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Born to behave: Home CEOs and financial misconduct*

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Abstract
We examine the association between CEO birthplace proximity and financial misconduct. We find that CEOs managing firms near their birthplaces (home CEOs) are associated with less financial misconduct compared to other CEOs. This association is not attributable to differences in corporate governance. The relationship strengthens in areas with a strong local investment presence and greater religious commitment as well as among CEOs with longer tenures in their home state. Our findings are robust to addressing potential selection and omitted variable biases as well as to conducting multiple robustness tests, including analyses of involuntary CEO changes and headquarters relocations. We also find a similar association for CFOs, with firms employing home CFOs exhibiting less financial misconduct.

Keywords CEO reputational capital · Birthplace identity · Financial misconduct · Corporate governance · Local investors

JEL classification G32 · G41

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1 Introduction

This paper investigates the association between a personal trait, specifically the CEO birthplace identity, and the propensity of firms to commit financial misconduct. Specifically, we compare the likelihood of financial misconduct between home CEOs (CEOs managing firms near their birthplaces) and other CEOs. Research shows that misconduct affects investors' behavior, including their willingness to participate in financial markets (Giannetti and Wang 2016) and invest in specific firms (Mayer 2008). While the literature extensively examines the consequences of misconduct from the *firm's* perspective,[1] open questions remain concerning how *personal* traits influence a firm's likelihood of committing financial misconduct. [2]

We use social identity and legitimacy theories to examine how CEOs' birthplaces influence their tendency to avoid financial misconduct. Social identity theory posits that individuals categorize themselves into groups based on characteristics like gender, nationality, or ethnicity, which in turn shape their attitudes and behaviors (Tajfel and Turner 1979). Membership in these groups, especially when strongly tied to one's hometown, can influence an individual's values and actions (Archer 1992; Harris 1995). Geographic origin, particularly one's hometown, holds special emotional significance. Relph (1976) describes the hometown as "the central reference point of human experience", referring to the place where an individual was born and raised.

Individuals often form strong emotional connections with their hometowns and local communities, including friends and family. These bonds influence their perspectives and actions (Moore 2000). This place-based identity also influences how individuals conform to societal expectations (Jost and Major 2001). Legitimacy, as defined by Suchman (1995), refers to society's acceptance of one's actions as appropriate or desirable, based on shared norms and values. Suchman argues that legitimacy is socially constructed, reflecting alignment between the behaviors of the legitimated entity and the shared beliefs of a social group. This concept extends beyond organizations and institutions to individuals. Social approval depends not only on one's beliefs but also on how others in the community perceive and evaluate one's actions. Both social identity and legitimacy theories indicate a strong connection between geographic origin and behavior.

Local communities often scrutinize homegrown CEOs closely, having more information about them and a stronger interest in their companies due to personal connections (Xu et al. 2020). This heightened attention, whether actual or perceived, motivates CEOs to behave in ways that meet their hometown's expectations, including avoiding financial misconduct (Chakravarthy et al. 2014). By refraining from

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

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

misconduct, CEOs enhance both their personal and their firm's reputations while also adhering to local standards, reinforcing their social status and legitimacy within the community (Ginzel et al. 1992; Elsbach 1994). Moreover, homegrown CEOs likely face increased local monitoring, which may raise the detection rate of misconduct. Consequently, in line with Becker's (1968) model of crime, executives' behavior should adjust as the expected costs of misconduct increase.

We argue that CEOs who manage firms located in to their birthplaces, whom we term "home CEOs," are less likely to commit financial misconduct. This reduced likelihood stems from their desire to maintain their reputations and standing within their local community, which closely monitors their actions. These CEOs are motivated to behave in ways that align with both their personal values and community standards. Consequently, we expect CEOs with hometown connections to behave more ethically than those without such local ties.

Contrary to this social embeddedness perspective, the literature also presents arguments for why CEOs' hometown connections may not significantly influence their propensity for financial misconduct. Organizational culture theory suggests that a company's culture and professional standards significantly shape CEO behavior (Denison and Mishra 1995; Haas and Park 2010). These factors may outweigh personal values or birthplace connections (Allaire and Firsirotu 1984; Tsui et al. 2006). CEOs generally have incentives to comply with securities laws, and these incentives may override social or identity considerations. Essentially, CEOs' decision-making, including ethical choices, may be more influenced by their companies' cultures and professional norms than by their place of origin (Meek 1988; Altman and Baruch 1998).

We examine nonfinancial, non-utility firms covered by the Standard & Poor's ExecuComp database. We manually collect data on CEO birthplaces from 1992 to 2018. We use four proxies for financial misconduct: accrual-based earnings management, accounting fraud, opportunistic insider trading, and financial offenses. Across all four proxies, we show that firms with home CEOs are significantly less likely to commit misconduct compared to other firms.

The magnitude of the home CEO effect is economically significant. Firms with a home CEO exhibit lower abnormal accruals (6% of one standard deviation of the abnormal accruals' distribution), decreased incidence of accounting fraud by 1.5% (representing 28.9% of the mean accounting fraud rate), reduced insider trading price patterns by 2.7%, and 0.7% lower probability of financial offenses (representing 30.43% of the mean financial offenses rate).

We address potential selection and omitted variable biases through several approaches. First, we consider the possibility that boards select CEOs to implement strategies that might lead to financial misconduct. Second, we account for unobservable characteristics potentially related to both financial misconduct and home CEO selection. We employ entropy balancing to control for selection bias driven by observable characteristics. Additionally, we conduct a two-stage instrumental variable analysis, using locations with desirable weather as an instrument for home CEOs (e.g., Yonker 2017b; Lai et al. 2020), to address omitted variable bias. To further mitigate selection bias, we examine two specific events: involuntary CEO changes (resulting from death, illness, or dismissal) and headquarters relocations.

We use a categorical variable to identify shifts between home and nonhome CEOs. Our findings remain consistent across these analyses, suggesting robustness to selection concerns. However, our results do come with caveats, which are discussed in Sect. 3.2.3.

An alternative explanation for our findings is that home CEO appointments may reflect stronger corporate governance. Firms might prefer home CEOs, perceiving them as less likely to introduce risky changes or commit fraud. Better-governed firms might also implement more robust financial reporting controls. Thus, the observed negative association between home CEOs and firm misconduct could relate to the strength of corporate governance (e.g., Beasley 1996; Klein 2002). However, we show that the reduced likelihood of financial misconduct under local CEOs is unlikely to be driven by the strength of the firm's corporate governance. After controlling for three proxies for the strength of corporate governance at the firm, we find that local CEOs are still associated with lower rates of misconduct, suggesting that their impact goes beyond governance practices.

Next we examine the heterogeneity in our data by analyzing how local CEOs' social connections to their hometowns relate to their behavior. We find an association between certain local factors and a lower likelihood of financial fraud. Specifically, counties with a stronger local investor base, greater religiosity, or CEOs with longer work histories in their hometowns show a lower incidence of financial misconduct. We also show that this reduction in misconduct does not relate to CEO compensation structures.

We also address a potential concern that our findings might apply more to CFOs, who directly oversee financial statements, rather than to CEOs, who may be less involved in reporting decisions (e.g., Feng et al. 2011). We show that the association between local origins and ethics extends to CFOs as well. We find a negative association between firms with home CFOs and financial misconduct, similar to our findings for CEOs.

In our internet appendix, we provide details showing that our findings endure after a battery of robustness tests. These tests include adjustments for company or regional characteristics, excluding the counties where most CEOs are from, and accounting for areas most and least associated with financial misconduct. We also consider various definitions of local CEOs and financial misconduct and exclude CEOs with advanced degrees or who founded their companies. We finally adjust for CEOs' political leanings or tendency toward overconfidence. Our results are unaffected by excluding religious influences, adjusting for lobbying, or considering additional county data, like population, income, employment, education, and business density. Furthermore, our conclusions hold when we examine a company's financial health or regulatory environment and even when we examine the influence of corporate culture, showing that the observed effect of local CEOs does not just reflect company culture. Lastly, accounting for the corruption level of the CEO's birth state does not change our findings.

Our study contributes to the literature in three ways. First, we find that CEOs who grew up near their company's location are associated with less financial misconduct. We hypothesize that this association may be due to these CEOs' concern for their local reputation and strong community ties. Research has examined the relationship

between a CEO's birthplace and various corporate outcomes, including employment policies (Yonker 2017a), CEO compensation (Yonker 2017b), merger outcomes (Jiang et al. 2019), bank lending decisions (Lim and Nguyen 2021), R&D expenditures (Lai et al. 2020), and credit ratings (Cornaggia et al. 2020). Our study closely relates to the work of Li et al. (2024), who document hometown CEOs' engagement in activities benefiting their local communities, such as lower emissions, labor protection, and increased R&D spending. Li et al. (2024) focus on within-firm variation in emissions for plants near a CEO's hometown, we examine firm-level variation in financial misconduct. Our findings indicate that companies led by hometown CEOs are associated with fewer financial misdeeds.

Second, our research examines the relationship between culture and financial misconduct. While studies document that substantial reputational losses and direct penalties are associated with reduced financial wrongdoing (Karpoff et al. 2008; Armour et al. 2017), the role of an executive's personal reputation remains less explored. We address this gap by using a CEO's hometown as a proxy for reputational capital, allowing us to examine how culturally linked reputational factors relate to financial misconduct. Our findings complement recent studies that highlight the importance of CEO and manager integrity (Guiso et al. 2015; Dikolli et al. 2020) and the efficacy of integrity oaths in accounting education (Heese et al. 2023a, b) in relation to financial reporting quality.

Our study also contributes to the ongoing debate about CEOs' personal impact on corporate policies. While some research suggests CEOs have a significant influence (e.g., Bertrand and Schoar 2003), others argue that apparent managerial style effects largely reflect CEO-firm matching through board selection (Fee et al. 2013). We demonstrate that the CEO's idiosyncratic style, particularly regarding financial misconduct, is not solely attributable to CEO-firm matching through board selection but also reflects personal influence. This aligns with other studies examining CEO influence, such as Feng et al. (2011), who investigate CEOs' role in encouraging CFO accounting manipulations; Heese and Pérez-Cavazos (2020), who find an association between managerial oversight (e.g., headquarters visits) and reduced facility-level misconduct; and Wells (2020), who documents a relationship between executives and the quality of firm financial reporting.

Third, our study contributes to the understanding of factors associated with financial misconduct.[3] We expand this literature by identifying CEO hometown as a factor consistently associated with financial misbehavior. Our results suggest that nonfinancial elements, such as a CEO's reputation and place of origin, relate to reduced financial misconduct. This work builds on the research of Francis et al. (2008), who examine the association between CEO reputation (measured by press coverage) and discretionary accruals. Our study extends this by considering the relationship

[3] Research identifies several factors associated with financial misconduct, including managerial compensation incentives (Bergstresser and Philippon 2006; Denis et al. 2006; Wang et al. 2010), external financing needs (Efendi et al. 2007; Dechow et al. 2010), earnings targets (Degeorge et al. 1999; Payne and Robb 2000; Richardson et al. 2003; Schilit 2010), financial distress (Loebbecke et al. 1989;Maksimovic and Titman 1991), share price considerations (Beneish 1999; Peng and Röell 2008), and debt covenant concerns (Dechow et al. 1996; Burns and Kedia 2006).

between a CEO's personal reputation and financial misconduct more broadly, rather than focusing on specific accounting practices. We also employ a different measure of reputation that is intrinsic to CEOs and less likely to be influenced by their current actions.

