THE EFFECT OF SEC STAFF DIVERSITY ON INVESTIGATION DECISIONS

by

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DISSERTATION ABSTRACT

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Title: The Effect of SEC Staff Diversity on Investigation Decisions

I explore how ethnic and gender diversity at the Securities and Exchange Commission (SEC) affects its investigation decisions. Employing a novel dataset of SEC employees, I find a positive association between SEC office-level diversity and the propensity of the Commission to open investigations. These results strengthen when interacted with the occurrence of a trigger that an investigation may be warranted. This evidence is consistent with diversity improving the investigative abilities of the agency. Additionally, I study how diversity influences investigation outcomes. I find that more diverse offices open investigations that are shorter and less likely to lead to enforcement. While potentially suggestive of the inefficiencies of diversity, this evidence is also consistent with more diverse staff being assigned less serious, easier-to-resolve investigations. Lastly, I find that SEC-firm similarity moderates the diversity-investigation relation. Specifically, when both the SEC staff and firm executives have high levels of diversity, the Commission is less likely to open investigations, highlighting a potential leniency bias towards diverse firms.

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For Hannah Sophia, Freya Blueberry and Haven Dog, without whose love and support and snuggles I would have given up long ago.

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CHAPTER I

INTRODUCTION

In this study, I examine the role diversity plays in the investigation decisions of the Securities and Exchange Commission (SEC). The call for diversity among firms' monitors has grown prominent in recent years. Touting the alleged benefits of increased diversity, lawmakers, regulators and investors alike have clamored for more women and minorities to be appointed to publicly traded companies' monitoring boards (California Legislature 2021; Illinois State Treasurer 2020; Osipovich 2021). However, the calls have not only been directed at firms. Proponents of diversity have also urged—and in the case of lawmakers, mandated—firms' regulators to hire diverse individuals to positions among their staff and leadership. For example, Section 342 of the Dodd-Frank Act of 2010 required firm-facing federal agencies, including the SEC, to establish an Office of Minority and Women Inclusion (OMWI), the director of which was to "develop standards for equal employment opportunity and the racial, ethnic, and gender diversity of the workforce and senior management of the agency (U.S. Congress 2010)". The calls for change have even come from within the Commission itself. At the end of 2010, a group of minority employees at the SEC expressed concern to the then Chair Mary Schapiro that there was a "philosophy of inferiority directed towards minorities—specifically African Americans within the commission" (Javers 2011).

The existing literature suggests that diversity may be both a benefit and detriment to the functioning of groups. On the one hand, more diverse groups may perform better at tasks that require problem solving and outcome prediction (Page 2008). On the other hand, more diverse groups may have difficulties with efficient communication, cooperation, or consensus building

that may limit its members' abilities to function effectively or make decisions (Lau and Murnighan 2005; Van Peteghem, Bruynseels, and Gaeremynck 2018; Giannetti and Zhao 2019).

The Commission's investigation process is an ideal setting to study the impact of diversity at the agency for several reasons. First, investigation decisions are key to fulfilling the SEC's mission, part of which is to protect investors and maintain fair, orderly, and efficient markets (SEC 2022). Second, the investigation setting is comprised of clear events (e.g., the opening of investigations and the choice to pursue an enforcement action), throughout which the effects of diversity can be studied. Third, the commission's investigations are of special interest to both firms, who are often the primary subjects of investigations, and investors, who stand to benefit the most from investigations. Lastly, the SEC's regional office structure, with varying degrees of diversity between offices, provides variation in the diversity of SEC employees that make investigation decisions.

The benefits and detriments of diversity mentioned above may come into play in the investigation process when (1) offices assess which potential violations and triggers to investigate and (2) during the process of closing investigations or escalating them into enforcement actions. At the first juncture, if diversity is associated with enhanced group problem solving and prediction, more diverse offices may be more successful in identifying or recognizing relevant triggers, leading them to open more investigations. On the other hand, if challenges with communication, cooperation, or consensus building arising from diversity make it more difficult to identify or follow up on potential triggers or come to consensus about whether a firm should be investigated, more diverse offices may open fewer investigations.

At the second juncture, the enhanced problem solving and prediction skills of diverse groups may aid offices in conducting investigations in such a way so they are more likely to lead

to enforcement actions. However, difficulties with efficient communication, cooperation, and consensus building may make it difficult for more diverse offices to conduct investigations in such a way that any type of enforcement is a result.

To begin my analyses, I obtain SEC employment data covering the years 2004-2020 from federalpay.org. I pair this novel dataset with data regarding investigations into firms by the SEC generously provided by the authors of Blackburne, Kelper, Quinn, and Taylor (2021) and firm-level data obtained from Compustat, resulting in a dataset of 66,752 firm-year observations.

With these data, I first conduct descriptive analyses of diversity trends among SEC staff at the office and agency level. From 2004-2020, I document a general increase in both female-identifying and non-white accounting and legal employees. Specifically, the number of female-identifying employees increased 4.1 percent ((40.4 – 38.8) / 38.8) while the number of non-white employees increased about 8.3 percent ((18.2 – 16.8) / 16.8). Primarily, the bulk of both of these increases took place after OMWI was established at the SEC in 2011. While not conclusive evidence of the success of Section 342 of the Dodd Frank Act, the data is consistent with a modest diversity-increasing effect of OMWI.

Next, I investigate the extent to which office-level diversity among accounting and legal staff affects the Commission's propensity to open investigations. To do so, I regress an indicator for whether the Commission opened an investigation into a firm on measures of SEC staff diversity. Overall, I find a positive, statistically significant relationship between an SEC office's ethnic and gender diversity and the likelihood a firm will be investigated by the Commission, even after controlling for the ability and accounting or legal expertise of local staff. This relationship strengthens when diversity is interacted with indicators for two potential triggers for

investigations: restatements and shareholder lawsuits. Altogether, this evidence suggests that SEC offices with higher non-white and female-identifying diversity appear to open more investigations.

Shifting my focus to the outcome of the SEC investigation, I study the extent to which the diversity of an office's legal and accounting staff influences the length of investigation and the likelihood the investigation will result in the SEC choosing to pursue an enforcement action (e.g., civil legal proceedings, administrative proceedings and secondary designation accounting and auditing enforcement releases). For these analyses, I use the subsample of 1,869 investigations with necessary data. The dependent variable is either the number of months an investigation was open or an indicator for whether an investigation results in an enforcement action. In these analyses, I first find that more diverse SEC offices are associated with beginning investigations that are shorter in length. However, I find there is a negative association between SEC office diversity and the likelihood that an investigation will result in an enforcement action. This finding provides additional evidence to the discussion of how diversity influences investigation decisions. On the one hand, more diverse offices appear to be more efficient in opening and closing investigations. In isolation, offices that investigate more firms might be considered a boon as they enable the Commission to police more firms, creating a deterrence effect against potential violations of securities laws. On the other hand, more diverse offices appear to be less efficient in turning those investigations into enforcement actions, a stated aim of the investigation process. This suggests that diversity may be injecting inefficiencies or biases into SEC Offices. Alternatively, these shorter investigations with less potential for enforcement may be the result of more diverse staff being assigned less serious cases in the first place, similar to the findings of Choi, Gulati, and Pritchard (2019).

