared	0.184	0.154	0.134	0.116

Table 5. Home CEOs and financial misconduct: the role of corporate governance

This table reports how the effect of CEOs' birthplace identity on financial misconduct activities varies in a cross-section of firms based on measures of corporate governance. In columns (1), (3), and (4), we perform OLS regression, and the dependent variables are *Discretionary Accruals*, which is the absolute value of abnormal discretionary accruals; *price pattern ratio*, which is calculated as the market-adjusted gross return over the 20 trading days following the insider purchase transactions to the market-adjusted gross return over the 20 trading days preceding the insider transactions, averaged across all insider transactions in the same firm and year; and *Annual Penalties*, which is the dollar value of penalties recorded by Violation Tracker in given year, respectively. In column (2), we perform probit regression, and the dependent variable is the *accounting fraud dummy*, which is equal to one if the firm-year is within a class action lawsuit period or has misstated earnings according to AAER or GAO, and zero otherwise. The variables used to proxy for strong corporate governance are: i) small board size in Panel A; ii) low E-index in Panel B; iii) high institutional ownership in Panel C, and iv) high percentage of independent directors in Panel D. *Home CEO* is a dummy variable that is equal to one if the distance between the CEO's birth county and the headquarters county is less than 100 miles, and zero otherwise. Detailed definitions of other variables can be found in the Appendix A. Year and (48 Fama-French) industry fixed effects are included. t-statistics (in parentheses) are computed using heteroskedasticity-robust standard errors that are corrected for clustering at the county-year level. ***, **, and * represent significance at the 1%, 5%, and 10% levels, respectively.

Panel A. Small board size

	Discretionary Accruals	***Accounting Fraud***	***Price Pattern***	***Annual Penalties***
	(1)	**(2)**	**(3)**	**(4)**
Home CEO	-0.061***	-0.019**	-0.032***	-0.905***
	(-2.773)	(-2.083)	(-3.065)	(-2.654)
Small Board Size	-0.048**	-0.013*	0.004	-0.246
	(-2.363)	(-1.752)	(0.413)	(-0.890)
Home CEO × Small Board Size	0.034	0.016	0.007	0.077
	(1.047)	(1.095)	(0.367)	(0.192)
Control Variables in Table 2	Yes	Yes	Yes	Yes
Year FEs	Yes	Yes	Yes	Yes
Industry FEs	Yes	Yes	Yes	Yes
Observations	5,291	5,829	3,383	4,397
R-squared	0.189	0.155	0.119	0.116

Panel B. E-index

	Discretionary Accruals	***Accounting Fraud***	***Price Pattern***	***Annual Penalties***
	(1)	**(2)**	**(3)**	**(4)**
Home CEO	-0.088***	-0.023*	-0.037**	-1.086***
	(-2.944)	(-1.705)	(-2.110)	(-2.580)
Low E-Index	-0.069**	0.000	0.022	0.382
	(-2.336)	(0.023)	(1.396)	(0.742)
Home CEO × Low E-Index	0.006	-0.008	-0.024	0.682
	(0.150)	(-0.363)	(-0.828)	(0.879)
Control Variables in Table 2	Yes	Yes	Yes	Yes
Year FEs	Yes	Yes	Yes	Yes
Industry FEs	Yes	Yes	Yes	Yes
Observations	2,865	2,523	1,604	2,470
R-squared	0.207	0.157	0.149	0.131

Panel C. Institutional ownership

	Discretionary Accruals (1)	*Accounting Fraud* (2)	*Price Pattern* (3)	*Annual Penalties* (4)
Home CEO	-0.030**	-0.017**	-0.019*	-0.886**
	(-2.025)	(-1.976)	(-1.846)	(-2.558)
High Institutional Ownership	-0.000	-0.005	-0.000	-0.477*
	(-0.001)	(-0.733)	(-0.031)	(-1.657)
Home CEO × High Institutional Ownership	-0.035	0.008	-0.010	0.527
	(-1.503)	(0.670)	(-0.618)	(1.256)
Control Variables in Table 2	Yes	Yes	Yes	Yes
Year FEs	Yes	Yes	Yes	Yes
Industry FEs	Yes	Yes	Yes	Yes
Observations	7,626	7,856	4,750	5,327
R-squared	0.163	0.135	0.098	0.104

Panel D. Percentage of independent directors

	Discretionary Accruals (1)	*Accounting Fraud* (2)	*Price Pattern* (3)	*Annual Penalties* (4)
Home CEO	-0.034**	-0.022**	-0.043**	-0.833***
	(-1.960)	(-2.257)	(-2.104)	(-3.029)
High % of Independent Directors	0.002	-0.010	0.009	0.494*
	(0.101)	(-1.284)	(0.725)	(1.917)
Home CEO × High % of Independent Directors	-0.030	0.019	0.035	-0.020
	(-0.913)	(1.305)	(1.591)	(-0.046)
Control Variables in Table 2	Yes	Yes	Yes	Yes
Year FEs	Yes	Yes	Yes	Yes
Industry FEs	Yes	Yes	Yes	Yes
Observations	5,291	5,829	3,383	4,397
R-squared	0.188	0.155	0.121	0.117

