Cultural Hypocrisy and Regulatory Betrayal: A Catalyst for Harsher Penalties

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Abstract

Firms with a stronger corporate culture face harsher regulatory penalties for misconduct. This suggests that regulators impose stricter penalties on firms with strong ethical reputations—reflected in their corporate culture—to deter corporate hypocrisy and uphold public trust. We find that this effect is primarily driven by companies with a stronger innovation culture. However, this effect weakens when firms with a stronger corporate culture avoid negative media coverage. Additionally, we document that investors hold these firms to higher ethical standards, amplifying reputational penalties when misconduct occurs. Our results remain robust to econometric challenges, including concerns about the endogeneity of corporate culture.

Keywords: Culture, corporate misconduct fines, enforcement, corporate reputation, market efficiency

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1. Introduction

Corporate misconduct poses significant financial, legal, and reputational risks for firms, regulators, and investors. In recent years, regulatory fines for corporate violations have reached unprecedented levels, with some firms facing penalties exceeding billions of dollars. For instance, our data indicate that total corporate misconduct fines in 2023 amounted to $41.95 billion, while fines over the past decade (2013–2023) totaled $636.1 billion. These amounts, adjusted for inflation using the GDP deflator (expressed in 2005 dollars), underscore increasing regulatory scrutiny and the severe consequences of corporate wrongdoing. Understanding what drives these fines is crucial for firms seeking to manage risk and for regulators aiming to enforce compliance effectively.

Given these financial implications, it is essential to examine the factors influencing regulatory penalties—including the debated role of corporate culture in enforcement outcomes. Corporate culture is widely regarded as a mechanism that fosters ethical behavior and deters misconduct (Sims and Brinkmann, 2003; Stevens et al., 2005; Treviño, Weaver, and Reynolds, 2006; Jones, Felps, and Bigley, 2007; Stevens, 2008; Ardichvili, Mitchell, and Jondle, 2009; Erwin, 2011). However, its influence on regulatory penalties remains unknown. We present two competing perspectives: (1) the Culture Corporate Misconduct Mitigation View, which posits that a strong ethical culture reduces wrongdoing by embedding clear values and norms, thereby mitigating agency problems between managers and stakeholders (Van den Steen, 2010a; Zaman, 2024) and leading to lower fines; and (2) the Culture Misconduct Penalty Paradox View, which suggests that firms with strong ethical reputations may face harsher penalties when violations occur, as regulators seek to deter corporate hypocrisy and reinforce public trust. Understanding how regulators incorporate corporate culture into enforcement decisions is crucial for firms seeking to mitigate regulatory risk and policymakers designing effective deterrence mechanisms.

This study explores how corporate culture interacts with enforcement mechanisms across industries and regulatory agencies at the local, state, and federal levels. Using a comprehensive dataset of corporate misconduct violations from 2003 to 2021, we analyze enforcement actions spanning multiple regulatory bodies. Our dataset, structured at the facility/plant level, enables a granular examination of misconduct patterns within firms. By incorporating enforcement cases from local, state, and federal regulators, we provide a broad view of regulatory actions across jurisdictions. Additionally, our dataset covers various stakeholder misconduct violations, including financial fraud, insider trading, environmental breaches, and labor violations. This extensive coverage allows us to assess the impact of corporate culture on regulatory fines across diverse regulatory environments and misconduct types, forming a robust foundation for empirical analysis.

Leveraging this rich dataset, we uncover critical insights into the influence of corporate culture on enforcement outcomes and financial penalties. We construct an aggregate culture score by integrating five corporate values—innovation, integrity, quality, respect, and teamwork—as defined by Li et al. (2021). Our findings reveal a strong positive relationship between corporate culture and regulatory fines, supporting the Culture Misconduct Penalty Paradox view. Specifically, firms with strong ethical cultures tend to receive more severe penalties when violations occur, likely due to regulatory efforts to deter corporate hypocrisy and maintain public trust. This effect is both statistically significant and economically meaningful, with a one-unit

increase in the culture score associated with a 26.11% increase in fines scaled by corporate sales from the previous year. Scaling fines by past-year corporate sales accounts for firm size, ensuring that penalty severity is measured relative to a company's financial capacity rather than in absolute terms. Robustness checks, including various fixed-effect specifications and extensive controls, confirm that these findings are not driven by omitted variable bias or specific model assumptions. Additionally, using moving averages of the culture score, we find that the results remain consistent over time, reinforcing their reliability.

To address potential endogeneity concerns, we employ an instrumental variable (IV) regression approach. While firm, industry, and jurisdiction fixed effects help mitigate omitted variable bias, corporate culture remains a dynamic construct shaped by internal leadership (Davis, 1984; Sims, 2000; Van den Steen, 2010; Hermalin, 2012; Schein & Schein, 2016; Groysberg et al., 2018; Graham et al., 2022; Li, Chen, & Shen, 2024) and external regulatory scrutiny. We select instruments based on the premise that local cultural norms influence a firm's corporate culture but are unlikely to be directly related to fines imposed on individual firms. For example, firms in regions with strong ethical business norms may adopt similar cultural values, yet these regional effects do not dictate firm-specific fines, as enforcement actions depend on facility/plant-level misconduct rather than broader geographic trends. Additionally, industry clusters in cities such as Los Angeles (entertainment and fashion), Detroit (automobiles), Houston (energy and oil), and New York City (finance) shape shared corporate cultures, reinforcing the validity of our instrument while ensuring its exogeneity to firm-specific penalties. To maintain instrument validity, we exclude each firm's own culture score from the calculation of the adjusted mean culture score, ensuring the instrument captures external local norms rather than firm-specific characteristics. The use of a one-year lagged three-year moving average of the adjusted mean culture score within a firm's zip code—alongside its quadratic term—captures exogenous variation in corporate culture. Strong first-stage relationships and high Cragg-Donald Wald F-statistics confirm instrument strength, eliminating concerns about weak instruments. The Hansen J-test further verifies instrument exogeneity, ensuring that our findings are not confounded by unobserved factors. IV estimates reinforce our main results, indicating that the positive effect of corporate culture on fines persists even after accounting for endogeneity.

Next, we examine which dimensions of corporate culture drive variation in regulatory fines. Disaggregating our culture score into five dimensions—integrity, teamwork, innovation, respect, and quality—we find that innovation consistently exhibits a positive and statistically significant effect on fines across all models. This suggests that firms emphasizing innovation face higher penalties for misconduct, possibly due to risk-taking behaviors associated with innovative corporate environments. In contrast, integrity, teamwork, and respect show no statistically significant relationships with fines. This analysis is crucial for understanding the specific cultural attributes regulators consider when determining penalties, highlighting that corporate innovation—while often seen as a driver of growth—may also expose firms to heightened regulatory scrutiny.

We further investigate whether efforts to avoid negative corporate news moderate the relationship between corporate culture and misconduct fines. The extent to which a firm is exposed to negative

media coverage can significantly influence regulatory scrutiny and enforcement severity. Firms that receive less negative publicity—either because they actively manage their reputation through strategic communication and media engagement or because their industry, size, or market visibility naturally attracts less media attention—may be perceived as having stronger governance, potentially leading to more lenient penalties even when misconduct occurs (Dyck & Zingales, 2002). Conversely, firms facing greater negative media attention are more likely to attract heightened regulatory scrutiny, as enforcement agencies often respond to public and media-driven reputational risks (Jonsson & Buhr, 2011; Bednar, Boivie, & Prince, 2013). Additionally, limited exposure to negative news can delay internal detection and remediation efforts, allowing corporate misconduct to persist unnoticed (Dyck, Volchkova, & Zingales, 2008). Using the controversy score index from Refinitiv, we find that firms that actively avoid negative media coverage experience a weakened positive association between corporate culture and fines. This suggests that avoiding negative news moderates the prediction of the Culture Misconduct Penalty Paradox View. Under this view, firms with strong ethical cultures are typically penalized more harshly for violations, as regulators impose higher fines to deter corporate hypocrisy and maintain public trust. However, when these firms effectively manage negative media exposure, regulators may impose lower fines due to the absence of public pressure.

In addition to empirically examining how corporate culture influences the corporate misconduct fines imposed by regulatory agencies, we also investigate how investors perceive and value existing corporate culture following the public announcement of such fines. Corporate culture plays a fundamental role in shaping ethical standards (Sims and Brinkmann, 2003; Stevens et al., 2005; Treviño, Weaver, and Reynolds, 2006; Jones, Felps, and Bigley, 2007; Stevens, 2008; Ardichvili, Mitchell, and Jondle, 2009; Erwin, 2011), risk management, and decision-making, all of which contribute to investor perceptions of governance quality and organizational resilience. A firm's cultural strengths or weaknesses can influence how investors evaluate its ability to withstand reputational harm, regulatory scrutiny, and market volatility. This analysis allows us to document empirical evidence on the extent to which corporate culture affects the reputational damage firms suffer in response to misconduct announcements. While existing research has primarily focused on stock market reactions to specific types of corporate misconduct violations, such as environmental misconduct violations (see, e.g., Karpoff, Lot, and Wehrly, 2005; Dasgupta et al., 2006; Xu, Zeng, and Tam, 2012; Dulak and Gnabo, 2024; Sato et al, 2024) or financial misconduct violations (see, e.g., Karpoff, Lee, and Martin, 2008; Dyck, Morse, and Zingales, 2010; Zeume, 2017; Call et al., 2018; Choi et al., 2024; de Batz and Kocenda, 2024, Ye and Hu, 2024), it has largely overlooked the broader impact of other types of misconduct violation fine announcements. Building on this, we further explore whether and how investors incorporate corporate culture into their assessments when responding to public disclosures of regulatory fines.

To systematically examine market reactions, we employ an event study framework that identifies five possible stock price responses based on varying event windows. The Immediate Reaction Window ([-1, +1]) captures the market's rapid response, reflecting how quickly investors process new information. The Short-Term Adjustment Window ([-3, +3]) accounts for anticipatory trading and immediate post-announcement corrections. The Moderate Information Leakage Window ([-5, +5]) accommodates delayed market responses, particularly in cases where information is gradually

absorbed. The Extended Market Reassessment Window ([-10, +10]) captures significant pre-event speculation or prolonged investor evaluation. Finally, the High-Profile Case Window ([-15, +15]) is particularly relevant for events with sustained media coverage and intense public scrutiny, where investor reactions unfold over an extended period. By incorporating multiple event windows, we ensure a robust analysis of how corporate culture influences the persistence and severity of stock price reactions to misconduct fines.

Our results reveal that firms with stronger corporate cultures experience significantly greater stock price declines following misconduct fine announcements, particularly in longer event windows. This suggests that investors hold culturally strong firms to higher ethical standards, leading to heightened reputational penalties when misconduct is revealed. The effect is especially severe in the High-Profile Case Window, where media coverage and public scrutiny amplify negative investor reactions. However, firms that proactively manage their reputations by avoiding negative corporate news experience a more tempered decline, indicating that strategic communication can help mitigate some of the adverse financial consequences. These findings align with our results regarding regulatory penalties, which support the Culture Misconduct Penalty Paradox View—the notion that firms with strong ethical reputations may face harsher penalties when violations occur. Regulators, much like investors, appear to hold firms with strong ethical cultures to a higher standard, imposing stricter fines as a means to deter corporate hypocrisy and reinforce public trust. The consistent patterns observed in both regulatory enforcement and market reactions underscore the complex role of corporate culture in shaping firm outcomes following misconduct. Overall, these findings highlight that corporate culture is a double-edged sword: while it can enhance investor confidence under normal circumstances, it also intensifies both regulatory and market penalties when firms fail to meet ethical expectations. This underscores the importance of managing cultural perceptions and corporate responses to misconduct in order to mitigate financial and reputational repercussions.

The findings of this study carry significant policy implications for various stakeholders, including firms, regulators, investors, and policymakers. For firms, the results highlight the necessity of balancing a strong ethical culture with proactive risk management and communication strategies. While cultivating a positive corporate culture can enhance long-term reputation and governance quality, firms must recognize that strong ethical reputations may also lead to harsher penalties when violations occur. To mitigate this risk, firms should integrate compliance efforts with strategic reputation management, particularly by addressing potential misconduct proactively and ensuring transparency in their corporate governance practices. For regulators, the findings suggest that enforcement agencies should be mindful of the potential unintended consequences of disproportionately penalizing firms with strong ethical cultures. While stricter penalties for firms perceived as ethical may serve to deter corporate hypocrisy, they may also discourage firms from publicly committing to ethical standards if doing so increases regulatory exposure. A more nuanced regulatory approach—one that considers firms' historical compliance records and corrective actions—could enhance fairness and maintain public trust in enforcement mechanisms. For investors, the study underscores the importance of factoring corporate culture into financial risk assessments. Strong ethical cultures can reduce operational risks in the long run, but when misconduct occurs, firms with high cultural values tend to suffer greater market penalties,

particularly in high-profile cases. Investors should therefore consider how firms manage cultural expectations and their ability to avoid negative news when evaluating potential risks. For policymakers, these findings emphasize the need to design effective deterrence mechanisms that do not inadvertently penalize firms that have built strong ethical cultures. Policymakers should consider incentive structures that encourage ethical corporate behavior without increasing the regulatory burden on firms that are already proactive in fostering compliance. By aligning regulatory enforcement with broader governance and risk management strategies, policymakers can help create a system that effectively deters misconduct while supporting firms' efforts to maintain ethical business practices.

Our study makes important contributions to several strands of literature. First, we add to the extensive but important body of research examining the role of culture not only in corporate financial decisions (e.g., Stulz and Williamson, 2003; Hilary and Hui, 2009; Van den Steen, 2010; Braguinsky and Mityakov, 2015; Biggerstaff, Cicero, and Puckett, 2015; Davidson, Dey, and Smith, 2015; DeBacker, Bradley, and Tran, 2015; Guiso, Sapienza, and Zingales, 2015; Lui, 2016; Pan, Siegel, and Wang, 2017; Pan, Siegel, and Wang, 2020; Li et al., 2021; Graham et al., 2022) but also in shaping stock market prices (e.g., Grinblatt and Keloharju, 2001; Chui, Titman, and Wei, 2010; Eun, Wang, and Xiao, 2015; Hutton, Jiang, and Kumar, 2015). Our paper contributes to this literature by demonstrating that firms with stronger corporate cultures face harsher regulatory penalties for misconduct and greater reputational damage in financial markets following misconduct fines compared to firms with weaker corporate cultures. There is a higher likelihood that these heightened penalties and reputational costs will, in turn, distort corporate financial decisions by raising borrowing costs, deterring potential investors, and influencing managerial risk-taking behavior in response to heightened regulatory scrutiny.

Second, the corporate misconduct literature has primarily focused on reputational damage, assessing the stock market reaction to public announcements of corporate misconduct (e.g., Karpoff, Lot, and Wehrly, 2005; Dasgupta et al., 2006; Karpoff et al,. 2008; Xu, Zeng, and Tam, 2012; Armour, Colin, and Polo, 2017; Borelli-Kjaer, Schack, and Nielsson, 2021; Karpoff, Scott, and Martin, 2024; Sato et al, 2024), while largely overlooking firm-specific determinants that explain the magnitude of these fines. Our paper contributes to this literature by demonstrating that corporate culture is a significant factor that increases fines. Our findings support the Culture Misconduct Penalty Paradox View, showing that firms with a stronger corporate culture receive harsher penalties, likely due to regulatory efforts to deter corporate hypocrisy and uphold public trust. By establishing corporate culture as a key determinant of misconduct fines, our study enhances the understanding of how regulatory bodies assess and respond to corporate violations.

Third and finally, our paper contributes to the literature examining the effects of negative corporate news coverage on corporate financial and investment decision-making (see, e.g., Dyck and Zingales, 2002; Hong, Lim, and Stein, 2000; Dyck, Volchkova, and Zingales, 2008; Kim, Li, and Zhang, 2011; Jonsson and Buhr, 2011; Bednar, Boivie, and Prince, 2013). We extend this literature by demonstrating that the hoarding of negative corporate news results in less severe regulatory punishment for firms with a strong corporate culture.

Our paper is organized as follows. Section 2 reviews the relevant literature and presents our hypotheses. Section 3 describes the data and sample selection. Section 4 outlines our empirical specification. Section 5 presents our results, and Section 6 concludes.

2. Literature Review and Development of Hypotheses

We present two contrasting perspectives on how corporate culture influences corporate misconduct fines: (1) the Culture Corporate Misconduct Mitigation View and (2) the Culture Misconduct Penalty Paradox View. We explore each perspective in detail and derive a corresponding hypothesis for each. Additionally, we theoretically examine how the avoidance of bad corporate news moderates the predicted relationship between corporate culture and corporate misconduct fines.

2.1. Effect of Corporate Culture on Corporate Misconduct Fines

A. Culture Corporate Misconduct Mitigation View

The Ethical Culture Corporate Misconduct Mitigation View posits that corporate culture plays a vital role in shaping ethical behavior by embedding clear values, norms, and expectations within the organizational framework. A robust ethical culture acts as a guiding force, shaping employee conduct and fostering decision-making aligned with ethical standards (Sims and Brinkmann, 2003; Stevens et al., 2005; Treviño, Weaver, and Reynolds, 2006; Jones, Felps, and Bigley, 2007; Stevens, 2008; Ardichvili, Mitchell, and Jondle, 2009; Erwin, 2011). By promoting ethical decision-making, a strong corporate culture reduces agency problems between management and stakeholders (Van den Steen, 2010a; Zaman, 2024).

Empirical research supports the idea that poor corporate culture is a significant driver of misconduct and unethical behavior. Corruption-oriented cultures, characterized by a tolerance for opportunistic behavior, are linked to earnings management, accounting fraud, and insider trading (Xiaoding, 2016). Firms operating under high-performance pressure are 65% more likely to engage in misconduct, as the pursuit of results often overrides ethical considerations (Cavicchini, Ferraro, and Samila, 2021). Similarly, cultures emphasizing internal competition or tournament-style incentives increase the likelihood of financial restatements and fraud (Aswani, 2020).

Weak corporate cultures are associated with higher rates of penalties, regulatory fines, and violations related to employee safety and stakeholder interests (Haga et al., 2024). These cultures often exacerbate information asymmetry and reduce accountability, leading to more frequent stakeholder violations (Zaman, 2024). Leadership dynamics also play a role; externally hired CEOs with discretion to shape corporate culture and personal incentives for unethical behavior are more likely to perpetuate fraud (Biggerstaff, Cicero, and Puckett, 2015). Moreover, firms with ownership rooted in high-corruption countries demonstrate elevated levels of tax evasion in the U.S., underscoring the impact of weak cultural values on compliance across borders (DeBacker, Heim, and Tran, 2015).

Toxic corporate cultures that condone or enable misconduct create an environment where unethical behavior persists regardless of leadership changes or altered incentive structures (van Rooij and Fine, 2018). In specific industries, such as pharmaceuticals, weak ethical cultures drive firms to substitute unethical practices for innovation, exacerbating misconduct (Arnold et al., 2022). Collectively, this evidence underscores how poor corporate culture fosters environments conducive to unethical and illegal behavior, leading to significant ethical and regulatory challenges.

Based on this reasoning, we derive the following hypothesis for the Culture Corporate Misconduct Mitigation View:

Hypothesis 1: Companies with a strong corporate culture face lower fines for corporate misconduct violations compared to companies with weak corporate cultures.

B. Culture Misconduct Penalty Paradox View

The Culture Misconduct Penalty Paradox View highlights how corporate moral hypocrisy exacerbates public perceptions of misconduct, particularly concerning the perceived strength of a company's culture. This paradox emerges when organizations publicly proclaim high ethical values and moral standards but fail to uphold these commitments in practice. By constructing a facade of integrity—often through strategic declarations—companies position themselves as moral exemplars. However, when their actions reveal inconsistencies, the gap between rhetoric and reality is perceived by the public as deceitful, leading to amplified reputational damage (Batson and Thompson, 2001; Wagner, Lutz, and Weits, 2009; Monin and Merritt, 2012; Effron et al., 2018). Consequently, public reactions to perceived misconduct depend not only on the extent to which an organization has embedded ethical commitments within its culture but also on whether external audiences can independently assess the firm's expected norms of ethical behavior (Chun, 2017).

A key aspect of this evaluation is the ability to assess a company's cultural integrity beyond its public statements. To achieve this, our study utilizes a culture measure from Li et al. (2021), derived from earnings call transcripts, which offer a more reliable perspective for stakeholders to gauge a firm's ethical commitments. Unlike corporate websites or press releases, where firms can engage in "cheap talk" to showcase their values, earnings calls provide a less controlled and more revealing view of corporate culture (Li et al., 2021). Since top management significantly influences corporate culture (Guiso, Sapienza, and Zingales, 2015; Graham et al., 2022), the language used by executives in earnings calls presents a more authentic reflection of a company's values.

Public perception of misconduct is likely to vary based on the strength of an organization's culture. In firms with a strong culture—characterized by a pronounced emphasis on ethical values and moral commitments—the misalignment between stated values and actual behavior tends to attract harsher judgment. This heightened scrutiny arises from stakeholders' expectations that such organizations will adhere to the principles they espouse. When these expectations are violated, the perceived hypocrisy not only damages the organization's reputation but also erodes stakeholder trust. Conversely, in organizations with a weaker culture that places less emphasis on moral

commitments, misconduct may align more closely with public expectations, resulting in comparatively less severe reputational harm.