Another way in which diversity may influence the SEC and the firms it investigates has nothing to do with the benefits or detriments of diversity itself, but with the tendency of individuals to relate differently, behave differently, or exhibit differential bias towards individuals who they perceive as similar to or different from themselves. Where a firm and an office of the SEC share similarities in ethnicity or gender, it is unclear how the investigation and enforcement process will be affected. For example, in-group biases rooted in comparisons between SEC and firm diversity may lead to fewer or partial investigations. Alternatively, to the extent that similarities in diversity reflect similarities in communication patterns and cultural norms, SEC-firm similarity may provide common ground between the SEC and firm and thus facilitate more investigations as a whole (Rogers and Bhowmik 1970).

Biases rooted in aspects of identity have been studied by the existing academic literature, but in different settings ranging from traffic citations to medical care (Goncalves and Mello 2021; Anwar, Bayer, and Hjalmarsson 2012; Rehavi and Starr 2014; Hamberg 2008; Shor, van de Rijt, and Fotouhi 2019; Kanze, Huang, Conley, and Higgins 2018). And while these settings are distinct from that of the SEC's investigation process, their findings are consistent with the notion that diversity-related biases can lead to significant disparities in a wide range of outcomes. Thus, it is reasonable to suspect that these biases might be at play in the Commission's investigation process as well. Moreover, the prior accounting literature has found that the SEC has differential levels of enforcement based on characteristics such as political connections or physical distance (Correia 2014; Kedia and Rajgopal 2011). Therefore, it may be the case that other firm-characteristics, including diversity similarity, might lead to differential investigation activity from the SEC.

To explore this relationship, I calculate a measure of above-median similarity between the diversity of a firm's jurisdictional SEC-office and the diversity of that firm's named executive

officers. I then interact this indicator with my measures of diversity in my baseline investigation analyses. Adding in firm-diversity data reduces my sample size to 24,263 observations. Overall in my analyses on this subsample, I find that when both firm-office similarity and SEC diversity are above median (that is, increasingly less male or white), there is a decreased likelihood of an investigation being opened into that firm. This evidence of a decreased likelihood seems to be consistent with diverse offices being more lenient on similarly diverse firms when it comes to opening investigations. This may be a byproduct of homophily—the tendency of individuals to bond with others who are similar to them, or perhaps a result of an inadvertent immunity given to the relatively rarer diverse firms (e.g., similar to Naumovska, Wernicke, and Zajac 2020).

My study contributes to the literature in two ways. First, I extend the enforcement and investigation literature. While regulators' behavior has been studied in both the accounting and finance literatures (see, for example, Correia 2014; Files 2012; Heese 2019; Karpoff, Scott Lee, and Martin 2008; Kedia and Rajgopal 2011), existing studies have primarily focused on the role firm characteristics (e.g., political connections, firm cooperation, headquarter distance to the SEC) play in these decisions. However, little attention has been paid to how specific characteristics of the SEC itself affect these choices. This dearth of studies focusing on Commission-specific constructs has likely been influenced by both the patently veiled process of enforcement at the SEC and the lack of easily accessible, publicly available information about the agency. That said, given my novel dataset, I can investigate an important aspect of investigation decisions that has not been examined in prior research: the teams of staff who make them. A takeaway from my study that may be of interest to firms is that when the SEC is more diverse, there is a higher probability of investigations being opened. These investigations can lead to real costs on firms, (see, for example, Dechow, Sloan, and Sweeney 1996; Karpoff, Lee, and Martin 2008; Nicholls 2016).

Moreover, I highlight a potential benefit of increasing diversity among a firm's named-executive officers: a decreased likelihood of investigations and the associated costs.

Second, my study contributes to the accounting literature studying team diversity. Existing studies have primarily investigated firms' boards (e.g., Giannetti and Zhao 2019). However, recently, there has been research into diversity of sell-side analysts (Merkley, Michaely, and Pacelli 2020; Fang and Hope 2021). Overall, this literature has had mixed results regarding the effect of diversity. For example, some studies find organizational benefits following increases in diversity (e.g., Fang and Hope 2021), while others have found no effect or even organizational detriments (e.g., Giannetti and Zhao 2019). However, the role diversity plays among regulators in their investigatory roles—and therefore the SEC—has yet to be studied.

CHAPTER II

BACKGROUND

Literature Review

There are a variety of ways that prior academic studies have thought about diversity. For example, some think of it in terms of the breadth of experience or skill of a group, proxying for this with the age, education level or employment background of component individuals (Bernile, Bhagwat, and Yonker 2018; Li and Wahid 2018; Fang and Hope 2021). Other studies think of diversity in terms more in line with what law makers and regulators likely have in mind when they mandate diversity requirements: the gender, racial and ethnic makeup of a group (Bernile et al. 2018; Giannetti and Zhao 2019; Gul, Srinidhi, and Ng 2011; Joo, Lawrence, and Parhizgari 2021; Lai, Srinidhi, Gul, and Tsui 2017; Liu 2018; Fang and Hope 2021; Merkley et al. 2020). All these types of diversity can give rise to improvements in the problem solving and prediction skills of a group, but only to the extent the form of diversity in question also increases cognitive differences (Page 2008)[1]. My study attempts to isolate the effect of gender and ethnic diversity of SEC offices, while controlling for their level of ability and expertise.

Diversity-related studies conducted in the accounting and finance literature have found evidence consistent with the conjecture that diversity can improve the functioning of groups in the settings of firms and analysts. For example, Bernile et al. (2018) find that boards that are more diverse in age, education and financial expertise make more persistent investments in R&D and innovation. Additionally, Li and Wahid (2018) find that boards that are more tenure diverse head firms with higher performance-turnover sensitivity. Lastly, Fang and Hope (2021) find that teams

[1] Page (2008) describes cognitive differences as differences in perspectives (ways of representing problems), interpretations (ways of categorizing perspectives), heuristics (ways of generating solutions) and predictive models (ways of inferring cause and effect).

of analysts that have more diverse levels of experience and broader educational backgrounds issue more accurate forecasts.

Other studies focus on gender and ethnicity. These find that increased gender and ethnic diversity on firms' boards is associated with increased informativeness of stock prices, higher demanded audit quality, lower earnings management practices, fewer environmental infringements, reduced risk of securities litigation, more persistent investments in R&D and innovation and more cited patents. (Bernile et al. 2018; Giannetti and Zhao 2019; Gul et al. 2011; Joo et al. 2021; Lai et al. 2017; Liu 2018). Teams of analysts that are more gender and ethnically diverse also issue forecasts that are more accurate (Fang and Hope 2021; Merkley et al. 2020).

Additionally, there have been several field experiments conducted investigating the role diversity plays in business teams. Manipulating the gender composition of teams of undergraduate and graduate students, two studies find that more gender diverse teams perform better in business games (Apesteguia, Azmat, and Iriberri 2012; Hoogendoorn, Oosterbeek, and Van Praag 2013), perhaps due to less aggressive strategies being used by the students.