Table 6. Controlling for endogeneity: two-stage instrumental variable (IV) approach

This table presents the results of two-stage instrumental variable (IV) regression analysis. In the first stage, the dependent variable takes the value of one for a home CEO, and zero otherwise. The instrument variable used in the first stage regression is a county-level climate variable, *High Temperature Days*, which is computed as the average percentage of high temperature days per year in the county of the firm headquarters. For every county, this variable is measured with the historical data from the nearest weather station. The instrumented home CEO is then used in the second-stage regression, where the dependent variables are our measures of financial misconduct. Detailed definitions of other variables can be found in the Appendix A. Year and (48 Fama-French) industry fixed effects are included. t-statistics (in parentheses) are computed using heteroskedasticity-robust standard errors that are corrected for clustering at the county-year level. ***, **, and * represent significance at the 1%, 5%, and 10% levels, respectively.

	First-stage	***Second-stage***	***First-stage***	***Second-stage***	***First-stage***	***Second-stage***	***First-stage***	***Second-stage***
	Home CEO	**Discretionary Accruals**	**Home CEO**	**Accounting Fraud**	**Home CEO**	**Price Pattern**	**Home CEO**	**Annual Penalties**
	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**
Home CEO		-0.130*		-0.089**		-0.096*		-2.237*
		(-1.735)		(-2.232)		(-1.920)		(-1.686)
High Temperature Days	-0.002***		-0.002***		-0.002***		-0.002***	
	(-5.207)		(-16.143)		(-11.711)		(-12.818)	
Control Variables in Table 2	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry FEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	6,295	6,295	9,822	9,822	5,044	5,044	5318	5318
R-squared	0.153	0.173	0.145	0.024	0.118	0.059	0.136	0.084
Efficient F-Statistics	27.109		260.590		137.150		164.297	
LIML size of nominal 10%	23.109		23.109		23.109		23.109	

Table 7. Home CEOs and financial misconduct: controlling for firm fixed effects

This table reports the effect of CEOs' birthplace identity on financial misconduct activities after controlling for firm fixed effects. In column (1), the dependent variable is *Discretionary Accruals*, which is the absolute value of abnormal discretionary accruals. In column (2), the dependent variable is the *accounting fraud dummy*, which is equal to one if the firm-year is within a class action lawsuit period or has misstated earnings according to AAER or GAO, and zero otherwise. In column (3), the dependent variable is the *price pattern ratio*, which is calculated as the market-adjusted gross return over the 20 trading days following the insider purchase transactions to the market-adjusted gross return over the 20 trading days preceding the insider transactions, averaged across all insider transactions in the same firm and year. In column (4), the dependent variables are *Annual Penalties*, which is the dollar value of penalties recorded by Violation Tracker database in given year. *Home CEO* is a dummy variable that is equal to one if the distance between the CEO's birth county and the firm headquarters is less than 100 miles, and zero otherwise. Detailed definitions of other variables can be found in the Appendix A. Year and firm fixed effects are included. t-statistics (in parentheses) are computed using heteroskedasticity-robust standard errors that are corrected for clustering at the county-year level. ***, **, and * represent significance at the 1%, 5%, and 10% levels, respectively.

	Discretionary Accruals	**Accounting Fraud**	**Price Pattern**	**Annual Penalties**
	(1)	**(3)**	**(3)**	**(4)**
Home CEO	-0.104***	-0.028**	-0.020*	-2.457*
	(-2.739)	(-1.992)	(-1.751)	(-1.692)
Control Variables in Table 2	Yes	Yes	Yes	Yes
Year FEs	Yes	Yes	Yes	Yes
Firm FEs	Yes	Yes	Yes	Yes
Observations	7,591	9,830	4,743	5,223
R-squared	0.265	0.224	0.311	0.370