This dynamic is well-documented in existing research on corporate moral hypocrisy, which demonstrates that stakeholders react more harshly to firms that claim to uphold ethical standards but fail to align their actions accordingly. One prominent example is greenwashing, wherein firms exaggerate or misrepresent their sustainability efforts to enhance their reputation. As public concern for environmental responsibility grows, companies face increasing pressure to demonstrate a commitment to eco-friendly practices (Kim, Fairclough, and Dibrell, 2017). In response, some firms engage in deceptive marketing, overstating their environmental initiatives without implementing substantive changes. This discrepancy between stated values and actual practices fosters false perceptions of corporate sustainability, ultimately undermining stakeholder trust (De Jong, Harking, and Barth, 2018; Delmas and Burbano, 2011).

The severity of stakeholder backlash to greenwashing depends on the nature and extent of misleading environmental claims. Direct greenwashing, where a company itself promotes false sustainability claims, elicits stronger negative reactions—such as greater blame attribution and reduced investment intentions—compared to indirect greenwashing, where misleading claims are made by affiliated suppliers (Pizzetti, Gatti, and Seele, 2019). Furthermore, stakeholder perceptions of corporate environmental responsibility are shaped by varying degrees of greenwashing, influencing their responses to environmental scandals (Torelli, Balluchi, and Lazzini, 2019). Low trust in greenwashing firms plays a key role in mediating these effects, emphasizing the need for transparent environmental communication and responsible supply chain management to maintain credibility (Pizzetti, Gatti, and Seele, 2019). Ultimately, greenwashing allows companies to exploit the growing demand for sustainability without incurring the costs associated with genuine environmental responsibility (Delmas and Burbano, 2011).

Similarly, diversity washing represents another form of corporate moral hypocrisy, wherein organizations overstate their commitment to diversity, equity, and inclusion (DEI). Such firms often receive favorable ratings from environmental, social, and governance (ESG) evaluators and attract substantial ESG-focused investment, despite significant discrepancies between their public commitments and their actual hiring and workplace practices. These "diversity washers" frequently become embroiled in discrimination lawsuits and negative human-capital-related incidents, reinforcing public perceptions of hypocrisy (Baker et al., 2024).

Extending these insights to regulatory contexts, we examine whether regulators, as key stakeholders, impose harsher penalties on companies that claim to uphold ethical standards but fail to align their actions, as evidenced by a misconduct violation. The reputational damage stemming from perceived insincerity is particularly severe for firms with strong corporate cultures, as these organizations often position themselves as exemplars of ethical values and stakeholder commitment. Given this, we anticipate that such companies will face greater scrutiny and harsher judgment from regulatory agencies when they engage in misconduct.

We propose that regulatory agencies have several incentives to impose stricter penalties on these firms. First, firms that actively cultivate a strong ethical identity are held to higher standards, making them more likely to face severe regulatory actions designed to prevent companies from exploiting reputational advantages while acting unethically. Second, harsher penalties serve to restore public trust in organizations that have built their reputation on ethical commitment but whose actions betray stakeholder expectations, thereby triggering increased public scrutiny and regulatory backlash. Finally, firms with a strong ethical culture serve as visible examples, allowing regulators to signal their commitment to upholding ethical and legal standards. Collectively, these factors illustrate why ethical firms that engage in misconduct are likely to face disproportionate regulatory consequences, as authorities seek to protect the integrity of industry norms, deter similar behavior, and reinforce accountability standards. By doing so, regulators enable the public to distinguish between truly ethical firms and those engaging in performative virtue signaling.

Based on this reasoning, we derive the following hypothesis for the Culture Misconduct Penalty Paradox View:
Hypothesis 2: Companies with a strong corporate culture face higher fines for corporate misconduct violations compared to companies with weak corporate cultures.

2.2. Moderating effect of avoidance of bad corporate news on environmental, social, and governance (ESG) policies

We theoretically examine how a company's exposure to fewer negative news reports regarding its ESG policies can alter the predicted relationship between corporate culture and corporate misconduct fines. When firms experience less negative publicity, whether due to effective risk management or external factors, the visibility and perceived severity of their misconduct may shift. Reduced exposure to negative news can mitigate external scrutiny and lessen regulatory pressure, potentially lowering the likelihood of severe penalties. However, it may also embolden firms to engage in riskier behaviors, assuming that the absence of negative press signals reduced enforcement risk. The extent to which a firm benefits from reduced negative news coverage depends on how it interacts with corporate culture in influencing regulatory outcomes.

The degree to which a company is exposed to negative news can shape the way regulators and stakeholders perceive corporate misconduct and, in turn, affect enforcement outcomes. Research suggests that firms with lower negative media coverage tend to face weaker regulatory scrutiny, as enforcement agencies often respond to public pressure and media-driven reputational risks (Jonsson and Buhr, 2011; Bednar, Boivie, and Prince, 2013). Moreover, reduced negative news exposure can create a perception of strong governance, potentially leading to more lenient penalties even when misconduct occurs (Dyck and Zingales, 2002). On the other hand, limited negative news exposure can also delay internal detection and remediation efforts, allowing corporate misconduct to persist unnoticed (Dyck, Volchkova, and Zingales, 2008). These dynamics suggest that exposure to fewer negative reports can shape how regulators interpret the severity of corporate misconduct, influencing the extent of financial penalties imposed.

This reduced exposure to negative news serves as a moderator of the relationship between corporate culture and misconduct fines, potentially shifting the predictions of the Culture Corporate Misconduct Mitigation View and the Culture Misconduct Penalty Paradox View. Under the mitigation view, a strong corporate culture should reduce misconduct and, consequently, fines. However, if firms experience less negative news exposure, regulators may already perceive them as compliant, reducing the marginal benefit of corporate culture in lowering fines. Conversely, under the penalty paradox view, firms with strong corporate cultures may face heightened scrutiny when misconduct occurs. If these firms are less exposed to negative news, regulators may impose lower fines due to the absence of public pressure. In contrast, firms with greater negative news exposure may face harsher penalties as regulators respond to heightened reputational risks. Thus, we hypothesize that exposure to less negative news moderates the relationship between corporate culture and corporate misconduct fines, such that it weakens the negative relationship predicted by the Culture Corporate Misconduct Mitigation View and attenuates the positive relationship predicted by the Culture Misconduct Penalty Paradox View.

3. Data description and sample selection

We obtain financial information from Compustat North America, which provides data from income statements, balance sheets, statements of cash flows, and supplementary items for both active and inactive publicly listed companies (Standard and Poor, 2003). Our analysis includes only companies that report financial information in USD in the United States. To refine the sample, we exclude firms classified as utilities (SIC codes 4900–4999) or financial service providers (SIC codes 6000–6999).

Data on financial penalties resulting from corporate misconduct are sourced from the Violation Tracker Database, maintained by the Corporate Research Project of Good Jobs First. This database includes comprehensive enforcement records for regulatory penalties, class-action settlements, and awards imposed on corporations by federal, state, and local agencies. These agencies oversee compliance across domains such as banking, consumer protection, environmental regulations, workplace safety, and discrimination. Violations are categorized into eight groups: safety, environmental, government, employee, product, competition, healthcare, and financial offenses. The dataset includes cases with penalties of at least $5,000 since 2000 but excludes penalties against government entities, publicly owned corporations, and individuals unless the associated corporation is named as a defendant. It incorporates both civil and criminal cases, drawing from enforcement records, court settlements, and verdicts at multiple levels of government (Good Jobs First, 2024).

To address potential overestimation due to overlapping records, the database incorporates a *penalty_adjusted* field. This adjustment subtracts duplicated amounts for overlapping cases, such as those reported by both the Department of Justice and a regulatory agency. This ensures the accuracy and reliability of analyses by mitigating double counting and aligning penalty totals with actual financial impacts (Good Jobs First, 2024). Additionally, the database provides linkage

between subsidiary-level violations and their parent companies, allowing for consistent integration with Compustat, which reports data at the parent company level.

We utilize five corporate cultural values—innovation, integrity, quality, respect, and teamwork—obtained from Li et al. (2020) to construct a corporate culture measure, with data available starting in 2002. Annual state economic growth data is sourced from the U.S. Bureau of Economic Analysis (BEA). Firm-year observations with missing values are excluded, and continuous variables are winsorized at the 1st and 99th percentiles to reduce the impact of outliers. The analysis scales corporate regulatory fines by the previous year's sales, resulting in a sample period from 2003 to 2021. Our sample consists of 31,626 corporate misconduct cases over the period from 2003 until 2021.

We next discuss the summary statistics of our sample. Table 1 presents the mean, standard deviation, minimum, median, and maximum values for the full sample used in our empirical analysis. Detailed definitions of all variables are provided in Appendix A. Our measure of corporate misconduct fine is calculated as the ratio of total corporate misconduct fines to corporate sales from the previous year. This measure is critical for assessing the financial burden regulatory penalties impose relative to the revenue-generating capacity of a firm. It serves as an indicator of the economic impact of corporate misconduct, highlighting the proportionality of fines to the financial performance of a company. A higher ratio suggests that regulatory fines represent a significant cost burden relative to the sales of the firm, potentially signaling governance or operational deficiencies that undermine compliance. Conversely, a lower ratio may indicate effective compliance mechanisms or that the fines are less material to the operations of the firm.

The use of this corporate misconduct fine ratio allows for meaningful comparisons across firms of varying sizes and industries, as it normalizes fines relative to sales. This scalable and comparable metric provides valuable insights into how regulatory costs influence financial performance, operational strategies, and corporate behavior. Furthermore, it serves as a proxy for evaluating the deterrent effect of fines and the capacity of the firm to absorb financial penalties without jeopardizing shareholder value or operational efficiency. Table 1 also highlights that the mean (median) value of the total corporate misconduct fine expressed as a percentage of sales from the previous year is 2.40 (0.03). The maximum value of 8.80 indicates that the largest corporate misconduct fine is eight times the sales of the previous year for the firm affected. This finding underscores the potential severity of financial penalties and their disproportionate impact on some firms. We also have a variable that highlights any recidivism of corporate misconduct behavior. The recidivism of corporate misconduct behavior has an average score of 1.35, suggesting that firms, on average, have committed more than one offense, with values ranging from 0 to a maximum of 2.77, reflecting a broad distribution of recidivist behavior.

Figures 1 through 5 collectively provide a comprehensive analysis of trends and variations in corporate misconduct fines, shedding light on temporal dynamics, industry-specific patterns, enforcement authority shifts, and mega-scandals.

Figure 1 illustrates the trends in the mean and median corporate misconduct fines from 2003 to 2021. The mean fine, represented by the dashed line, shows fluctuations with peaks observed in the early years (2004–2005) and intermittent increases over the period. The median fine, represented by the solid line, follows a generally declining trend, with notable dips and some rebounds in later years, particularly in 2018 and 2020. The divergence between the mean and median fines, especially in the early years, suggests the presence of outliers or high-penalty cases that skew the mean upward. This trend underscores a shift in fine distribution, possibly indicating changing regulatory enforcement patterns or settlement practices over time.

Figure 2 presents the time series evolution of mean corporate misconduct fines categorized by different types of violations from 2003 to 2021. The figure displays notable variation across offense categories. For instance, financial offenses exhibit significant fluctuations, peaking at various intervals, likely reflecting the impact of high-profile financial penalties. Healthcare-related offenses show a marked decline in mean fines after an initial peak in the late 2000s and early 2010s. In contrast, offenses related to consumer protection, employment, competition, and environment remain relatively stable over time, with only minor variations. Safety-related and miscellaneous offenses exhibit a downward trend, while government-contracting-related offenses remain fairly consistent, with modest increases in recent years. This heterogeneity suggests that enforcement intensity and penalty magnitudes differ significantly across offense types, possibly reflecting evolving regulatory priorities and settlement dynamics.

Figure 3 depicts the mean corporate misconduct fines imposed at federal, state, and local levels throughout the sample period. The chart shows that federal-level fines are notably higher than those at state and local levels, indicating stricter financial penalties for corporate misconduct at the federal level. Meanwhile, state and local fines are comparatively similar, with slightly lower average fines at the local level. The substantial gap in mean fines between federal and other governmental levels may reflect differences in enforcement mechanisms, jurisdictional focus, and resources available for regulatory oversight. This trend underscores the federal government's role in addressing large-scale or high-impact corporate violations, while state and local authorities may handle offenses of relatively smaller scope or regional significance.

Figure 4 displays the mean corporate misconduct fine across industries classified by one-digit Standard Industrial Classification (SIC) codes. The data reveal substantial variation in mean fines among different sectors. The highest mean fines are observed in the "Agriculture, Forestry, and Fishing" and "Transportation" industries, suggesting heightened regulatory scrutiny or higher financial penalties for misconduct in these sectors. The "Services" and "Construction" industries also show relatively high mean fines, indicating the financial significance of violations within these areas. Conversely, sectors such as "Retail Trade" and "Nonclassifiable" have the lowest mean fines, which may reflect fewer high-value penalties. The distribution of fines across industries highlights how offense severities differ depending on the industry context.

Figure 5 compares the mean corporate misconduct fines associated with mega-scandal cases versus non-mega-scandal cases over the sample period. The data show a substantial disparity, with

the mean fine for mega-scandal cases being significantly higher than that for non-mega-scandal cases. Specifically, the mean fine for scandal-based cases exceeds four times the average non-scandal-based fine, suggesting that regulatory bodies impose much stricter financial penalties when corporate violations garner widespread public attention and scrutiny. This trend may reflect the heightened legal and reputational stakes involved in high-profile scandals, which often lead to more aggressive enforcement actions and settlements. The figure underscores the importance of public and regulatory perception in influencing the magnitude of corporate penalties.

In summary, Figures 1 through 5 offer a comprehensive, multidimensional perspective on corporate misconduct and regulatory enforcement. They highlight the dynamic nature of corporate violations, the economic implications of fines across industries, the interplay between federal and state enforcement, and the targeted regulatory attention on specific types of offenses. Furthermore, Appendix C provides a detailed breakdown of the average corporate misconduct fines, categorized by primary offense within each offense group.

Insert Figures 1, 2, 3, 4 and 5.

We next turn our attention to the discussion of the summary statistics of corporate culture. Table 1 reveals significant variation in the values of corporate culture across firm-year observations. Specifically, the mean and median values of corporate culture are 5.44 and 4.78, respectively. The range of 10.67, representing the difference between the maximum and minimum values, indicates substantial heterogeneity within the sample. This wide range suggests that the sample encompasses firms with both strong and weak corporate cultures across the five assessed dimensions: respect, teamwork, innovation, quality, and integrity. These variations provide a robust basis for analyzing the impact of corporate culture on the outcomes examined in this study.

The recidivism of corporate misconduct behavior has a mean of 1.35, implying that some firms have repeated instances of misconduct, while the maximum value of 2.77 underscores the persistence of this issue for certain firms.

Key financial metrics, such as cash to net assets and sales growth rate, reveal means of 0.05 and 0.09, respectively, suggesting relatively conservative liquidity positions and modest sales growth. The profitability mean of 0.14 indicates that firms generate modest net profits relative to their assets, with the maximum reaching 0.35. The firm size variable, measured as a log transformation, shows a mean of 9.31, highlighting substantial firm heterogeneity.

The average CAPEX (capital expenditures to assets ratio) is 0.06, indicating low investment levels relative to total assets. The leverage mean of 0.62 reflects firms' reliance on debt financing, while the asset tangibility average of 0.50 suggests that half of firms' assets are tangible. The dividends variable has a mean of 0.83, indicating that most firms distribute some form of dividends, although some do not.

The RandD firm variable has a mean of 0.30, indicating that 30% of firms engage in research and development. The mean Tobin's Q of 1.73 suggests that market values often exceed the replacement cost of assets, signaling positive market sentiment. The annual real GDP growth rate of 1.86% reflects moderate economic expansion across states, while the industry mean corporate misconduct fine has a mean of 2.07, indicating some level of uniformity in penalty levels across industries. Overall, Table 1 highlights variability across financial and behavioral metrics, suggesting that firms differ substantially in terms of performance, risk management, and growth strategies.

Insert Table 1

4. Empirical specification

In this section, we introduce our linear regression model, which incorporates multiple levels of fixed effects. The dependent variable in our regression model is the corporate misconduct fine. The time-varying explanatory variables are included in the regression as one-year lagged variables. All variables used in the regression are defined in Appendix A of this paper.

The primary variable of interest is the culture score. The construction of the culture score measure is based on Principal Component Analysis (PCA) using the covariance matrix of five cultural dimensions: integrity, teamwork, innovation, respect, and quality. PCA identifies uncorrelated variables (principal components) that summarize the variance within the dataset. The PCA estimation uses the full sample of firms with available data on these five cultural values from 2001 to 2021. Appendix B provides the detailed results of the PCA. The estimation reveals that the first principal component (Component 1) captures the largest proportion of variance, accounting for 47.86% of the total. This indicates that Component 1 effectively summarizes the dominant patterns and relationships among the five cultural dimensions. The eigenvalue associated with Component 1 is 9.5134, reflecting its strong explanatory power and its role as the most significant component for understanding the shared variance in the dataset.

The culture score measure is derived by calculating the scores for Component 1 using its scoring coefficients (eigenvectors). These coefficients indicate the relative contribution of each cultural variable to Component 1, such as 0.1050 for integrity, 0.3548 for teamwork, and 0.8180 for innovation. The high weight for innovation suggests it is the most influential variable in defining Component 1, while teamwork and respect also contribute substantially. The resulting Component 1 scores represent the position of each observation along the dominant cultural dimension, offering a clear and interpretable summary of the primary cultural patterns. By focusing exclusively on Component 1, this measure simplifies the data while preserving its most significant characteristics.

We include a measure of corporate misconduct recidivism in our regression model. We predict that recidivism in corporate misconduct will have a positive effect on future corporate misconduct fines. Regulatory bodies tend to increase financial sanctions for repeat offenders to deter future misconduct and signal stricter enforcement. Companies with a history of non-compliance may face cumulative penalties due to heightened scrutiny and reduced leniency in settlement negotiations. The escalation in fines for recidivist firms reflects both punitive and preventive objectives, aiming to reinforce regulatory standards and enhance corporate accountability. This pattern suggests that

firms engaging in recurrent violations are perceived as higher-risk entities, necessitating more substantial interventions to correct misconduct and deter industry-wide non-compliance.

We predict that higher profitability is associated with larger corporate misconduct fines. This expectation stems from the understanding that regulatory authorities may impose more substantial penalties on profitable firms, perceiving them as better equipped to absorb financial penalties without jeopardizing their operations.

We hypothesize that larger firms face higher corporate misconduct fines due to their increased regulatory visibility, financial capacity, and broader societal impact. Their size attracts greater scrutiny and public attention, leading regulators to impose larger penalties that align with proportional justice and serve as effective deterrents. Additionally, the broader societal and economic consequences of misconduct by larger firms justify more substantial fines (Karpoff, Lee, and Martin, 2008; Gande and Lewis, 2009).

We examine the relationship between firm leverage and the fines imposed for corporate misconduct, hypothesizing that highly leveraged firms may receive smaller penalties. Firms with substantial debt face greater financial constraints due to fixed interest obligations, making them more vulnerable to financial distress (Myers, 1977). Excessive fines could heighten the risk of insolvency for such firms, potentially leading to bankruptcy (Altman, 1984) and harming creditors, employees, and other stakeholders. To mitigate these broader economic risks, regulatory authorities may opt for more moderate penalties for highly leveraged firms, acknowledging their financial fragility (Atkinson, 2023).

The level of cash holdings in a firm plays a critical role in shaping regulatory decisions regarding penalties for corporate misconduct. The effect of cash holdings on corporate misconduct fines is unclear. On one hand, we expect that cash-rich firms will receive higher misconduct fines. Regulatory agencies may perceive cash-rich firms as having greater capacity to absorb financial penalties without jeopardizing their liquidity or operational stability. Agencies may also anticipate that these firms maintain cash reserves as a precautionary measure to cope with adverse effects of potential future negative shocks (Bates, Kahle, and Stulz, 2009). However, regulatory agencies may also impose smaller misconduct fines on cash-rich firms for several reasons. First, cash-rich firms may leverage their financial resources to negotiate more favorable outcomes with regulators, demonstrating their ability to rectify misconduct without severe fines. Second, regulatory authorities might seek to encourage firms to maintain strong liquidity positions, fearing that heavy penalties could discourage them from holding adequate cash reserves, which serve as a financial buffer to finance future investments (Harford, 1999). Additionally, regulators may aim to avoid destabilizing cash-rich firms that play significant roles in the economy, as severe penalties could create negative ripple effects, harming employees, creditors, and suppliers. Finally, high cash reserves can signal stronger corporate governance structures and operational stability (Harford, Mansi, and Maxwell, 2008), which may lead regulators to impose lower penalties, perceiving these firms as better equipped to implement corrective measures without excessive penalization.