However, increased diversity does not necessarily result in better performance. Diversity may also give rise to inefficiencies in the decision-making process, conflicts and so-called fault lines (Giannetti and Yafeh 2012; Lau and Murnighan 1998; Page 2008; Rogers and Bhowmik 1970; Van Peteghem et al. 2018). The idea behind fault lines is that subgroups may form along salient characteristic lines among teams of diverse individuals. Frictions among these subgroups may, in turn, lead to a reduction in the effectiveness of the team as a whole. Diverse backgrounds may also give rise to higher coordination costs, which can decrease individuals' ability to work as a team, leverage their expertise, or to agree upon a course of action. Prior literature has found detriments of these fault lines and conflicts to include inefficiencies in the decision-making process

and conflicts in the boardroom (i.e., more board meetings and less predictable decisions) (Giannetti and Zhao 2019), less favorable loan terms for the borrower (Giannetti and Yafeh 2012), and lower firm performance, lower CEO turnover-performance sensitivity, and higher abnormal CEO compensation (Van Peteghem et al. 2018).

As mentioned in the introduction, to my knowledge there are no existing papers studying the role diversity plays at the SEC in its investigatory role. There are, however, a few adjacent studies investigating the effect of regulator characteristics on relevant outcomes that are worth mentioning here. Studying the role standard setters play in standard setting, Allen and Ramanna (2013) find that the backgrounds and political affiliation of FASB Board members affect the types of rules they choose to propose. While this paper does not directly study diversity, its findings do support the notion that the characteristics of regulators matter in their performance of their responsibilities. Consistent with this idea, Kubic (2021) finds that size and accounting expertise of comment-letter review teams is positively associated with error detection rates. In all, these studies suggest that it is plausible that the characteristics of enforcement staff and teams (including gender and ethnicity) could affect investigation and enforcement decisions.

Institutional Background

Diversity Trends at Firms and Regulators

Seeking to create institutions and organizations that are welcoming and inclusive of people of all genders, ethnicities, races and sexual orientations, lawmakers have passed laws requiring equal—and in some cases, special—treatment of individuals of historically disadvantaged groups by government bodies, employers and educational institutions (i.e., affirmative action and equal employment opportunity laws). In recent years, a subset of similar laws has specifically targeted firms whose boards are primarily filled by white men, requiring them to have a certain percentage

of female-identifying members, or include members of other minorities among their numbers (California Legislature 2021, 2018; Washington State Legislature 2020). Additionally, regulators of firms have been called upon to not only assess the practices relating to the inclusion of diverse groups by the entities they oversee, but also to monitor their own diversity-related practices. Specifically, as part of the Dodd-Frank Act of 2010, the SEC and other firm-facing regulators were required to establish an Office of Minority and Women Inclusion (OMWI) and "develop standards for equal employment opportunity and the racial, ethnic, and gender diversity of the workforce and senior management of the agency… (U.S. Congress 2010)." This law was put into action by the SEC in July 2011 when the Commission created OMWI and shortly thereafter appointed Pamela Gibbs to be the office's (and as of the writing of this paper, current) director. At the regional level, OMWI has organized Diversity Committees in certain offices to promote diversity and inclusion in their respective workplaces.

Each fiscal year, OMWI publishes a report for the United States Congress, documenting its diversity-related initiatives. Over the years, these have included outreach and recruitment events targeting women and other minorities, diversity trainings through the Commission's SEC University and leadership development programs.[2] Additionally, they publish statistics outlining the current state of diversity at the Commission.

Since establishing OMWI in July of 2011, diversity has remained part of both the culture of and the discourse about, the SEC. For example, in 2014, the Commission's Office of Inspector General (OIG) conducted and released an audit of representation of minorities among its employees, in which some minority groups and women were found to be underrepresented in the workforce (Securities and Exchange Commission 2014). More recently, the OIG again conducted

[2] https://www.sec.gov/omwi/omwi-annual-reports-congress

a review of racial and ethnic disparities in its corrective and disciplinary actions and made several more policy recommendations (Securities and Exchange Commission 2021). Despite these efforts to measure and improve diversity, there have been continued doubts cast on the SEC's handling of diversity-related matters. For example, in January 2020, Congresswomen Waters and Beatty complained about the lack of ethnic and racial diversity on advisory committees at the Commission (Committee on Financial Services 2020). Additionally, academics have found there is a significant gender bias among the lawyers of the Division of Enforcement in the assignments they are given and a modest bias in pay (Choi et al. 2019).

Investigation and Enforcement Process

The investigation and enforcement process at the SEC typically consists of 5 steps: (1) a trigger event brings the attention of the SEC's Division of Enforcement to a potential violation of securities law (for example, restatements, auditor and manager turnover, voluntary disclosure of issues, unusual trading, public or whistleblower complaints, referrals from other agencies, or routine reviews); (2) a matter under inquiry (MUI) is opened by Commission staff and preliminary, informal analyses are performed; (3) based on the judgement of involved staff, a formal investigation may then be opened to determine if there is significant evidence of securities violations; (4) if evidence is significant, the involved staff may recommend that the SEC pursue administrative or civil actions against the party in violation of securities law; (5) the investigation may then conclude and be made public via the release of an administrative proceeding, litigation release, or the well-known secondary designation of Accounting and Auditing Enforcement Release (AAER) (SEC Division of Enforcement 2015).

Throughout the entire process of opening a MUI, converting it into an investigation and recommending enforcement, a single issue has the potential to pass through the hands and minds

of multiple individuals. In line with this thinking, from a sampling of civil suits recently released by the Commission I find evidence that at least two individuals—though often more—were mentioned in association with each related investigation, usually consisting of staff members and supervisors.[3] In some cases, more than eight individuals and organizations were named as being involved in the investigatory process.

Therefore, given that investigation and enforcement decisions do not appear to be made in isolation, the teams of individuals that make them may benefit from the better problem solving and prediction skills associated with increasing the cognitive diversity of groups. Alternatively, if diversity leads to fault lines and thus to inefficiencies in communication and decision making, the investigation and enforcement process might be impeded by increased diversity.

Hypothesis Development

As mentioned in the introduction, there are two junctures in the enforcement process where diversity might make a difference: (1) when offices are choosing which, and how many, triggers to investigate (comprising steps 1-3 of the enforcement process) and (2) when escalating investigations into enforcement actions (comprising steps 4 & 5 of the enforcement process). I will first focus on the first juncture. Problem solving and prediction are key aspects of the SEC's process of investigating firms. First, the Commission's leadership and staff must determine which information concerning alleged firm violations is credible and represents violations of securities laws. This information may come by a variety of means, including via newspaper articles, complaints from the public, whistleblowers, congress, and referrals from other agencies or self-

[3] For example, at the end of Litigation Release 25355 which was published on April 5, 2022, it reads "The SEC's investigation was conducted by Paul J. Bohr, Jennie B. Krasner, Drew Dorman, Jeffrey Anderson, and Robert Nesbitt, with the assistance of the Enforcement Division's IT Forensics Lab, and supervised by Peter Rosario, George Bagnall, and Jennifer Leete." Unfortunately, this level of detailed data is not available for all litigation releases in my sample and therefore cannot be used in my analyses.

regulatory organizations (SEC Division of Enforcement 2015). Next, staff must choose which tips and complaints, among all those deemed valid and reliable, to investigate. In the Division of Enforcement's Enforcement Manual, several factors are listed as considerations that should be made during this decision, including whether the investigation has the potential to "substantively and effectively address violative conduct," and if the facts suggest that an inquiry could lead to an enforcement action (SEC Division of Enforcement 2015). In other words, the staff is being asked to predict, based on the available information, which cases are most likely to uncover and deter violations of securities laws and result in litigation or administrative proceedings being brought against individuals or firms.