Table 8. Home CEOs and financial misconduct: accounting for location effects

This table reports the effect of CEOs' birthplace identity on financial misconduct activities after accounting for location effects. In columns (1), (3), and (4), we perform OLS regression, and the dependent variables are *Discretionary Accruals*, which is the absolute value of abnormal discretionary accruals; *price pattern ratio*, which is calculated as the market-adjusted gross return over the 20 trading days following the insider purchase transactions to the market-adjusted gross return over the 20 trading days preceding the insider transactions, averaged across all insider transactions in the same firm and year; and *Annual Penalties*, which is the dollar value of penalties recorded by Violation Tracker in given year, respectively. In column (2), we perform probit regression, and the dependent variable is the *accounting fraud dummy*, which is equal to one if the firm-year is within a class action lawsuit period or has misstated earnings according to AAER or GAO, and zero otherwise. In Panel A, we remove observations for which CEOs were born in top 5 birth counties in our sample (i.e., New York City, Cook County, Philadelphia, Boston, and Pittsburgh). In Panel B, we include county fixed effects in the regression. In Panel C, we control for additional county-level variables (e.g., population, income per capita, employment, education, number of establishments, and religiosity). In Panel D, we control for two dummy variables, *Top 10 financial misconduct area* and *Bottom 10 financial misconduct area* (Parsons et al., 2018). *Home CEO* is a dummy variable that is equal to one if the distance between the CEO's birth county and the firm headquarters is less than 100 miles, and zero otherwise. Detailed definitions of other variables can be found in the Appendix A. Year and (48 Fama-French) industry fixed effects are included. t-statistics (in parentheses) are computed using heteroskedasticity-robust standard errors that are corrected for clustering at the county-year level. ***, **, and * represent significance at the 1%, 5%, and 10% levels, respectively.

Panel A. Remove top 5 birth counties

	Discretionary Accruals (1)	Accounting Fraud (2)	Price Pattern (3)	Annual Penalties (4)
Home CEO	-0.043***	-0.014**	-0.030***	-1.102***
	(-3.463)	(-2.363)	(-3.515)	(-2.793)
Control Variables in Table 2	Yes	Yes	Yes	Yes
Year and Industry FEs	Yes	Yes	Yes	Yes
Observations	6,383	7,611	4,214	4,411
R-squared	0.163	0159	0.111	0.108

Panel B. County fixed effects

	Discretionary Accruals (1)	Accounting Fraud (2)	Price Pattern (3)	Annual Penalties (4)
Home CEO	-0.038**	-0.020**	-0.030***	-1.386**
	(-2.229)	(-2.329)	(-3.005)	(-2.551)
Control Variables in Table 2	Yes	Yes	Yes	Yes
Year and Industry FEs	Yes	Yes	Yes	Yes
County FEs	Yes	Yes	Yes	Yes
Observations	7,659	6,726	4,999	5,356
R-squared	0.229	0.212	0.282	0.189

Panel C. Control for county-level variables

	Discretionary Accruals (1)	Accounting Fraud (2)	Price Pattern (3)	Annual Penalties (4)
Home CEO	-0.048***	-0.014**	-0.024***	-0.955***
	(-3.870)	(-2.573)	(-3.037)	(-2.921)
Additional County-level Variables	Yes	Yes	Yes	Yes
Control Variables in Table 2	Yes	Yes	Yes	Yes
Year and Industry FEs	Yes	Yes	Yes	Yes
Observations	7,309	8,940	4,886	5,274
R-squared	0.166	0.149	0.102	0.093

Panel D. Control for the geography of misconduct

	Discretionary Accruals (1)	Accounting Fraud (2)	Price Pattern (3)	Annual Penalties (4)
Home CEO	-0.050***	-0.014***	-0.025***	-0.906***
	(-4.183)	(-2.624)	(-3.242)	(-2.674)
Top 10 financial misconduct areas	-0.032*	0.007	0.003	1.970***
	(-1.840)	(1.399)	(0.344)	(3.903)
Bottom 10 financial misconduct areas	-0.004	-0.015	0.009	-1.495***
	(-0.161)	(-1.506)	(0.688)	(-3.672)
Control Variables in Table 2	Yes	Yes	Yes	Yes
Year and Industry FEs	Yes	Yes	Yes	Yes
Observations	7,693	9,448	5,057	5,362
R-squared	0.164	0.147	0.097	0.097

Table 9. Alternative measures of financial misconduct

This table reports the effect of CEOs' birthplace identity on financial misconduct activities using alternative measures of financial misconduct and discretionary accruals. In column (1), we perform a probit regression, and the dependent variable is *option backdating*, which is a dummy variable that is equal to one if the strike price of at least one insider's option grant is at the lowest price of the month in a given year, and zero otherwise. In columns (2) and (3), we use the Cohen and Zarowin (2010) model and a modified version of Jones (1991) model as alternative measures of discretionary accruals. In column (4), we include two additional control variables, *Big 4* and *Litigation*, which may affect discretionary accruals. *Litigation* is a dummy variable that is equal one if the firm operates in a high-litigation industry (SIC codes 2833–2836, 3570–3577, 3600–3674, 5200–5961, and 7370–7374), and zero otherwise. *Big 4* is a dummy variable that is equal to one if the auditor is a Big 4 audit firm, and zero otherwise. In column (5), we follow Chen et al. (2018) and regress the residual from a first-step regression on the combination of all the second-step regressors and all the first-step regressors when calculating discretionary accruals. *Home CEO* is a dummy variable that is equal to one if the distance between the CEO's birth county and the firm headquarters is less than 100 miles, and zero otherwise. Detailed definitions of other variables can be found in the Appendix A. Year and (48 Fama-French) industry fixed effects are included. t-statistics (in parentheses) are computed using heteroskedasticity-robust standard errors that are corrected for clustering at the county-year level. ***, **, and * represent significance at the 1%, 5%, and 10% levels, respectively.