Overall, our paper introduces a novel proxy for CEO reputation using birthplace as an indicator. This approach may apply in various contexts for evaluating CEO reputation.

2 Empirical methodology and data

2.1 Sample construction and measures of home CEOs

Our initial sample consists of the universe of firms covered by ExecuComp from 1992 to 2018. We exclude regulated utilities (SIC 4900–4999) and financial firms (SIC 6000–6999) because regulations influence their corporate decisions. To create our measure of U.S. home CEOs, we manually collect birthplace data of CEOs from Marquis Who's Who, Standard and Poor's Register of Directors and Executives, Lexis-Nexis, NNDB.com, and Google searches. After excluding CEOs for whom we cannot identify the birth county, we obtain birthplace information for 1,888 out of the 6,543 U.S.-born CEOs in 1,674 nonfinancial, non-utility firms with 12,395 firm-year observations covered by ExecuComp from 1992 to 2018.[4] We classify a CEO as a home CEO if the distance between that person's place of birth and the firm's headquarters is less than 100 miles.[5] Next we follow the procedure of Vincenty (1975) and compute the distance between the CEO's hometown and the firm's headquarters.[6] After merging with financial data from Compustat and removing missing values of firm and CEO characteristics, our sample includes 1,595 unique CEOs in 1,268 firms and 10,692 firm-year observations.

2.2 Measures of financial misconduct

To explore whether a CEO's birthplace identity impacts financial misconduct, we examine four types of misconduct: earnings management, accounting fraud, opportunistic insider trading, and financial offenses.[7]

[4] In an unreported analysis, though we do not have exact birthplace information, we also include foreign CEOs in the sample but find no relation between their presence and firms' financial misconduct.

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

[6] We require that the geographic coordinates (longitude and latitude) can be obtained from the U.S. Census Bureau (n.d.) Gazetteer to calculate the distance between the coordinates of the CEO's hometown and the firm's headquarters.

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

2.2.1 Earnings management (discretionary accruals)

Earnings management is likely to mislead investors and result in earnings restatements, lawsuits, and Securities and Exchange (SEC) enforcement actions. Karpoff et al. (2008) show that, on average, firms lose 38% of their market value upon the discovery of financial misrepresentations. Accruals are vulnerable to managerial manipulation because they require managers' estimation and judgment (Yu 2008). We follow Cohen and Zarowin (2010) to capture the level of accruals-based earnings management.

We start with the complete dataset of U.S. firms listed in Compustat. For each calendar year, we estimate a cross-sectional model for every industry classified by 48 Fama-French (1997) industries with a minimum of 10 observations. We estimate discretionary accruals based on the following cross-sectional OLS regression:

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

$Assets_{i,\ t-1}$ represents total assets (Compustat item AT) of firm i at time t-1, $\Delta SALES_{i,\ t}$ is the change in revenues (Compustat item SALE) from the previous year, and $PPE_{i,\ t}$ is the gross value of property, plant, and equipment (Compustat item PPEGT) of firm i at time t.

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

$$TA_{i,t} = EBIT_{i,t} - CFO_{i,t}. \quad (2)$$

$EBIT_{i,\ t}$ is the earnings before extraordinary items and discontinued operations (Compustat item IBC) of firm i at time t. $CFO_{i,\ t}$ is the operating cash flows (from continuing operations) taken from the statement of cash flows (Compustat item OANCF – Compustat item XIDOC).

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

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

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

Since managers have incentives to manipulate earnings in both directions, upward and downward, we follow the literature (e.g., Bergstresser and Philippon 2006; Cohen et al. 2008; Yu 2008) and use the absolute value of discretionary accruals to measure earnings manipulation. Higher values of discretionary accruals imply that the firm is more likely to manipulate earnings via accruals. In our sample, we can

calculate the level of discretionary accruals for 1,184 firms from 1992 to 2018 with 10,036 observations.[8]

2.2.2 Accounting fraud

Following Liu (2016), we construct an accounting fraud dummy equal to one if the firm has experienced one of the following three events in a given year and zero otherwise. First, the firm is subject to class action lawsuits in a given year. We identify 216 lawsuit events in our sample using data from the Securities Class Action Clearinghouse (SCAC) Website from 1996 to 2018. SCAC is widely used in the literature to capture firm fraud (e.g., Dyck et al. 2010; and Wang et al. 2010). Second, earnings are misstated in that firm year. We use the Audit Analytics Database and SEC's Accounting and Auditing Enforcement Releases 10b-5 (AAER) to identify misstatements. Audit Analytics captures restatements filed from 2005 to present. We limit this data to income-increasing misstatements, which are more likely to be intentional. AAER consists of firm misstatements issued between May 1982 and December 2018. In our sample, we identify 186 misstatements. Third, the firm restated its earnings in a given year, according to the General Accountability Office database (GAO) in 2003 and 2006. GAO (2003, 2006) contains earnings restatements announced from January 1997 to July 2006. In our sample, we identify 182 earnings restatements. Overall, from 1992 to 2018, 5.2% of firm-year observations have a fraud dummy of one.

2.2.3 Opportunistic insider trading

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

[8] In the robustness checks section, we further (1) use the Dechow et al. (1995) model to measure discretionary accruals; (2) use a modified version of Jones (1991) model to measure discretionary accruals; (3) include two additional control variables, *Big 4* and *Litigation*; and iv) follow the approach suggested by Chen et al. (2018), where we regress the residual from a first-step regression on the combination of all the second-step regressors and all the first-step regressors when calculating discretionary accruals. Our main results endure.

We obtain insider trading data from Thomson Financial to identify insiders' purchase transactions (excluding option exercises).[9] We only focus on purchases as the literature (e.g., Ravina and Sapienza 2010) finds that executives do not receive positive abnormal returns on sales but do on purchases. In our sample, we construct the price pattern ratio for 1,029 unique firms from 1992 to 2018, representing 5,059 observations.

2.2.4 Financial offenses

Violations resolved by regulatory agencies and justice departments directly reflect misconduct. Following Heese and Pérez-Cavazos (2020) and Heese et al. (2022), we obtain firms' violation records from the Violation Tracker database, which is produced by the Corporate Research Project of Good Jobs First. Violation Tracker collected over 614,000 civil and criminal cases of firms from more than 450 federal agencies since 2000.[10] To compile the dataset, Violation Tracker also complements agency enforcement records with information collected on settlements announced in press releases.

From the 614,000 violations at the facility level, Violation Tracker links around 130,000 to more than 3,361 parent companies, representing close to 95% of the total penalty value. This linkage allows us to construct the violation measure for our sample. We focus on a specific category of violations, namely "financial offenses," which are more relevant to financial misconduct.[11] Among the 6,517 firm-year observations in our sample from 2000 to 2018, 150 firm-year observations have records of financial offenses.

2.3 Empirical strategy

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

$$Financial\ Misconduct_{i,t} = \alpha + \beta\ Home\ CEO_{j,t} + \mu F_{i,t} + \lambda C_{j,t} + \gamma_k + \delta_t + \varepsilon_{i,j,k,t} \tag{4}$$

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

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

[9] Adding option trades (call purchases and put sales) to the inside trading measure does not change our results.

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

[11] For robustness, we also use the annual penalty data for all types of violations from the Violation Tracker dataset as an alternative measure of financial misconduct, obtaining similar results.

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

To control for time invariant industry-related variables that might affect financial misconduct, we use the Fama-French (1997) 48-industry classifications to define industry.[12] We also include year fixed effects to control for a possible time trend. Across all models, we use heteroscedasticity-robust standard errors clustered at the county-year level (Lim and Nguyen 2021). Earnings management and opportunistic insider trading regressions use ordinary least square estimations, while the regressions for accounting fraud and financial offense use probit estimations. Overall our models compare firms with home CEOs versus those with nonhome CEOs within the same industry, year, and with similar firm and CEO characteristics.

2.4 Descriptive statistics

Table 1 reports summary statistics for firm and CEO variables for the overall sample (Panel A) as well as for home and nonhome CEOs (Panel B), respectively. We winsorize all our nonbinary variables at the first and 99th percentiles to remove the effect of outliers. Firms with home CEOs represent 27.7% of the firm-year observations in our sample, consistent with the figure documented by Yonker (2017b).[13] Our sample firms are roughly similar to the samples in prior studies using US public firms along firm and CEO characteristics (e.g., Irani and Oesch 2016; Cronqvist and Yu 2017). The mean value of our measure of earnings management is 0.457, which resembles the magnitude of the earnings management measure in Irani and Oesch (2016). We identify accounting fraud in 5.2% of firm-year observations, while the mean value of price pattern is 1.043, which are both close to the numbers documented by Liu (2016). The mean value of financial offenses is 2.3%.

Additionally, when we compare firms with home versus nonhome CEOs (Panel B), we find that firms with home CEOs are followed by fewer analysts and have lower growth opportunities and sales growth but are less likely to experience losses than firms with nonhome CEOs. The lower visibility of firms managed by home CEOs implies, if anything, that these firms would find it easier to commit misconduct than nonhome CEOs. Home CEOs also have higher equity ownership and longer tenures than other CEOs, consistent with the notion of birthplace identity for home CEOs. Panel B also shows that home CEOs are associated with less financial misconduct than nonhome CEOs which initially confirms our hypothesis.

[12] Our results hold when we use the two-digit Standard Industrial Classification (SIC) codes to define industry.

[13] Yonker (2017b) documents that the CEO's state of origin matches the firm's headquarters location for 30% of the firm-year observations in his sample.