Therefore, as increases in cognitive differences may improve teams and organization's problem solving and prediction abilities (Page 2008), it is reasonable to suspect that offices with more diverse staff may additionally be more likely to open investigations. However, where there is more diverse staff, there is the potential for fault lines, slower decision making and inaction (Van Peteghem et al. 2018). Thus, more diverse staff may also lead to an offices' inability to effectively open investigations. Therefore, I posit the following hypothesis in the null:

H1: SEC office-level diversity has no effect on the Commission's investigation activity.

Next, I move my focus to the second juncture: the escalation of an investigation into an enforcement action. Similar to the logic employed when outlining my first hypothesis, diversity may affect the propensity of the SEC to pursue enforcement actions in a variety of ways. First, more diverse offices of the Commission may be better or worse at predicting which investigations are more likely to result in enforcement actions or corrected behavior from the outset. Alternatively, more diverse offices may be more or less skilled (i.e., at problem solving) and thus will conduct investigations in such a way that enforcement or corrected behavior are more or less

likely, holding the merit of the investigation constant. Lastly, more diverse offices may be inherently more or less likely to pursue enforcement regardless of the initial merit of the investigation or their level of prediction or problem-solving skills. Given the conflicting ways in which diversity may influence the outcome of an SEC investigation, I posit my second hypothesis in the null:

H2: SEC office-level diversity has no effect on the outcome of the Commission's investigations.

The Commission's investigation and enforcement decisions may be moderated by firm-level diversity. Where homophily—the tendency of individuals to associate, interact, and bond with others with similar characteristics and backgrounds and is sometimes construed as inhibiting diversity—may be present between an office and a firm, it is unclear what effect diversity will have on an office's proclivity to open an investigation into that firm.

On the one hand, more similar office-firm pairs may share identities that bias proceedings and result in fewer investigations into a particular firm on the margin (McPherson, Smith-Lovin, and Cook 2001). A similar effect has been found in the political influence setting where the SEC was found to be less likely to bring enforcement actions against firms that have made a practice of making campaign contributions to politicians who have influence over firms' regulators (Correia 2014). This familiarity bias is also found in the makeup of the board of directors, where similarity between a firm's and its directors' home countries has been found to influence foreign director appointments (Barrios, Biandi, Isidro, and Nanda 2022). Moreover, biases based in ethnicity or gender have been studied by other disciplines as well. For example, racial bias is associated with more severe traffic citations, more convictions and longer prison sentences (Goncalves and Mello 2021; Anwar et al. 2012; Rehavi and Starr 2014). Furthermore, gender bias is associated with

poorer medical care (Hamberg 2008), less media coverage of successful women (Shor et al. 2019) and lower amounts of venture capital funding (Kanze et al. 2018). While these studies' settings differ from that of investigations at the SEC, they do provide evidence consistent with biases affecting a wide range of outcomes.

On the other hand, when the relevant SEC office and the firm come from similar cultural and ethnic backgrounds, they are more likely to share the same cultural norms and communication styles, perhaps enhancing the ability of staff to quickly understand the nuances in the reporting environment at a firm and thus conduct effective investigations (Rogers and Bhowmik 1970). Therefore, I posit my third hypothesis in the null:

H3: The similarity between firm and SEC office level diversity has no effect on the Commission's investigation activity.

CHAPTER III

SAMPLE AND DATA

I obtain my data regarding SEC staff from federalpay.org, a free public source of government employee data. Federal employee data are public information under open government laws.[4] Thus, federalpay.org derives their data from the Office of Personal Management (OPM)—the chief human resources agency and personnel policy manager for the Federal Government—OPM's initiative, Enterprise Human Resources Integration. These data have been employed by other accounting studies to enrich employment-related Freedom of Information Action requests and have been found to be reliable (see, for example, Hills, Kubic, and Mayew 2021 and Kubic 2021).

The data I obtain from federalpay.org include employee name, year of employment, a general job title, employee state, district or territory of residence and salary, and span the years 2004-2020.[5] Using employee name, I then predict both employee gender and ethnicity. I achieve this prediction using two code packages made for Python: *gender-guesser* and *ethnicolr*. *Gender-guesser* compares a first name to a dictionary of over 40,000 name-gender pairs where *ethnicolr* primarily exploits US Census last name data. Both tools return either a predicted gender or ethnicity. In the case of *gender-guesser*, it is in the form of string tags: male, mostly_male, andy (androgynous), unknown (i.e., not included in the name-gender dictionary), mostly_female and female. In the case of *ethnicolr*, it returns the percentage of individuals of White, Black, Asian-Pacific-Islander, American Indian and Alaskan Native, or Hispanic heritage in the Census who shared the last name of interest. For both the data outputs of *gender-guesser* and *ethnicolr*, I

[4] For example, The Freedom of Information Act, 5 U.S.C. § 552

[5] I obtain employment data using python to search and document the SEC-specific database found at https://www.federalpay.org/employees/securities-and-exchange-commission.

designate an individual SEC staff member as being either male, female—or of any one of the five provided ethnicities—if it is at least mostly associated with that gender (androgynous and unknowns dropped) or if greater than fifty percent of Census individuals were associated with a given ethnicity.[6] I then assign employees to either one of the 11 regional offices of the SEC (Atlanta, Boston, Chicago, Denver, Fort Worth, Los Angeles, Miami, New York, Philadelphia, Salt Lake or San Francisco) or the Home Office (Washington D.C.) based on the location of employee residence provided by federalpay.org. In most cases, this can be accomplished merely by referencing the state, territory or district (i.e., Washington D.C.). However, in the case of the two regional offices located in California, I must reference the county where the employee resides.[7] I assign employees that reside in states, districts or territories where there are no offices of the SEC to the Home Office. Grouping by year and regional office, I create average measures of diversity on two dimensions: percent non-white employees and percent female-identifying employees. Given enforcement decisions are most relevant to accounting and legal staff, I use accountant-and-attorney-employee only measures of diversity in my analyses in this paper.

Additionally, I obtain firm-level data from Compustat and University of Notre Dame's Augmented 10-X Header Data. To a combined dataset of these two databases, I merge raw data on all closed SEC investigations between January 1, 2000 and August 2, 2017 obtained from Blackburne et al. (2021) using the author-provided PERMNO.

[6] Of the 66,809 usable employee-year observations obtained from federalpay.org, 89.1 percent (59,542) can be matched to a probable ethnicity and 92.7 percent (61,914) can be match to a probable gender, with 82.4 percent (55,042) that are matched to both ethnicity and gender.

[7] The jurisdiction of the Los Angeles Regional Office includes Arizona, Hawaii, Guam, Nevada and Southern California (see https://www.sec.gov/regional-office/los-angeles for more information). I assign an SEC Employee to the Los Angeles Reginal Office if they reside in one of the ten, southmost counties of California: Imperial, Kern, Los Angeles, Orange, Riverside, San Bernardino, San Diego, Santa Barbara, San Luis Obispo and Ventura. Employees residing in all other counties of California are assigned to the San Francisco Regional Office.