	Backdating	**Cohen and Zarowin (2010)**	**Modified Version Jones (1991)**	**Discretionary Accruals**	**Discretionary Accruals**
	(1)	**(2)**	**(3)**	**(4)**	**(5)**
Home CEO	-0.026***	-0.088**	-0.088***	-0.049***	-0.048***
	(-2.624)	(-2.498)	(-2.610)	(-4.114)	(-4.022)
Litigation				-0.014	-0.015
				(-0.507)	(-0.514)
Big 4				0.002	0.001
				(0.115)	(0.053)
Controls in Table 2	Yes	Yes	Yes	Yes	Yes
Frist Step Regressors	No	No	No	No	Yes
Year FEs	Yes	Yes	Yes	Yes	Yes
Industry FEs	Yes	Yes	Yes	Yes	Yes
Observations	7,660	8,178	8,178	7,693	7,693
R-squared	0.070	0.145	0.152	0.164	0.166

Table 10. Alternative measures of home CEOs

This table reports the effect of CEOs' birthplace identity on financial misconduct activities using alternative measures of home CEOs. In columns (1) to (4) of Panel A, *Home CEO* is a dummy variable that is equal to one if the firm's headquarters state is the same as the home state of the CEO. In columns (5) to (8) of Panel A, we use a continuous variable to define home CEOs, which is calculated as the natural logarithm of the distance between the CEO's birth county and the headquarters county plus one. In Panel B, we use 50 miles (columns 1 to 4) and 150 miles (columns 5 to 8) as alternative cut-offs to define whether a CEO is home CEO. Detailed definitions of other variables can be found in the Appendix A. Year and (48 Fama-French) industry fixed effects are included. t-statistics (in parentheses) are computed using heteroskedasticity-robust standard errors that are corrected for clustering at the county-year level. ***, **, and * represent significance at the 1%, 5%, and 10% levels, respectively.

Panel A. State-level and distance measures

	Discretionary Accruals	Accounting Fraud	Price Pattern	Annual Penalties	Discretionary Accruals	Accounting Fraud	Price Pattern	Annual Penalties
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Home State = HQ State	-0.025**	-0.009*	-0.019**	-1.119***				
	(-1.966)	(-1.840)	(-2.565)	(-3.584)				
Ln(Distance +1)					0.012***	0.003***	0.005***	0.152**
					(4.927)	(2.966)	(3.474)	(2.541)
Controls in Table 2	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year and Industry FEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	7,693	9,448	5,057	5,362	7,693	9,448	5,057	5,362
R-squared	0.163	0.142	0.096	0.092	0.165	0.144	0.097	0.091

Panel B. Alternative cutoffs

	Discretionary Accruals	Accounting Fraud	Price Pattern	Annual Penalties	Discretionary Accruals	Accounting Fraud	Price Pattern	Annual Penalties
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Distance < 50 miles	-0.050***	-0.010*	-0.014*	-1.093***				
	(-4.070)	(-1.800)	(-1.817)	(-3.162)				
Distance < 150 miles					-0.046***	-0.102*	-0.020***	-0.937***
					(-3.896)	(-1.794)	(-2.739)	(-2.873)
Controls in Table 2	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year and Industry FEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	7,693	9,448	5,057	5,362	7,693	9,448	5,057	5,362
R-squared	0.164	0.142	0.100	0.092	0.164	0.142	0.097	0.092

Table 11. Controlling for changes in corporate culture

This table reports the effect of CEOs' birthplace identity on financial misconduct activities after controlling for five different dimensions of corporate culture (Li et al., 2021): integrity, teamwork, innovation, respect, and quality. For each aspect, we use a dummy variable that equals one if the firm-year score (integrity, teamwork, innovation, respect, or quality) is lower or higher than 50% relative to the corresponding score of the previous year, and zero otherwise. Each firm-year's score is the weighted-frequency count of the culture-related words and phrases in the QA section of firm's earnings calls transcripts averaged based on three-year moving averages of annual scores. *Home CEO* is a dummy variable that is equal to one if the distance between the CEO's birth county and the firm headquarters is less than 100 miles, and zero otherwise. Detailed definitions of other variables can be found in the Appendix A. Year and (48 Fama-French) industry fixed effects are included. t-statistics (in parentheses) are computed using heteroskedasticity-robust standard errors that are corrected for clustering at the county-year level. ***, **, and * represent significance at the 1%, 5%, and 10% levels, respectively.