We also control for the effect of the investment policy of the firm, specifically capital expenditures (CAPEX) and research and development (R&D) expenditures, on the size of corporate misconduct fines. CAPEX is used as a measure of the capital expenditures policy of the firm, while an R&D dummy variable (0,1) is included to identify firms with R&D expenditures. We predict that firms with higher capital expenditures will incur lower corporate misconduct fines, as their investments in renewing and upgrading equipment are likely to enhance compliance with existing regulations. Similarly, firms with higher R&D expenditures are expected to face smaller corporate misconduct fines, as increased investments in innovation demonstrate a commitment to regulatory compliance through the development of new technologies that align with current regulations.

We also control for the effect of corporate dividend policy on corporate misconduct fines. The impact of dividend payments on such fines is ambiguous. We hypothesize that dividend-paying firms may receive either higher or lower corporate misconduct fines, depending on how regulatory agencies perceive their cash distribution practices. Dividend payments can signal excess cash flow and financial stability, potentially prompting regulators to impose higher fines. This perspective assumes that firms capable of distributing profits to shareholders have sufficient financial resources to absorb substantial penalties without jeopardizing operational activities, thereby justifying larger fines to ensure accountability and deter future violations. Conversely, consistent dividend payouts can signal sound corporate governance and financial discipline (Harford, Mansi, and Maxwell, 2008), potentially resulting in lower fines. This perception arises from the idea that dividend-paying firms are subject to greater scrutiny and accountability, making misconduct an anomaly rather than a systemic issue. Additionally, firms may strategically distribute free cash flow to shareholders to influence regulatory perceptions and negotiate lower penalties. The strategic use of dividends to secure concessions, such as weakening the bargaining position of stakeholders like unions, has been previously discussed in the literature (see, e.g., DeAngelo and DeAngelo, 1991).

We also include asset tangibility in our regression model. We hypothesize that regulatory agencies impose higher misconduct fines on firms with a higher proportion of tangible assets following regulatory violations. Tangible assets, such as factories, equipment, and real estate, often have direct environmental or safety implications (see, e.g., Brown, 1996; Blundell, Gowrisankaran, and Langar, 2020), attracting closer regulatory scrutiny to ensure compliance with stringent industry-specific regulations. Additionally, tangible assets serve as physical evidence of the operations of a firm, making misconduct more visible and measurable. Regulators may impose larger penalties on such firms to deter future violations and address risks proportional to their asset base and operational footprint (Shimshack and Ward, 2008).

Our regression model includes the mean 2-digit SIC code industry corporate misconduct fine as an explanatory variable. We hypothesize that regulatory agencies impose larger fines on firms in industries with higher mean misconduct violation fines, aligning penalties with industry norms to address widespread non-compliance. Higher industry mean misconduct fines may indicate

systemic non-compliance risks within the industry, prompting regulatory agencies to adopt stricter enforcement measures (Shimshack and Ward, 2008).

We control for the effect of local economic conditions on corporate misconduct fines by including the annual real GDP growth rate of a state in the Tobit regression model. The relationship between economic growth and fines is unclear. During downturns, heightened financial pressures may lead to increased corporate misconduct as firms face greater temptation and strain, prompting regulators to impose larger fines to deter unethical behavior (Staw and Szwajkowski, 1975; Vaughan, 1999; Sharma et al., 2014). Prospect theory also suggests that losses during recessions may drive excessive risk-taking, including unethical actions (Kahneman and Tversky, 1979). Conversely, during economic booms, external vigilance tends to wane, making unethical practices less likely to be detected or penalized. Higher profits and reduced scrutiny may incentivize fraud, as the rewards are significant and oversight is weaker (Philippon, 2006; Povel, Singh, and Winton, 2007; Gino, Ayal, and Ariely, 2009; Bianchi and Mohliver, 2016). Thus, misconduct fines may vary depending on the economic cycle and corresponding regulatory scrutiny.

We include several types of fixed effects in our regression model, depending on the specification. Throughout the paper, we present results based on eight different models, which vary based on the types of fixed effects included. We discuss the motivation for including various types of fixed effects.

We include fixed effects for the dates of corporate misconduct penalty fines to control for unobserved, time-specific factors that could influence fines across firms. These fixed effects help isolate the effect of culture on corporate misconduct fines by accounting for potential confounding influences, such as systematic variations in regulatory stringency, economic conditions, or media attention when fines are issued.

We include either 2-digit SIC industry fixed effects or firm-level fixed effects in the regression model. Since Figure 4 highlights the industry-specific nature of corporate misconduct fines, including 2-digit SIC industry fixed effects addresses potential omitted variable bias related to industry characteristics. These fixed effects control for unobservable, constant factors across industries, such as regulatory scrutiny, industry norms, or inherent risk profiles. Including these types of fixed effects enhances the robustness of our regression results by mitigating the risk of attributing industry-driven variations in misconduct fines to firm-level cultural factors.

Alternatively, we include firm-level fixed effects in the baseline regression model. These fixed effects account for unobserved, time-invariant firm-specific characteristics that could bias the effect of corporate culture on fines. By controlling for these firm-specific factors, the fixed effects mitigate omitted variable bias, ensuring that the estimated effect of corporate culture is not confounded by persistent firm traits. This approach isolates within-firm variations over time, allowing changes in misconduct fines to be attributed more precisely to shifts in corporate culture.

We also include mega-scandal fixed effects. The Violation Tracker Database classifies violations as mega-scandals when fines exceed $25 million. Our sample includes 34 mega-scandals, along with a classification for non-mega-scandals. Including these fixed effects controls for systematic differences between mega-scandals and non-mega-scandals that could influence fines. Mega-scandals likely attract greater regulatory attention and public scrutiny, resulting in harsher penalties, irrespective of firm-level cultural characteristics. By accounting for these differences, mega-scandal fixed effects ensure that the estimated relationship between corporate culture and fines is not confounded by the disproportionate impact of large-scale violations.

We also control for time-invariant offense types and primary offense categories within each type. Including fixed effects for offense types addresses potential omitted variable bias stemming from systematic differences in penalties across offense categories. For example, financial misconduct often receives larger penalties due to its broader economic impact, whereas labor law violations typically involve fewer workers. By accounting for these differences, these fixed effects isolate the effect of culture on fines from confounding influences related to offense characteristics.

Finally, we control for time-invariant effects related to the government level imposing the penalty and the specific regulatory agency involved. Governmental level and agency fixed effects account for variations in enforcement practices and penalty structures across jurisdictions and regulatory bodies. Federal agencies, for example, may impose larger fines than state authorities due to differences in jurisdiction and resources. Similarly, different regulatory agencies may impose varying fines depending on their focus. By including these fixed effects, our regression model controls for unobserved heterogeneity related to the enforcing entity, improving the robustness and validity of our results.

T-statistics for the estimated coefficients of explanatory variables are calculated using heteroskedasticity-robust standard errors clustered at the level of unique corporate misconduct violations identified in the Violation Tracker Database. We report only the estimated coefficients and t-statistics for time-varying explanatory variables, as the primary purpose of fixed effects is to control for unobserved heterogeneity rather than contribute directly to result interpretation.

5. Results

5.1. Effect of Corporate Culture on Corporate Misconduct Fine

We present the results of the effect of corporate culture on corporate misconduct fines in Table 2. Table 2 shows a robust and consistent relationship between corporate culture and corporate misconduct fines across all eight regression models. The culture score exhibits a positive and statistically significant association with fines in every model specification, with coefficients ranging from 0.0142 to 0.0480. Most of these coefficients are statistically significant at the 1% level, except for models (4) and (8), where the coefficients are statistically significant at the 5% level. The differences between the various model specifications in Table 2 lie in the inclusion of different types of fixed effects, which aim to limit the likelihood that omitted variable bias drives the positive effect of corporate culture on corporate misconduct fines. This consistency suggests that the observed effect of corporate culture on fines is not dependent on the specific model used.

Furthermore, the persistence of the culture score across various specifications and its robustness to extensive controls validate the positive relationship between corporate culture and corporate misconduct fines. This indicates that the relationship is not an artifact of specific model assumptions or omitted variable bias. Instead, the findings provide evidence that corporate culture significantly influences the magnitude of fines imposed for misconduct. These results confirm the prediction of the Culture Misconduct Penalty Paradox View.

Next, we examine whether the positive effect of corporate culture on corporate misconduct fines is economically meaningful. With a sample mean culture score of 5.44 and a coefficient of 0.0480 from model (1) in Table 2, a one-unit increase in the culture score results in a 26.11% increase in corporate misconduct fines. This translates to a rise in the mean fine from 2.40 to approximately 3.12, underscoring the tangible financial implications of corporate culture on regulatory penalties. Additionally, a one-standard-deviation increase in the culture score—2.17 in this sample—results in an approximate 10.47% increase in fines ($\exp(0.0480\times2.17)-1$). Given the magnitude of corporate misconduct fines, which often amount to millions of dollars, these percentage changes highlight the substantial financial impact of variations in culture scores. These calculations highlight that the economic significance of the effect of corporate culture on fines is substantial.

The analysis in Table 2 also provides a detailed examination of the time-varying determinants influencing corporate misconduct fines, focusing on firm-specific, industry-specific, and state-level variables. We discuss both the statistical and economic significance of these factors, emphasizing their nuanced roles in shaping corporate regulatory outcomes. Our analysis of the model estimation results reveals that firm-specific determinants play an important role in determining the penalties imposed for violations. Among these determinants, recidivism of corporate misconduct behavior emerges as a significant and dynamic factor. The coefficients for recidivism consistently display statistical significance across models, with alternating positive and negative signs depending on the specification. Positive coefficients suggest that firms with a history of repeated violations are penalized more severely, reflecting a regulatory approach focused on deterrence. Conversely, negative coefficients in certain models may indicate leniency granted to firms that implement corrective measures or compliance reforms after prior violations. These findings underscore the importance of considering the compliance history of the firm and its response to previous penalties when determining fines, illustrating the dynamic nature of regulatory enforcement.

Table 2 also highlights the role of dividend payer status, revealing that firms distributing dividends are consistently penalized less severely. This finding suggests that dividend payments are often viewed as signals of financial stability, maturity, and governance quality. Regulators may perceive dividend-paying firms as lower-risk entities, leading to reduced penalties. Similarly, Tobin's Q consistently shows a positive and significant relationship with corporate misconduct fines. Firms with higher Tobin's Q face larger penalties, likely to reflect their greater market valuation and higher visibility, which attract greater regulatory scrutiny. Additionally, firms with

higher Tobin's Q are often perceived as having a stronger capacity to absorb fines without compromising operations, enabling regulators to impose higher penalties.

Firm size has a consistently negative and highly significant effect on corporate misconduct fines across all models. Larger firms face relatively smaller fines for violations, likely due to their capacity to allocate substantial resources to compliance programs, risk management, and legal defenses, mitigating the perceived severity of violations. Regulators may also be reluctant to impose disproportionately large fines on larger firms, given their integral role in the economy and the potential for broader economic repercussions. In addition, profitability consistently shows a negative and significant relationship with corporate misconduct fines across multiple models. This finding suggests that more profitable firms are subject to relatively lower penalties for violations. Profitability serves as a signal of strong management practices and robust internal governance structures, which may reduce regulators' concerns about future misconduct. Additionally, profitable firms are often better positioned to implement effective compliance systems and corrective measures, which could lead to more favorable regulatory treatment.

The results in Table 2 show a positive relationship between cash-to-book assets and corporate misconduct fines, with the variable being statistically significant in several models. Firms with higher liquidity are subject to larger penalties, as regulators may perceive cash-rich firms as having a greater capacity to absorb fines without jeopardizing their operations. Additionally, higher cash reserves may reduce the perceived deterrent effect of smaller fines, prompting regulators to adjust penalties upward to ensure they have meaningful financial impacts.

For leverage, the results in Table 2 demonstrate a nuanced relationship with corporate misconduct fines, alternating between positive and negative coefficients depending on the model specification. In some models, leverage is negatively related to fines, possibly reflecting the financial constraints of highly leveraged firms, which may lead regulators to impose smaller penalties to avoid exacerbating financial instability. Conversely, positive coefficients in other models suggest that high debt levels may signal greater financial risk, prompting stricter regulatory penalties. These mixed results indicate that the influence of leverage on fines is context-dependent, shaped by factors such as industry norms and the nature of the misconduct.

Finally, the annual real GDP growth rate of a state shows an insignificant relationship with fines across all models in Table 2. This finding highlights that broader macroeconomic conditions have no direct influence on the magnitude of corporate misconduct.

The results in Table 2 collectively provide a detailed understanding of the determinants influencing corporate misconduct fines, emphasizing the importance of both firm-level attributes and broader industry dynamics in shaping regulatory outcomes.

Insert Table 2

5.2. Addressing Endogeneity in the Relationship Between Corporate Culture and Regulatory Fines

Corporate culture, as a determinant of corporate misconduct fines, may exhibit endogeneity even when various fixed effects are included in the baseline regression model. The fixed effects in our baseline model address unobservable, time-invariant characteristics at the firm, industry, jurisdiction, and misconduct violation-type levels, reducing the risk of omitted variable bias. However, corporate culture is inherently dynamic, shaped internally by corporate leadership (Davis, 1984; Sims, 2000; Van den Steen, 2010; Hermalin, 2012; Schein and Schein, 2016; Groysberg et al., 2018; Graham et al., 2022; Li, Chen, and Shen, 2024) and externally by factors such as regulatory changes and public scrutiny following scandals, which impose ethical expectations on implicated corporations (Rockness and Rockness, 2005). Consequently, the relationship between corporate culture and misconduct fines remains susceptible to endogeneity arising from omitted time-varying factors, measurement error, or reverse causality—issues that fixed effects alone cannot fully address.

In our regression model, we use one-year lagged corporate culture to assess its effect on corporate misconduct cases, as these cases occur throughout the year while corporate culture is measured at the fiscal year's end. Using one-year lagged corporate culture helps establish temporal precedence, reducing concerns about reverse causality. However, this approach does not entirely eliminate such concerns. Corporate culture evolves dynamically and can be influenced by past events, including prior fines for misconduct. For instance, firms penalized in earlier periods may implement cultural changes to improve compliance and reduce future liabilities. These adjustments may persist over time, indirectly affecting the lagged measure of corporate culture. Consequently, the observed relationship between lagged corporate culture and misconduct fines could partially reflect feedback effects from earlier fines, complicating causal interpretation. Moreover, the persistence of corporate culture and potential anticipation effects further challenge the assumption of strict causality. Corporate culture typically evolves gradually, meaning that any influence of prior fines may carry forward into the lagged measure. Additionally, firms anticipating regulatory scrutiny or fines might proactively adjust their culture, which could influence the lagged variable.

Omitted variable bias remains a concern when examining the effect of lagged corporate culture on misconduct fines. Unobserved factors, such as the quality of a firm’s leadership, organizational risk appetite, or industry-specific practices, may influence both corporate culture and the likelihood of incurring fines. For example, firms with visionary leaders may foster robust compliance cultures while avoiding behaviors that lead to misconduct fines. If these variables are not accounted for, the estimated relationship between lagged corporate culture and fines could reflect the influence of these omitted factors, leading to biased and unreliable results.

Measurement error also poses a significant challenge for the corporate culture score construct. Accurately capturing corporate culture is particularly difficult in the context of lagged variables. Corporate culture is a complex and qualitative construct, often measured using imperfect proxies. Our culture score, derived from earnings call transcripts (Li et al., 2021), may not fully represent the true state of a firm's culture, leading to measurement error in the lagged variable. Such errors can attenuate the estimated relationship between lagged corporate culture and misconduct fines,

reducing the likelihood of detecting a significant effect or introducing biases that obscure the true causal relationship.

Although using a lagged independent variable reduces simultaneity bias, it does not entirely eliminate it. Corporate culture and misconduct fines may still be jointly influenced by underlying factors, such as a firm's strategic priorities or governance structures. For instance, a firm focused on aggressive expansion might foster a culture that indirectly promotes risk-taking behaviors while simultaneously facing greater regulatory scrutiny and fines. The persistence of corporate culture over time means that shared determinants can influence both the lagged culture measure and current misconduct fines, complicating causal interpretation.

In traditional regression frameworks, such as ordinary least squares (OLS), these forms of endogeneity can lead to biased estimates of the causal effect of corporate culture on fines. Fixed effects, while controlling for unobservable time-invariant characteristics, cannot account for the dynamic interplay between culture and fines over time. Fixed effects may capture some contextual factors but are insufficient to disentangle whether culture drives fines or fines drive culture.

To address these challenges, we apply the instrumental variable (IV) regression approach. IV regression isolates exogenous variation in corporate culture—variation unrelated to the firm's misconduct fines—allowing us to estimate the causal impact of culture on fines without the confounding influence of reverse causality. By leveraging instruments that influence culture but are not directly related to fines, this approach clarifies the direction of the relationship, providing a clearer understanding of how corporate culture affects regulatory penalties.

Instrumental variable regression addresses endogeneity by isolating exogenous variation in corporate culture through carefully selected instruments. A valid instrument must satisfy two criteria: it must be correlated with corporate culture and remain uncorrelated with the error term in the corporate misconduct violation fine equation. In our paper, we use the one-year lagged three-year moving average of the adjusted mean culture score within a firm's zip code and its quadratic term.

The primary instrumental variable captures the importance of the local similarity of corporate cultural norms, while the quadratic term accounts for potential nonlinear effects, such as the intensification or diminishing of local cultural impacts beyond specific thresholds. This combination allows the model to address both linear and nonlinear influences, accounting for phenomena like diminishing returns or saturation effects. Firms within the same geographic region often develop similar corporate cultural norms rooted in industry-specific practices and priorities. Examples of geographical clustering of industrial activity include Los Angeles (Entertainment and Fashion), Detroit (Automobiles), Houston (Energy and Oil), Las Vegas (Hospitality and Gaming), New York City (Finance), Boston (Biotechnology), Seattle (Technology and Aviation), and Washington (Lobbying). By incorporating both the primary variable and its quadratic term, the model captures direct and complex relationships between local corporate cultural norms and corporate culture, offering a nuanced understanding of external cultural influences. To ensure the

validity of the instruments, the firm's own culture score is excluded from the calculation of the adjusted mean. This exclusion isolates external local cultural norms and mitigates potential endogeneity concerns by preventing firm-specific attributes from influencing the instruments. As a result, the instruments reflect influences of local corporate cultural norms with greater accuracy, enhancing the model's explanatory power and providing a detailed representation of how external regional factors shape corporate culture. Finally, the allocation of zip codes by the US Postal Service is independent of corporate financial interests (Jiraporn et al., 2014; Datta, Doan, and Toscano, 2024) and corporate misconduct fines, as the USPS bases zip code allocation solely on efficient mail delivery.

Our IV regression model is the two-stage least squares (2SLS) regression model. We present the estimation results of the 2SLS regression model in Table 3. The importance of rigorously assessing the strengths and validity of instruments cannot be overstated, as these tests ensure the reliability of the estimated causal effect. The Cragg-Donald Wald F-statistics reported in Table 3 provide evidence for the strength of the instrumental variables used in the analysis. Across all models presented, the F-statistics range from 1342.65 to 2473.26, significantly exceeding the Stock and Yogo (2005) critical thresholds for weak instruments, such as 19.93 for a 10% maximum relative bias or 11.59 for a 10% size distortion of a 5% Wald test. The null hypothesis for this test is that the instruments are weak, meaning they lack sufficient relevance for explaining variation in corporate culture. By rejecting this null hypothesis with high F-statistics, the results demonstrate that the instruments are highly relevant and strongly correlated with the endogenous variable, culture score. Consequently, this mitigates concerns about weak instruments and enhances the validity of the two-stage least squares (2SLS) regression results. Furthermore, these critical values are essential for assessing the validity of the instrumental variables in the context of our paper, as they allow the comparison of the Cragg-Donald statistic to formal benchmarks for bias and size distortion.

The Hansen J-statistic (1982), which tests for overidentifying restrictions, provides further confirmation of the instruments' validity and is crucial in ensuring the robustness of the instrumental variable (IV) approach. The null hypothesis for the Hansen J-test is that the instruments are uncorrelated with the error term in the second-stage equation, indicating their exogeneity. This test is particularly important because even if instruments are strongly correlated with the endogenous variable (relevance), they may still be invalid if they are correlated with the error term, which would bias the results. Table 3 shows that p-values consistently above 0.1 across all models indicate the null hypothesis cannot be rejected, confirming the instruments' exogeneity and their appropriate exclusion from the fines equation. Together, the results from these two tests ensure that the instruments meet the dual requirements of relevance and exogeneity, making them suitable for addressing endogeneity and producing reliable, unbiased estimates.