I match office-level diversity data to firm-level data using the following procedure. For firm-year observations in which an investigation was opened by the SEC, the investigating office's diversity is matched with that observation. For firm-years in which no investigation was opened by an office of the SEC, I create a weighted average of the jurisdictional and home offices' levels of diversity.[8] This combination of the jurisdictional and home office is justified by the fact that, on average, 75.7 percent of all investigations are either opened by the jurisdictional or home offices.[9] In other words, it is some combination of the levels of diversity of these two offices that firms are "treated" with.

From a merged dataset of the above datasets, I create my other variables of interest and relevant control variables. Table 1 summarizes the sample construction process resulting in the 66,752 firm-years in my sample.

[8] Information regarding the SEC's regional offices and their respective jurisdictions are obtained from https://www.sec.gov/page/sec-regional-offices and subsequently linked web pages.

[9] The applied weights are calculated on a yearly basis based on the proportion of investigations opened in that year by the jurisdictional and home offices. For example, in 2007, 184 investigations in my sample were opened by the offices of the SEC, 20.7 and 61.4 percent of which were opened by the home and jurisdictional offices, respectively, for a combined percentage of about 81.1. Thus, the weights applied to the home and relevant jurisdictional offices' diversity measures in this year are 25.17 (20.65/81.07) and 74.83 (61.41/81.07) respectfully.

CHAPTER IV

SEC STAFF DIVERSITY ANALYSES

Office-Level Descriptive Analyses

I begin my analyses by relating broad trends and other descriptive analyses concerning diversity at the SEC. Taken as a whole, there has been a modest increase in both non-white and female employees at the Commission, as can be seen in Figures 1 and 2. Specifically, the number of female-identifying employees increased 4.1 percent ((40.4 – 38.8) / 38.8) while the number of non-white employees increased 8.3 percent ((18.2 – 16.8) / 16.8). Primarily, the bulk of both of these increases took place after OMWI was established at the SEC in 2011. While not conclusive evidence of the success of Section 342 of the Dodd Frank Act, the data is consistent with the diversity-increasing effect of OMWI.

At the regional office level, I find more varied results. For example, as mentioned above, while the majority of offices experienced an increase in female-identifying staff diversity, four offices (Miami, Philadelphia, Denver, and Los Angeles) experienced a decrease in female-identifying accountants and lawyers. Four offices (Philadelphia, Chicago, Denver, and Salt Lake) also experienced decreases in nonwhite accounting and legal staff. Overall, the San Francisco office is in the top three of both female-identifying and nonwhite staff diversity, while Atlanta is in the bottom three of my two measures of diversity.

Firm-Level Diversity Analyses

Next, I shift my analyses to the firm-year level to investigate my hypotheses. This includes tests with measures of firm-level diversity for my first two hypotheses and measures of similarity between firm and office levels of diversity for my final hypothesis. For all of these analyses, I use the following OLS base model:

$$Begin\ Investigation = \beta_1 Office\ Diversity + \beta_2 Office\ Staff\ Ability + \beta_3 Office\ Accounting\ Expertise + \beta_4 Size + \beta_5 Book\ to\ Market + \beta_6 Leverage + \beta_7 Age + \beta_8 Closest\ Office\ Distance + \beta_9 Fortune\ 500 + \beta_{10} Analyst\ Following + \delta\ FEs + \varepsilon \quad (1)$$

where *Begin Investigation* is an indicator set equal to one if, in a given firm-year, an SEC office opens an investigation into a firm. *Office Diversity* is the percentage of non-white accounting and legal staff at a respective office (*Office Diversity – Ethnic*), or the percentage of female-identifying accounting and legal staff at an office (*Office Diversity – Female*). Similarly, I measure these office diversity constructs using indicator variables when the diversity percentage of accounting and legal staff at an office is above the sample median. Additionally, I control for two other SEC-related office factors that could potentially contribute to the Commission's propensity to open investigations: *Office Staff Ability*, the mean salary-derived ability of accounting and legal staff at a respective office; and *Office Accounting Expertise*, the proportion of accountants among the accounting and legal staff at a respective office. Moreover, I include several controls used in the prior investigation and enforcement action literature: *Size* is the natural logarithm of one plus a firm's market value of equity, *Book to Market* is firm total book value of equity divided by market value of equity, *Leverage* is total liabilities scaled by total assets, *Closest Office Distance* is the natural logarithm of one plus the distance between a firm's headquarters and an office of the SEC, as defined by Kedia and Rajgopal, (2011), *Fortune 500* is an indicator set equal to one if, in a given firm-year, a firm is included in the Fortune 500, and *Analyst Following* is the number of analysts issuing reports on a firm in a given firm-year. Additionally, all continuous variables in this and following analyses are winsorized at the first and ninety-ninth percentiles to mitigate the effect of outliers. Moreover, various combinations of year, firm and jurisdictional-office fixed

effects are employed and standard errors are clustered by firm. All variables are described in more detail in Appendix A.

Descriptive Analyses

Table 2 Panel A presents the descriptive statistics for my firm-level analyses. Of the 66,752 firm years in my sample, about 3 percent are associated with the opening of an investigation by the SEC. Roughly a quarter of these investigations originate in the home (i.e., Washington D.C.) office, with the remainder originating in one of the 11 jurisdictional offices (see Blackburne et al. 2021 for a more detailed discussion of investigations). The sample average of non-white and female identifying accounting and legal employees of the SEC are about 17 and 40 percent respectively. Of accounting and legal employees, 40 percent are accountants. When compared to the ethnic and gender diversity of the named executive officers of firms in my sample (7 and 9 percent, respectively), the Commission's accounting and legal staff are more diverse across both measures.

Table 3 presents pair-wise correlations for my sample of firm-years. Of note here are the positive, statistically significant (p-value < .05) correlations between *Begin Investigation* and all but one of my measures of diversity (*Office Diversity – Gender*). While not evidence of causation, these associations do suggest that more diverse regional offices of the SEC tend to initiate more investigations than do less diverse offices. Moreover, investigations are also positively associated with offices with higher average ability (*Office Staff Ability*), firms that are larger (*Size*), more visible (*Analyst Following*) and older (*Age*), and negatively associated with *Closest Office Distance*, a result consistent with Kedia and Rajgopal (2011).

Multivariate Analyses

Table 4 presents the results of analyses based on equation 1. Columns 1-2 of each panel use continuous measures of diversity while Columns 3-4 use above-median indicators of diversity. Models presented in odd-numbered columns include only year fixed effects while models presented in even-numbered columns include year, firm and SEC jurisdictional-office fixed effects. This combination of specifications enables me to examine diversity across offices, as well as within a given office over time. It also allows me to reduce concerns regarding measurement error resulting from the use of high-dimensional fixed effects models (Jennings, Kim and Lee 2021).

Panel A presents the results of equation 1 with measures of non-white diversity. My two continuous measures of ethnic diversity indicate there is at least some positive, statistically significant association between the number of non-white accountants and lawyers employed by an office of the SEC and the propensity of that office to open an investigation into a firm.

As mentioned in my development of Hypothesis 1, the connection between office diversity and increased investigations may stem from increases in cognitive differences improving an organization's problem solving and prediction abilities (Page 2008). Given my findings, it is reasonable to suspect that an increase in ethnic diversity at the commission gives rise to increased cognitive differences, which in turn provides offices with better prediction and problem-solving tools to aid in sorting through potential triggers and subsequently opening investigations.