Table 1 Descriptive statistics

Panel A. Descriptive statistics for the full sample						
Variable	N	Mean	Standard Deviation	P25	Median	P75
Financial misconduct variables						
Discretionary Accruals	10,036	0.457	1.484	0.024	0.065	0.210
Accounting Fraud	10,692	0.052	0.221	0	0	0
Price Pattern	5,059	1.043	0.238	0.974	1.035	1.121
Financial Offenses	6,517	0.023	0.151	0	0	0
Firm characteristics (full sample)						
Ln (Total Assets)	10,692	8.038	1.740	6.770	7.965	9.330
Firm Age	10,692	11.814	7.158	6	10	16
B/M	10,692	0.458	0.733	0.249	0.418	0.639
Leverage	10,692	0.254	0.219	0.100	0.235	0.363
ROA	10,692	0.131	0.202	0.085	0.132	0.186
Capital Intensity	10,692	0.601	0.460	0.241	0.506	0.901
R&D	10,692	0.027	0.180	0	0	0.021
High Tech	10,692	0.141	0.348	0	0	0
Ln (Operating Cycle)	10,422	4.695	1.120	4.137	4.617	5.057
Loss Percentage	10,542	0.138	0.203	0	0	0.200
Sales Growth	10,687	0.129	0.367	0.004	0.077	0.183
Sales Volatility	10,679	5.820	1.551	4.727	5.823	6.960
Cash Flow Volatility	10,332	4.469	1.465	3.345	4.408	5.493
Num. of Analysts	9,133	4.930	3.171	2.333	4.111	6.800
Shares Traded	10,692	1.334	0.742	1.194	1.667	1.838
CEO characteristics (full sample)						
Home CEO	10,692	0.277	0.447	0	0	1
Female CEO	10,692	0.022	0.147	0	0	0
CEO Age	10,692	59.160	8.550	54	59	64
CEO Tenure	10,692	6.854	5.011	3	5	9
CEO Ownership (%)	10,692	3.581	7.925	0	0.286	2.428
Home CEO (SSN)	18,643	0.295	0.462	0	0	1
Home CFO	8,572	0.337	0.473	0	0	1
County characteristics (full sample)						
Population	10,517	1.496	1.663	0.597	0.945	1.655
Income per Capita	10,517	44.853	23.414	30.003	38.448	51.385
Employment	10,200	0.600	0.269	0.456	0.528	0.625
Education	10,644	25.665	4.757	22.902	26.200	28.855
Num. of Establishments	10,322	48.981	56.588	17.767	31.665	67.207
Religiosity	10,434	585.341	128.834	481.158	589.550	663.608

Table 1 (continued)

Panel B. Descriptive statistics comparing home to nonhome CEOs						
	Home CEOs		NonHome CEOs		Difference	
	N	Mean	N	Mean	Difference	*p*-Value
Financial misconduct variables						
Discretionary Accruals	2,698	0.374	7,338	0.487	-0.114	0.001***
Accounting Fraud	2,959	0.038	7,733	0.057	-0.019	0.000***
Price Pattern	1,431	1.024	3,628	1.051	-0.028	0.000***
Financial Offenses	1,741	0.019	4,776	0.024	-0.005	0.043**
Firm characteristics						
Ln(Total Assets)	2,959	8.054	7,733	8.032	0.022	0.553
Firm Age	2,959	12.019	7,733	11.476	0.544	0.000***
B/M	2,959	0.539	7,733	0.427	0.112	0.000***
Leverage	2,959	0.252	7,733	0.255	-0.003	0.531
ROA	2,959	0.130	7,733	0.131	0	0.920
Capital Intensity	2,959	0.580	7,733	0.609	-0.029	0.004***
R&D	2,959	0.014	7,733	0.032	-0.018	0.000***
High Tech	2,959	0.109	7,733	0.153	-0.044	0.000***
Ln (Operating Cycle)	2,859	4.791	7,563	4.659	0.132	0.000***
Loss Percentage	2,917	0.122	7,625	0.144	-0.022	0.000***
Sales Growth	2,958	0.110	7,729	0.137	-0.027	0.001***
Sales Volatility	2,955	5.774	7,724	5.837	-0.063	0.062*
Cash Flow Volatility	2,808	4.389	7,524	4.498	-0.109	0.001***
Num. of Analysts	2,433	4.619	6,700	5.042	-0.423	0.000***
Shares Traded	2,959	1.278	7,733	1.355	-0.076	0.000***
CEO characteristics						
Female CEO	2,959	0.016	7,733	0.024	-0.008	0.012**
CEO Age	2,959	58.951	7,733	59.240	-0.289	0.118
CEO Tenure	2,959	7.482	7,733	6.614	0.869	0.000***
CEO Ownership (%)	2,959	4.958	7,733	3.054	1.904	0.000***
County characteristics						
Population	2,897	1.193	7,620	1.612	-0.419	0.000***
Income per Capita	2,897	44.820	7,620	44.870	-0.050	0.921
Employment	2,806	0.631	7,394	0.588	0.043	0.000***
Education	2,897	25.090	7,747	25.880	-0.783	0.000***
Num. of Establishments	2,806	40.580	7,516	52.120	-11.540	0.000***
Religiosity	2,869	605.100	7,565	577.900	27.190	0.000***

This table reports summary statistics of the variables used in the empirical analyses. Our sample consists of firm-year observations of US firms from 1992 to 2018 (except for the financial offenses data that cover the period from 2000 to 2018). Panel A reports the number of observations, mean, standard deviation, 25th percentile, median, and 75th percentile of each variable for the overall sample. Panel B reports the same statistics for home *CEO*s and nonhome *CEO*s. Statistical tests for differences in means for each variable for home *CEO*s versus nonhome *CEO*s are also presented. *Home CEO* is a dummy variable equal to one if the distance between the *CEO*'s birth county and the firm headquarters county is less than 100 miles and zero otherwise. Detailed definitions of all variables can be found in the appendix.

3 Results

3.1 Home CEOs and financial misconduct

We begin our empirical analysis by examining the association between CEOs' birthplace identity and firms' financial misconduct, controlling for firm and CEO characteristics. Table 2 presents our baseline results. In column (1), we report an ordinary least squares regression with abnormal accruals as the dependent variable. We find a statistically significant negative association between home CEOs and earnings management at the 1% level. The economic significance of this relationship indicates that firms with a home CEO are associated with lower abnormal accruals, equivalent to approximately 6% (=0.089/1.484) of one standard deviation of the abnormal accruals distribution.

Column (2) examines the relation between CEOs' birthplace identity and accounting fraud, which is a dummy variable that equals one if the firm-year observation is within a class action lawsuit period or has misstated earnings based on the AAER or GAO databases. Column (2) reports marginal effects for coefficients from a probit regression to facilitate interpretation of the economic significance of our results. Firms with a home CEO appear to be negatively associated with incidences of accounting fraud. In economic terms, the marginal effect associated with the home CEO coefficient indicates that firms with a home CEO are associated with a decrease of 1.5% in the incidence of accounting fraud. Given that the mean accounting fraud rate is 5.2%, a 1.5% decrease is economically sizable, representing 28.85% of the unconditional probability.

Column (3) presents results for the opportunistic insider trading regression. The coefficient on home CEO is −0.027. Economically, the estimate indicates that firms with a home CEO are associated with a decrease in the price pattern measure by 2.7%. The average price pattern measure is 1.043, meaning that the 20-trading day post-transaction abnormal return is 1.043 times the 20-trading day pre-transaction abnormal return for a typical insider purchase. Thus, a reduction of 2.7% brings the price pattern measure 62.79% closer to 1 (where the trades are non-opportunistic).

In the last column, we perform a probit regression, where the dependent variable is the financial offenses dummy. We find that the home CEO variable carries a negative and statistically significant (at the 1% level) coefficient, which suggests that home CEOs are associated with fewer financial offenses. In economic terms, the marginal effect associated with the home CEO coefficient indicates that firms with a home CEO are associated with a decrease of 0.7% in the incidence of financial offenses. Given that the mean financial offenses rate is 2.3%, a 0.7% decrease is economically sizable, representing 30.43% of the unconditional probability.

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

3.2 Dealing with selection and omitted variable biases

Two potential concerns arise in interpreting the association between home CEOs and financial misconduct. First, there may be a self-selection bias if boards select

Table 2 Home CEOs and financial misconduct

	Discretionary Accruals (1)	Accounting Fraud (2)	Price Pattern (3)	Financial Offenses (4)
Home CEO	-0.089***	-0.015***	-0.027***	-0.007***
	(-2.632)	(-2.722)	(-3.485)	(-3.161)
Ln (Total Assets)	-0.065**	-0.001	-0.017***	0.004
	(-2.519)	(-0.150)	(-6.842)	(1.040)
Firm Age	-0.104**	0.005	-0.002	-0.003
	(-2.292)	(0.891)	(-0.176)	(-0.568)
B/M	-0.006	-0.000	0.001	0.000
	(-1.614)	(-0.524)	(0.729)	(0.613)
Leverage	-0.040	0.001	-0.037	-0.056***
	(-0.404)	(0.072)	(-1.458)	(-4.835)
ROA	0.327	-0.024**	-0.141**	-0.091**
	(1.640)	(-2.295)	(-2.571)	(-2.528)
Capital Intensity	0.500***	-0.005	0.012	-0.019*
	(7.665)	(-0.633)	(1.174)	(-1.682)
R&D	-0.104	-0.015	-0.210***	-0.013
	(-0.256)	(-1.339)	(-3.082)	(-0.350)
High Tech	-0.043	0.004	0.043**	-0.008
	(-0.540)	(0.408)	(2.280)	(-0.563)
Operating Cycle	0.032***	0.003*		0.000
	(2.995)	(1.803)		(0.956)
Loss Percentage	0.062	0.020		0.029
	(0.557)	(1.609)		(1.498)
Sales Growth	0.164**	0.009		-0.017
	(2.094)	(1.633)		(-1.442)
Sales Volatility	0.073***	0.013***		0.011**
	(3.033)	(3.972)		(2.476)
Cash Flow Volatility	0.021	0.001		0.006
	(0.659)	(0.174)		(1.105)
Female CEO	0.054	0.007	-0.005	0.019
	(0.411)	(0.529)	(-0.169)	(1.578)
CEO Age	-0.053	-0.042**	0.033	0.067
	(-0.461)	(-2.385)	(1.001)	(0.356)
CEO Tenure	0.009**	0.001	-0.000	-0.001**
	(1.984)	(1.356)	(-0.490)	(-2.146)
CEO Ownership	0.001	-0.000	-0.001	-0.001**
	(0.208)	(-0.215)	(-1.357)	(-2.026)
Number of Analysts	-0.005			0.002
	(-0.610)			(0.972)
Shares Traded			-0.041	
			(-1.341)	

Table 2 (continued)

	Discretionary Accruals (1)	Accounting Fraud (2)	Price Pattern (3)	Financial Offenses (4)
Year FEs	Yes	Yes	Yes	Yes
Industry FEs	Yes	Yes	Yes	Yes
Observations	8,186	9,671	5,020	3,997
R^2 (Pseudo R^2)	0.153	(0.128)	0.099	(0.353)

We examine the relation between home *CEO*s and financial misconduct for a sample of US firms with available data for the period between 1992 and 2018 (except for the financial offenses data that cover the period from 2000 to 2018). The dependent variables are four financial misconduct measures: discretionary accruals, accounting fraud, price pattern, and financial offenses. The independent variable, *Home CEO*, is a dummy variable equal to one if the distance between the *CEO*'s birth county and the firm headquarters is less than 100 miles and zero otherwise. Columns (1) and (3) report coefficients from OLS regressions, while columns (2) and (4) report coefficients from probit regressions. Definitions of the variables can be found in the appendix. Year and industry (48 Fama-French) fixed effects are included. *t*-statistics (in parentheses) are computed using heteroskedasticity-robust standard errors that are corrected for clustering at the county-year level. ***, **, and * represent significance at the 1%, 5%, and 10% levels, respectively.

CEOs to implement earnings management or other strategies potentially resulting in financial misconduct. Second, an omitted variable bias may exist due to unobservable characteristics related to both financial misconduct and the selection of home CEOs. We address these concerns in the following sections.