	Discretionary Accruals	**Accounting Fraud**	**Price Pattern**	**Annual Penalties**
	(1)	**(2)**	**(3)**	**(4)**
Home CEO	-0.076***	-0.071**	-0.035***	-1.188***
	(-3.437)	(-2.315)	(-2.847)	(-2.803)
Cultural Change (Integrity)	-0.007	0.004	-0.028**	0.187
	(-0.329)	(0.465)	(-2.321)	(0.462)
Cultural Change (Teamwork)	-0.005	0.024***	0.010	-0.047
	(-0.255)	(3.414)	(0.931)	(-0.126)
Cultural Change (Innovation)	-0.025	-0.029	0.015	1.162
	(-0.586)	(-1.624)	(0.735)	(1.433)
Cultural Change (Respect)	-0.043**	-0.000	-0.008	-0.339
	(-2.071)	(-0.015)	(-0.851)	(-0.875)
Cultural Change (Quality)	0.027	0.013	0.047***	-1.047*
	(0.972)	(1.131)	(2.855)	(-1.915)
Control Variables in Table 2	Yes	Yes	Yes	Yes
Year FEs	Yes	Yes	Yes	Yes
Industry FEs	Yes	Yes	Yes	Yes
Observations	3,621	4,383	1,808	3,970
R-squared	0.214	0.236	0.152	0.113

Table 12. Robustness tests

This table reports the effect of CEOs' birthplace identity on financial misconduct activities after conducting a battery of robustness tests. In Panel A, we remove educated CEOs (columns (1) to (4)) or founder CEOs (columns (5) to (8)). In Panel B, we control for CEO political preference (columns (1) to (4)) or CEO overconfidence (columns (5) to (8)). In Panel C, we control for county-level religiosity (columns (1) to (4)) or lobbying activities (columns (5) to (8)). In Panel D, we control for financial constraints (columns (1) to (4)) or enforcement strength (columns (5) to (8)). *Home CEO* is a dummy variable that is equal to one if the distance between the CEO's birth county and the firm headquarters is less than 100 miles, and zero otherwise. Detailed definitions of other variables can be found in the Appendix A. Year and (48 Fama-French) industry fixed effects are included. t-statistics (in parentheses) are computed using heteroskedasticity-robust standard errors that are corrected for clustering at the county-year level. ***, **, and * represent significance at the 1%, 5%, and 10% levels, respectively.

Panel A. Remove educated or founder CEOs

	Discretionary Accruals (1)	Accounting Fraud (2)	Price Pattern (3)	Annual Penalties (4)	Discretionary Accruals (5)	Accounting Fraud (6)	Price Pattern (7)	Annual Penalties (8)
Home CEO	-0.059***	-0.018***	-0.022**	-1.472***	-0.049***	-0.007	-0.026***	-1.012**
	(-4.251)	(-2.926)	(-2.476)	(-3.857)	(-3.684)	(-1.026)	(-2.799)	(-2.461)
Remove Educated CEOs	Yes	Yes	Yes	Yes	No	No	No	No
Remove Founder CEOs	No	No	No	No	Yes	Yes	Yes	Yes
Controls in Table 2	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year and Industry FEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	5,753	7,077	3,815	3,999	5,614	6,977	4,042	4,633
R-squared	0.173	0.159	0.094	0.103	0.181	0.167	0.108	0.101

Panel B. Control for Republican CEO or CEO overconfidence

	Discretionary Accruals (1)	Accounting Fraud (2)	Price Pattern (3)	Annual Penalties (4)	Discretionary Accruals (5)	Accounting Fraud (6)	Price Pattern (7)	Annual Penalties (8)
Home CEO	-0.022**	-0.014**	-0.031***	-0.560*	-0.056***	-0.011**	-0.028***	-1.017***
	(-1.998)	(-2.027)	(-2.989)	(-1.734)	(-4.384)	(-1.963)	(-3.404)	(-2.735)
Republican CEO	0.002	0.005	-0.010	-0.923***				
	(0.173)	(0.709)	(-0.893)	(-2.863)				
CEO Overconfidence					-0.014	0.008	0.009	0.110
					(-0.927)	(1.447)	(1.039)	(0.304)
Controls in Table 2	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year and Industry FEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	5,304	6,168	3,462	4,299	6,630	8,072	4,428	4,446
R-squared	0.194	0.143	0.115	0.083	0.169	0.154	0.107	0.098

Panel C. Control for religiosity or lobbying activity

	Discretionary Accruals	Accounting Fraud	Price Pattern	Annual Penalties	Discretionary Accruals	Accounting Fraud	Price Pattern	Annual Penalties
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Home CEO	-0.048***	-0.015***	-0.026***	-0.979***	-0.067***	-0.016**	-0.032***	-0.709**
	(-3.870)	(-2.844)	(-3.419)	(-2.896)	(-3.700)	(-2.171)	(-3.127)	(-2.149)
Religiosity	0.000	0.000***	0.000	0.000				
	(1.079)	(2.617)	(0.231)	(0.057)				
Lobbying					0.001	0.001	0.002***	0.000*
					(0.587)	(1.600)	(2.882)	(1.743)
Controls in Table 2	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year and Industry FEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	7,309	9,236	4,958	5,251	4,982	6,100	2,947	5,082
R-squared	0.166	0.145	0.099	0.093	0.192	0.175	0.105	0.093