Panel B presents the results of equation 1 with measures of gender diversity. In these specifications, only the above median indicators (i.e., columns 3 and 4) have statistically significant coefficients on my diversity measures. The lack of statistical significance on my continuous measures is perhaps due to the variation in gender diversity being minimal over my

sample period (~4%), when compared to that of ethnic diversity (~8%). However, the two statistically significant specifications do suggest that increasing gender diversity may also increase cognitive differences that in turn give rise to more investigative behavior on the part of the SEC. Together, Panels A and B of Table 4 provide some support for the notion that increasing diversity as a whole at the SEC gives rise to beneficial cognitive differences as opposed to inducing fault lines.

Additionally, there are several other auxiliary findings that are worth mentioning here. First, as logic would suggest, *Office Staff Ability* has a positive, statistically significant effect on *Begin Investigation*, both validating my salary-based ability construct and suggesting that when staff has greater ability, they are more likely to open investigations into firms, all else equal. Second, a higher proportion of accountants relative to attorneys appears to negatively affect the Commission's ability to investigate firms (*Office Accounting Expertise)*. This relationship suggests either that a lawyer's expertise is crucial to opening investigations while an accountant's is ancillary, or simply that a certain number of lawyers are needed to effectively open investigations.

Investigation Trigger Analyses

While understanding the basic relationship between diversity and the Commission's investigation behavior is an important first step, I would expect the influence of diverse viewpoints to be more likely to be manifest when there are situations that raise the question of whether an investigation is warranted. For example, if a firm were to restate its financial statements, or were the subject of a shareholder lawsuit, the SEC would receive a signal that the financial reporting environment at a company might warrant investigation. It would then be up to the SEC staff to use their problem solving and prediction abilities to determine which of these signals to follow. In

contrast, when such a signal is absent, the influence of diversity may be less apparent. To test whether such signals strengthen the diversity-investigation relationship, I augment equation 1 with measures of and interactions with investigation triggers:

$$Begin\ Investigation = \beta_1 Trigger\ X\ Office\ Diversity + \beta_2 Office\ Diversity + \beta_3 Trigger + CONTROLS + \delta\ FEs + \varepsilon \quad (2)$$

where *Trigger* is an indicator set equal to one if, in the preceding year, the firm either restated their financial statements (*Restatement*) or had a shareholder lawsuit brought against them (*Litigation*), and all other variables are as previously defined.

Descriptive Analyses

Table 2 Panel A also includes the descriptive statistics for *Restatement* and *Litigation*. Of the 66,752 firm-years in my sample, about 5 percent (~3,300 observations) are associated with a class action lawsuit while roughly 9 percent (~6,000 observations) are associated with a restatement. Of the 1,869 firm-years in my sample that were investigated by the SEC, about 23 percent (~430) are associated with either a restatement or litigation, respectively. This suggests that in only some cases does the Commission open an investigation following either a restatement or litigation. Thus, there is variation in the SEC's response to observing a trigger event that can be made use of in these analyses.

Multivariate Analyses

Tables 5 and 6 present the findings of my analyses based on equation 2, with *Restatement* being used as the trigger in the two panels of Table 5 and *Litigation* as the trigger in Table 6. As before, ethnicity and gender diversity are used as the variable of interest in Panels A and B of both tables. However, to aid in my interpretation of interactions, only the above-median indicators of diversity are used.

Given the positive and statistically significant coefficients on *Restatement* in both panels A and B, it appears that the presence of a restatement at a firm makes it more likely that the SEC will open an investigation. This in turn suggests that financial restatements are a relevant trigger for investigations. Mirroring my findings in Table 4, only the coefficients on my above-median measures of gender diversity (that is, those in Panel B) of Table 5 are statistically significant. Despite this, the evidence in Panel B does suggest that following a restatement at a firm, more gender-diverse offices are even more likely to open an investigation, beyond even the effect of the restatement itself or the baseline effect of diversity, as is suggested by the coefficient on the interaction between *Restatement* and *High Office Diversity – Gender*. Specifically, there is a 4.09 (.0312 + .0097, p-value < .01) to 5.97 (.0315 + .0282, p-value < .01) percent higher likelihood of an investigation being opened when there is both a restatement at the firm and the jurisdictional office has above-median gender diversity, depending on which arrangement of fixed effects is employed in the model.

Table 6 presents the results of equation 2 with shareholder lawsuits (i.e., *Litigation*) being used as a triggering event. Both Panels A and B of Table 6 contain significant positive coefficients on the interactions between *Litigation* and all my measures of diversity, with the more substantial and powerful results when measures of gender-diversity are used. Specifically, there is a 3.02 (.0301 + .0001, p-value < .05) to 5.91 (.0239 + .0352, p-value = .1165) percent higher likelihood of an investigation being opened when a firm's jurisdictional office has high ethnic diversity and has been the subject of a shareholder lawsuit, again, depending on the fixed-effect structure employed. Similarly, there is a 7.22 (0.063 + 0.009, p-value < .01) to 8.9 (0.0623 + 0.0267, p-value < .01) percent higher likelihood when gender diversity is used. As before, the models with the *Litigation* interaction result in a larger total effect than that of just diversity alone.

Together with my initial analyses, the evidence in Tables 5 and 6 suggests that diverse offices—especially those that are gender-diverse—are more likely to investigate firms than their less-diverse counterparts. Moreover, these results are stronger in the presence of a triggering event like a restatement or a shareholder lawsuit.

Investigation Outcome Analyses

More investigative offices can be viewed in two lights. On one hand, opening more investigations might be seen as an efficient use of resources from the perspective of the SEC. This is because more investigations might mean more chances for potential violations of securities laws to be discovered—a "leave no stone unturned" attitude. However, this is only if the firms being investigated merit investigating in the first place. Because if, on the other hand, the investigations being pursued have little merit to begin with, more investigations could be seen as an inefficiency, a waste of both the agency's and firm's time and resources.

While my above triggering-event analyses provide some evidence concerning whether investigations being opened merit investigation (that is, if the investigation was preceded by either a restatement or shareholder lawsuit, both of which might indicate an investigation is warranted), a more precise method to determine the efficiency of investigations would be to examine the outcome of the investigation. The two outcomes I study here are the length of investigation and whether or not the investigation eventually results in an enforcement action. Ceteris paribus, shorter investigations are more efficient because they mean fewer staff-hours being devoted to a specific engagement with a firm, thus enabling offices to pursue other investigations. And while by definition requiring more of the Commission's resources, the presence of an enforcement action is an efficient use of those resources because (1) they are specifically stated as being the goal of

investigations in the Division of Enforcement's manual and (2) they result in better adherence to securities law.

To test the effect of office-level diversity on the outcome of investigations, I run the following model on a subsample of 1,869 firm-years in which an investigation was opened by the SEC:

$$Investigation\ Outcome\ = \beta_1 Office\ Diversity + CONTROLS + \delta\ FEs + \varepsilon \quad (3)$$

where *Investigation Outcome* is either *Investigation Length*, a continuous variable set equal to the number of months a given investigation was open, or *Enforcement Action*, an indicator variable set equal to one if an investigation eventually leads to either civil litigation, an administrative proceeding, or the secondary designation of AAER, and all other variables are as previously defined.