3.2.1 Entropy balancing

Our study examines the difference in financial misconduct between companies led by home CEOs and those led by other CEOs. However, our results are derived from observational data, where treatment is not randomly assigned. If companies with home CEOs differ inherently from those with nonhome CEOs, simply using known determinants of financial misconduct as linear control variables might be inadequate. This is because the influence of these factors could vary between the two groups due to complex nonlinear interactions that are not captured by simple linear adjustments. To address this issue, we use entropy balancing, which re-weights observations in the control group to align the mean, standard deviation, and skewness of all covariates with those in the treatment group (Hainmueller 2012; Hainmueller and Xu 2013). Entropy balancing is superior to propensity score matching, because, unlike propensity score matching, which categorizes data into binary groups, entropy balancing performs a constrained optimization to find continuous weights for the control group, maintaining weights as close to equal as possible. Additionally, it avoids the design hazards that can significantly affect sample composition and estimates in propensity-score matching (Shipman et al. 2017).[14]

[14] Our results are also robust to using propensity-score matching.

Table 3 Controlling for endogeneity: entropy balancing

	Discretionary Accruals	Accounting Fraud	Price Pattern	Financial Offenses
	(1)	(2)	(3)	(4)
Home CEO	-0.098***	-0.013***	-0.028***	-0.007***
	(-2.715)	(-2.637)	(-3.583)	(-2.719)
Ln (Total Assets)	-0.079***	-0.001	-0.016***	0.001
	(-2.863)	(-0.357)	(-5.736)	(0.216)
Firm Age	-0.113**	0.004	-0.001	-0.005
	(-2.257)	(0.594)	(-0.109)	(-0.668)
B/M	-0.005	0.000	-0.000	0.001
	(-1.477)	(0.026)	(-0.509)	(0.917)
Leverage	-0.030	0.017	0.030	-0.072***
	(-0.289)	(1.351)	(1.077)	(-5.276)
ROA	0.356	-0.035**	-0.071	-0.189***
	(1.594)	(-2.421)	(-1.049)	(-5.441)
Capital Intensity	0.493***	-0.003	0.028**	-0.029**
	(7.954)	(-0.389)	(2.153)	(-2.237)
R&D	-0.306	0.144**	0.416**	-0.027
	(-0.426)	(2.212)	(2.448)	(-0.414)
High Tech	0.029	-0.012	0.051**	-0.006
	(0.316)	(-1.104)	(2.308)	(-0.417)
Operating Cycle	0.030***	0.001		0.000
	(2.912)	(0.404)		(0.653)
Loss Percentage	0.003	-0.003		-0.006
	(0.026)	(-0.223)		(-0.238)
Sales Growth	0.120	0.006		-0.008
	(1.388)	(0.868)		(-0.666)
Sales Volatility	0.083***	0.012***		0.016***
	(3.251)	(3.397)		(3.558)
Cash Flow Volatility	0.005	0.002		0.009
	(0.140)	(0.544)		(1.435)
Female CEO	0.248	0.001	0.013	0.025
	(1.363)	(0.091)	(0.388)	(1.442)
CEO Age	0.045	-0.032*	0.082**	0.110
	(0.363)	(-1.725)	(2.027)	(0.368)
CEO Tenure	0.011**	0.001	0.000	-0.002***
	(2.231)	(1.008)	(0.109)	(-3.220)
CEO Ownership	-0.001	-0.000	-0.000	-0.001***
	(-0.315)	(-1.072)	(-0.355)	(-2.785)
Number of Analysts	-0.002			0.001
	(-0.207)			(1.069)
Shares Traded			-0.044**	
			(-2.029)	

Table 3 (continued)

	Discretionary Accruals	Accounting Fraud	Price Pattern	Financial Offenses
	(1)	(2)	(3)	(4)
Year FEs	Yes	Yes	Yes	Yes
Industry FEs	Yes	Yes	Yes	Yes
Observations	8,186	9,671	5,020	3,997
R^2 (Pseudo R^2)	0.151	(0.138)	0.112	(0.357)

This table reports the results for a sample after entropy balancing. The treatment group includes firm-year observations with a home *CEO*. The dependent variables are four financial misconduct measures: discretionary accruals, accounting fraud, price pattern, and financial offenses. The independent variable, *Home CEO*, is a dummy variable equal to one if the distance between the *CEO*'s birth county and the firm headquarters is less than 100 miles and zero otherwise. The control group includes firm-year observations with a nonhome *CEO*. Detailed definitions of other variables and the proof of convergence of entropy balancing sample can be found in the appendix. We include all control variables used in Table 2 as well as year and industry (48 Fama-French) fixed effects. *t*-statistics (in parentheses) are computed using heteroskedasticity-robust standard errors that are corrected for clustering at the county-year level. ***, **, and * represent significance at the 1%, 5%, and 10% levels, respectively.

Table 3 presents the results. In the first analysis, following Rubin (2001) and Austin (2011), we examine the distribution of the control variables after entropy balancing and ensure that none of the standardized differences and variance ratios is outside of the vertical bands (see Table IA1 in the internet appendix). Next we perform weighted ordinary least squares regressions and report coefficients in Table 3. We still find a negative relation between home CEOs and the firm's financial misconduct, with home CEO coefficients carrying similar economic magnitudes to the baseline results.

3.2.2 Two-stage instrumental variable analysis

To address the possibility that other omitted variables drive our results, we perform a two-stage instrumental variable analysis (2SLS) and present the results in Table 4. This approach requires an instrumental variable that is correlated with the choice of home CEOs to manage the firm but is uncorrelated with financial misconduct. We construct the instrumental variable by combining two factors of desirable weather: temperature and sunshine (i.e., clear days).[15] It is worth providing an example here to justify our selection of both criteria, rather than focusing only on the percentage of clear days as a proxy for weather desirability. Kotzebue, a small city in Alaska, has on average, 100 clear days every year, which is even higher than the famous tourist city, Daytona Beach in Florida (97 clear days every year). However, the former has 244 (or 67.78% of) days per year on average with a minimum temperature of 32 °F or less, while the latter has 86.47% of days with normal temperature (from 32 °F to 90 °F). Therefore, the combination of both criteria is more likely to capture locations with better weather.

[15] For instance, both normal temperature and amount of sunshine are among the positive factors of Morgan Quitno's State Ranking for livability (Deng and Gao 2013).

Table 4 Controlling for endogeneity: two-stage instrumental variable (IV) approach

	First-stage Home CEO	Second-stage Discretionary Accruals	First-stage Home CEO	Second-stage Accounting Fraud	First-stage Home CEO	Second-stage Price Pattern	First-stage Home CEO	Second-stage Financial Offenses
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Home CEO		-1.223***		-0.165*		-0.170**		-0.052***
		(-2.664)		(-1.868)		(-2.012)		(-2.768)
Desirable Weather	-0.042***		-0.028***		-0.013***		-0.032***	
	(-10.461)		(-6.638)		(-2.745)		(-6.406)	
Control Variables in Table 2	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry FEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	5,865	5,865	9,817	9,817	4,998	4,998	5,142	5,142
R^2	0.076	0.041	0.070	0.037	0.077	0.054	0.070	0.098
Efficient F-Statistics	44.064		30.746		28.071		47.745	
LIML size of nominal 10%	23.109		23.109		23.109		23.109	

This table presents the results of two-stage instrumental variable regression analysis. In the first stage (columns (1), (3), (5), and (7)), the dependent variable takes the value of one for a home *CEO* and zero otherwise. The instrumental variable used in the first stage regression is *Desirable Weather*, which is the average of (1) the percentage of days with desirable temperature (from 32 °F to 90 °F) and (2) the amount of sunshine (the percentage of the maximum amount of sunshine from sunrise to sunset with clear sky conditions). For each county, this variable is measured with the historical data from the nearest weather station. The instrumented home CEO is then used in the second-stage regression, where the dependent variables are our measures of financial misconduct (columns (2), (4), (6), and (8)). Detailed definitions of other variables can be found in the appendix. Year and industry (48 Fama-French) fixed effects are included. *t*-statistics (in parentheses) are computed using heteroskedasticity-robust standard errors that are corrected for clustering at the county-year level. ***, **, and * represent significance at the 1%, 5%, and 10% levels, respectively.

We use good weather as an instrument in our study because Yonker (2017b) and Lai et al. (2020) argue that people prefer to live in places with pleasant weather. Companies in areas with better weather should have an easier time attracting top CEOs from anywhere, making them less likely to hire locally. Therefore, we expect a negative relationship between good weather and the hiring of local CEOs. Good weather is therefore likely to satisfy the relevance requirement. At the same time, the weather in a region is unlikely to directly affect whether local CEOs commit financial misconduct, satisfying the exclusion condition.[16]

To construct our instrumental variable, we use data from the US National Oceanic and Atmospheric Administration (NOAA), which records the historical weather data on (1) abnormal temperature days (i.e., days with minimum temperature 32 °F or less as well as those with a maximum temperature 90 °F or higher), and (2) the amount of sunshine (the percentage of the maximum amount of sunshine from sunrise to sunset with clear sky conditions).[17] The desirable weather measure is calculated as the average of (1) the percentage of days with normal temperature (1-abnormal temperature days/365) and (2) the amount of sunshine. For every county, this variable is measured with historical data from the nearest weather station. (The average distance is 7.456 miles.)

To perform the instrumental variable analysis, in the first stage regressions (columns (1), (3), (5) and (7)), we regress the variable *Home CEO* on desirable weather and all other control variables used in previous analyses. We find a strong negative relation between *Desirable Weather* and *Home CEO*. The coefficient on the instrumental variable is statistically significant at the 1% level, indicating that firms in counties with better weather are less likely to be associated with the appointment of a home CEO. Importantly, we find that, in all first-stage regressions, the effective F statistics for the weak identification test are comfortably higher than the critical value and satisfy the relevance condition (23.109), allowing us to reject the null of weak identification. In columns (2), (4), (6) and (8), we run the same regressions as in the baseline analysis in Table 2, where the instrumented home CEO is our main variable of interest. Our results continue to show a significantly negative relation between the instrumented home CEO and financial misconduct variables, indicating that home CEOs are less likely to be associated with financial misconduct. This result, combined with our extensive set of controls, may help alleviate endogeneity concerns.

3.2.3 Caveats

Despite efforts to deal with omitted variables, our results come with caveats. The selection of local CEOs may not be random, potentially introducing bias due to unobserved factors that influence both the appointment of local CEOs and financial misconduct. For example, firms experiencing financial misconduct may intentionally

[16] Heese et al. (2023a, b) show that good weather leads to more *nonfinancial* misconduct (i.e. workplace safety violations).

[17] According to the US NOAA, "clear" denotes zero to 3/10 average sky cover.

hire local CEOs to address these problems, which could lead to a decrease in misconduct. We emphasize that our findings do not establish a causal relationship between hiring local CEOs and reduced misconduct. Instead we document an association between firms with local CEOs and lower levels of financial misconduct.