The first-stage regression results in Table 3 reveal a strong and nonlinear relationship between the instruments and the culture score. Specifically, the coefficients for the one-year lagged three-year moving average of the adjusted mean culture score within the zip code are consistently negative and statistically significant, with t-statistics exceeding -50 in all models, while the

quadratic term is positive and highly significant, with t-statistics exceeding 10. This pattern indicates a U-shaped relationship, where the effect of local cultural averages on the firm's culture score diminishes at lower values and intensifies at higher values, highlighting the nonlinear dynamics of cultural transmission within zip codes. The null hypothesis in the first stage, that the instruments have no relationship with the culture score, is rejected across all models at the 1% statistical significance level. These findings validate the instruments' relevance, as they effectively capture exogenous variation in corporate culture that reflects local dynamics rather than firm-specific factors. The observed nonlinearity strengthens the validity of the instruments by showing that they not only explain cultural variation but also do so in a manner consistent with theoretical expectations of cultural heterogeneity. This ensures that the instruments are well-suited for addressing endogeneity in our two-stage least squares (2SLS) estimation.

In the second stage, the instrumented culture score exhibits a positive and statistically significant relationship with corporate misconduct fines, with coefficients ranging from 0.0565 to 0.0935 across models, depending on the specification. For example, in Model 1 of Table 3, a one-unit increase in the instrumented culture score is associated with a 9.35% increase in fines, underscoring the economic implications of corporate culture on regulatory penalties. These coefficients suggest that firms with higher cultural scores—potentially indicative of stronger cultural values or norms—are subject to higher fines, which may reflect stricter regulatory scrutiny or heightened public expectations of compliance for culturally prominent firms. The statistical significance of the instrumented culture score persists across all models, even when varying control variables and fixed effects, with t-statistics consistently above 2.5 in Table 3. This robustness underscores the reliability of the results and suggests that the identified relationship is not an artifact of model specification. Moreover, the findings provide evidence against the null hypothesis that corporate culture has no impact on fines, offering strong support for its causal influence. These results highlight the critical role of corporate culture not only in shaping internal organizational behavior but also in influencing external outcomes, such as regulatory penalties.

Our analysis demonstrates that our instrumental variable regression framework effectively addresses the limitations of fixed effects in controlling for endogeneity. The results provide evidence that corporate culture exerts a significant and economically meaningful influence on corporate misconduct fines, even after accounting for endogeneity concerns. The use of strong, valid instruments and rigorous statistical testing strengthens the reliability of these findings.

Insert Table 3

5.3. Robustness Testing of Corporate Culture's Impact on Misconduct Fines: The Role of Moving Averages

In this section, we investigate the robustness of our main measure of culture by using moving averages of culture scores, an approach that is important for several reasons. First, corporate culture tends to remain consistent over time (Cronqvist, Low, and Nilsson, 2009; Van den Steen, 2010; Graham et al., 2022), whereas single-year measures may capture short-term fluctuations or anomalies that fail to reflect the enduring cultural environment. Second, moving averages smooth

these variations, allowing the analysis to focus on long-term trends. Third, this method reduces measurement errors and aligns the explanatory variable with the persistent nature of misconduct fines, thereby enhancing the causal validity of the results. Finally, examining different lengths of moving averages demonstrates consistency across time horizons, further reinforcing the reliability and robustness of the findings.

The use of moving averages is particularly important for understanding the enduring nature of corporate culture. Corporate culture, which is often persistent, influences organizational behavior over time, making single-year measurements inadequate for capturing its long-term impact. By employing moving averages, the analysis accounts for these temporal dynamics, smoothing out year-to-year fluctuations and providing a more accurate representation of cultural trends. This approach also reduces the risk of bias from transient shocks or measurement errors, enhancing the reliability of the results. Furthermore, the use of multi-year averages aligns with the persistent and systemic nature of corporate misconduct, improving the causal validity of the findings.

We report the results of the robustness test in Table 4. The results in Table 4 demonstrate a consistently positive and statistically significant relationship between moving averages of culture scores and corporate misconduct fines across all panels and model specifications. For instance, the coefficient for the 2-year moving average is 0.0535, while that for the 9-year moving average is 0.0748. These coefficients represent the percentage change in the natural log of corporate misconduct fines associated with a one-unit increase in the moving average of culture scores.

We also evaluate the economic significance of our findings. To interpret the economic significance of these coefficients, consider a one-unit increase in the culture score. For the 2-year moving average, a 1-unit increase in the culture score corresponds to an approximately 5.35% increase in the misconduct fine (calculated as exp(0.0535) -1), and for the 9-year moving average, this increase is approximately 7.76%.

The findings re-emphasize the important role of corporate culture in shaping corporate misconduct fines. The use of moving averages provides a robust framework for understanding the long-term nature of cultural dynamics and their impact on misconduct fines.

Insert Table 4

5.4. Exploring the Drivers of Variation in Corporate misconduct fines through Cultural Dimensions

In this section, we evaluate whether the different sources of culture included in the aggregate culture score index explain the variation in corporate misconduct fines. By isolating the effects of distinct cultural dimensions—integrity, teamwork, innovation, respect, and quality—we identify which aspects of organizational culture drive significant variation in fines. This test requires re-estimating the baseline regression model by replacing the aggregate measure of culture with its five cultural dimensions. The results of this analysis are presented in Table 5.

The results in Table 5 indicate that innovation consistently exhibits a statistically significant positive effect across all models, with significance levels of either 1% or 5%. We also evaluate the

economic significance of the effect of innovation on corporate misconduct fines. A one-unit increase in the innovation dimension corresponds to an approximate percentage increase in corporate misconduct fines. For example, in model 1 of Table 5, the coefficient of 0.0514 for innovation translates to an estimated 5.27% increase in fines (calculated as exp(0.0514) - 1). This suggests that firms prioritizing innovation are more likely to face higher fines.

The teamwork cultural dimension is statistically significant in only one model (model 1 of Table 5), with a coefficient of 0.0332 and a t-statistic of 2.27, significant at the 5% level. Furthermore, the integrity, respect, and quality dimensions generally fail to achieve statistical significance at the 5% level or higher.

In conclusion, our analysis highlights the innovation dimension as the primary driver of variation in corporate misconduct fines.

Insert Table 5

5.5. The Moderating Effect of Avoiding Negative News on the Relationship Between Culture and Corporate Misconduct Fines

This section examines the moderating role of avoiding negative corporate news in the relationship between corporate culture and corporate misconduct fines. By analyzing the interaction between the culture score and the avoidance of negative corporate news, the analysis explores how media-related reputational concerns influence the impact of cultural dimensions on financial penalties for misconduct.

The avoidance of negative corporate news is measured using the controversy score index from Refinitiv, which captures negative ESG-related news and is adjusted for firm size to account for the greater media coverage typically associated with larger firms. A score of 100 on this index signifies the absence of controversies (LSEG, 2023). For clarity, we refer to this measure as the avoidance of negative corporate news in our analysis. To explore its role, we extend our baseline regression model by including the avoidance of negative corporate news index and its interaction with the culture score.

The negative moderating effect of avoiding negative corporate news on the relationship between the culture score and corporate misconduct fines can be attributed to its influence on public perception and regulatory responses. Firms with high corporate culture scores are often held to higher ethical expectations, leading to greater scrutiny and potentially larger fines when misconduct occurs. However, firms that actively avoid negative corporate news mitigate this effect by reducing the visibility and perceived severity of their violations. By projecting an image of responsibility and reform, these firms temper public and regulatory reactions. Consequently, the positive association between corporate culture and misconduct fines weakens in the presence of effective news avoidance, as regulators and the public may view such firms as less deserving of severe penalties.

The results of this analysis are reported in Table 6. The table shows that the culture score consistently exhibits a positive and statistically significant effect across all models, with coefficients significant at the 1% level. This finding indicates that firms with stronger corporate cultures tend to face higher misconduct violation fines. In contrast, the interaction term between the culture score and the avoidance of negative corporate news demonstrates a statistically significant negative coefficient across all models, typically at the 1% level. This suggests that the positive relationship between the culture score and misconduct fines diminishes as firms intensify their efforts to avoid negative corporate news.

In conclusion, the results in Table 6 highlight that while corporate culture significantly drives misconduct fines, this effect is moderated by efforts to avoid negative news. Firms focusing on reputational management may experience a reduced sensitivity of fines to cultural factors, emphasizing the complex interplay between corporate culture, misconduct, and reputational concerns.

Insert Table 6

5.6. The Effect of Corporate Culture on Stock Market Reactions to Public Corporate Misconduct Violation Announcements

Until now, we have shown that firms with stronger corporate cultures tend to incur higher corporate misconduct fines. However, it remains to be explored whether investors take a company's culture into account when responding to public announcements of such fines. Corporate culture significantly shapes ethical standards (Sims and Brinkmann, 2003; Stevens et al., 2005; Treviño, Weaver, and Reynolds, 2006; Jones, Felps, and Bigley, 2007; Stevens, 2008; Ardichvili, Mitchell, and Jondle, 2009; Erwin, 2011), risk management, and decision-making. It also influences how investors evaluate governance, organizational behavior, and a firm's resilience to challenges such as reputational damage, regulatory scrutiny, and market volatility. This section investigates how corporate culture affects stock market reactions to misconduct fine announcements, focusing on how cultural strengths or weaknesses shape the reputational damage incurred by firms.

To analyze the effect of corporate culture on stock market reactions, we employ a two-step methodology. First, we implement a traditional event study framework to estimate cumulative abnormal returns (CARs) surrounding the public announcement of a corporate misconduct fine (t = 0). CARs are used to capture the short-term market reaction, reflecting how investors respond immediately to the news of misconduct.

In the second step, we examine the impact of corporate culture on these CARs and buy-and-hold abnormal returns (BHARs) within a cross-sectional framework. BHARs, calculated to evaluate the long-term effects of the announcement on stock performance, provide a measure of the sustained impact of the event over an extended period (Lyon, Barber, and Tsai, 1999). By integrating both CAR and BHAR metrics, this approach ensures a comprehensive understanding of how corporate culture shapes both immediate and prolonged investor responses.

The cross-sectional analysis incorporates firm-specific determinants that are known to predict returns, enabling us to isolate the effect of corporate culture on both CARs and BHARs. This methodological design allows for a detailed investigation into the role of corporate culture in shaping market reactions to corporate misconduct. Each step of the methodology is discussed in detail below.

5.6.1. Event Study Framework: Estimation of CARs and BHARs for Public Announcements of Corporate Misconduct Fines

The event study framework begins by defining the event window, which captures the market's response surrounding the announcement. The choice of event window is critical, as it must account for variations in market efficiency and ensure the analysis captures the full extent of the market reaction (Armitage, 1995; MacKinlay, 1997; McWilliams and Siegel, 1997). The nature of the announcement plays a significant role in determining the event window. Anticipated announcements, such as those following public investigations, may already be partially priced into the market, whereas unexpected fines or fines of substantial magnitude can elicit more pronounced reactions.

Market efficiency also influences the duration and intensity of price adjustments. In highly efficient markets, stock prices react swiftly to new information, often within a short window such as [-1, +1], as they quickly incorporate the details of the misconduct fine. Conversely, less efficient markets may exhibit slower and more extended price adjustments, necessitating broader observation periods. BHAR complements CAR by extending the analysis to longer-term horizons, revealing whether the effects observed in the event window persist over weeks or months. This is particularly important for assessing the reputational damage and recovery trajectory of firms with varying cultural strengths, which may unfold over time.

Another factor to consider when defining the event window is the potential for information leakage or anticipatory behavior. Market participants may react before $t = 0$ if there are rumors, media reports, or visible regulatory actions suggesting an impending fine (Fisch, Gelbach, and Klick, 2018). A pre-event window is therefore essential to capture these anticipatory effects. Additionally, post-announcement reactions warrant consideration, as investors may need time to assess the fine's financial and reputational implications. This underscores the importance of a comprehensive event window that includes pre-event, event-day, and post-event dynamics to ensure an accurate and holistic analysis of market responses.

To account for varying market conditions and ensure robust findings, we analyze multiple event windows. For example, the [-1, +1] window focuses on the immediate reaction, isolating the direct impact of the announcement. The [-3, +3] window captures short-term anticipatory trading and immediate post-announcement adjustments, providing a more balanced view. In cases involving slight information leakage or delayed reactions, the [-5, +5] window includes broader dynamics. For significant information leakage or extended market responses, the [-10, +10] window is crucial for identifying these effects. Finally, the [-15, +15] window is useful in high-profile cases with prolonged impacts, where sustained investor attention or spillover effects extend beyond the announcement date.

The inclusion of both CAR and BHAR enhances the robustness of our analysis. CAR focuses on the short-term efficiency of market reactions, while BHAR reveals longer-term trends and investor sentiment. Together, these metrics allow us to understand not only the immediate impact of corporate misconduct fine announcements but also the enduring effects of corporate culture on stock performance over time. This dual approach ensures that our findings are comprehensive and reflective of both the initial and sustained consequences of corporate misconduct.

These event windows offer flexibility and depth in analyzing market responses to corporate misconduct fine announcements. By employing multiple windows, we can assess how quickly and efficiently markets react to new information while accounting for pre-event speculation and post-event adjustments. This approach ensures the consistency of CAR estimates across different timeframes and enhances our understanding of the temporal dynamics of market reactions. Such methodological rigor strengthens the reliability and robustness of our conclusions.

In addition to selecting the event window for estimating CARs and BHARs, several other parameters play a critical role in ensuring the robustness and validity of our analysis. One such parameter is the estimation window, defined as the 100 days preceding the event window in this study. The estimation window is used to calculate the normal returns against which abnormal returns are measured (MacKinlay, 1997). By choosing a sufficiently long estimation period, such as 100 days, we ensure that the normal performance of the stock is adequately captured, reducing the potential impact of short-term fluctuations or anomalies that may skew the results. This baseline allows for a more accurate identification of abnormal returns attributable to the corporate misconduct announcement.

Another key parameter is the minimum number of valid returns (observations), set at 70 in this study. This threshold ensures that there are enough valid trading days within the estimation window to reliably calculate the normal returns. If the number of valid returns falls below this threshold, the reliability of the results may be compromised due to insufficient data (MacKinlay, 1997). By enforcing a minimum observation requirement, our study maintains statistical robustness and mitigates biases arising from missing or unreliable data.

The gap parameter, set at 50 days, is also essential for the event study methodology. This gap ensures that the estimation window and the event window do not overlap, isolating the pre-event normal return calculation from any potential contamination by the event itself or related anticipation effects. This separation is crucial for accurately attributing abnormal returns to the event rather than confounding factors that might have emerged during the estimation period (MacKinlay, 1997). Together, these parameters ensure a comprehensive and reliable analysis of the stock market's response to corporate misconduct fine announcements. Appendix D presents an overview of the various parameter values across different event windows.

We finally have to estimate the CARs and BHARs. We do this by using four risk models: the CAPM, the market-adjusted model, the Fama-French three-factor model (FF3), and the Fama-

French three-factor model augmented with a momentum factor (FF3 + momentum). The CAPM considers systematic risk relative to the market, offering a foundational framework for assessing abnormal returns (Sharpe, 1964). The market-adjusted model simplifies this approach by focusing solely on market returns as the benchmark. The FF3 model extends the CAPM by incorporating size and value factors, addressing additional dimensions of asset pricing (Fama and French, 1993). Finally, the FF3 model augmented with momentum builds upon FF3 by adding a momentum factor, making it the most comprehensive of the four models. This model accounts for systematic risk, size, value, and momentum, which together provide a more complete understanding of abnormal returns (Carhart, 1997). The FF3 model augmented with momentum is the best model for analyzing abnormal returns because it incorporates firm-specific risk factors alongside momentum effects. By including momentum, the model effectively captures trading patterns influenced by past performance trends. These patterns are expected to be amplified during corporate misconduct events due to heightened investor attention, information cascades, and herding behavior. Misconduct announcements typically attract significant market scrutiny, leading to rapid and exaggerated price movements as participants react to new information and observable trends. Furthermore, such events prompt a reassessment of firm value, with momentum-driven trading strategies intensifying these adjustments as investors align with prevailing patterns to manage perceived risks. Consequently, incorporating momentum is essential for accurately capturing the dynamics of abnormal returns in the aftermath of corporate misconduct events. This comprehensive approach ensures that both firm-specific characteristics and market-wide momentum dynamics are accounted for, making it the most accurate and reliable tool for studying abnormal returns in response to fine announcements. We use the U.S. Daily Event Study WRDS tool to estimate the CARs and BHARs of fine announcements based on a dataset of 75,538 fine announcements from 2000 until 2024. This tool uses value-weighted returns obtained from CRSP database.

Table 7 presents the summary statistics of the CARs and BHARs from an event study on corporate misconduct, analyzed using four risk models: Carhart (1997), Fama-French three-factor, market-adjusted, and CAPM. The mean values for CAR and BHAR remain consistently close to zero across all models and event windows, indicating that, on average, corporate misconduct events have a negligible effect on abnormal stock returns. This neutrality reflects that while some firms experience significant positive or negative impacts, these tend to offset when aggregated across the sample.

The standard deviation of CAR and BHAR increases substantially as the event window lengthens, suggesting greater variability in market responses over time. For short-term windows (e.g., [-1, +1]), the standard deviation is relatively low, around 0.03 to 0.05, indicating concentrated reactions. However, for longer windows (e.g., [-15, +15]), the standard deviation rises to approximately 0.12, reflecting a wider dispersion of outcomes. This increased variability corresponds to the minimum and maximum values, which widen considerably over longer windows. For instance, CAR and BHAR range from approximately -0.11 to 0.11 in short windows but extend to -0.37 to 0.35 in the longest windows. These findings confirm that market responses

to corporate misconduct can be both positive and negative, with more extreme outcomes observed over extended periods.

The median values for CAR and BHAR remain zero across all models, particularly in shorter windows, suggesting that most firms do not experience significant abnormal returns immediately following misconduct events. However, the broader ranges in long-term windows reveal that some firms face pronounced gains or losses over time. Additionally, the previous year's mean CAR and BHAR are consistently close to zero, with standard deviations increasing slightly in longer windows. Overall, the findings emphasize the muted average impact of corporate misconduct on stock returns, while also highlighting the potential for significant variability and extreme positive or negative outcomes, particularly over extended event windows.

Insert Table 7

5.6.2. The Effect of Corporate Culture on CARs and BHARs Following Misconduct Announcements

We analyze the impact of corporate culture on CARs and BHARs following misconduct announcements within a cross-sectional framework. This method isolates the influence of corporate culture by incorporating established firm-specific determinants of market returns, historical trends in corporate misconduct fines, prior patterns in CARs and BHARs, and time-invariant factors. Together, these components enable a more robust and nuanced examination of the relationship between corporate culture and stock market reactions.

Building on existing literature, our regression model includes the most prominent firm-specific determinants of market returns as one-year lagged variables. These determinants are market-to-book ratio (Fama and French, 1992; Kothari and Shanken, 1997; Pontiff and Schall, 1998); asset growth (Cooper, Gulen, and Schill, 2008); market value of the firm (DeBondt and Thaler, 1985; Fama and French, 1992; Jegadeesh and Titman, 1993); capital expenditures (Titman, Wei, and Xie, 2004); sales growth rate (Lakonishok, Shleifer, and Vishney, 1994); and dividends (Black and Scholes, 1974; Kiem, 1985; Fama and French, 1988). To account for misconduct-specific dynamics, we include last year's mean CAR (BHAR) from corporate misconduct events and our measure of recidivism in corporate misconduct behavior.

Finally, our regression model incorporates two critical fixed effects. Firm fixed effects control for unobservable, time-invariant characteristics unique to each firm, such as governance structure or historical reputation, that may influence CARs or BHARs. Calendar date fixed effects address macroeconomic conditions, market-wide events, or temporal shocks that could affect CARs across firms on specific announcement dates. Together, these controls mitigate omitted variable bias and enhance the reliability of our findings by isolating the unique contribution of corporate culture to stock market reactions, free from the influence of firm-specific idiosyncrasies or time-sensitive market factors. T-test statistics are constructed by estimating standard errors that are robust for heteroskedasticity and clustered at the public misconduct violation fine announcement date. We report the result of this analysis in Table 8.

The results in Table 8 reveal notable differences in the effect of corporate culture scores on CARs and BHARs across event windows. In shorter windows, such as [-1, +1] and [-3, +3], the coefficients for the culture score are smaller in magnitude and tend to have lower levels of statistical significance compared to longer windows like [-10, +10] and [-15, +15]. For instance, in the [-1, +1] window, which focuses on the immediate reaction, the culture score is significant across all models, with coefficients ranging from -0.0007 to -0.0004, highlighting immediate market reactions to misconduct announcements. Similarly, in the [-3, +3] window, which captures short-term anticipatory and adjustment effects, the significance of the culture score diminishes slightly but remains relevant. However, the effect becomes more pronounced and consistent in longer event windows. For example, in the [-15, +15] window, which is particularly useful for high-profile cases with prolonged effects, coefficients increase to approximately -0.0026 in the Carhart (1997) model and -0.0022 in CAPM. These results suggest that the market gradually incorporates cultural factors into its valuation of firms, reflecting delayed responses or the impact of information leakage. A negative effect of corporate culture on the CARs and BHARs implies that companies with better culture are more penalized by investors, resulting in larger reputational damage from the misconduct fine compared with companies with worse culture.