Descriptive Analyses

Table 2, Panel B presents the descriptive analyses for the firm-years in which an investigation was opened by the Commission. Of note here is that, on average, investigations in my sample lasted almost 14 months and that just under 10 percent of investigations eventually lead to some sort of enforcement action. Moreover, untabulated analyses reveal that investigations that lead to enforcement actions are 2.16 months longer (p-value < .01). Additionally, firm-years in which an investigation was opened faced, on average, higher levels of diversity at SEC Offices across all four of my diversity measures, with all but *Office Diversity – Gender* being statistically different (p-value < .01) from counterpart means in firm-years where no investigation was opened.

Table 3 presents pairwise correlations for my investigation subsample. In line with my untabulated analyses mentioned above, there is a statistically significant positive correlation (p-value < .05) between *Investigation Length* and *Enforcement Action*. Moreover, two of my

measures of diversity are statistically correlated (p-value < .05) with *Enforcement Action*, both of which are negative, suggesting more diverse offices might be less likely to open investigations that result in enforcement.

Multivariate Analyses

Tables 7 and 8 present the results of various specifications of the model described by equation 3, with *Investigation Length* and *Enforcement Action* being used as the dependent variable in each table respectively. As before, panels A and B use measures of ethnic and gender diversity, respectively. Additionally, odd numbered columns include year fixed effects while even numbered columns include year, firm and jurisdictional office fixed effects. In three of my ethnic and two of my gender diversity *Investigation Length* specifications (i.e., those in Table 7), there are negative, statistically significant coefficients on my measures of diversity. Additionally, in three of my ethnic diversity and one of my gender diversity *Enforcement Action* specifications (i.e., those in Table 8), I find negative, statistically significant coefficients on my measures of diversity.

Taken together with my previous analyses, these findings provide evidence consistent with the notion that while more diverse offices tend to open more investigations, those investigations are shorter and less likely to lead to some sort of enforcement if the SEC offices are more ethnically diverse. This in turn, provides mixed evidence regarding how diversity effects the efficiency of investigations. On one hand, more diverse offices conduct shorter investigations, thus enabling them to police more firms and uncover other potential infractions. But on the other hand, more diverse offices are less likely to pursue enforcement against firms, suggesting that the investigations they choose to open may have less merit.

Another interpretation of the above evidence is that the shorter investigations and fewer enforcement actions may be the result of a phenomenon similar to the findings of Choi et al. (2019). These authors find that female-identifying attorneys employed by the SEC's Division of Enforcement are less likely to be assigned fraud-related cases with serious disclosure violations and the largest potential penalties. Instead, female-identifying attorneys are more likely to be assigned cases that tended to reflect less harm to investors. Extending this disparity to the setting of investigation, it may be the case that other female-identifying (and perhaps even ethnically diverse) employees of the SEC are being assigned less serious investigations to begin with, investigations that require less time to resolve and that are less likely to result in enforcement being pursued. In untabulated analyses, I find evidence consistent with the above notion. Specifically, my measures of diversity are negatively associated with the severity of investigations.[10] Moreover, severity is positively associated with the opening of an investigation and positively associated with the escalation of an investigation into an enforcement action. While not conclusive, this evidence is consistent with more diverse staff handling less serious investigations, whose more serious counterparts are more likely to result in enforcement actions. That said, this interpretation only applies to investigations that come from referrals from other offices or the home office, and not those derived from individual office's investigative efforts.

Similarity Analyses

The Commission's investigation decisions may be moderated by firm-level diversity. As described in my hypothesis development, similarity in identities can lead to homophily that might bias an office away from opening an investigation. On the other hand, similarity in identities might

[10] The severity of an investigation is proxied for by the unsigned change in earnings resulting from a restatement (ln(1 + |rest_change_ni|) as defined by Audit Analytics). The sample of investigations that are associated with a restatement is 404.

lead to better communication between the firm and office, thus leading to the more efficient opening of investigations. To investigate the plausibility of these two possibilities, I create the variable *SEC-Firm Similarity*. This new variable is defined as negative one times the absolute value of the difference between my two measures of *Office Diversity* and the corresponding firm-level diversity variables (i.e., *Firm Diversity-Ethnic,* and *Firm Diversity-Gender*). SEC offices and firms are paired based on whether a certain firm's headquarters falls within an office's geographic jurisdiction. I proxy for firm-level diversity by employing the process outlined in Section 3 to infer the ethnicity and gender of the named executive officers of firms contained in Execucomp's compensation database. Requiring executive data reduces my sample to 24,363 firm-year observations. I then augment my model outlined in equation 1 with interactions with an indicator variable of above-median SEC-Firm Similarity as follows:

$$\begin{aligned} &Begin\ Investigation\ = \\ &\beta_1 High\ SEC\ Firm\ Similarity\ X\ Office\ Diversity + \\ &+ \beta_2 Office\ Diversity + \beta_3 High\ SEC\ Firm\ Similarity + \ CONTROLS + \\ &\delta\ FEs + \ \varepsilon \end{aligned} \tag{4}$$

where *High SEC-Firm Similarity* is an indicator variable set equal to one if, for a given firm-year, *SEC-Firm Similarity* is above the median, and all other variables are as previously defined. The coefficient on the interaction can be interpreted as the incremental effect of diversity on the likelihood of investigation when SEC-firm similarity is high.

Descriptive Analyses

Table 2, Panel C presents descriptive statistics and Table 3 presents correlations for the *SEC-Firm Similarity* measures described above. Of note is the mean firm diversity level is 7 and 9 percent respectively, for ethnic and gender diversity. As mentioned previously, this is consistent

with the notion that firms' named executive officers are less diverse than both the population of the United States at large and SEC offices. Specifically, the mean difference between firm and office diversity is roughly 16 and 32 percent for my measures of ethnic and gender diversity respectively.

Multivariate Analyses

Table 9 presents the results of analyses based on equation 4. As before, odd numbered columns include year fixed-effects while even numbered columns include year, firm and SEC jurisdictional-office fixed-effects. Moreover, Panels A and B present my findings with measures of ethnic and gender diversity respectively. As I did in my trigger analyses, I only use above-median indicators of diversity to ease and clarify interpretation.

Panel A presents the results of equation 4 with measures of ethnic diversity. Similar to my initial findings, diversity continues to exhibit a positive effect on *Begin Investigation*, as indicated by the positive and significant coefficients in columns one and two on *High Office Diversity – Ethnic*. On its own, *High SEC-Firm Similarity* also has a positive effect on *Begin Investigation*. This suggests that the more similar a jurisdictional office and firm are, the more likely it is that an investigation will be opened into that firm. This finding is consistent with the notion that in general, similarity between firms and SEC offices improves communication, leading to the more efficient opening of investigations. However, when my measures of similarity and diversity are interacted, the positive effect no longer holds. In fact, when both the firm and jurisdictional office of the SEC are both similarly diverse (i.e., have close to the same percentage of non-white individuals), the Commission is less likely to open an investigation into that firm. This finding suggests that my homophily-related conjecture plays a role in SEC-firm similarity, but only when high diversity is prevalent. That is, more ethnically diverse offices of the Commission seem to be more lenient

toward similarly diverse firms in opening investigations. My findings in Panel B with gender diversity mirror those of ethnic diversity. Moreover, the consistent results across both ethnic and gender diversity suggest that the findings in this section might be applicable to other facets of diversity as well.