Second, when assessing the validity of our instrumental variable approach, it is important that our chosen instrument, in this case, desirable weather, does not directly influence financial misconduct. Proving that an instrument does not capture factors affecting the outcome is inherently difficult. Research typically tests whether the instrument relates to other variables that might influence the outcome (e.g., Fahlenbrach et al. 2010; Becker et al. 2011; Saunders and Steffen 2011). If factors that are known to impact financial misconduct also relate to desirable weather, our instrument would not pass the exclusion criterion. To address these concerns, we include an exhaustive set of factors at the firm, CEO, and county levels that could be linked to financial misconduct. Our analysis shows that these factors do not significantly account for desirable weather, which supports our instrument's validity. However, it is important to recognize that, in instrumental variable studies, providing absolute proof that an instrument meets the exclusion criterion is nearly impossible.[18]

3.2.4 Within-CEO analysis: evidence from involuntary CEO turnover

We further examine the association between local CEOs and financial misconduct by analyzing the impact of CEO changes over time. We adopt the methodology of Lai et al. (2020) and focus on a set of involuntary CEO changes compiled by Gentry et al. (2021), which include changes due to death, illness, or dismissal for performance or personal reasons. Our sample consists of 211 CEO turnovers with available data on outgoing and incoming CEOs as well as relevant company information.[19] Our main variable of interest is *Home CEO*, which takes a value of 1 if a nonlocal CEO is replaced by a local CEO, −1 if a local CEO is replaced by a nonlocal CEO, and 0 if there is no change in the CEO's local status. We compare changes in mean values of financial misconduct and other key variables between the outgoing and incoming CEOs' tenures. Panel A of Table 5 reports these results. We find a negative and significant coefficient for *Home CEO* across all measures of financial misconduct, consistent with our earlier findings on the negative association between home CEOs and firms' financial misconduct.

[18] Yet another potential limitation of our study is that the findings may be influenced by a few companies led by local CEOs, particularly in analyses that examine differences across various types of firms. While this might imply that our observations apply to a limited number of U.S. companies, it's noteworthy that firms with local CEOs on their boards comprise a significant 27.7% of our sample. This percentage is consistent with Yonker's (2017b) documented figure, indicating that our results are not limited to a small fraction of U.S. firms.

[19] We acknowledge that focusing solely on CEO changes due to death or illness would provide a more convincing test, as these events are likely to be exogenous. However, our sample includes only 25 such cases, which is too small for meaningful statistical analysis. Therefore, we include CEO dismissals to increase the sample size.

Table 5 Evidence from involuntary CEO turnovers and headquarters relocation

Panel A. Involuntary CEO turnovers

	Discretionary Accruals (1)	Accounting Fraud (2)	Price Pattern (3)	Financial Offenses (4)
Home CEO	-0.034**	-0.023**	-0.015**	-0.021*
	(-2.014)	(-2.357)	(-2.192)	(-1.719)
Control Variables in Table 2	Yes	Yes	Yes	Yes
Year FEs	Yes	Yes	Yes	Yes
Industry FEs	Yes	Yes	Yes	Yes
Observations	211	211	211	211
R^2	0.213	0.162	0.019	0.121

Panel B. Headquarters relocations

	Discretionary Accruals (1)	Accounting Fraud (2)	Price Pattern (3)	Financial Offenses (4)
Home CEO	-0.048**	-0.003*	-0.018*	-0.003
	(-2.073)	(-1.692)	(-1.843)	(-0.920)
Control Variables in Table 2	Yes	Yes	Yes	Yes
Year FEs	Yes	Yes	Yes	Yes
Industry FEs	Yes	Yes	Yes	Yes
Observations	175	175	175	175
R^2	0.137	0.287	0.035	0.143

This table reports regressions using change variables. In Panel A, the sample includes 211 involuntary CEO turnover events from Gentry et al. (2021), with required data on departing CEO, new CEO, and firm variables. *Home CEO* is a categorical variable equal to 1 if the departing CEO is a nonhome CEO and new CEO is a home CEO, -1 if the departing CEO is a home CEO and new CEO is nonhome CEO, and 0 otherwise. All other change variables in Panel A are defined as the change in their mean values between the tenure of the departing CEO and the new CEO. In Panel B, the sample includes 175 headquarters relocations, with required data on CEO and firm variables. *Home CEO* is a categorical variable equal to 1 if the headquarters moves into the 100-mile radius of CEO's birthplace, -1 if the headquarters moves out of the 100-mile radius of CEO's birthplace, and 0 otherwise. All other change variables in Panel B are defined as the change in their mean values after the relocation of the headquarters. To isolate the effects of relocation, we only consider observations in the same CEO tenure before and after the relocation. Detailed definitions of other variables in nonchange form can be found in the appendix. Year and industry (48 Fama-French) fixed effects are included, which are based on year dummies and industry code in the turnover and relocation year, respectively. *t*-statistics (in parentheses) are computed using heteroskedasticity-robust standard errors that are corrected for clustering at the county-year level. ***, **, and * represent significance at the 1%, 5%, and 10% levels, respectively.

3.2.5 Headquarters relocation

In addition to exploiting shocks from CEO changes, we also investigate another shock based on firm headquarters relocation. Specifically, the relocation of headquarters, though uncommon, could serve as an exogenous event to rule out alternate explanations. This scenario, where the CEO continues in his or her role but no longer resides in the hometown, provides a unique opportunity to isolate the influence of a home CEO's geographical ties. In our sample, we identify 175 headquarters relocations with the required data on CEO and firm variables. Our main variable of interest, *ΔHome CEO*, is a categorical variable that equals 1 if the headquarters moves within a 100-mile radius of the CEO's birthplace, −1 if the headquarters moves out of the 100-mile radius of the CEO's birthplace, and 0 otherwise. The dependent and control variables are defined as the change in their mean values after the relocation of the headquarters. To isolate the effects of relocation, we consider only observations within the same CEO's tenure before and after the relocation. Panel B of Table 5 presents the results for headquarters relocations. We find that *ΔHome CEO* is significantly negative in three out of four regressions, except for financial offenses. Overall our findings further reinforce the evidence that firms with home CEOs are negatively associated with financial misconduct.

3.2.6 Corporate governance as an omitted variable

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

We use three proxies to measure strong corporate governance. These proxies are (1) *small board size* per Yermack (1996); (2) *low E-index* per Bebchuk et al. (2009); and (3) *high percentage of independent directors* per Dahya et al. (2002). Table 6 reports the results. Panel A presents the results for small board size, Panel B for low E-index, and Panel C for high percentage of independent directors. In each panel, we run four regressions, one for each measure of financial misconduct, where we include each corporate governance indicator variable and its interaction term with home CEO. Importantly, almost all interaction variables are statistically insignificant at conventional levels, indicating that, regardless of the strength of corporate governance in the firm, the financial misconduct of firms with home CEOs continues to be less than for other firms. In other words, corporate governance is unlikely to be an omitted variable driving our results.

3.3 Cross-sectional effects: When are home CEOs less likely to conduct financial misconduct?

In this section, we analyze the cross-sectional variation in the association between home CEOs and financial misconduct. Specifically, we examine whether the

Table 6 Home CEOs and financial misconduct: The role of corporate governance

Panel A. Board size				
	Discretionary Accruals	Accounting Fraud	Price Pattern	Financial Offenses
	(1)	(2)	(3)	(4)
Home CEO	-0.140***	-0.018**	-0.038***	-0.003**
	(-2.705)	(-2.015)	(-2.946)	(-2.066)
Small Board Size	-0.107*	-0.010	0.001	0.016
	(-1.691)	(-1.122)	(0.050)	(0.050)
Home CEO × Small Board Size	0.110	0.016	0.036*	0.017
	(1.138)	(0.981)	(1.647)	(0.192)
Control Variables in Table 2	Yes	Yes	Yes	Yes
Year FEs	Yes	Yes	Yes	Yes
Industry FEs	Yes	Yes	Yes	Yes
Observations	5,657	6,009	3,368	3,045
R^2 (Pseudo R^2)	0.164	(0.129)	0.121	(0.385)
Panel B. E-index				
	Discretionary Accruals	Accounting Fraud	Price Pattern	Financial Offenses
	(1)	(2)	(3)	(4)
Home CEO	-0.452**	-0.033*	-0.025**	-0.006***
	(-1.998)	(-1.860)	(-2.227)	(-3.055)
Low E-Index	-0.274**	-0.009	0.010	-0.005*
	(-2.154)	(-0.818)	(0.697)	(-1.951)
Home CEO × Low E-Index	0.442	0.006	-0.032	0.001
	(1.275)	(0.234)	(-1.023)	(0.172)
Control Variables in Table 2	Yes	Yes	Yes	Yes
Year FEs	Yes	Yes	Yes	Yes
Industry FEs	Yes	Yes	Yes	Yes

Table 6 (continued)

Observations	2,503	2,384	1,498	1,410
R^2 (Pseudo R^2)	0.255	(0.217)	0.136	(0.328)
Panel C. Percentage of independent directors				
	Discretionary Accruals (1)	Accounting Fraud (2)	Price Pattern (3)	Financial Offenses (4)
Home CEO	-0.428**	-0.017*	-0.053**	-0.005***
	(-2.479)	(-1.656)	(-2.497)	(-2.843)
High % of Independent Directors	-0.159**	-0.004	-0.008	0.000
	(-2.128)	(-0.547)	(-0.736)	(0.002)
Home CEO × High % of Ind. Directors	-0.004	0.005	0.047	0.012
	(-0.027)	(0.378)	(1.121)	(1.541)
Control Variables in Table 2	Yes	Yes	Yes	Yes
Year FEs	Yes	Yes	Yes	Yes
Industry FEs	Yes	Yes	Yes	Yes
Observations	5,323	5,794	3,259	2,916
R^2 (Pseudo R^2)	0.261	(0.134)	0.125	(0.401)

This table reports how the effect of CEOs' birthplace identity on financial misconduct varies in a cross-section of firms based on measures of corporate governance. The dependent variables are four financial misconduct measures: discretionary accruals, accounting fraud, price pattern, and financial offenses. The independent variable, *Home CEO*, is a dummy variable equal to one if the distance between the CEO's birth county and the firm headquarters is less than 100 miles and zero otherwise. Columns (1) and (3) report coefficients from OLS regressions, while columns (2) and (4) report coefficients from probit regressions. The variables used to proxy for strong corporate governance are (1) *small board size* in Panel A, (2) *low E-index* in Panel B, and (3) *high percentage of independent directors* in Panel C. *Home CEO* is a dummy variable equal to one if the distance between the CEO's birth county and the headquarters county is less than 100 miles and zero otherwise. Detailed definitions of other variables can be found in the appendix. Year and industry (48 Fama-French) fixed effects are included. *t*-statistics (in parentheses) are computed using heteroskedasticity-robust standard errors that are corrected for clustering at the county-year level. ***, **, and * represent significance at the 1%, 5%, and 10% levels, respectively.

negative relationship between home CEOs and financial misconduct is more pronounced in two contexts: (1) for home CEOs with longer tenures in their home states and (2) in counties with greater religious commitment.

3.3.1 Long home tenure

We hypothesize that the negative association between local CEOs and financial misconduct strengthens for CEOs with deeper ties to their home area. CEOs with strong local connections may have greater incentives to avoid actions that could compromise their positions. Following Pool et al. (2012) and Jiang et al. (2019), we use *Long Home Tenure* to measure the strength of a CEO's home area attachment. We define *Long Home Tenure* as a binary variable equal to one if the CEO's employment duration in his or her home state exceeds the sample median and zero otherwise. To construct this measure, we use the Capital IQ People Intelligence database to track CEOs' full employment histories. We match CEOs across the Capital IQ and ExecuComp databases using their names and positions. Our measure includes all business positions located in the CEO's birth state. We calculate the duration of home tenure using the start and end dates provided in the database.