Within each event window, differences and similarities emerge across the four models: Carhart (1997), FF3, market-adjusted model, and CAPM. The Carhart and FF3 models typically exhibit the highest levels of statistical significance and larger coefficients for culture scores compared to the market-adjusted model and CAPM. For example, in the [-5, +5] window, which includes broader dynamics in slightly inefficient markets, the coefficients for culture score under Carhart and FF3 models are -0.0013 and -0.0012, respectively, both statistically significant at the 1% level. In contrast, the market-adjusted model yields a smaller and less significant coefficient (-0.0006). The similarities across the models include consistent negative relationships between culture scores and abnormal returns, reinforcing the notion that better corporate culture adversely affects firm valuation. However, differences in coefficients and significance levels reflect variations in model sensitivity to explanatory variables. The FF3 and Carhart models, which incorporate additional factors like momentum and size, better capture the culture's impact than simpler models.

Examining results across event windows, the Carhart and FF3 models consistently outperform the market-adjusted model and CAPM in terms of significance and explanatory power. In longer windows like [-15, +15], all models show significant negative coefficients for culture score, but the magnitude and significance are generally highest in Carhart and FF3. For example, in Panel E, the Carhart model's coefficient (-0.0026) is more substantial than the CAPM coefficient (-0.0022), suggesting that models incorporating additional factors provide a more comprehensive explanation of the relationship. Across shorter windows, such as [-1, +1], the differences in coefficients are less pronounced, indicating that immediate market reactions are captured similarly across models. However, as the window length increases, the FF3 and Carhart models' ability to account for broader market dynamics becomes evident, highlighting their robustness in evaluating the extended effects of culture on returns.

The FF3 and Carhart models consistently demonstrate superior performance in explaining the effect of culture on CARs and BHARs. These models include factors like size, value, and momentum, which are particularly relevant for capturing investor behavior and firm characteristics influenced by culture. The inclusion of momentum in the Carhart model likely enhances its ability to detect persistent patterns in returns associated with cultural factors. The FF3 model's emphasis on size and value aligns well with the role of corporate culture in shaping investor perceptions of firm stability and growth potential.

The consistent negative impact of corporate culture scores on CARs and BHARs across all models suggests that markets partially but not fully price in the effects of poor culture at the time of misconduct announcements. Shorter windows, such as [-1, +1], capture immediate reactions and reflect efficient market behavior, while longer windows, such as [-10, +10], account for information leakage and delayed responses, highlighting potential inefficiencies. However, the increasing magnitude and significance of coefficients in longer windows indicate that cultural factors are gradually incorporated into valuations, revealing inefficiencies in how markets process such information.

Overall, the results show that the market takes time to fully recognize the impact of corporate culture, with its effects unfolding gradually. Companies with stronger cultures are penalized more heavily for misconduct, and the reputational damage from such fines leads to a greater decline in market value. The findings from Table 8 highlight the significant and lasting influence of corporate culture on CARs and BHARs. Differences across event windows and models emphasize the importance of time and robust methodologies in capturing these effects. The superior performance of the Carhart and FF3 models further supports their relevance for accurately capturing the impact of corporate culture on market reactions to misconduct. These results suggest that while markets incorporate cultural factors, they do so progressively, reflecting a market that is neither fully efficient nor wholly inefficient.

Insert Table 8

6. Conclusion

This study provides empirical evidence on the complex role of corporate culture in shaping regulatory enforcement outcomes and financial penalties for corporate misconduct. Our findings support the Culture Misconduct Penalty Paradox View, demonstrating that firms with strong ethical cultures face harsher regulatory fines when violations occur. This effect is both statistically significant and economically meaningful, indicating that regulators impose stricter penalties on firms with strong ethical reputations to deter corporate hypocrisy and reinforce public trust. Moreover, our analysis reveals that the innovation dimension of corporate culture is particularly associated with higher fines, suggesting that firms emphasizing innovation may be more prone to regulatory scrutiny due to risk-taking behaviors inherent in their corporate environments. These results highlight the need for firms to recognize that cultivating a strong corporate culture, while beneficial in fostering ethical behavior, may also lead to increased regulatory exposure and higher financial penalties when misconduct occurs.

Beyond regulatory penalties, we document how investors respond to public disclosures of corporate misconduct fines, finding that firms with strong ethical cultures experience more severe stock price declines following misconduct announcements. This effect is particularly pronounced in high-profile cases, where media scrutiny amplifies negative investor reactions. However, firms that effectively manage their reputations by minimizing negative corporate news exposure experience a more muted stock price decline, indicating that strategic communication and reputation management can mitigate some of the financial consequences associated with regulatory fines. These findings underscore the dual nature of corporate culture: while it enhances long-term investor confidence, it also intensifies reputational and financial penalties when ethical expectations are not met.

Our findings carry significant implications for corporate governance, regulatory enforcement, and policymaking. For firms, the results emphasize the importance of integrating compliance efforts with proactive reputation management to balance ethical commitments with regulatory risk mitigation. Regulators should consider the potential unintended consequences of disproportionately penalizing firms with strong ethical cultures, ensuring that enforcement strategies remain fair and effective. Investors must incorporate corporate culture into their risk assessments, recognizing that ethical reputations can both enhance governance quality and increase regulatory exposure. Finally, policymakers should design enforcement frameworks that deter misconduct without discouraging firms from fostering ethical business practices. By aligning regulatory enforcement with governance and risk management strategies, policymakers can create an effective deterrence system that maintains public trust while promoting ethical corporate behavior.

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Appendix A: Variable definitions and data sources

This Appendix entails the definitions of the variables and their data sources.

Name of variable	Definition of variable and data source
Corporate misconduct fine	Natural logarithm of the sum of one and the ratio of the total corporate misconduct fine (i.e. sum of safety offence fines, environmental offence fines, government offence fines, employee offence fines, product offence fines, competition offence fines, healthcare offence fines, and financial offence fines) to the corporate sales (Compustat code: sale) at the end of previous calendar year. The code for the different fines are "penalty_adjusted" in the Violation Tracker Database. Sales and corporate violation fines are in 2005 dollars. We remove the effect of inflation on sales and corporate misconduct fines by using the GDP deflator (Data source: Compustat North America and Violation Tracker Database).
Culture score	The predicted score of the first component following the PCA covariance estimation by using respect, teamwork, innovation, quality, and integrity as cultural dimensions (Data source: Li et al. 2021).
2-year moving average of culture score	The 2-year moving average of culture score with at least two consecutive years of culture score data available based on the full population of Compustat over the period from 1999 until 2023. I calculate also the 3-, 4-, 5-, 6-, 7-, 8-, and 9-year moving average of culture score (Data source: Li et al. 2021).
3-year moving average of the adjusted mean culture score within zip code	The 3-year moving average of the mean culture score of the zip code minus the culture score of the company based on the full population of Compustat over the period from 1999 until 2023 (Data source: Li et al. 2021).
Respect cultural dimension	The respect cultural dimension score (Data source: Li et al. 2021).
Teamwork dimension	The teamwork cultural dimension score (Data source: Li et al. 2021).
Innovation dimension	The innovation cultural dimension score (Data source: Li et al. 2021).
Quality dimension	The quality cultural dimension score (Data source: Li et al. 2021).
Integrity dimension	The integrity cultural dimension score (Data source: Li et al. 2021).
Sales growth rate	The yearly sales (Compustat code: sale) growth rate (Data source: Compustat North America).
Recidivism of corporate misconduct behavior	Cumulative yearly sum of the dummy (0,1) with one if the ratio of the yearly corporate misconduct fine is more than the yearly industry corporate misconduct fine, else zero (Data source: Violation Tracker Database)

Profitability	Ratio of operating income before depreciation (Compustat code: oibdp) to book value of asset (Compustat code: at) (Data source: Compustat North America).
Firm size	Natural logarithm of sales (Compustat code: sale) (Data source: Compustat North America).
CAPEX	Ratio of CAPEX (Compustat code: capx) to book value of assets (Compustat code: at) (Data source: Compustat North America).
Leverage	Ratio of book value of debt (Compustat code: lt) to book value of assets (Compustat code: at) (Data source: Compustat North America).
R&D firm	Dummy (0,1) with one when the firm has R&D expenditures (Compustat code: xrd), else zero. We code missing values for R&D expenditures as zeros (Data source: Compustat North America).
Cash holdings	Ratio of cash holdings (Compustat code: che) to book value of assets (Compustat code: at) (Data source: Compustat North America).
Asset tangibility	Ratio of (Compustat code: ppent) to book value of assets (Compustat code: at) (Data source: Compustat North America).
Dividends	Dummy (0,1) with one if the company is paying dividends (Compustat code: dvt), else zero (Data source: Compustat North America).
Annual real GDP growth rate of a state	Annual real GDP growth rate of a state (Data source: Bureau of Economic Analysis).
CSR score	Overall company score based on the reported information in the environmental, social and corporate governance pillars (ESG Score) with an ESG Controversies overlay (Data source: Refinitiv).
Negative corporate news avoidance	The controversy score index. Companies with no controversies have a score of 100 (Data source: Refinitiv).
CAR	CAR of the corporate misconduct fine announcement day using the Carhart (1997) model, the Fama-French three-factor model, the market-adjusted model, and the CAPM. The analysis was conducted using the U.S. Daily Event Study tool available on the WRDS platform. The CARs are calculated for different event windows: [+1,-1]; [+3,-3]; [+5,-5]; [+11,-11]; and [+15,-15].
BHAR	BHAR of the corporate misconduct fine announcement day using the Carhart (1997) model, the Fama-French three-factor model, the market-adjusted model, and the CAPM. The analysis was conducted using the U.S. Daily Event Study tool available on the WRDS platform. The CARs are calculated for different event windows: [+1,-1]; [+3,-3]; [+5,-5]; [+11,-11]; and [+15,-15].

Last year's mean CAR from corporate misconduct events	The last year mean CAR from corporate misconduct events.
Last year's mean BHAR from corporate misconduct events	The last year mean BCAR from corporate misconduct events.
Asset growth	Yearly growth rate of book value of assets (Compustat code: at) (Data source: Compustat North America).
Market to book	Ratio of market value of equity (Compustat code: mkvalt) to book value of equity (Compustat code: bkvlps * csho) (Data source: Compustat North America).
Market value	Natural logarithm of the market value of the company (Compustat code: mkvalt). Market value of the company is in 2005 dollars. We remove the effect of inflation on market value by using the GDP deflator (Data source: Compustat North America).

Appendix B: PCA estimation of the culture score

We analyze the performance of PCA applied to the covariance matrix using the following cultural dimensions: integrity, teamwork, innovation, respect, and quality, based on a complete sample of firms with cultural data from 2001 to 2021. We select Component 1, which has the highest eigenvalue, to predict the culture score.

Number of observations	74,391
Number of cultural dimensions	5
Trace	19.88
Rho	1.00

Component	Eigenvalue	Proportion explaining
Component 1	9.5134	0.4786
Component 2	4.1669	0.2096
Component 3	2.7399	0.1378
Component 4	2.0195	0.1016
Component 5	1.4392	0.0727

Appendix C: Mean corporate misconduct fine by primary offense for each offense group

Appendix C shows the mean corporate misconduct fine by the primary offense for each offense group. Variable definitions are in Appendix A.

Offense group	Primary offense	Mean corporate misconduct fine
Competition-related offenses	Agribusiness violation	1.07
	Energy market violation	4.17
	Export control violation	3.71
	Foreign Corrupt Practices Act	7.10
	Fraud	7.52
	Jones Act violation	0.95
	Kickbacks and bribery	5.47
	Maritime violation	1.05
	Price-fixing or anti-competitive practices	6.53
	Trade violations	0.86
Consumer-protection-related offenses	Americans with Disabilities Act	2.37
	Aviation consumer protection violation	2.62
	Consumer protection violation	4.28
	Discriminatory practices (non-employment)	3.09
	Gambling industry violation	1.93
	Insurance violation	1.05
	Mortgage abuses	6.12
	Privacy violation	5.26
	Telecommunications violation	4.40
	Utility service violation	3.41
Employment-related offenses	Benefit plan administrator violation	4.15
	Employment discrimination	3.20
	Employment screening violation	4.54
	Fair Credit Reporting Act violation	5.49
	Family and Medical Leave Act	0.89
	Labor relations violation	1.69
	Wage and hour violation	2.93
	WARN Act violation	3.87
	Work visa violations	6.62
	Workplace whistleblower retaliation	2.54
Environment-related offenses	Air pollution violation	1.66
	Asbestos violation	2.86
	Drinking water violation	6.78
	Energy conservation violation	1.93
	Environmental violation	1.71
	Hazardous waste violation	2.05
	Lead violation	2.85

	Mining environmental violation	3.07
	MTBE violation	3.53
	Oil or gas drilling violation	2.03
	Oil spill	4.10
	PCB violation	5.14
	Pesticide violation	1.96
	PFAS violation	7.45
	Pipeline safety violation	1.20
	Radioactive waste violation	3.79
	Solid waste violation	1.19
	Underground storage tank violation	2.36
	Water pollution violation	2.81
Financial offenses	Accounting fraud or deficiencies	6.80
	Anti-money-laundering deficiencies	7.60
	Economic sanction violation	2.80
	Investor protection violation	5.71
	Tax violations	4.31
	Toxic securities abuses	8.80
Government-contracting-related offenses	False Claims Act and related	6.04
	Federal leasing royalty violation	3.65
Healthcare-related offenses	Controlled Substances Act violation	3.85
	HHS civil monetary penalties	2.95
	Medicare Parts C and D Enforcement Action	2.61
	Nursing home violation	2.41
	Off-label or unapproved promotion of medical products	7.39
Safety-related offenses	Aviation safety violation	1.59
	Drug or medical equipment safety violation	7.20
	Food safety violation	4.68
	Motor vehicle safety violation	2.20
	Nuclear safety violation	2.49
	Product safety violation	5.82
	Railroad safety violation	4.01
	Tobacco litigation	2.69
	Utility safety violation	1.45
	Workplace safety or health violation	1.30
Miscellaneous offenses	Campaign finance violation	1.40
	Civil contempt	3.36
	Misuse of classified data	8.80

Appendix D: Event Study Parameters

This table provides an overview of the parameters used in the event study for estimating CAR and BHAR of the corporate misconduct fine announcement day using the Carhart (1997) model, the Fama-French three-factor model, the market-adjusted model, and the CAPM. The analysis was conducted using the U.S. Daily Event Study tool available on the WRDS platform.

Event window	[+1,-1]	[+3,-3]	[+5,-5]	[+11,-11]	[+15,-15]
Estimation window (days)	100	100	100	100	100
Minimum number of valid returns (observations)	70	70	70	70	70
Gap(days)	50	50	50	50	50
Event window start (days)	-1	-3	-5	-10	-15
Event window end (days)	+1	+3	+5	+10	+15

Figure 1: Timeseries evolution of the mean and the median corporate misconduct fine

Figure 1 shows the time evolution of the mean corporate misconduct fine (dashed line) and median corporate misconduct fine (full line) over the period from 2003 until 2021. Variable definitions are in Appendix A of the paper.



Figure 2: Corporate misconduct fine by type of misconduct

We present the time series evolution of the mean corporate misconduct fine of different types of corporate misconduct violations by sample year. We define the variables in Appendix A of the paper.

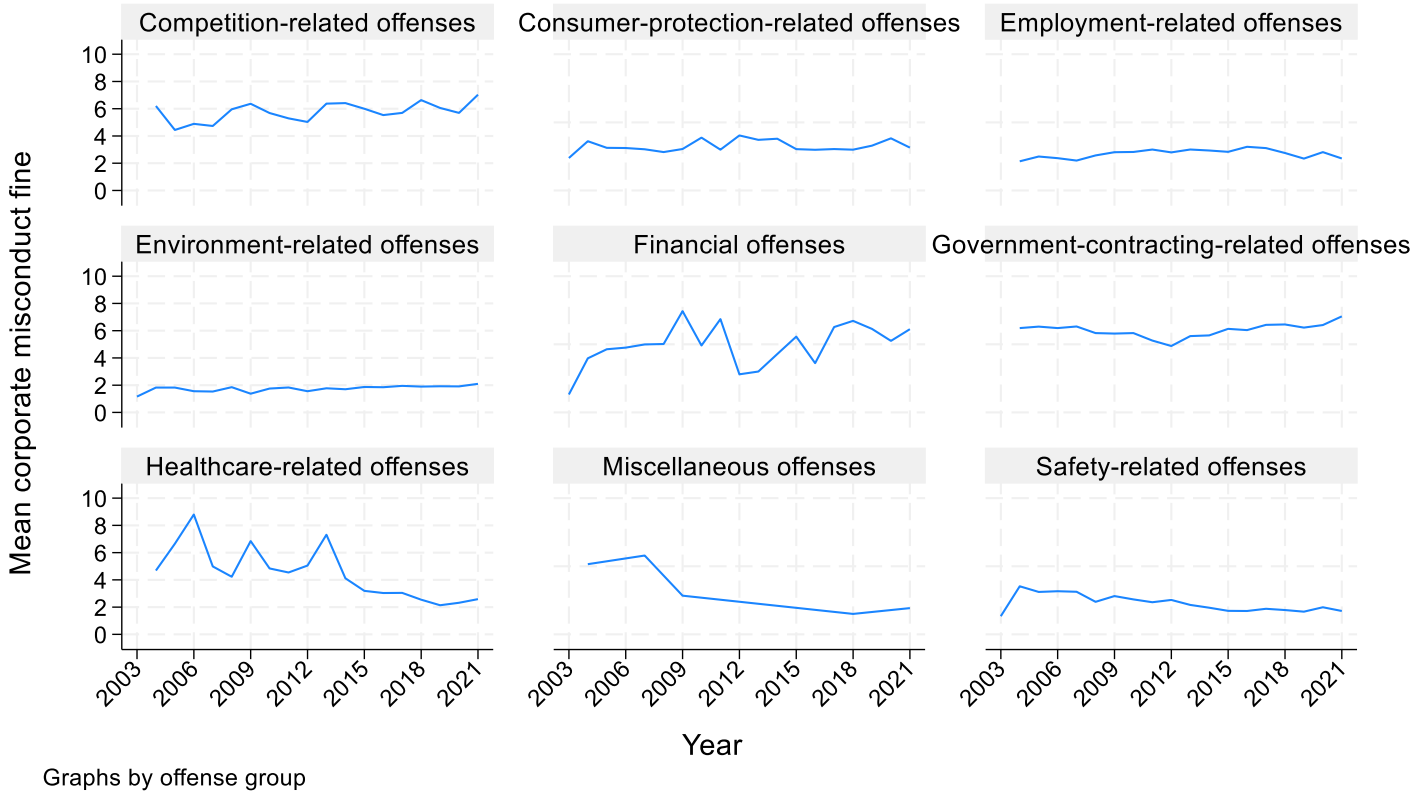


Figure 3: Mean corporate misconduct fine by governmental level

We present the mean corporate misconduct fine by type of governmental levels across the sample period. We define the variables in Appendix A of the paper.

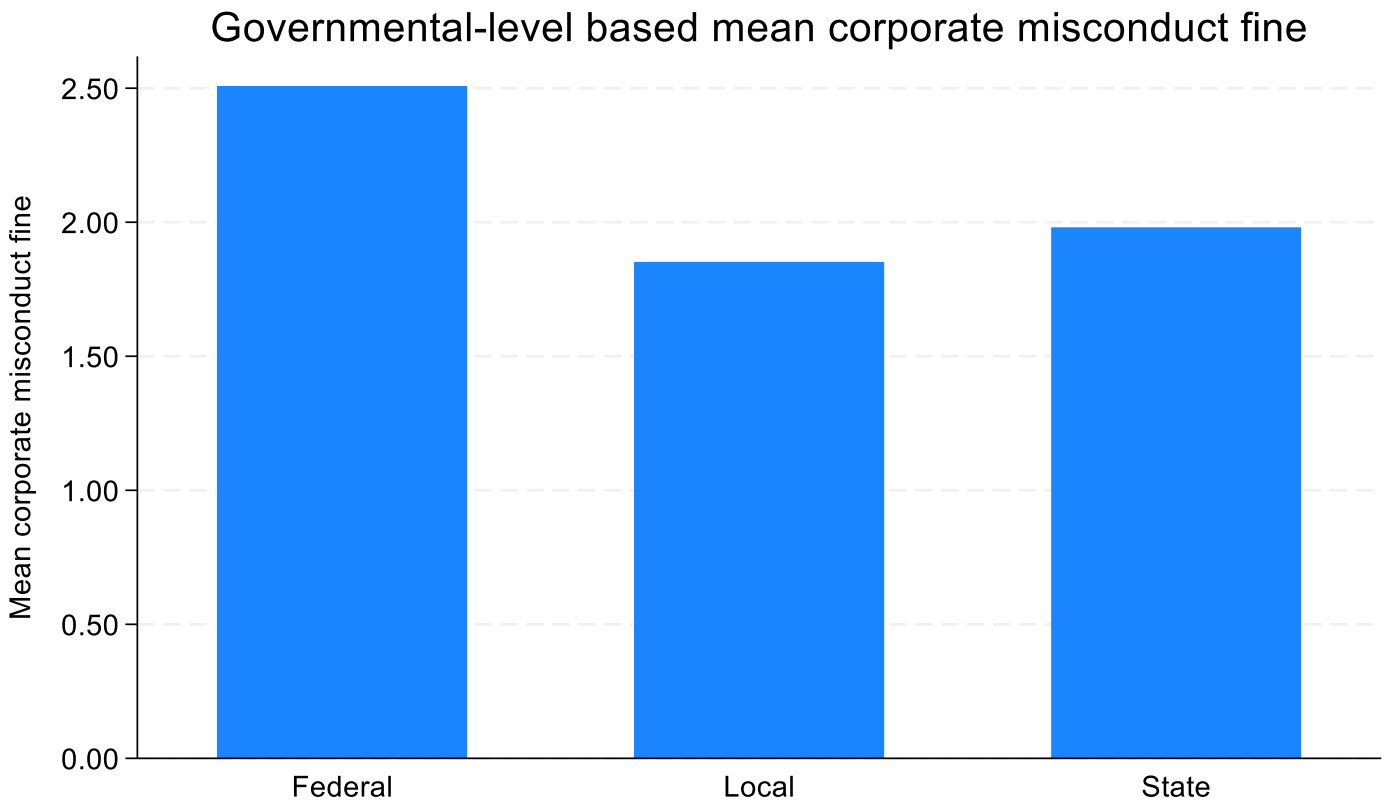


Figure 4: Mean corporate misconduct fine by one digit SIC code

We show the mean corporate misconduct fine by one digit SIC code. Variable definitions are in Appendix A of the paper.