Panel D. Control for financial constraints or enforcement strength

	Discretionary Accruals	Accounting Fraud	Price Pattern	Annual Penalties	Discretionary Accruals	Accounting Fraud	Price Pattern	Annual Penalties
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Home CEO	-0.049***	-0.015***	-0.023***	-0.890***	-0.047***	-0.021***	-0.025**	-0.916***
	(-4.117)	(-2.718)	(-2.917)	(-2.667)	(-3.043)	(-2.756)	(-2.411)	(-2.732)
SA Index	-0.003	-0.001	-0.002*	-0.566***				
	(-1.082)	(-0.855)	(-1.793)	(-7.135)				
Distance to SEC Office					-0.000	-0.000	0.000*	-0.002**
					(-0.469)	(-1.017)	(1.918)	(-2.438)
Assets > $750 Million					0.183**	0.018*	0.016	7.708***
					(2.572)	(1.755)	(1.309)	(5.592)
Controls in Table 2	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year and Industry FEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	7,696	9,456	5,057	5,362	7,693	9,448	5,057	5,362
R-squared	0.164	0.143	0.099	0.116	0.166	0.179	0.098	0.112

Table 13. Home CEOs and financial misconduct: the role of financial distress

This table reports how the effect of CEOs' birthplace identity on financial misconduct activities varies in a cross-section of firms based on measures of financial distress. The variables used to proxy for financial distress are: i) negative net income (Panel A); ii) industry distress (Panel B); and iii) coverage ratio (Panel C). *Home CEO* is a dummy variable that is equal to one if the distance between the CEO's birth county and the headquarters county is less than 100 miles, and zero otherwise. Detailed definitions of other variables can be found in the Appendix A. Year and (48 Fama-French) industry fixed effects are included. t-statistics (in parentheses) are computed using heteroskedasticity-robust standard errors that are corrected for clustering at the county-year level. ***, **, and * represent significance at the 1%, 5%, and 10% levels, respectively.

Panel A. Negative Income

	Discretionary Accruals (1)	Accounting Fraud (2)	Price Pattern (3)	Annual Penalties (4)
Home CEO	-0.035***	-0.015***	-0.029***	-0.830**
	(-2.759)	(-2.603)	(-3.868)	(-2.215)
Negative Income	0.021	0.001	0.004	0.367
	(0.753)	(0.080)	(0.276)	(0.694)
Home CEO × Neg. Income	-0.110***	0.005	0.039	-0.942
	(-3.129)	(0.313)	(1.385)	(-1.549)
Control Variables in Table 2	Yes	Yes	Yes	Yes
Year and Industry FEs	Yes	Yes	Yes	Yes
Observations	7,687	9,441	5,044	5,362
R-squared	0.165	0.153	0.097	0.092

Panel B. Industry Distress

	Discretionary Accruals (1)	Accounting Fraud (2)	Price Pattern (3)	Annual Penalties (4)
Home CEO	-0.050***	-0.016***	-0.018**	-0.897**
	(-4.042)	(-2.793)	(-2.320)	(-2.482)
Industry Distress	-0.060*	-0.001	0.044**	0.665
	(-1.888)	(-0.075)	(2.204)	(0.912)
Home CEO × Industry Distress	-0.023	-0.021	0.007	-2.275**
	(-0.633)	(-0.819)	(0.168)	(-2.547)
Control Variables in Table 2	Yes	Yes	Yes	Yes
Year and Industry FEs	Yes	Yes	Yes	Yes
Observations	7,430	9,086	4,827	5,141
R-squared	0.164	0.152	0.090	0.093

Panel C. Coverage Ratio

	Discretionary Accruals (1)	Accounting Fraud (2)	Price Pattern (3)	Annual Penalties (4)
Home CEO	-0.049***	-0.017***	-0.031***	-0.699*
	(-3.871)	(-2.986)	(-3.497)	(-1.916)
Coverage Ratio	0.000	-0.000**	-0.000	-0.002**
	(1.131)	(-2.206)	(-0.479)	(-2.134)
Home CEO × Coverage Ratio	0.000	0.000	0.000	-0.003
	(0.701)	(1.018)	(1.490)	(-1.446)
Control Variables in Table 2	Yes	Yes	Yes	Yes
Year and Industry FEs	Yes	Yes	Yes	Yes
Observations	7,059	8,644	4,451	4,836
R-squared	0.165	0.152	0.103	0.090