Panel A of Table 7 reports our results. Specifically, we augment the four baseline models in Table 2 by interacting home CEOs with the long home tenure variable. The negative association between home CEOs and financial misconduct remains statistically significant in all specifications. Importantly, the interaction terms between the home CEO indicator and the long home tenure variable are negatively and significantly associated with financial misconduct across all models. This suggests that home CEOs with longer tenures in their home states are less likely to be associated with financial misconduct.

3.3.2 County-level religiosity

Studies show that companies in more religious regions experience fewer cases of financial misconduct (McGuire et al. 2012). Religion significantly influences social identity and acts as a key source of legitimacy. Thus, we anticipate that the effect of local CEOs on reducing financial misconduct strengthens in areas with greater religious commitment. Following Hilary and Hui (2009), Berglund and Kang (2013), and Hasan et al. (2017), we use data from the US Association of Religion Data Archives (ARDA), which provides a free time-series database of religiosity in America, to construct our religiosity measure. This data allows us to measure religiosity as the proportion of religious adherents in a county, defined as the number of religious adherents in the county relative to the total population.

In Panel B of Table 7, we interact our home CEO variable with religiosity. The coefficients of the interaction term are negative and significant for three out of four financial misconduct measures. This suggests that religiosity strengthens the negative association between home CEOs and financial misconduct, consistent with social identity and legitimacy theories. Furthermore, to examine whether the home CEO effect persists after accounting for religiosity, we employ a two-stage regression approach. In the first stage, we regress our home CEO variable on religiosity,

Table 7 Cross-sectional effects

Panel A. Length of home tenure

	Discretionary Accruals (1)	Accounting Fraud (2)	Price Pattern (3)	Financial Offenses (4)
Home CEO	-0.064***	-0.009**	-0.021*	-0.006**
	(-2.793)	(-2.542)	(-1.763)	(-2.431)
Long Home Tenure	-0.010	0.002	-0.012	-0.031
	(-1.092)	(0.937)	(-0.884)	(-0.034)
Home CEO × Long Home Tenure	-0.056**	-0.011*	-0.007**	-0.004**
	(-2.164)	(-1.835)	(-1.974)	(-2.251)
Control Variables in Table 2	Yes	Yes	Yes	Yes
Year FEs	Yes	Yes	Yes	Yes
Industry FEs	Yes	Yes	Yes	Yes
Observations	7,261	8,568	4,447	3,492
R^2 (Pseudo R^2)	0.155	(0.128)	0.102	(0.355)

Panel B. County-level religiosity

	Discretionary Accruals (1)	Accounting Fraud (2)	Price Pattern (3)	Financial Offenses (4)
Home CEO	-0.071**	-0.015**	-0.020*	-0.005***
	(-2.342)	(-2.014)	(-1.845)	(-2.973)
High Religiosity	-0.018	0.019	0.001	-0.013
	(-0.039)	(1.084)	(0.867)	(-1.263)
Home CEO × High Religiosity	-0.032*	-0.003**	-0.011**	-0.009
	(-1.684)	(-2.281)	(-2.043)	(-1.307)
Control Variables in Table 2	Yes	Yes	Yes	Yes
Year FEs	Yes	Yes	Yes	Yes
Industry FEs	Yes	Yes	Yes	Yes
Observations	7,962	9,363	4,943	3,715
R^2 (Pseudo R^2)	0.165	(0.154)	0.093	(0.361)

This table reports how the effect of CEOs' birthplace identity on financial misconduct varies in a cross-section of firms based on social and geographical factors. The dependent variables are four financial misconduct measures: discretionary accruals, accounting fraud, price pattern, and financial offenses. The independent variable, *Home CEO* is a dummy variable equal to one if the distance between the CEO's birth county and the firm headquarters is less than 100 miles and zero otherwise. In Panel A, we investigate the cross-sectional heterogeneity by using *Long Home Tenure*, which is a dummy variable equal to one if the number of years that the CEO worked in his or her home state exceeds the sample median and zero otherwise. In Panel B, we investigate whether county-level religiosity enhances the relationship between home CEOs and financial misconduct. Religiosity is defined as the number of religious adherents in the county to the total population in the county (in thousands). We follow previous studies (e.g., Hilary and Hui 2009) and linearly interpolate the data to obtain the values in the missing years. *High Religiosity* is a dummy variable equal to one if the proportion of religious adherents is above sample median in a given year and zero otherwise. Detailed definitions of other variables can be found in the appendix. Year and industry (48 Fama-French) fixed effects are included. *t*-statistics (in parentheses) are computed using heteroskedasticity-robust standard errors that are corrected for clustering at the county-year level. ***, **, and * represent significance at the 1%, 5%, and 10% levels, respectively.

firm characteristics, CEO characteristics, and other headquarters' county characteristics. In the second stage, we use the residuals from the first stage as independent variables in our regression analysis of financial misconduct variables. This method helps isolate the home CEO effect from religiosity. The results, reported in Internet Appendix Table IA7 Panel C, indicate that the home CEO association persists after controlling for the religiosity effect.

4 Further analysis

4.1 CEO compensation structure

Yonker (2017b) finds that home CEOs tend to receive lower compensation than other CEOs. This difference may extend beyond total pay to include variations in compensation structure, particularly regarding incentives. Home CEOs, with a preference for staying near their birthplace, may require fewer retention incentives. This difference in incentive structure could influence their propensity to commit financial misconduct. Studies suggest that certain compensation types can motivate CEOs to commit financial misconduct (Cheng and Warfield 2005; Armstrong et al. 2010). Therefore, the distinct compensation arrangements for home CEOs, potentially influenced by their preference for staying local, may be associated with a lower likelihood of committing misconduct due to differing incentive structures.

In this section, we attempt to isolate the effect of compensation on misconduct by examining financial misconduct among home and nonhome CEOs with similar incentive pay structures. In particular, we use entropy balancing to achieve balance in four compensation structure variables between home CEOs and nonhome CEOs: CEO total pay, CEO delta, CEO vega, and the percentage of CEO cash compensation (salary and bonus) to total compensation.

Table 8 reports the findings. In Panel A, we report the distribution of the compensation structure variables before entropy balancing. We find striking differences in compensation structure between home CEOs and nonhome CEOs. Home CEOs receive lower total pay, higher delta, lower vega, and higher cash pay than nonhome CEOs, with all differences significant at the 1% level. In Panel B, we report the distribution of the compensation structure variables after entropy balancing. The entropy balancing results in home CEOs and nonhome CEOs with nearly identical mean, variance, and skewness of compensation structure variables. In Panel C, we rerun the baseline regressions from Table 2 using the sample after entropy balancing to compare the incidence of financial misconduct between firms with home and nonhome CEOs, maintaining similar compensation structures. We find that the negative and significant correlation between home CEOs and financial misconduct persists across all specifications. This suggests that the observed negative association between home CEOs and financial misconduct is not likely attributable to differences in their compensation structures.

Table 8 The compensation structure of CEOs

Panel A. Diagnostical tests for entropy balancing: Before balancing

	Home CEO			Non-Home CEO		
	Mean	Variance	Skewness	Mean	Variance	Skewness
Total Pay (in $millions)	5.684	105.117	8.529	6.276	104.812	9.893
Delta (in $millions)	4.600	936.187	4.868	2.275	271.468	7.438
Vega (in $millions)	0.176	0.126	14.571	0.208	0.181	18.970
% (Salary + Bonus)	0.489	0.093	0.279	0.433	0.089	0.529

Panel B. Diagnostical tests for entropy balancing: After balancing

	Home CEO			Non-Home CEO		
	Mean	Variance	Skewness	Mean	Variance	Skewness
Total Pay (in $millions)	5.684	105.117	8.529	5.684	105.115	8.521
Delta (in $millions)	4.600	936.187	4.868	4.601	936.203	4.867
Vega (in $millions)	0.176	0.126	14.571	0.176	0.126	14.570
% (Salary + Bonus)	0.489	0.093	0.279	0.489	0.093	0.279

Panel C. Regressions after entropy balancing

	Discretionary Accruals	Accounting Fraud	Price Pattern	Financial Offenses
	(1)	(2)	(3)	(4)
Home CEO	-0.124***	-0.009**	-0.023***	-0.013**
	(-3.398)	(-2.164)	(-2.754)	(-2.318)
Controls in Table 2	Yes	Yes	Yes	Yes

Table 8 (continued)

Year and Industry FEs	Yes	Yes	Yes	Yes
Observations	7,498	8,859	4,598	3,661
R^2 (Pseudo R^2)	0.133	(0.154)	0.117	(0.372)

This table reports the results after controlling for *CEO*s' compensation structure. We use entropy balancing to achieve the balance in four compensation variables (i.e., *CEO*'s total pay, delta, vega, and the proportion of salary and bonus to total compensation) between treatment and control groups. The treatment group encompasses firm-year observations with a home *CEO*. The control group encompasses firm-year observations with a nonhome *CEO*. In Panels A and B, we compare the difference between the home *CEO* and nonhome *CEO* samples in three dimensions (mean, variance, and skewness) before and after the balancing, respectively. In Panel C, we present regressions after entropy balancing. The dependent variables are four financial misconduct measures: discretionary accruals, accounting fraud, price pattern, and financial offenses. The independent variable, *Home CEO* is a dummy variable equal to one if the distance between the *CEO*'s birth county and the firm headquarters is less than 100 miles and zero otherwise. We include all control variables used in Table 2 as well as year and industry (48 Fama-French) fixed effects. Detailed definitions of other variables can be found in the appendix. *t*-statistics (in parentheses) are computed using heteroskedasticity-robust standard errors that are corrected for clustering at the county-year level. ***, **, and * represent significance at the 1%, 5%, and 10% levels, respectively.

4.2 Local investor base

Social identity and legitimacy theories suggest that local CEOs may be less likely to commit financial misconduct due to their desire to maintain their reputation and meet community expectations. There are two nonmutually exclusive explanations for this behavior. First, CEOs may inherently choose to act more ethically in their hometown to avoid harming their own social group, reflecting self-monitoring driven by social identity. Second, home CEOs may be more sensitive to external monitoring by local investors. To test these theories, we examine whether the negative association between local CEOs and financial misconduct strengthens in firms with a higher proportion of local investors. A larger local investor base may have greater incentives to monitor the CEO's actions, potentially amplifying the effect.

To differentiate between the effects of self-monitoring and external scrutiny on CEO behavior, following Pantzalis and Ucar (2018), we first use the number of firms per capita in the county of the firm's headquarters. Hong et al. (2008) argue that local bias strengthens in areas with fewer firms per capita due to an only-game-in-town effect. We create a dummy variable, *low number of firms per capita*, equal to one for firms below the sample median in a given year and zero otherwise. Second, we use the firm geographic dispersion measure developed by Garcia and Norli (2012), as firms with more localized operations tend to have greater local stock ownership (Bernile et al. 2015).[20] We define the dummy variable *Localized* as one if the firm's geographic dispersion across states is below the sample median and zero otherwise. The geographic dispersion measure is based on the frequency of state names in specific sections of 10-K reports. These measures allow us to examine how the concentration of local investors and firm geographic focus may influence the relationship between local CEOs and financial misconduct.