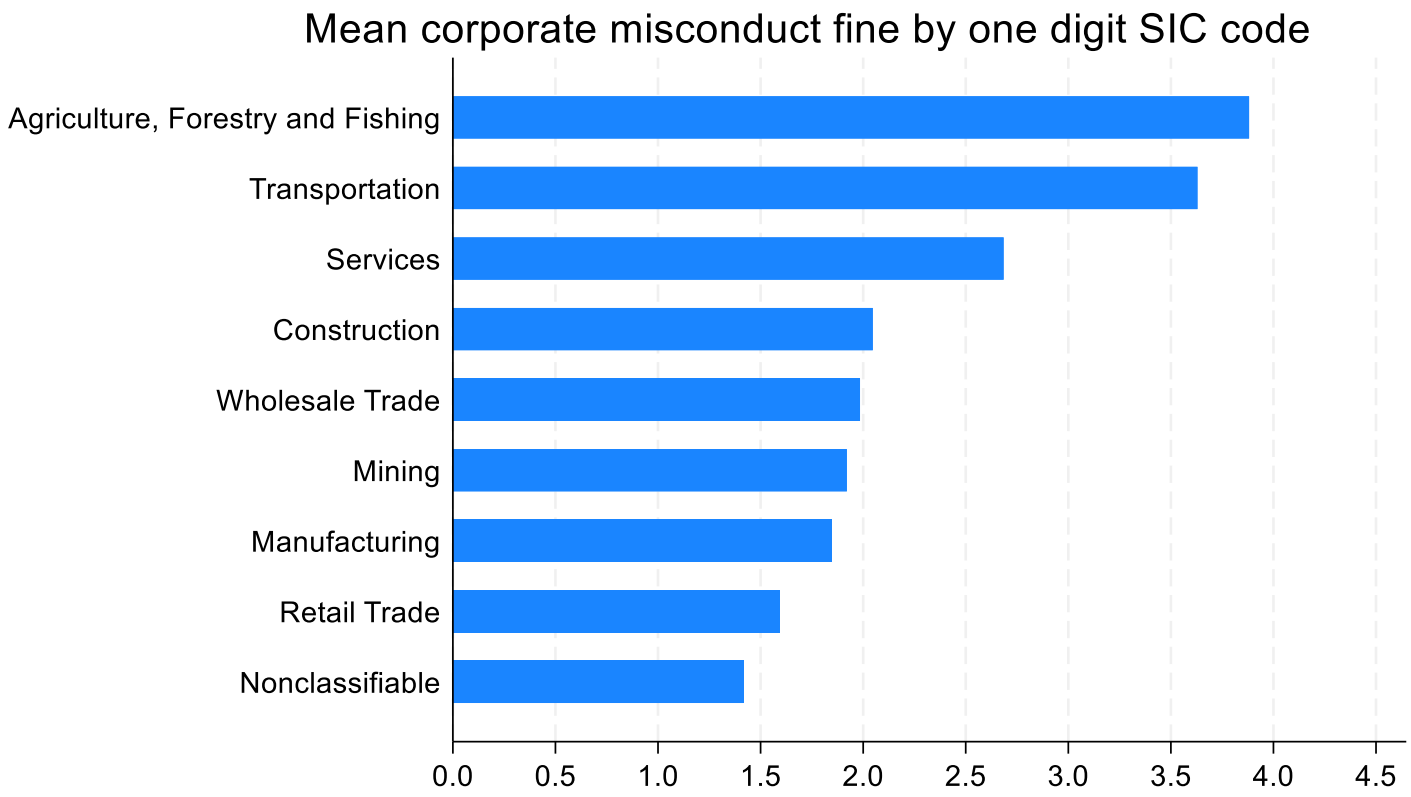


Figure 5: Mega-scandal vs. non-mega-scandal based corporate misconduct fine

Figure 5 shows the mean mega-scandal based corporate misconduct fine and the mean non-mega-Scandal based corporate misconduct fine across the sample period. Variable definitions are in Appendix A of the paper.

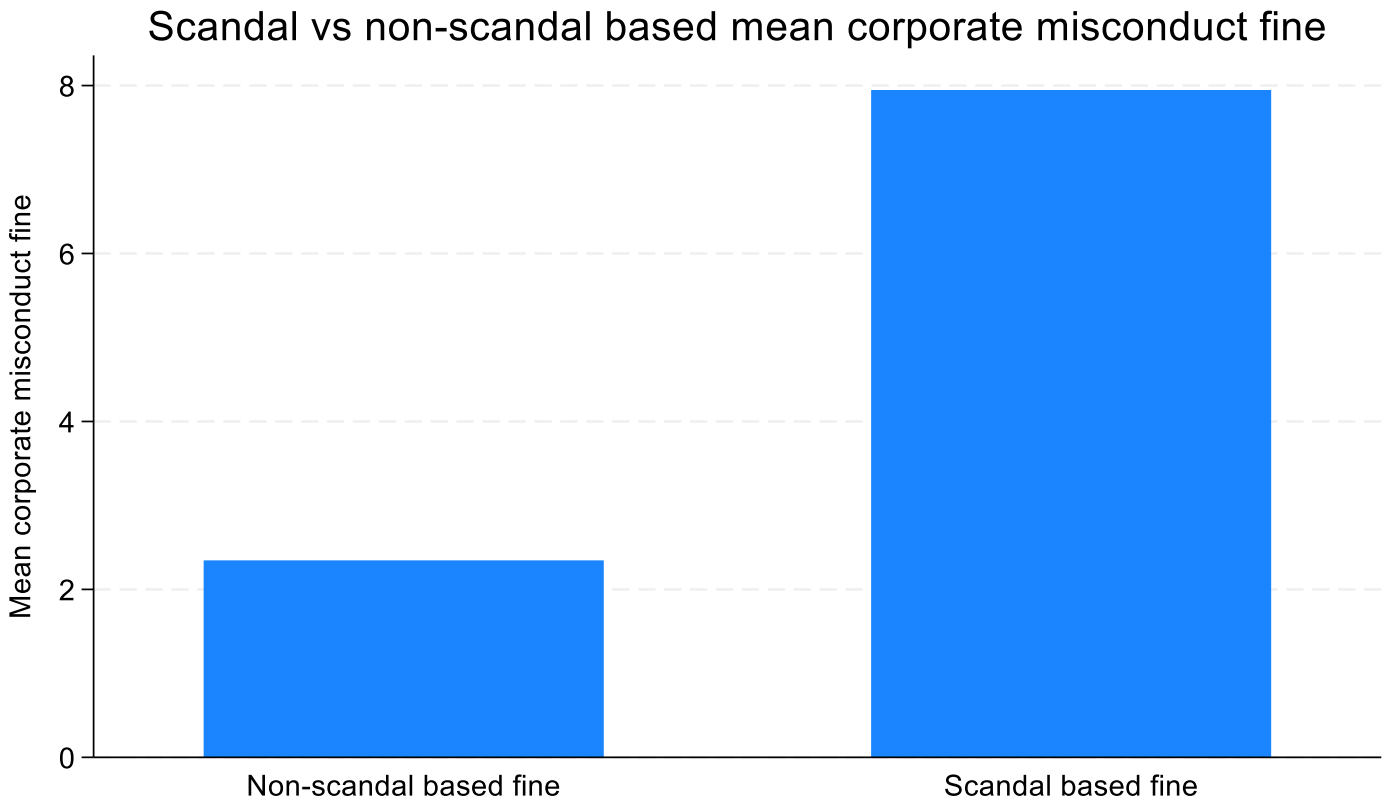


Table 1: Summary statistics

We present the summary statistics of the full sample. Variable definitions are in Appendix A of the paper.

Variable	Obs.	Mean	Std. dev.	Min	Median	Max
Corporate misconduct fine	31,626	2.40	2.01	0.03	1.83	8.80
Culture score	31,626	5.44	2.17	2.34	4.78	13.01
Recidivism of corporate misconduct behavior	31,626	1.35	0.74	0.00	1.39	2.77
Cash to net assets	31,626	0.05	0.19	-0.43	0.04	0.84
Sales growth rate	31,626	0.09	0.10	0.00	0.05	0.57
Profitability	31,626	0.14	0.07	-0.08	0.14	0.35
Firm size	31,626	9.31	1.44	5.91	9.32	12.82
CAPEX	31,626	0.06	0.05	0.01	0.05	0.31
Leverage	31,626	0.63	0.16	0.24	0.62	1.14
R&D firm	31,626	0.30	0.46	0.00	0.00	1.00
Asset tangibility	31,626	0.50	0.28	0.03	0.50	0.91
Dividends	31,626	0.83	0.37	0.00	1.00	1.00
Tobin’s Q	31,626	1.73	0.76	0.84	1.50	5.16
Annual real GDP growth rate of a state	31,626	1.86	2.41	-5.60	2.10	6.80
Industry mean corporate misconduct fine	31,626	2.07	1.69	0.17	1.54	6.02

Table 2: Effect of corporate culture on corporate misconduct fines

This table presents the results of the baseline regression model, where the dependent variable is the corporate misconduct fine, defined as the natural logarithm of the sum of one and the corporate misconduct violation fine. The t-statistics for the regression coefficient estimates of each explanatory variable are calculated using heteroskedasticity-robust standard errors clustered at the level of the corporate misconduct violation number. These t-statistics are reported in parentheses below each coefficient estimate. For conciseness, the coefficient estimates and their corresponding t-statistics for the fixed effects are omitted. The definitions of all variables are provided in Appendix A of this paper. Statistical significance is denoted by asterisks as follows: *** for the 1% level, ** for the 5% level, and * for the 10% level.

Dependent variable:	Corporate misconduct fine							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Culture score	0.0480***	0.0246***	0.0156***	0.0142**	0.0291***	0.0191***	0.0156***	0.0148**
	(8.41)	(3.19)	(3.47)	(2.32)	(5.71)	(2.74)	(3.51)	(2.46)
Recidivism of corporate misconduct behavior	0.1209***	-0.2880***	0.1257***	-0.1206***	0.1020***	-0.2248***	0.1218***	-0.1120***
	(7.17)	(-7.96)	(9.12)	(-4.13)	(6.74)	(-6.77)	(9.06)	(-3.90)
Sales growth	-0.0884*	-0.1057*	-0.0239	-0.0804*	-0.0406	-0.1201**	-0.0145	-0.0829*
	(-1.76)	(-1.90)	(-0.58)	(-1.77)	(-0.89)	(-2.37)	(-0.36)	(-1.85)
Cash to book assets	0.7480***	-0.2424	0.4887***	-0.0715	0.5686***	-0.2222	0.4470***	-0.0989
	(6.82)	(-1.64)	(5.41)	(-0.59)	(5.72)	(-1.64)	(5.06)	(-0.83)
Profitability	-0.4395**	-0.0174	-0.5415***	-0.0884	-0.4115**	-0.0071	-0.5433***	-0.1309
	(-2.49)	(-0.07)	(-3.69)	(-0.46)	(-2.54)	(-0.03)	(-3.78)	(-0.70)
Firm size	-0.5930***	-0.6546***	-0.6046***	-0.6008***	-0.6011***	-0.6026***	-0.6088***	-0.5984***
	(-63.47)	(-19.41)	(-77.69)	(-21.45)	(-69.29)	(-19.41)	(-79.84)	(-21.77)
CAPEX	0.7422***	-0.9226**	0.8849***	-0.4715	0.4111*	-1.0865***	0.8324***	-0.5030
	(2.94)	(-2.53)	(4.10)	(-1.52)	(1.75)	(-3.18)	(3.96)	(-1.63)
Leverage	-0.1235*	0.1791*	-0.1201**	0.1419	-0.1389**	0.1096	-0.1113**	0.1261
	(-1.89)	(1.66)	(-2.28)	(1.62)	(-2.35)	(1.12)	(-2.16)	(1.46)
R&D firm	0.0866***	0.0136	0.0576**	-0.1014	0.0532*	-0.0264	0.0609**	-0.0973
	(2.89)	(0.16)	(2.29)	(-1.53)	(1.92)	(-0.35)	(2.47)	(-1.50)
Asset tangibility	-0.0063	-0.1522	0.2723***	0.1249	0.3039***	-0.0691	0.2808***	0.1148
	(-0.08)	(-0.92)	(3.96)	(0.89)	(3.96)	(-0.45)	(4.13)	(0.83)
Dividend payer	-0.1033***	0.0984**	-0.0680***	0.0829**	-0.0517**	0.1079**	-0.0543**	0.0915**

	(-3.61)	(2.00)	(-2.93)	(2.05)	(-1.99)	(2.37)	(-2.39)	(2.28)
Tobin's Q	0.0505***	0.0209	0.0498***	0.0338*	0.0557***	0.0383*	0.0525***	0.0373*
	(3.00)	(0.82)	(3.67)	(1.67)	(3.63)	(1.65)	(3.95)	(1.88)
Annual real GDP growth	0.0073	-0.0059	0.0189***	0.0039	0.0133***	-0.0042	0.0186***	0.0031
rate of a state	(1.32)	(-1.01)	(4.17)	(0.80)	(2.64)	(-0.76)	(4.18)	(0.63)
Industry mean corporate	0.0777***	0.0754***	0.0718***	0.0681***	0.0932***	0.0884***	0.0714***	0.0692***
misconduct fine	(3.57)	(3.40)	(4.04)	(3.79)	(4.70)	(4.40)	(4.09)	(3.93)
Intercept	7.3464***	8.5493***	7.3546***	7.6257***	7.3492***	7.9613***	7.3800***	7.5982***
	(69.51)	(24.36)	(84.39)	(26.38)	(74.72)	(24.78)	(85.59)	(26.74)
Offense type FE	Yes	Yes	Yes	Yes	No	No	No	No
Primary offense type FE	No	No	No	No	Yes	Yes	Yes	Yes
Agency code type FE	No	No	Yes	Yes	No	No	Yes	Yes
Government level FE	Yes	Yes	No	No	Yes	Yes	No	No
Mega-scandal type FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Penalty date FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
2-digit SIC Industry FE	Yes	No	Yes	No	Yes	No	Yes	No
Firm FE	No	Yes	No	Yes	No	Yes	No	Yes
Firm-year observations	30,383	30,752	29,703	29,565	30,876	30,744	29,695	29,556
Adj. R2	0.69	0.72	0.79	0.81	0.75	0.77	0.80	0.82

Table 3: Correction of the Endogeneity of Culture

We present the results of the two-stage least squares (2SLS) instrumental variable regression model. The dependent variable in the first stage is the culture score, while the dependent variable in the second stage is the corporate misconduct fine. The instrumental variables are the one-year lagged 3-year moving average of the adjusted mean culture score within zip code and its quadratic term. The t-statistics corresponding to the coefficient estimates of each explanatory variable are constructed using standard errors that are robust to heteroskedasticity and clustered at the level of the corporate misconduct violation number. These t-statistics are reported in parentheses below each coefficient estimate. We also report the Cragg-Donald Wald F statistic to highlight the strength of the instrumental variables. The null hypothesis is that the instruments are weak, meaning they do not provide sufficient explanatory power for the endogenous variables. The alternative hypothesis is that the instruments are strong, indicating they are sufficiently correlated with the endogenous variables to serve as valid instruments. A higher Cragg-Donald F statistic indicates stronger instruments. Additionally, we report the Chi-squared value of the Hansen J statistic and its corresponding p-value. The Hansen J-statistic, also known as the test for overidentifying restrictions, evaluates the validity of the instruments used in instrumental variables estimation. The null hypothesis is that the two instrumental variables (two-year lagged 3-year moving average of the adjusted mean culture score within zip code and its quadratic term) are valid, meaning they are uncorrelated with the error term and correctly excluded from the estimated equation. The alternative hypothesis is that at least one instrument is invalid, indicating it is correlated with the error term or improperly excluded from the equation. For brevity, we omit the coefficient estimates and their corresponding t-statistics for different types of fixed effects, control variables, and the constant term. The variables are defined in Appendix A of this paper. Asterisks are used to denote statistical significance at the 1% (***), 5% (**), and 10% (*) levels, respectively.

	Model 1		Model 2	
	(1)	(2)	(1)	(2)
Dependent variable:	Culture score	Corporate misconduct fine	Culture score	Corporate misconduct fine
	First stage	Second stage	First stage	Second stage
3-year moving average of the adjusted mean culture score within zip code	-0.7606***		-0.7477***	
	(-57.72)		(-43.63)	
(3-year moving average of the adjusted mean culture score within zip code)^2	0.0882***		0.0674***	
	(16.91)		(10.78)	
Instrumented culture score		0.0935***		0.0619**
		(6.41)		(2.58)
Intercept		Yes		Yes
Control variables		Yes		Yes
Offense type FE		Yes		Yes
Primary offense type FE		No		No

Agency code type FE	No	No
Government level FE	Yes	Yes
Mega-scandal type FE	Yes	Yes
Penalty date FE	Yes	Yes
2-digit SIC Industry FE	Yes	No
Firm FE	No	Yes
Firm-year observations	28,454	28,330
Centered R2	0.23	0.03
Cragg-Donald Wald F statistic	2473.26	1512.46
Hansen J statistic	1.160 (p-value: 0.2815)	0.059 (p-value: 0.8080)

Continued

	Model 3		Model 4	
	(1)	(2)	(1)	(2)
Dependent variable:	Culture score	Corporate misconduct fine	Culture score	Corporate misconduct fine
	First stage	Second stage	First stage	Second stage
3-year moving average of the adjusted mean culture score within zip code	-0.7531***		-0.7354***	
	(-53.02)		(-40.48)	
(3-year moving average of the adjusted mean culture score within zip code)^2	0.0915***		0.0663***	
	(16.43)		(10.10)	
Instrumented culture score		0.0565***		0.0732***
		(4.74)		(3.83)
Intercept	Yes		Yes	
Control variables	Yes		Yes	
Offense type FE	Yes		Yes	
Primary offense type FE	No		No	
Agency code type FE	Yes		Yes	
Government level FE	No		No	
Mega-scandal type FE	Yes		Yes	
Penalty date FE	Yes		Yes	
2-digit SIC Industry FE	Yes		No	
Firm FE	No		Yes	
Firm-year observations	27,349		27,222	
Centered R2	0.32		0.03	
Cragg-Donald Wald F statistic	2206.47		1342.65	
Hansen J statistic	0.002 (p-value: 0.9641)		2.135 (p-value: 0.1440)	

Continued:

	Model 5		Model 6	
	(1)	(2)	(1)	(2)
Dependent variable:	Culture score	Corporate misconduct fine	Culture score	Corporate misconduct fine
	First stage	Second stage	First stage	Second stage
3-year moving average of the adjusted mean culture score within zip code	-0.7538***		-0.7445***	
	(-57.01)		(-43.44)	
(3-year moving average of the adjusted mean culture score within zip code)^2	0.0882***		0.0668***	
	(16.92)		(10.67)	
Instrumented culture score		0.0804***		0.0730***
		(5.94)		(3.27)
Intercept	Yes		Yes	
Control variables	Yes		Yes	
Offense type FE	No		No	
Primary offense type FE	Yes		Yes	
Agency code type FE	No		No	
Government level FE	Yes		Yes	
Mega-scandal type FE	Yes		Yes	
Penalty date FE	Yes		Yes	
2-digit SIC Industry FE	Yes		No	
Firm FE	No		Yes	
Firm-year observations	28,448		28,323	
Centered R2	2429.65		1496.74	
Cragg-Donald Wald F statistic	0.27		0.02	
Hansen J statistic	0.679 (p-value: 0.4098)		0.010 (p-value: 0.9190)	

Continued:

	Model 7		Model 8	
	(1)	(2)	(1)	(2)
Dependent variable:	Culture score	Corporate misconduct fine	Culture score	Corporate misconduct fine
	First stage	Second stage	First stage	Second stage
3-year moving average of the adjusted mean culture score within zip code	-0.7525***		-0.7349***	
	(-52.84)		(-40.45)	
(3-year moving average of the adjusted mean culture score within zip code)^2	0.0914***		0.0651***	
	(16.39)		(9.92)	
Instrumented culture score		0.0570***		0.0751***
		(4.87)		(4.00)
Intercept	Yes		Yes	
Control variables	Yes		Yes	
Offense type FE	No		No	
Primary offense type FE	Yes		Yes	
Agency code type FE	Yes		Yes	
Government level FE	No		No	
Mega-scandal type FE	Yes		Yes	
Penalty date FE	Yes		Yes	
2-digit SIC Industry FE	Yes		No	
Firm FE	No		Yes	
Firm-year observations	27,341		27,213	
Centered R2	0.33		0.03	
Cragg-Donald Wald F statistic	2192.77		1337.25	
Hansen J statistic	0.007 (p-value: 0.9333)		1.446 (p-value: 0.2260)	

Table 4: Moving Averages of Corporate Culture

We present the results of the baseline regression model using different moving averages of culture scores instead of the single-year culture score. Specifically, we report the results for 2-year, 3-year, 4-year, 5-year, 6-year, 7-year, 8-year, and 9-year moving averages of culture scores in Panels A to H. The dependent variable is the corporate misconduct fine, defined as the natural logarithm of the sum of one and the corporate misconduct violation fine. The t-statistics for the regression coefficient estimates of each explanatory variable are calculated using heteroskedasticity-robust standard errors clustered at the corporate misconduct violation level. These t-statistics are reported in parentheses below each coefficient estimate. For brevity, we omit the coefficient estimates and corresponding t-statistics for fixed effects, control variables, and the constant term. The variables are defined in Appendix A. Asterisks are used to denote statistical significance at the 1% (***), 5% (**), and 10% (*) levels, respectively.