Appendix A. Variable Definition

Variable	Definition	Source
Panel A. Firm variables		
Discretionary Accruals	Absolute abnormal accruals computed as the difference between a firm's total accruals and its nondiscretionary accruals.	Compustat (Dechow et al., 1995)
Accounting Fraud	A dummy variable that is equal to one if any of the following events happened in a given firm-year, and zero otherwise. First, the firm-year is within a class action lawsuit period based on Dyck et al. (2010) and hand-collected data from the Stanford Securities Class Action Clearinghouse. Second, if earnings are misstated in that firm-year according to the SEC's Accounting and Auditing Enforcement Releases from the UC Berkeley Center for Financial Reporting Management. Third, if an earnings restatement is announced in that year according to the database compiled by the General Accounting Office (GAO) in 2003 and 2006 and is classified as an irregularity by Hennes et al. (2008).	SCAC database, AAER database, and GAO database
Price Pattern	The ratio of the market-adjusted gross return over the 20 trading days after the insider buy transaction to the market-adjusted gross return over the 20 trading days before the insider buy transaction. The ratio is averaged across all insider transactions in a given firm-year. Market returns are CRSP value-weighted returns.	Thomson Financial's Insider Trading database
Annual Penalties	The total dollar value of penalties for violations in a given year, in million.	Violation Tracker
Ln (Total Assets)	The natural log of total assets (AT).	Compustat
Firm Age	The natural log of one plus firm age, which is measured by the fiscal year minus the IPO year (IPODATE).	Compustat
B/M	Book value of equity (SEQ) divided by market value of equity (CSHO × PRCC_F).	Compustat
Leverage	Total long-term debt (DLTT + DLC) divided by total asset (AT).	Compustat
ROA	Return on assets, computed as operating income before depreciation (EBITDA) over book value of total assets (AT).	Compustat
Capital Intensity	Ratio of property, plant, and equipment (PPENT) to total assets (AT).	Compustat
R&D	Ratio of R&D expenses (XRD) to total assets (AT).	Compustat
High Tech	A dummy variable that is equal to one if the firm is in the technology business, and zero otherwise.	Compustat (Loughran and Ritter, 2004)
Operating Cycle	Length of the firm's operating cycle, defined as the number of days receivables plus the number of days inventory.	Compustat (Dechow and Dichev, 2002)

Loss Percentage	Percentage of annual losses reported over the prior 10 years.	Compustat
Sales Growth	Annual rate of change in sales (SALE).	Compustat
Sales Volatility	Standard deviation of sales (SALE) deflated by the lagged total assets (AT) over the prior 5 years.	Compustat
Cash Flow Volatility	Standard deviation of cash flows from operations (OANCF-XIDOC) deflated by the lagged total assets (AT) over the prior 5 years.	Compustat
Number of Analysts	The natural log of the number of analysts that cover a firm in a given year.	I/B/E/S
Ln(Options)	The natural log of the number of options granted to insiders in a given year.	ExecuComp
Shares Traded	The number of shares traded by insiders (executives and directors) in a given year, normalized by the total number of shares outstanding.	Thomson Financial's Insider Trading database
Distance to SEC Office	The natural log of the distance between firms' headquarters and the closest SEC regional office.	https://www.sec.gov/page/sec-regional-offices
Assets>$750 million	A dummy variable that is equal to one if the total asset of a firm is greater than $750 million, and zero otherwise.	Compustat
Litigation	A dummy variable that is equal one if the firm operates in a high-litigation industry (SIC codes 2833–2836, 3570–3577, 3600–3674, 5200–5961, and 7370–7374), and zero otherwise.	Compustat (Ashbaugh, et al., 2003)
Big 4	A dummy variable that is equal to one if the auditor is a Big 4 audit firm, and zero otherwise.	Compustat
Lobbying	The natural log of lobbying expenditures plus one in a given year.	The Center for Responsive Politics
SA Index	The size-age index of Hadlock and Pierce (2010) computed using the following equation: $-0.737\ Size + 0.043\ Size^2 - 0.040\ Age$, where *Size* is the log of inflation adjusted total assets deflated using the 1983 consumer price index, and *Age* is the number of years the firm has been on Compustat with a non-missing stock price. A firm is classified as financially constrained in year t when the SA index is above the sample median in that year, and financially unconstrained otherwise.	Compustat
Cultural Change (Integrity, Teamwork, Innovation, Respect, Quality)	A dummy variable that equals one if the firm-year score (integrity, teamwork, innovation, respect, or quality) is lower or higher than 50% relative to the corresponding score of the previous year, and zero otherwise. Each firm-year's score is the weighted-frequency count of the culture-related words and phrases in the QA section of firm's earnings calls transcripts averaged based on three-year moving averages of annual scores.	Thomson Reuters' Street Events (Li et al., 2021)
Negative Income	A dummy variable that is equal to one if the net income (NI) of the firm is negative in the previous fiscal year, and zero otherwise.	Compustat