These two measures do not completely disentangle the two effects because a location could have a large population or a low number of establishments (or both). Hence, we introduce a third proxy for local investor monitoring based on the work of Xu et al. (2020). This measure, the *local importance ratio*, is defined as the ratio of a firm's sales to the aggregate sales of all firms headquartered in the same region (calculated at the county level). Firms headquartered in areas with fewer publicly listed companies tend to have higher average local importance ratios. This ratio identifies firms that are larger within their localities and are likely to be prominent in local investor portfolios.

We present the results in Table 9. The dependent variables, from Panels A to D, are discretionary accruals, accounting fraud, price pattern, and financial offenses, respectively. We find that the negative association between home CEOs and financial misconduct generally strengthens for firms located in counties with only a few firms per capita or for more geographically concentrated firms. However, the interaction term between *Home CEO* and *High Local Monitoring* is typically insignificant, with only three out of

[20] The measure counts state name occurrences in the following 10-K sections: Item 1: Business, Item 2: Properties, Item 6a: Consolidated Financial Data, and Item 7: Management's Discussion and Analysis. Source: Diego Garcia's website (http://leeds-faculty.colorado.edu/garcia/page3.html).

Table 9 The role of the local investor base

Panel A. Dependent variable: Discretionary accruals				
	Num. of firms per capita		Localized vs. Dispersed	
	Low (1)	High (2)	Localized (3)	Dispersed (4)
Home CEO	-0.103***	-0.059**	-0.082***	-0.011
	(-2.716)	(-2.205)	(-2.694)	(-1.582)
High Local Monitoring	-0.011**	-0.017*	-0.002*	0.041
	(-2.114)	(-1.767)	(-1.940)	(0.382)
Home CEO × High Local Monitoring	0.001	0.003	-0.000	0.001
	(1.136)	(0.981)	(-0.274)	(1.397)
P-Value ($\beta_1 + \beta_3 = \beta'_1 + \beta'_3$)		0.028		0.001
Control Variables in Table 2	Yes	Yes	Yes	Yes
Year FEs	Yes	Yes	Yes	Yes
Industry FEs	Yes	Yes	Yes	Yes
Observations	1,228	6,135	1,965	1,936
R^2	0.328	0.240	0.282	0.177

Panel B. Dependent variable: Accounting fraud				
	Num. of firms per capita		Localized vs. Dispersed	
	Low (1)	High (2)	Localized (3)	Dispersed (4)
Home CEO	-0.027**	-0.010**	-0.017***	-0.010*
	(-2.521)	(-2.060)	(-2.752)	(-1.778)
High Local Monitoring	-0.007**	-0.005*	-0.005	0.012
	(-2.053)	(-1.728)	(-0.257)	(0.391)
Home CEO × High Local Monitoring	0.027	0.009*	-0.002**	0.013
	(0.236)	(1.672)	(-1.974)	(0.928)
P-Value ($\beta_1 + \beta_3 = \beta'_1 + \beta'_3$)		0.053		0.075
Control Variables in Table 2	Yes	Yes	Yes	Yes
Year FEs	Yes	Yes	Yes	Yes
Industry FEs	Yes	Yes	Yes	Yes
Observations	1,451	7,398	2,474	2,392
Pseudo R^2	(0.182)	(0.160)	(0.214)	(0.203)

Panel C. Dependent variable: Price pattern				
	Num. of firms per capita		Localized vs. Dispersed	
	Low (1)	High (2)	Localized (3)	Dispersed (4)
Home CEO	-0.044***	-0.021**	-0.033***	0.012
	(-2.693)	(-2.421)	(-2.795)	(0.183)

Table 9 (continued)

High Local Monitoring	-0.005	-0.002	-0.025	0.033
	(-0.392)	(-1.283)	(-0.826)	(0.770)
Home CEO × High Local Monitoring	0.002	0.005	0.001	0.001*
	(1.305)	(0.872)	(0.082)	(1.693)
P-Value ($\beta_1 + \beta_3 = \beta'_1 + \beta'_3$)		0.144		0.002
Control Variables in Table 2	Yes	Yes	Yes	Yes
Year FEs	Yes	Yes	Yes	Yes
Industry FEs	Yes	Yes	Yes	Yes
Observations	741	3,777	1,254	1,239
R^2	0.206	0.232	0.150	0.157

Panel D. Dependent variable: Financial offenses

	Num. of firms per capita		Localized vs. Dispersed	
	Low (1)	High (2)	Localized (3)	Dispersed (4)
Home CEO	-0.015**	-0.006**	-0.015**	-0.006
	(-2.174)	(-2.270)	(-2.029)	(-1.417)
High Local Monitoring	-0.001*	0.000	-0.003*	0.004
	(-1.689)	(0.971)	(-1.764)	(0.570)
Home CEO × High Local Monitoring	0.013	-0.023	-0.008	0.041
	(0.482)	(-0.559)	(-0.610)	(1.109)
P-Value ($\beta_1 + \beta_3 = \beta'_1 + \beta'_3$)		0.073		0.031
Control Variables in Table 2	Yes	Yes	Yes	Yes
Year FEs	Yes	Yes	Yes	Yes
Industry FEs	Yes	Yes	Yes	Yes
Observations	609	3,048	1,071	1,023
Pseudo R^2	(0.451)	(0.472)	(0.323)	(0.319)

This table reports the results for the effect of home CEOs on financial misconduct using subsamples with different levels of local investor base. We proxy for local investor base using two variables: (1) the number of firms per capita in the county of the firm's headquarters and (2) a firm-level geographic dispersion measure developed by Garcia and Norli (2012). For each proxy, we split the sample into subgroups based on the median value in a given year. In Panels A to D, the dependent variables are discretionary accruals, accounting fraud, price pattern, and financial offenses, respectively. *Home CEO* is a dummy variable equal to one if the distance between the CEO's birth county and the firm headquarters is less than 100 miles and zero otherwise. We also proxy local investors' monitoring as the firm's sales are divided by the aggregate sales of firms in the same county. *High Local Monitoring* is a dummy variable equal to one if the local monitoring exceeds the sample median and zero otherwise. Detailed definitions of the variables can be found in the appendix. Year and industry (48 Fama-French) fixed effects are included. *t*-statistics (in parentheses) are computed using heteroskedasticity-robust standard errors that are corrected for clustering at the county-year level. We examine the difference between coefficients using the Wald test and report p-values. ***, **, and * represent significance at the 1%, 5%, and 10% levels, respectively.

12 specifications showing significance (two of which are positive). Considered alongside our corporate governance results in Table 6, these findings suggest that home CEOs' concern for their reputation among local investors, rather than heightened scrutiny from these investors, may explain the observed relationship between home CEOs and reduced financial misconduct. This interpretation aligns with the self-monitoring aspect of social identity theory rather than the external monitoring hypothesis.

4.3 The birthplace identity of CFOs

CFOs also play a crucial role in firm financial decisions. Their pay incentives and personal traits have been linked to financial misreporting (Jiang et al. 2010; Ham et al. 2017). In this part of our study, we explore how the hometown connections of CFOs affect financial misconduct.

Due to the limitations of our manually collected data, we use the extensive coverage of birthplace data from Yonker (2017b) to identify CFOs' birthplaces. Yonker manually gathers Social Security numbers from the LexisNexis online public records database for executives listed in the ExecuComp database. The first five digits of Social Security numbers, issued by the state when a resident applies for their first job or driver's license, indicates the state of issuance through its first three digits, while the fourth and fifth digits reveal the sequence of issuance. Therefore, the Social Security number identifies the year and state in which an executive received his or her Social Security number. We create a dummy variable, *Home CFO*, which is equal to one if the CFO's birth state matches the headquarters state and zero otherwise. The mean value of our home CFO variable is 0.337. To align with the definition of the home CFOs variable, we also redefine our home CEO measure, which is a dummy variable equal to one if the CEO's birth state matches the headquarters state and zero otherwise.

In Panel A of Table 10, we extend our baseline regressions from Table 2 by including additional control variables for CFO characteristics (age, gender, tenure, and stock ownership). The home CEO variable remains negatively associated with financial misconduct across all specifications, significant at the 1% level. Additionally, we find that the home CFO variable is also negatively associated with discretionary accruals and accounting fraud, aligning with prior research on CFOs' role in financial reporting (e.g., Ham et al. 2017; Gupta et al. 2020). Panel B examines the combined effect of home CEOs and CFOs using a dummy variable, *Home CEO* or *Home CFO*, which equals one if either the CEO's or CFO's birth state matches the headquarters state and zero otherwise. This variable shows a negative association with all financial misconduct measures (significant at the 5% level or better). These results suggest that the birthplace identity of either the CEO or CFO is associated with lower levels of financial misconduct.

4.4 Other robustness tests

In the internet appendix, we show that our results remain unchanged following a battery of other robustness tests. Specifically, they hold after including firm or county fixed

Table 10 The role of home CFOs

Panel A. The effect of home CFOs

	Discretionary Accruals (1)	Accounting Fraud (2)	Price Pattern (3)	Financial Offenses (4)
Home CFO	-0.022**	-0.003***	-0.092	0.034
	(-2.193)	(-2.603)	(-1.485)	(1.161)
Home CEO (SSN)	-0.042**	-0.010**	-0.021***	-0.011**
	(-2.531)	(-2.193)	(-3.193)	(-2.201)
Female CFO	-0.001	0.007	-0.005	-0.019*
	(-0.459)	(0.529)	(-0.169)	(-1.678)
CFO Age	-0.000	-0.034**	0.033	-0.025**
	(-0.598)	(-2.154)	(1.001)	(-2.077)
CFO Tenure	-0.001**	0.001	-0.000	0.002
	(-1.992)	(1.356)	(-0.490)	(1.105)
CFO Ownership	-0.001***	-0.000	-0.001	-0.001**
	(-3.082)	(-0.215)	(-1.357)	(-2.026)
Control Variables in Table 2	Yes	Yes	Yes	Yes
Year FEs	Yes	Yes	Yes	Yes
Industry FEs	Yes	Yes	Yes	Yes
Observations	6,555	7,673	3,984	3,241
R^2 (Pseudo R^2)	0.167	(0.138)	0.097	(0.342)

Panel B. The combined effect of home CEOs and home CFOs

	Discretionary Accruals	Accounting Fraud	Price Pattern	Financial Offenses
	(1)	(2)	(3)	(4)
Home CEO or CFO	-0.073**	-0.012***	-0.021**	-0.009**
	(-2.080)	(-3.117)	(-2.365)	(-2.544)
Female CFO	-0.014	-0.043	-0.001	-0.016*
	(-0.623)	(-0.551)	(-1.369)	(-1.665)
CFO Age	-0.011	-0.033**	0.008*	-0.025**
	(-0.734)	(-2.252)	(1.812)	(-2.077)
CFO Tenure	-0.001*	0.001	-0.000	0.012
	(-1.901)	(0.013)	(-0.039)	(1.421)
CFO Ownership	-0.001***	-0.000	-0.001	-0.002
	(-2.993)	(-0.039)	(-1.134)	(-1.216)
Control Variables in Table 2	Yes	Yes	Yes	Yes
Year FEs	Yes	Yes	Yes	Yes
Industry FEs	Yes	Yes	Yes	Yes
Observations	6,555	7,673	3,984	3,241
R^2 (Pseudo R^2)	0.167	(0.140)	0.099	(0.340)