Panel A: 2-year moving average of culture score

Dependent variable:	Corporate misconduct fine							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
2-year moving average of culture score	0.0535*** (8.77)	0.0339*** (3.76)	0.0196*** (4.08)	0.0252*** (3.47)	0.0342*** (6.29)	0.0308*** (3.74)	0.0200*** (4.24)	0.0271*** (3.80)
Intercept	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Control variables	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Offense type FE	Yes	Yes	Yes	Yes	No	No	No	No
Primary offense type FE	No	No	No	No	Yes	Yes	Yes	Yes
Agency code type FE	No	No	Yes	Yes	No	No	Yes	Yes
Government level FE	Yes	Yes	No	No	Yes	Yes	No	No
Mega-scandal type FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Penalty date FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
2-digit SIC Industry FE	Yes	No	Yes	No	Yes	No	Yes	No
Firm FE	No	Yes	No	Yes	No	Yes	No	Yes
Firm-year observations	30,883	30,752	29,703	29,565	30,876	30,744	29,695	29,556
Adj. R2	0.69	0.72	0.79	0.81	0.75	0.77	0.80	0.82

Panel B: 3-year moving average of culture score

Dependent variable:	Corporate misconduct fine							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
3-year moving average of culture score	0.0564*** (8.67)	0.0408*** (3.97)	0.0195*** (3.78)	0.0288*** (3.48)	0.0361*** (6.21)	0.0360*** (3.85)	0.0203*** (4.01)	0.0315*** (3.86)
Intercept	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Control variables	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Offense type FE	Yes	Yes	Yes	Yes	No	No	No	No
Primary offense type FE	No	No	No	No	Yes	Yes	Yes	Yes
Agency code type FE	No	No	Yes	Yes	No	No	Yes	Yes
Government level FE	Yes	Yes	No	No	Yes	Yes	No	No
Mega-scandal type FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Penalty date FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
2-digit SIC Industry FE	Yes	No	Yes	No	Yes	No	Yes	No
Firm FE	No	Yes	No	Yes	No	Yes	No	Yes
Firm-year observations	30,534	30,405	29,363	29,230	30,528	30,398	29,355	29,221
Adj. R2	0.69	0.72	0.79	0.81	0.75	0.77	0.80	0.82

Panel C: 4-year moving average of culture score

Dependent variable:	Corporate misconduct fine							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
4-year moving average of culture score	0.0583*** (8.35)	0.0513*** (4.43)	0.0175*** (3.17)	0.0422*** (4.53)	0.0371*** (5.98)	0.0471*** (4.51)	0.0191*** (3.51)	0.0464*** (5.10)
Intercept	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Control variables	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Offense type FE	Yes	Yes	Yes	Yes	No	No	No	No
Primary offense type FE	No	No	No	No	Yes	Yes	Yes	Yes
Agency code type FE	No	No	Yes	Yes	No	No	Yes	Yes
Government level FE	Yes	Yes	No	No	Yes	Yes	No	No
Mega-scandal type FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Penalty date FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
2-digit SIC Industry FE	Yes	No	Yes	No	Yes	No	Yes	No
Firm FE	No	Yes	No	Yes	No	Yes	No	Yes
Firm-year observations	28,454	28,330	27,349	27,222	28,448	28,323	27,341	27,213
Adj. R2	0.69	0.72	0.79	0.81	0.75	0.77	0.80	0.82

Panel D: 5-year moving average of culture score

Dependent variable:	Corporate misconduct fine							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
5-year moving average of culture score	0.0579*** (7.85)	0.0516*** (4.10)	0.0159*** (2.71)	0.0428*** (4.26)	0.0351*** (5.34)	0.0440*** (3.84)	0.0172*** (2.98)	0.0456*** (4.61)
Intercept	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Control variables	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Offense type FE	Yes	Yes	Yes	Yes	No	No	No	No
Primary offense type FE	No	No	No	No	Yes	Yes	Yes	Yes
Agency code type FE	No	No	Yes	Yes	No	No	Yes	Yes
Government level FE	Yes	Yes	No	No	Yes	Yes	No	No
Mega-scandal type FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Penalty date FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
2-digit SIC Industry FE	Yes	No	Yes	No	Yes	No	Yes	No
Firm FE	No	Yes	No	Yes	No	Yes	No	Yes
Firm-year observations	26,504	26,374	25,464	25,332	26,499	26,368	25,458	25,325
Adj. R2	0.70	0.73	0.79	0.81	0.75	0.77	0.80	0.82

Panel E: 6-year moving average of culture score

Dependent variable:	Corporate misconduct fine							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
6-year moving average of culture score	0.0699*** (8.76)	0.0639*** (4.44)	0.0206*** (3.25)	0.0508*** (4.43)	0.0438*** (6.23)	0.0534*** (4.09)	0.0219*** (3.53)	0.0533*** (4.73)
Intercept	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Control variables	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Offense type FE	Yes	Yes	Yes	Yes	No	No	No	No
Primary offense type FE	No	No	No	No	Yes	Yes	Yes	Yes
Agency code type FE	No	No	Yes	Yes	No	No	Yes	Yes
Government level FE	Yes	Yes	No	No	Yes	Yes	No	No
Mega-scandal type FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Penalty date FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
2-digit SIC Industry FE	Yes	No	Yes	No	Yes	No	Yes	No
Firm FE	No	Yes	No	Yes	No	Yes	No	Yes
Firm-year observations	24,468	24,338	23,485	23,354	24,462	24,330	23,478	23,348
Adj. R2	0.70	0.73	0.80	0.81	0.75	0.77	0.80	0.82

Panel F: 7-year moving average of culture score

Dependent variable:	Corporate misconduct fine							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
7-year moving average of culture score	0.0730*** (8.47)	0.0611*** (3.61)	0.0231*** (3.38)	0.0528*** (3.92)	0.0450*** (5.96)	0.0449*** (2.92)	0.0251*** (3.74)	0.0569*** (4.31)
Intercept	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Control variables	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Offense type FE	Yes	Yes	Yes	Yes	No	No	No	No
Primary offense type FE	No	No	No	No	Yes	Yes	Yes	Yes
Agency code type FE	No	No	Yes	Yes	No	No	Yes	Yes
Government level FE	Yes	Yes	No	No	Yes	Yes	No	No
Mega-scandal type FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Penalty date FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
2-digit SIC Industry FE	Yes	No	Yes	No	Yes	No	Yes	No
Firm FE	No	Yes	No	Yes	No	Yes	No	Yes
Firm-year observations	22,270	22,153	21,345	21,229	22,265	22,146	21,339	21,224
Adj. R2	0.69	0.72	0.79	0.81	0.75	0.77	0.80	0.82

Panel G: 8-year moving average of culture score

Dependent variable:	Corporate misconduct fine							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
8-year moving average of culture score	0.0683*** (7.32)	0.0555*** (2.88)	0.0187** (2.53)	0.0544*** (3.54)	0.0403*** (4.92)	0.0494*** (2.83)	0.0208*** (2.87)	0.0590*** (3.88)
Intercept	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Control variables	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Offense type FE	Yes	Yes	Yes	Yes	No	No	No	No
Primary offense type FE	No	No	No	No	Yes	Yes	Yes	Yes
Agency code type FE	No	No	Yes	Yes	No	No	Yes	Yes
Government level FE	Yes	Yes	No	No	Yes	Yes	No	No
Mega-scandal type FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Penalty date FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
2-digit SIC Industry FE	Yes	No	Yes	No	Yes	No	Yes	No
Firm FE	No	Yes	No	Yes	No	Yes	No	Yes
Firm-year observations	20,132	20,036	19,266	19,167	20,127	20,029	19,258	19,159
Adj. R2	0.69	0.73	0.79	0.81	0.75	0.77	0.80	0.82

Panel H: 9-year moving average of culture score

Dependent variable:	Corporate misconduct fine							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
9-year moving average of culture score	0.0748*** (7.44)	0.0690*** (3.06)	0.0203** (2.53)	0.0730*** (4.09)	0.0418*** (4.74)	0.0626*** (3.06)	0.0220*** (2.81)	0.0776*** (4.41)
Intercept	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Control variables	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Offense type FE	Yes	Yes	Yes	Yes	No	No	No	No
Primary offense type FE	No	No	No	No	Yes	Yes	Yes	Yes
Agency code type FE	No	No	Yes	Yes	No	No	Yes	Yes
Government level FE	Yes	Yes	No	No	Yes	Yes	No	No
Mega-scandal type FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Penalty date FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
2-digit SIC Industry FE	Yes	No	Yes	No	Yes	No	Yes	No
Firm FE	No	Yes	No	Yes	No	Yes	No	Yes
Firm-year observations	17,769	17,672	16,958	16,859	17,761	17,662	16,951	16,853
Adj. R2	0.68	0.72	0.79	0.81	0.74	0.77	0.80	0.82

Table 5: The effect of the different types of cultural dimensions on the corporate misconduct fine

We present the results of the baseline regression model equation by using simultaneously the different types of cultural dimensions instead of the main measure of culture, namely the cultural score. The dependent variable is the corporate misconduct fine, defined as the natural logarithm of the sum of one and the corporate misconduct violation fine. The t-statistics corresponding to the regression coefficient estimates of each explanatory variable are calculated using standard errors robust to heteroskedasticity and clustered at the level of the corporate misconduct violation number. These t-statistics are reported in parentheses below each coefficient estimate. For brevity, we omit the coefficient estimates and their corresponding t-statistics for different types of fixed effects, control variables and the constant term. The variables are defined in Appendix A of this paper. Asterisks are used to denote statistical significance at the 1% (***), 5% (**), and 10% (*) levels, respectively.

Dependent variable:	Corporate misconduct fine							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Integrity cultural dimension	0.0051	0.0069	0.0014	-0.0004	-0.0103	-0.0107	-0.0005	-0.0031
	(0.41)	(0.48)	(0.14)	(-0.03)	(-0.91)	(-0.82)	(-0.05)	(-0.27)
Teamwork cultural dimension	0.0332**	-0.0025	0.0109	0.0013	0.0109	0.0050	0.0104	0.0068
	(2.27)	(-0.14)	(0.93)	(0.09)	(0.83)	(0.31)	(0.89)	(0.48)
Innovation cultural dimension	0.0514***	0.0306***	0.0206***	0.0183**	0.0326***	0.0189**	0.0206***	0.0181**
	(7.63)	(3.35)	(3.87)	(2.52)	(5.39)	(2.28)	(3.93)	(2.53)
Respect cultural dimension	-0.0071	-0.0058	-0.0158*	-0.0137	0.0037	0.0047	-0.0145	-0.0124
	(-0.62)	(-0.44)	(-1.75)	(-1.28)	(0.35)	(0.38)	(-1.64)	(-1.18)
Quality cultural dimension	-0.0120	0.0052	0.0054	0.0163	-0.0025	0.0131	0.0056	0.0150
	(-1.30)	(0.42)	(0.70)	(1.58)	(-0.29)	(1.15)	(0.73)	(1.48)
Intercept	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Control variables	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Offense type FE	Yes	Yes	Yes	Yes	No	No	No	No
Primary offense type FE	No	No	No	No	Yes	Yes	Yes	Yes
Agency code type FE	No	No	Yes	Yes	No	No	Yes	Yes
Government level FE	Yes	Yes	No	No	Yes	Yes	No	No
Mega-scandal type FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Penalty date FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

2-digit SIC Industry FE	Yes	No	Yes	No	Yes	No	Yes	No
Firm FE	No	Yes	No	Yes	No	Yes	No	Yes
Firm-year observations	30,883	30,752	29,703	29,565	30,876	30,744	29,695	29,556
Adj. R2	0.69	0.72	0.79	0.81	0.75	0.77	0.80	0.82
Joint statistical significance of the different types of cultural dimensions	17.28***	3.01**	4.47***	2.73**	8.00***	2.27**	4.53***	2.82**

Table 6: The Moderating Effect of Avoiding Controversial News About the Company

This table presents the results on the effect of corporate culture on corporate misconduct fines, conditional on the negative corporate news avoidance. The dependent variable is the corporate misconduct fine, defined as the natural logarithm of the sum of one and the corporate misconduct violation fine. The t-statistics for the regression coefficient estimates of each explanatory variable are calculated using heteroskedasticity-robust standard errors clustered at the level of the corporate misconduct violation number. These t-statistics are reported in parentheses below each coefficient estimate. For brevity, the coefficient estimates and their corresponding t-statistics for different types of fixed effects, control variables, and the constant term are omitted. Additionally, the analysis evaluates whether the estimated coefficients for the culture score, the negative corporate news avoidance, and the interaction between the culture score and the negative news avoidance are jointly zero. The null hypothesis assumes that these three coefficients are jointly zero. In the final row of the table, the average marginal effect of the culture score is reported. To calculate this average marginal effect, the remaining explanatory variables are held at their sample values. The z-statistics are calculated using standard errors estimated by the Delta method. The variables are defined in Appendix A of this paper. Asterisks denote statistical significance at the 1% (***), 5% (**), and 10% (*) levels, respectively.

Dependent variable:	Corporate misconduct fine							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Culture score	0.0671***	0.0527***	0.0441***	0.0505***	0.0461***	0.0508***	0.0422***	0.0671***
	(6.15)	(4.01)	(5.06)	(4.83)	(4.79)	(4.35)	(4.92)	(6.15)
Negative corporate news avoidance	0.1283	0.2106**	0.2585***	0.2970***	0.1273*	0.2374***	0.2512***	0.1283
	(1.60)	(2.34)	(3.90)	(4.06)	(1.73)	(2.89)	(3.86)	(1.60)
Culture score x negative corporate news avoidance	-0.0342***	-0.0438***	-0.0430***	-0.0528***	-0.0290**	-0.0505***	-0.0407***	-0.0342***
	(-2.62)	(-2.94)	(-4.06)	(-4.50)	(-2.45)	(-3.79)	(-3.92)	(-2.62)
Intercept	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Control variables	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Offense type FE	Yes	Yes	Yes	Yes	No	No	No	No
Primary offense type FE	No	No	No	No	Yes	Yes	Yes	Yes
Agency code type FE	No	No	Yes	Yes	No	No	Yes	Yes
Government level FE	Yes	Yes	No	No	Yes	Yes	No	No

Mega-scandal type FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Penalty date FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
2-digit SIC Industry FE	Yes	No	Yes	No	Yes	No	Yes	No
Firm FE	No	Yes	No	Yes	No	Yes	No	Yes
Firm-year observations	26,030	25,904	24,978	24,846	26,023	25,896	24,972	26,030
Adj. R2	0.72	0.75	0.82	0.83	0.77	0.79	0.82	0.84
Joint statistical significance of the interacted variables	20.73***	5.67***	8.55***	8.34***	10.82***	7.16***	8.10***	8.47***
Average marginal effect of culture score	0.0423***	0.0209**	0.0127**	0.0119**	0.0251***	0.0142*	0.0125**	0.0122*
	(6.56)	(2.38)	(2.48)	(1.74)	(4.37)	(1.80)	(2.49)	(1.81)

Table 7: Summary Statistics of Event Study by Different Risk Models

We present the summary statistics for the variables CAR, BHAR, and the previous year's mean CAR and BHAR from corporate misconduct events, categorized by different risk models. The summary statistics are reported using the Carhart (1997) model, the Fama-French three-factor model, the market-adjusted model, and the CAPM in Panels A to D. The event windows examined are [-1, +1], [-3, +3], [-5, +5], [-10, +10], and [-15, +15]. Variable definitions are provided in Appendix A of this paper.

Panel A: Carhart (1997) model

	Obs.	Mean	Std. dev.	Min	Median	Max
[-1,+1]						
CAR	18,741	0.00	0.03	-0.11	0.00	0.11
BHAR	18,741	0.00	0.03	-0.11	0.00	0.11
Last year's mean CAR from corporate misconduct events	18,741	0.00	0.02	-0.05	0.00	0.06
Last year's mean BHAR from corporate misconduct events	18,741	0.00	0.02	-0.05	0.00	0.06
[-3,+3]						
CAR	18,741	0.00	0.05	-0.16	0.00	0.16
BHAR	18,741	0.00	0.05	-0.16	0.00	0.16
Last year's mean CAR from corporate misconduct events	18,741	0.00	0.02	-0.09	0.00	0.08
Last year's mean BHAR from corporate misconduct events	18,741	0.00	0.02	-0.08	0.00	0.08
[-5,+5]						
CAR	18,741	0.00	0.07	-0.21	0.00	0.20
BHAR	18,741	0.00	0.07	-0.21	0.00	0.20
Last year's mean CAR from corporate misconduct events	18,741	0.00	0.03	-0.11	0.00	0.11
Last year's mean BHAR from corporate misconduct events	18,741	0.00	0.03	-0.10	0.00	0.10
[-10,+10]						
CAR	18,740	0.00	0.09	-0.29	0.00	0.28
BHAR	18,740	0.00	0.09	-0.28	0.00	0.29
Last year's mean CAR from corporate misconduct events	18,740	0.00	0.05	-0.15	0.00	0.16
Last year's mean BHAR from corporate misconduct events	18,740	0.00	0.05	-0.15	0.00	0.17
[-15,+15]						
CAR	18,739	0.00	0.12	-0.37	0.00	0.35
BHAR	18,739	-0.01	0.12	-0.37	-0.01	0.35
Last year's mean CAR from corporate misconduct events	18,739	0.00	0.06	-0.20	0.00	0.22
Last year's mean BHAR from corporate misconduct events	18,739	0.00	0.06	-0.20	0.00	0.21

Panel B: Fama-French 3 factors model

	Obs.	Mean	Std. dev.	Min	Median	Max
[-1,+1]						
CAR	18,741	0.00	0.03	-0.10	0.00	0.11
BHAR	18,741	0.00	0.03	-0.10	0.00	0.11
Last year's mean CAR from corporate misconduct events	18,741	0.00	0.02	-0.05	0.00	0.06
Last year's mean BHAR from corporate misconduct events	18,741	0.00	0.02	-0.05	0.00	0.06
[-3,+3]						
CAR	18,741	0.00	0.05	-0.16	0.00	0.15
BHAR	18,741	0.00	0.05	-0.15	0.00	0.16
Last year's mean CAR from corporate misconduct events	18,741	0.00	0.02	-0.09	0.00	0.08
Last year's mean BHAR from corporate misconduct events	18,741	0.00	0.02	-0.08	0.00	0.08
[-5,+5]						
CAR	18,741	0.00	0.06	-0.20	0.00	0.20
BHAR	18,741	0.00	0.06	-0.20	0.00	0.20
Last year's mean CAR from corporate misconduct events	18,741	0.00	0.03	-0.11	0.00	0.11
Last year's mean BHAR from corporate misconduct events	18,741	0.00	0.03	-0.12	0.00	0.11
[-10,+10]						
CAR	18,740	0.00	0.09	-0.28	0.00	0.29
BHAR	18,740	0.00	0.09	-0.27	0.00	0.29
Last year's mean CAR from corporate misconduct events	18,740	0.00	0.05	-0.16	0.00	0.16
Last year's mean BHAR from corporate misconduct events	18,740	0.00	0.05	-0.15	0.00	0.17
[-15,+15]						
CAR	18,739	0.00	0.12	-0.36	0.00	0.35
BHAR	18,739	-0.01	0.12	-0.36	-0.01	0.35
Last year's mean CAR from corporate misconduct events	18,739	0.00	0.06	-0.21	0.00	0.21
Last year's mean BHAR from corporate misconduct events	18,739	0.00	0.06	-0.21	0.00	0.23