Industry Distress	A dummy variable that is equal to one if a firm belongs to industries in economic distress. Distressed industries are identified as those industries (by three-digit SIC code) whose median sales growth is negative and whose median stock market return is less than −20% (Yonker, 2017a).	Compustat
Coverage Ratio	The sum of income before extraordinary items (IB) and interest expense (XINT), divided by interest expense (Andrade and Kaplan, 1998).	Compustat

Panel B. CEO variables

Home CEO	A dummy variable that is equal to one if the distance between the CEO's birth county and the headquarters county is less than 100 miles, and zero otherwise.	Hand collection from Marquis Who's Who, Standard and Poor's Register of Directors and Executives, Lexis-Nexis, NNDB.com, and Google search
Female CEO	A dummy variable that is equal to one if a CEO is female, and zero otherwise.	ExecuComp
CEO Age	The natural log of the age of the CEO.	ExecuComp
CEO Tenure	The natural log of the tenure of the CEO.	ExecuComp
CEO Ownership	The percentage of shares owned by the CEO (set to zero if data is missing).	ExecuComp
Long Home Tenure	A dummy variable that is equal to one if the number of years that the CEO lived in her home state is greater than the industry median, and zero otherwise. A particular CEO's home tenure is equal to her age if the CEO's home state matches the state in which the firm is headquartered. If the two states do not match, then, if the CEO attended college in the same state as her home state, the age at which the CEO graduated from her degree program is considered the CEO's home tenure. If the CEO did not attend college in her home state and does not work for a firm headquartered in her state, then the CEO is assumed to have left the state 4 years prior to obtaining a degree at an institution outside her home state (Pool et al., 2012).	BoardEx, the Marquis Who's Who Database, the Notable Names Database, and Google search
Length of Residence near Headquarters	The number of years that a CEO resides in a county that is no more than 100 miles away from the headquarters location during her CEO tenure.	LexisNexis
CEO Overconfidence	A dummy variable that is equal to one from the first year in which CEOs did not exercise 67% in-the-money options at least two occasions, and zero otherwise.	ExecuComp and Compustat
Republican CEO	A dummy variable that takes the value of one if a CEO's political contributions in a given election cycle all go to Republican-affiliated candidates or party committees, and zero otherwise.	Hutton et al. (2014)

Panel C. County-level variables

Population	County-level population (in millions).	US BEA

Income per Capita	County-level income per capita (in thousands).	US BEA
Employment	County-level employment divided by county-level population.	US BEA
Education	The percent of adults completing a college or associate's degree in one county. Data on education is available for five years (1970, 1980, 1990, 2000, and 2015). We follow previous studies (e.g., Hilary and Hui, 2009) and linearly interpolate the data to obtain the values in the missing years.	USDA Economic Research Service
Num. of Establishments	The number of registered establishments (in thousands).	US BEA
Religiosity	The number of religious adherents in the county to the total population in the county (in thousands). Data on religiosity is available for six years (1952, 1971, 1980, 1990, 2000, and 2010). We follow previous studies (e.g., Hilary and Hui, 2009) and linearly interpolate the data to obtain the values in the missing years.	US ARDA
High Temperature Days	The average percentage of high temperature days per year in the county of the firm headquarters. For each county, this variable is measured with the historical data from the nearest (the average distance is 7.456 miles) weather station.	US NOAA
Top 10 financial misconduct areas/ Bottom 10 financial misconduct areas	Top 10 financial misconduct areas is a dummy variable that is equal to one if the firm's headquarters is located in Miami, St. Louis, Dallas, Houston, New York, Los Angeles, Denver, Chicago, Washington DC, or San Francisco, and zero otherwise. Bottom 10 financial misconduct areas is a dummy variable that is equal to one if the firm's headquarters is in Detroit, Philadelphia, Phoenix, Orlando, Boston, Atlanta, Cleveland, Minneapolis, Seattle, or Indianapolis, and zero otherwise.	Parsons et al. (2018)
Panel D. Corporate governance variables		
Board Size	The number of directors in the board. We use the "small board size" which is a dummy variable that takes the value of one if the board size is lower than the industry median in a given year, and zero otherwise.	ISS Database
E-index	The index is the sum of binary variables concerning the following provisions: 1) classified boards; 2) limitations to shareholders' ability to amend the bylaws; 3) supermajority voting for business combinations; 4) supermajority requirements for charter amendments; 5) poison pills; and 6) golden parachutes. We use the "low E-index", which is a dummy variable that is equal to one if a firm has an E-Index lower than the industry median, and zero otherwise.	ISS Database (Bebchuk et al., 2009)
Institutional Ownership	The proportion of outstanding shares held by institutions. We use the "high institutional ownership" which is a dummy variable that takes the value of one if the proportion of	ISS Database

	outstanding shares held by institutions is higher than the industry median in a given year, and zero otherwise.	
Number of Independent Directors	The proportion of independent directors in the board. We use the "high percentage of independent directors" which is a dummy variable that takes the value of one if the proportion of independent directors in the board is higher than the industry median in a given year, and zero otherwise.	ExecuComp