Table 10 (continued)

This table reports the effect of home CFOs on financial misconduct using the executives' birthplace data from Yonker (2017b). The dependent variables are four financial misconduct measures: discretionary accruals, accounting fraud, price pattern, and financial offenses. In Panel A, we examine the effect of home CFOs. *Home CEO (SSN)* is a dummy variable equal to one if the birth state of CEO is the same as the headquarters state and zero otherwise. *Home CFO* is a dummy variable equal to one if the birth state of CFO is the same as the headquarters state and zero otherwise. In Panel B, we examine the combined effect of home CEOs and home CFOs on financial misconduct by using a dummy variable equal to one if the firm has a home CEO or a home CFO and zero otherwise. Detailed definitions of the variables can be found in the appendix. Year and industry (48 Fama-French) fixed effects are included. *t*-statistics (in parentheses) are computed using heteroskedasticity-robust standard errors that are corrected for clustering at the county-year level. ***, **, and * represent significance at the 1%, 5%, and 10% levels, respectively.

effects, after removing the top five CEO home counties, after controlling for the top and bottom five geographic areas that are associated with financial misconduct, after using different measures of home CEOs and financial misconduct, after removing highly educated CEOs with MBA or other master's degrees, after removing founder CEOs, after controlling for CEO political preferences or CEO overconfidence, after removing the religiosity effect or controlling for lobbying, after controlling for further county variables such as population, income per capita, employment, education, and number of establishments, and after controlling for firm financial constraints or enforcement strength. We also obtain similar results when we control for the corporate culture at the firm, which indicates that the home CEO effect we document is not simply a proxy for firm culture. Finally, controlling for birthplace state corruption culture does not affect our results.

5 Conclusion

This paper examines the association between CEO birthplace proximity and financial misconduct. We find that CEOs based near their birthplace are associated with a lower likelihood of financial misconduct compared to other CEOs. This relationship strengthens in areas characterized by a strong local investment presence and greater religious commitment. The association is also more pronounced among CEOs with longer tenures in their home areas.

Our findings remain robust to addressing potential selection bias and omitted variable concerns. The results persist when we analyze cases of involuntary CEO changes and company relocations, and they survive a battery of robustness checks. Finally, we show that the association between birthplace proximity and reduced financial misconduct extends to CFOs as well.

Examining the association between CEO birthplace proximity and financial misconduct contributes to the understanding of factors related to financial misconduct, an area where knowledge gaps remain (Amiram et al. 2018). Our study finds that CEOs from the area where their company is located are associated with a lower likelihood of financial misconduct. We hypothesize that this relationship may be due to local CEOs' established trust with investors, stakeholders, and the broader community. These findings may be relevant for investors, auditors, regulators, and corporate boards.

Appendix Variable definitions

Variable	Definition	Source
Panel A. Firm variables		
Discretionary Accruals	Absolute abnormal accruals computed as the difference between a firm's total accruals and its nondiscretionary accruals.	Compustat (Cohen and Zarowin 2010)
Accounting Fraud	A dummy variable that is equal to one if any of the following events happened in a given firm-year and zero otherwise. First, it is recorded as a lawsuit event in a firm-year using data from the Securities Class Action Clearinghouse (SCAC). Second, if earnings are increasingly misstated according to the Audit Analytics database or misstated according to the SEC's Accounting and Auditing Enforcement Releases 10b-5 (AAER) from the UC Berkeley Center for Financial Reporting Management in that firm-year. Third, if an earnings restatement is announced in that year according to the database compiled by the Government Accountability Office (GAO) in 2003 and 2006 and is classified as an irregularity by Hennes et al. (2008).	SCAC database, Audit Analytics database, AAER database, and GAO database
Price Pattern	The ratio of the market-adjusted gross return over the 20 trading days after the insider buy transaction to the market-adjusted gross return over the 20 trading days before the insider buy transaction. The ratio is averaged across all insider transactions in a given firm-year. Market returns are CRSP value-weighted returns.	Thomson Financial's Insider Trading database
Financial Offenses	A dummy variable that is equal to one if a firm has at least one financial offense record in a given year and zero otherwise.	Violation Tracker
Ln (Total Assets)	The natural log of total assets (AT).	Compustat

Variable	Definition	Source
Firm Age	The natural log of one plus firm age, which is measured by the fiscal year minus the IPO year (IPODATE).	Compustat
B/M	Book value of equity (SEQ) divided by the market value of equity (CSHO × PRCC_F).	Compustat
Leverage	Total long-term debt (DLTT + DLC) divided by total assets (AT).	Compustat
ROA	Return on assets, computed as operating income before depreciation (EBITDA) over total assets (AT).	Compustat
Capital Intensity	Ratio of property, plant, and equipment (PPENT) to total assets (AT).	Compustat
R&D	Ratio of R&D expenses (XRD) to total assets (AT).	Compustat
High Tech	A dummy variable that is equal to one if the firm is in the technology industry and zero otherwise.	Compustat (Loughran and Ritter 2004)
Operating Cycle	Length of the firm's operating cycle, defined as the number of days receivables plus the number of days inventory.	Compustat (Dechow and Dichev 2002)
Loss Percentage	Percentage of annual losses reported over the prior 10 years.	Compustat
Sales Growth	Annual rate of changes in sales (SALE).	Compustat
Sales Volatility	Standard deviation of sales (SALE), deflated by the lagged total assets (AT) over the prior five years.	Compustat
Cash Flow Volatility	Standard deviation of cash flows from operations (OANCF-XIDOC), deflated by the lagged total assets (AT) over the prior five years.	Compustat
Number of Analysts	The natural log of the number of analysts that cover a firm in a given year.	I/B/E/S
Shares Traded	The number of shares traded by insiders (executives and directors) in a given year, normalized by the total number of shares outstanding.	Thomson Financial's Insider Trading database

Variable	Definition	Source
Litigation	A dummy variable that is equal to one if the firm operates in a high-litigation industry (SIC codes 2833–2836, 3570–3577, 3600–3674, 5200–5961, and 7370–7374) and zero otherwise.	Compustat (Ashbaugh et al. 2003)
Big 4	A dummy variable that is equal to one if the auditor is a Big Four audit firm and zero otherwise.	Compustat
Local Monitoring	The firm's sales divided by the aggregate sales of firms in the same county. In this study, we use *high local monitoring*, which is a dummy variable that is equal to one if the level of local monitoring exceeds the sample median and zero otherwise.	Compustat
Panel B. CEO/CFO variables		
Home CEO	A dummy variable that is equal to one if the distance between the CEO's birth county and the headquarters county is less than 100 miles and zero otherwise.	Manually collected from Marquis Who's Who, Standard and Poor's Register of Directors and Executives, Lexis-Nexis, NNDB.com, and Google search
Home CEO (SSN)	A dummy variable that is equal to one if the birth state of CEO is the same as the headquarters state and zero otherwise.	Lexis-Nexis via Yonker (2017b)
Home CFO	A dummy variable that is equal to one if the birth state of CFO is the same as the headquarters state and zero otherwise.	Lexis-Nexis via Yonker (2017b)
Female CEO	A dummy variable that is equal to one if a CEO is female and zero otherwise.	ExecuComp
Female CFO	A dummy variable that is equal to one if a CFO is female and zero otherwise.	ExecuComp
CEO Age	The natural log of the age of the CEO.	ExecuComp
CFO Age	The natural log of the age of the CFO.	ExecuComp
CEO Tenure	The natural log of the tenure of the CEO.	ExecuComp
CFO Tenure	The natural log of the tenure of the CFO.	ExecuComp
CEO Ownership	The percentage of shares owned by the CEO (set to zero if data is missing).	ExecuComp

Variable	Definition	Source
CFO Ownership	The percentage of shares owned by the CFO (set to zero if data is missing).	ExecuComp
Long Home Tenure	A dummy variable that is equal to one if the number of years that the CEO worked in her home state exceeds the sample median and zero otherwise.	Capital IQ People Intelligence
Total Pay	The total compensation of the CEO (in millions of US dollars).	ExecuComp
Delta	Dollar change in a CEO's wealth associated with a 1% change in the firm's stock price (in millions of US dollars).	Compustat, ExecuComp, and CRSP
Vega	Dollar change in a CEO's wealth associated with a 0.01 change in the standard deviation of the firm's returns (in millions of US dollars).	Compustat, ExecuComp, and CRSP
% (Salary + Bonus)	The proportion of salary and bonus to total compensation of a CEO.	ExecuComp
Panel C. County-level/State-level variables		
Population	County-level population (in millions).	US BEA
Income per Capita	County-level income per capita (in thousands).	US BEA
Employment	County-level employment divided by county-level population.	US BEA
Education	The percentage of adults completing a college or associate's degree in one county. Data on education is available for five years (1970, 1980, 1990, 2000, and 2015). We follow previous studies (e.g., Hilary and Hui 2009) and linearly interpolate the data to obtain the values in the missing years.	USDA Economic Research Service
Num. of Establishments	The number of registered establishments (in thousands).	US BEA

Variable	Definition	Source
Religiosity	The number of religious adherents in the county to the total population in the county (in thousands). Data on religiosity is available for six years (1952, 1971, 1980, 1990, 2000, and 2010). We follow previous studies (e.g., Hilary and Hui 2009) and linearly interpolate the data to obtain the values in the missing years. We also use the variable *High Religiosity*, which is a dummy variable that is equal to one if the proportion of religious adherents exceeds the sample median in a given year and zero otherwise.	US ARDA
Desirable Weather	The average of (1) the percentage of days with desirable temperature (from 32 °F to 90 °F) and (2) the amount of sunshine (the percentage of the maximum amount of sunshine from sunrise to sunset with clear sky conditions). For each county, this variable is measured with the historical data from the nearest weather station (the average distance is 7.456 miles).	US NOAA
Panel D. Corporate governance variables		
Board Size	The number of directors on the board. We use the *small board size*, which is a dummy variable that is equal to one if the board size is lower than the industry median in a given year and zero otherwise.	ISS Database

Variable	Definition	Source
E-index	The index is the sum of binary variables concerning the following provisions: (1) classified boards, (2) limitations to shareholders' ability to amend the bylaws, (3) supermajority voting for business combinations, (4) supermajority requirements for charter amendments, (5) poison pills, and (6) golden parachutes. We use the *low E-index*, which is a dummy variable that is equal to one if a firm has an E-Index lower than the industry median and zero otherwise.	ISS Database (Bebchuk et al. 2009)
Proportion of Independent Directors	The proportion of independent directors in the board. We use the *high percentage of independent directors*, which is a dummy variable that is equal to one if the proportion of independent directors on the board exceeds the industry median in a given year and zero otherwise.	BoardEx

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Data Availability Data supporting this study are available from the authors upon request.

Declarations

Competing interests The authors declare that they have no competing interests.

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