Panel C: Market adjustment model

	Obs.	Mean	Std. dev.	Min	Median	Max
[-1,+1]						
CAR	18,741	0.00	0.03	-0.11	0.00	0.11
BHAR	18,741	0.00	0.03	-0.10	0.00	0.11
Last year's mean CAR from corporate misconduct events	18,741	0.00	0.02	-0.05	0.00	0.06
Last year's mean BHAR from corporate misconduct events	18,741	0.00	0.02	-0.06	0.00	0.06
[-3,+3]						
CAR	18,741	0.00	0.05	-0.16	0.00	0.16
BHAR	18,741	0.00	0.05	-0.15	0.00	0.17
Last year's mean CAR from corporate misconduct events	18,741	0.00	0.02	-0.08	0.00	0.08
Last year's mean BHAR from corporate misconduct events	18,741	0.00	0.02	-0.08	0.00	0.08
[-5,+5]						
CAR	18,741	0.00	0.06	-0.20	0.00	0.20
BHAR	18,741	0.00	0.06	-0.19	0.00	0.21
Last year's mean CAR from corporate misconduct events	18,741	0.00	0.03	-0.11	0.00	0.11
Last year's mean BHAR from corporate misconduct events	18,741	0.00	0.03	-0.11	0.00	0.10
[-10,+10]						
CAR	18,740	0.00	0.09	-0.26	0.00	0.28
BHAR	18,740	0.00	0.09	-0.24	0.00	0.29
Last year's mean CAR from corporate misconduct events	18,740	0.00	0.05	-0.13	0.00	0.16
Last year's mean BHAR from corporate misconduct events	18,740	0.00	0.05	-0.13	0.00	0.17
[-15,+15]						
CAR	18,739	0.00	0.11	-0.32	0.00	0.33
BHAR	18,739	0.00	0.11	-0.29	0.00	0.35
Last year's mean CAR from corporate misconduct events	18,739	0.00	0.06	-0.17	0.00	0.21
Last year's mean BHAR from corporate misconduct events	18,739	0.00	0.06	-0.17	0.00	0.23

Panel D: CAPM

	Obs.	Mean	Std. dev.	Min	Median	Max
[-1,+1]						
CAR	18,741	0.00	0.03	-0.11	0.00	0.11
BHAR	18,741	0.00	0.03	-0.11	0.00	0.11
Last year's mean CAR from corporate misconduct events	18,741	0.00	0.02	-0.06	0.00	0.06
Last year's mean BHAR from corporate misconduct events	18,741	0.00	0.02	-0.05	0.00	0.06
[-3,+3]						
CAR	18,741	0.00	0.05	-0.16	0.00	0.16
BHAR	18,741	0.00	0.05	-0.15	0.00	0.16
Last year's mean CAR from corporate misconduct events	18,741	0.00	0.02	-0.09	0.00	0.08
Last year's mean BHAR from corporate misconduct events	18,741	0.00	0.02	-0.08	0.00	0.08
[-5,+5]						
CAR	18,741	0.00	0.07	-0.20	0.00	0.20
BHAR	18,741	0.00	0.07	-0.20	0.00	0.21
Last year's mean CAR from corporate misconduct events	18,741	0.00	0.03	-0.12	0.00	0.11
Last year's mean BHAR from corporate misconduct events	18,741	0.00	0.03	-0.11	0.00	0.10
[-10,+10]						
CAR	18,740	0.00	0.09	-0.28	0.00	0.29
BHAR	18,740	0.00	0.09	-0.27	0.00	0.30
Last year's mean CAR from corporate misconduct events	18,740	0.00	0.05	-0.16	0.00	0.18
Last year's mean BHAR from corporate misconduct events	18,740	0.00	0.05	-0.16	0.00	0.19
[-15,+15]						
CAR	18,740	0.00	0.09	-0.28	0.00	0.29
BHAR	18,740	0.00	0.09	-0.27	0.00	0.30
Last year's mean CAR from corporate misconduct events	18,740	0.00	0.05	-0.16	0.00	0.18
Last year's mean BHAR from corporate misconduct events	18,740	0.00	0.05	-0.16	0.00	0.19

Table 8: The Effect of Corporate Culture Score on the CAR/BHAR of Corporate Misconduct Fine Announcements

This table presents the results of the baseline regression model, where the dependent variable is either CAR or BHAR. CAR and BHAR are calculated using the Carhart (1997) model, the Fama-French three-factor model, the market-adjusted model, and the CAPM in models 1 to 4. Results for CAR and BHAR across different event windows—[-1, +1], [-3, +3], [-5, +5], [-10, +10], and [-15, +15]—are presented in Panels A to E. The t-statistics corresponding to the regression coefficient estimates for each explanatory variable are calculated using heteroskedasticity-robust standard errors clustered at the corporate misconduct fine announcement date level. These t-statistics are reported in parentheses below each coefficient estimate. For brevity, the coefficient estimates and corresponding t-statistics for fixed effects are omitted. The definitions of all variables are provided in Appendix A. Statistical significance is indicated as follows: *** for the 1% level, ** for the 5% level, and * for the 10% level.

Panel A: Focused on immediate reaction [-1, +1]

Asset pricing model:	Carhart (1997)		FF3		Market adjusted model		CAPM	
Dependent variable:	CAR	BHAR	CAR	BHAR	CAR	BHAR	CAR	BHAR
	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)
Culture score	-0.0007***	-0.0007***	-0.0006**	-0.0006**	-0.0004	-0.0004	-0.0005**	-0.0005**
	(-2.81)	(-2.80)	(-2.44)	(-2.43)	(-1.62)	(-1.62)	(-2.22)	(-2.22)
Last year's mean CAR from corporate misconduct events	-0.1406***		-0.1183***		-0.0903***		-0.1224***	
	(-6.06)		(-5.29)		(-3.96)		(-5.57)	
Last year's mean BHAR from corporate misconduct events		-0.1399***		-0.1181***		-0.0875***		-0.1207***
		(-6.07)		(-5.26)		(-3.90)		(-5.52)
Recidivism of corporate misconduct behavior	-0.0001	0.0000	0.0001	0.0003	-0.0009	-0.0008	-0.0000	0.0001
	(-0.04)	(0.04)	(0.12)	(0.21)	(-0.69)	(-0.63)	(-0.02)	(0.05)
Market-to-book ratio	-0.0000	-0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
	(-0.15)	(-0.12)	(0.25)	(0.27)	(0.50)	(0.54)	(0.25)	(0.26)
Asset growth	0.0147	0.0147	0.0165	0.0174	-0.0003	0.0002	0.0061	0.0077
	(0.75)	(0.75)	(0.87)	(0.92)	(-0.01)	(0.01)	(0.32)	(0.41)
Market value	-0.0040***	-0.0038***	-0.0038***	-0.0037***	-0.0035***	-0.0032***	-0.0040***	-0.0038***
	(-4.18)	(-3.89)	(-4.10)	(-3.89)	(-3.63)	(-3.39)	(-4.16)	(-3.94)
Capex	-0.0026	-0.0015	0.0026	0.0042	-0.0074	-0.0067	0.0052	0.0063
	(-0.19)	(-0.11)	(0.18)	(0.30)	(-0.53)	(-0.48)	(0.36)	(0.44)
Sales growth	0.0005	0.0006	0.0013	0.0017	0.0024	0.0026	0.0017	0.0020

	(0.21)	(0.27)	(0.62)	(0.77)	(1.07)	(1.18)	(0.77)	(0.89)
Dividend payers	-0.0005	-0.0003	-0.0006	-0.0003	0.0004	0.0007	0.0010	0.0013
	(-0.29)	(-0.15)	(-0.33)	(-0.17)	(0.26)	(0.41)	(0.62)	(0.75)
Constant	0.0411***	0.0382***	0.0381***	0.0358***	0.0351***	0.0325***	0.0377***	0.0353***
	(4.59)	(4.24)	(4.38)	(4.10)	(3.95)	(3.67)	(4.26)	(3.99)
Penalty date FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Firm-year observations	17,076	17,076	17,076	17,076	17,076	17,076	17,076	17,076
Adj. R2	0.02	0.02	0.03	0.03	0.07	0.07	0.07	0.07

Panel B: Short-term anticipatory and adjustment effects [-3, +3]

Asset pricing model:	Carhart (1997)		FF3		Market adjusted model		CAPM	
Dependent variable:	CAR	BHAR	CAR	BHAR	CAR	BHAR	CAR	BHAR
	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)
Culture score	-0.0008**	-0.0008**	-0.0005	-0.0005	-0.0002	-0.0002	-0.0003	-0.0004
	(-2.01)	(-2.04)	(-1.40)	(-1.47)	(-0.54)	(-0.57)	(-0.88)	(-0.96)
Last year's mean CAR from corporate misconduct events	-0.1253***		-0.1104***		-0.0836***		-0.1295***	
	(-5.45)		(-4.94)		(-3.77)		(-6.03)	
Last year's mean BHAR from corporate misconduct events		-0.1223***		-0.1098***		-0.0822***		-0.1289***
		(-5.38)		(-4.96)		(-3.73)		(-6.03)
Recidivism of corporate misconduct behavior	-0.0013	-0.0013	0.0009	0.0009	-0.0007	-0.0008	0.0011	0.0010
	(-0.64)	(-0.64)	(0.47)	(0.47)	(-0.38)	(-0.40)	(0.55)	(0.50)
Market-to-book ratio	-0.0002*	-0.0002*	-0.0001	-0.0001	-0.0001	-0.0001	-0.0001	-0.0002*
	(-1.70)	(-1.74)	(-1.39)	(-1.45)	(-0.58)	(-0.65)	(-1.62)	(-1.68)
Asset growth	0.0163	0.0179	0.0177	0.0191	-0.0179	-0.0151	-0.0010	0.0009
	(0.56)	(0.62)	(0.63)	(0.68)	(-0.63)	(-0.53)	(-0.03)	(0.03)
Market value	-0.0035**	-0.0032**	-0.0031**	-0.0027*	-0.0032**	-0.0028**	-0.0029**	-0.0026*
	(-2.39)	(-2.15)	(-2.13)	(-1.90)	(-2.28)	(-1.96)	(-2.01)	(-1.77)
Capex	-0.0024	-0.0007	0.0016	0.0043	-0.0136	-0.0126	0.0027	0.0053
	(-0.11)	(-0.03)	(0.07)	(0.20)	(-0.65)	(-0.60)	(0.12)	(0.24)

Sales growth	-0.0018	-0.0019	-0.0016	-0.0016	-0.0003	-0.0002	-0.0028	-0.0028
	(-0.51)	(-0.53)	(-0.46)	(-0.46)	(-0.10)	(-0.06)	(-0.81)	(-0.79)
Dividend payers	0.0005	0.0009	0.0001	0.0003	-0.0024	-0.0021	0.0010	0.0011
	(0.20)	(0.32)	(0.05)	(0.13)	(-0.93)	(-0.81)	(0.35)	(0.43)
Constant	0.0372***	0.0333**	0.0288**	0.0253*	0.0350***	0.0305**	0.0261*	0.0225
	(2.67)	(2.41)	(2.13)	(1.87)	(2.65)	(2.29)	(1.90)	(1.64)
Penalty date FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Firm-year observations	17,076	17,076	17,076	17,076	17,076	17,076	17,076	17,076
Adj. R2	0.03	0.03	0.04	0.04	0.07	0.07	0.07	0.07

Panel C: Includes broader dynamics in slightly inefficient markets [-5, +5]

Asset pricing model:	Carhart (1997)		FF3		Market adjusted model		CAPM	
Dependent variable:	CAR	BHAR	CAR	BHAR	CAR	BHAR	CAR	BHAR
	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)
Culture score	-0.0013***	-0.0013***	-0.0012**	-0.0012**	-0.0006	-0.0006	-0.0009*	-0.0009*
	(-2.59)	(-2.60)	(-2.44)	(-2.46)	(-1.23)	(-1.21)	(-1.83)	(-1.90)
Last year's mean CAR from corporate misconduct events	-0.1203***		-0.1059***		-0.0637***		-0.1226***	
	(-5.39)		(-4.82)		(-2.86)		(-5.64)	
Last year's mean BHAR from corporate misconduct events		-0.1241***		-0.1102***		-0.0674***		-0.1261***
		(-5.54)		(-5.09)		(-3.03)		(-5.77)
Recidivism of corporate misconduct behavior	0.0003	0.0000	0.0025	0.0023	0.0007	0.0007	0.0025	0.0023
	(0.14)	(0.02)	(1.02)	(0.96)	(0.28)	(0.27)	(1.02)	(0.91)
Market-to-book ratio	-0.0000	-0.0000	0.0000	0.0000	0.0002*	0.0002	0.0001	0.0000
	(-0.21)	(-0.29)	(0.20)	(0.09)	(1.80)	(1.61)	(0.43)	(0.29)
Asset growth	0.0349	0.0357	0.0259	0.0256	-0.0403	-0.0368	-0.0084	-0.0058
	(0.98)	(1.00)	(0.74)	(0.74)	(-1.16)	(-1.06)	(-0.24)	(-0.17)
Market value	-0.0057***	-0.0049***	-0.0050***	-0.0044**	-0.0058***	-0.0052***	-0.0053***	-0.0046**
	(-3.01)	(-2.65)	(-2.74)	(-2.42)	(-3.16)	(-2.86)	(-2.80)	(-2.47)
Capex	0.0039	0.0050	0.0166	0.0207	-0.0134	-0.0117	0.0179	0.0219

	(0.14)	(0.17)	(0.60)	(0.75)	(-0.50)	(-0.44)	(0.63)	(0.78)
Sales growth	-0.0037	-0.0040	-0.0038	-0.0037	-0.0003	-0.0001	-0.0049	-0.0046
	(-0.82)	(-0.90)	(-0.90)	(-0.89)	(-0.07)	(-0.02)	(-1.12)	(-1.06)
Dividend payers	0.0019	0.0020	0.0008	0.0008	-0.0011	-0.0005	0.0046	0.0051
	(0.54)	(0.58)	(0.23)	(0.23)	(-0.32)	(-0.15)	(1.29)	(1.45)
Constant	0.0551***	0.0485***	0.0457***	0.0399**	0.0578***	0.0510***	0.0436**	0.0373**
	(3.14)	(2.77)	(2.67)	(2.33)	(3.36)	(3.02)	(2.49)	(2.13)
Penalty date FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Firm-year observations	17,076	17,076	17,076	17,076	17,076	17,076	17,076	17,076
Adj. R2	0.04	0.05	0.05	0.05	0.07	0.07	0.07	0.07

Panel D: Accounts for information leakage and delayed responses [-10, +10]

Asset pricing model:	Carhart (1997)		FF3		Market adjusted model		CAPM	
Dependent variable:	CAR	BHAR	CAR	BHAR	CAR	BHAR	CAR	BHAR
	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)
Culture score	-0.0025***	-0.0026***	-0.0022***	-0.0023***	-0.0014**	-0.0015**	-0.0021***	-0.0022***
	(-3.55)	(-3.64)	(-3.16)	(-3.34)	(-2.23)	(-2.40)	(-3.01)	(-3.22)
Last year's mean CAR from corporate misconduct events	-0.1622***		-0.1452***		-0.0650***		-0.1756***	
	(-7.20)		(-6.54)		(-3.09)		(-8.17)	
Last year's mean BHAR from corporate misconduct events		-0.1630***		-0.1471***		-0.0672***		-0.1735***
		(-7.30)		(-6.67)		(-3.21)		(-8.21)
Recidivism of corporate misconduct behavior	0.0022	0.0019	0.0026	0.0028	-0.0006	-0.0007	0.0021	0.0017
	(0.59)	(0.52)	(0.74)	(0.79)	(-0.16)	(-0.22)	(0.57)	(0.47)
Market-to-book ratio	0.0000	0.0000	0.0002	0.0001	0.0004***	0.0004**	0.0002	0.0002
	(0.21)	(0.17)	(0.88)	(0.80)	(2.63)	(2.52)	(1.07)	(0.96)
Asset growth	0.0278	0.0258	0.0421	0.0411	-0.0444	-0.0455	0.0027	0.0062
	(0.52)	(0.49)	(0.82)	(0.79)	(-0.92)	(-0.94)	(0.05)	(0.12)
Market value	-0.0126***	-0.0124***	-0.0141***	-0.0136***	-0.0137***	-0.0137***	-0.0133***	-0.0128***
	(-4.51)	(-4.40)	(-5.18)	(-4.96)	(-5.30)	(-5.28)	(-4.81)	(-4.61)
Capex	0.0208	0.0196	0.0378	0.0392	-0.0118	-0.0158	0.0442	0.0464
	(0.51)	(0.47)	(0.95)	(0.97)	(-0.32)	(-0.43)	(1.10)	(1.15)
Sales growth	-0.0007	-0.0009	-0.0031	-0.0034	0.0036	0.0038	-0.0064	-0.0067
	(-0.11)	(-0.14)	(-0.52)	(-0.56)	(0.63)	(0.66)	(-1.03)	(-1.08)
Dividend payers	0.0092*	0.0089*	0.0088*	0.0090*	0.0018	0.0022	0.0128**	0.0131***
	(1.79)	(1.74)	(1.77)	(1.82)	(0.38)	(0.47)	(2.54)	(2.59)
Constant	0.1146***	0.1120***	0.1249***	0.1196***	0.1334***	0.1343***	0.1142***	0.1100***
	(4.31)	(4.18)	(4.88)	(4.62)	(5.48)	(5.46)	(4.39)	(4.17)
Penalty date FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Firm-year observations	17,076	17,076	17,076	17,076	17,076	17,076	17,076	17,076
Adj. R2	0.04	0.04	0.05	0.05	0.09	0.08	0.09	0.08

Panel E: Useful for high-profile cases with prolonged effects [-15, 15]

Asset pricing model:	Carhart (1997)		FF3		Market adjusted model		CAPM	
Dependent variable:	CAR	BHAR	CAR	BHAR	CAR	BHAR	CAR	BHAR
	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)
Culture score	-0.0026***	-0.0026***	-0.0025***	-0.0025***	-0.0013*	-0.0013	-0.0022**	-0.0023**
	(-2.97)	(-2.97)	(-2.81)	(-2.79)	(-1.67)	(-1.64)	(-2.44)	(-2.55)
Last year's mean CAR from corporate misconduct events	-0.1888***		-0.1712***		-0.0520***		-0.1893***	
	(-8.98)		(-8.40)		(-2.62)		(-9.32)	
Last year's mean BHAR from corporate misconduct events		-0.1911***		-0.1626***		-0.0450**		-0.1845***
		(-9.19)		(-8.22)		(-2.31)		(-9.28)
Recidivism of corporate misconduct behavior	0.0032	0.0035	0.0047	0.0045	0.0014	0.0012	0.0036	0.0034
	(0.68)	(0.73)	(1.03)	(0.98)	(0.35)	(0.29)	(0.79)	(0.74)
Market-to-book ratio	-0.0000	-0.0000	0.0001	0.0000	0.0004**	0.0004*	0.0001	0.0000
	(-0.03)	(-0.07)	(0.25)	(0.15)	(2.06)	(1.90)	(0.24)	(0.11)
Asset growth	0.0889	0.0743	0.0960	0.0865	0.0029	-0.0093	0.0765	0.0662
	(1.38)	(1.14)	(1.52)	(1.36)	(0.05)	(-0.16)	(1.21)	(1.04)
Market value	-0.0176***	-0.0170***	-0.0208***	-0.0192***	-0.0218***	-0.0219***	-0.0206***	-0.0201***
	(-4.98)	(-4.80)	(-5.86)	(-5.48)	(-6.77)	(-6.84)	(-5.69)	(-5.53)
Capex	0.0954*	0.0951*	0.1330***	0.1338***	0.0580	0.0609	0.1599***	0.1707***
	(1.88)	(1.84)	(2.70)	(2.67)	(1.33)	(1.37)	(3.22)	(3.37)
Sales growth	0.0011	0.0014	-0.0059	-0.0061	0.0071	0.0077	-0.0126	-0.0126
	(0.14)	(0.17)	(-0.79)	(-0.79)	(1.03)	(1.10)	(-1.62)	(-1.61)
Dividend payers	0.0159**	0.0167***	0.0142**	0.0162**	0.0010	0.0018	0.0166***	0.0182***
	(2.49)	(2.58)	(2.26)	(2.56)	(0.18)	(0.31)	(2.62)	(2.83)
Constant	0.1483***	0.1386***	0.1730***	0.1545***	0.2015***	0.2008***	0.1695***	0.1609***
	(4.49)	(4.19)	(5.27)	(4.76)	(6.77)	(6.74)	(5.05)	(4.75)
Penalty date FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Firm-year observations	17,075	17,075	17,075	17,075	17,075	17,075	17,075	17,075
Adj. R2	0.05	0.05	0.05	0.06	0.09	0.09	0.09	0.09