The above-mentioned leniency may be due to the fact that firms led by diverse individuals are both rare and highly desired by the public. As mentioned earlier, the average ethnic and gender diversity among firms' named executive officers is only 7 and 9 percent respectively. Moreover, in untablualted analyses, I find that only about 22 (5) percent of the 24,263 firm-years with relevant data have at least the same level of diversity as the mean ethnic (gender) diversity at offices of the SEC (which are 17 and 40 percent respectively). So, given the rarity of diverse executive teams, it may be the case they are given leniency when it comes to being investigated, especially when the investigating office is similarly diverse (and thus likely more aware of the disparity in diversity). Naumovska et al. (2020) document a similar finding in a related area. Specifically, they find diverse directors of firms accused of misconduct suffer fewer negative reputational consequences than their less diverse counterparts. The authors point to the rarity of diverse directors in the labor market as a possible reason for this so-called reputational immunity.

CHAPTER V

CONCLUSION

In this study, I investigate the relationship between diversity at the SEC and the Commission's investigation decisions. Overall, I find a positive association between diversity at the regional office level and the propensity of the SEC to open an investigation. This evidence is consistent with increased diversity giving rise to cognitive differences which in turn provide offices with better prediction and problem-solving skills. These better skills may then enable offices to be more efficient in opening investigations. This provides support for the efficiency-increasing hypothesis of diversity as opposed to the fault-line hypothesis.

Additionally, I study to what extent diversity influences the outcome of investigations. Employing a subsample of 1,869 investigations, I find evidence consistent with more diverse offices opening investigations that are shorter and less likely to lead to enforcement actions. These findings provide mixed evidence as to whether diversity improves the efficiency of investigations. Because on the one hand, shorter investigations on the whole enable offices to police more firms. On the other hand, fewer enforcement actions may mean that the underlying investigations may have less merit. However, an alternative explanation accounts for both these phenomena: more diverse SEC staff may be assigned less serious investigations which require less time to resolve and that are less likely to result in enforcement.

Lastly, I find evidence consistent with fewer investigations being opened when firms and that firm's jurisdictional office have similarly high levels of diversity. This suggests that firm-office similarity may inject leniency into the investigative process. This leniency may be due to the relative rarity of firms helmed by diverse executive teams.

My study contributes to the literature in two ways. First, I extend the investigation literature. Up to this point, little attention has been paid to how specific characteristics of the SEC itself affect these decisions. However, my novel dataset enables me to explore an important aspect of investigation decisions that has not been examined in prior research: the teams of staff who make them. The increased investigation behavior of more diverse offices of the SEC (along with the potential leniency bias) I document here may be of interest to firms facing the costs of the investigation and enforcement process.

Second, my study contributes to the accounting literature studying team diversity. Existing studies have primarily investigated firms' boards and sell-side analysts. I extend this line of research to an important accounting regulator: The Securities and Exchange Commission. As mentioned before, I find evidence consistent with more diverse offices of the SEC being more efficient in opening investigations, highlighting a potential benefit of increasing diversity. However, I also draw attention to a potential detriment of more diversity offices: leniency towards similarly diverse firms

APPENDIX A
VARIABLE DEFINITIONS

Variable Name	Definition	Source
	Diversity-Investigation Analyses	
Office Diversity - Ethnic	Either the percentage of non-white accounting and legal staff at the investigating office of the SEC or a weighted average of non-white accounting and legal staff at the juristictional and home offices. See footnote 9 for more information.	Federalpay.org
Office Diversity - Gender	Either the percentage of female-identifying accounting and legal staff at the investigating office of the SEC or a weighted average of female-identifying accounting and legal staff at the juristictional and home offices. See footnote 9 for more information.	Federalpay.org
High Office Diversity - Ethnic	An indicator variable set equal to one if Office Non-white Percentage is greater than its own median, calculated on a yearly basis.	Federalpay.org
High Office Diversity - Gender	An indicator variable set equal to one if Office Female Percentage is greater than its own median, calculated on a yearly basis.	Federalpay.org
Office Office Accounting Expertise	Either the proportion of accountants among accounting and legal staff at the investigating office of the SEC or the weighted average proportion of accountants among accounting and legal staff at the juristictional and home offices. See footnote 9 for more information.	Federalpay.org
Age	The number of months since the earliest firm-year in Compustat	Compustat
Analyst Following	The number of analysts who created estimates for a firm in a given firm year.	IBES
Begin Investigation	An indicator variable set equal to one if, in the 365 days before a given firm-year's datadate, a firm is the primary subject of an investigation of the SEC.	Blackburn et al (2021)
Book to Market	Compustat Variables: (ceq / (prcc_f * csho))	Compustat
Closest Office Distance	The natural logarithm of one plus the distance between a firm's headquarters and the SEC's closest regional office, as described in Kedia and Rajgopal (2011).	Notre Dame's 10x Header Data & U.S. Gazetteer
Fortune 500	An indicator set equal to one if, in a given firm year, a firm is included in the Fortune 500.	Compustat
Leverage	Compustat Variables: ((dltt + dlc) / at)	Compustat
Litigation	An indicator set equal to one if, in the 365 days before a given firm-year's datadate, a shareholder lawsuit was started against that firm in one of the following categories (Audit Analytics codes in parenthases): class action (1), securities law (41), accounting malpractice (2), financial reporting (48) or non-GAAP (108).	Audit Analytics - Litigation
Office Staff Ability	Either the average abilty of accounting and legal staff at the investigating office of the SEC or the weighted average ability of accounting and legal staff at the juristictional and home offices, where ability is proxied for by the residual of the following regression: Employee Salary = Employee Gender + Employee Ethnicity + Year FE + Employee Type FE + Office FE (Standard Errors Clustered by Year). See footnote 9 for more information.	Federalpay.org

Variable Name	Definition	Source
Restatement	An indicator set equal to one if, in the 365 days before a given firm-year's datadate, the firm restated their financial statements.	Audit Analytics - Restatements
Size	The natural logarithm of one plus a firm's market value (Compustat Variables: prcc_f * csho)	Compustat
	SEC Office-firm Diversity Similarity Analyses	
Firm Diversity - Ethnic	The percentage of non-white named executive officers employed by a firm.	Execucomp
Firm Diversity - Gender	The percentage of female named executive officers employed by a firm.	Execucomp
SEC-Firm Similarity - Ethnic	-1 * Absolute Value ("Office Diversity - Ethnic" - "Firm Diversity - Ethnic").	Previous Variables & Execucomp
SEC-Firm Similarity - Gender	-1 * Absolute Value ("Office Diversity - Gender" - "Firm Diversity - Gender").	Previous Variables & Execucomp
High SEC-Firm Similarity - Ethnic	An indicator variable set equal to one if SEC-Firm Similarity - Ethnic is greater than its own median, calculated on a yearly basis.	Previous Variables & Execucomp
High SEC-Firm Similarity - Gender	An indicator variable set equal to one if SEC-Firm Similarity - Gender is greater than its own median, calculated on a yearly basis.	Previous Variables & Execucomp
	Investigation Outcome Analyses	
Investigation Length	The number of months an investigation lasts.	Blackburn et al (2021)
Enforcement Action	An indicator variable set equal to one if, in the 365 days before a given firm-year's datadate, a firm is the primary subject of an enforcement action of the SEC.	Dechow et al (2011) & SEC.gov

APPENDIX B
FIGURES

Figure 1: SEC Diversity Trends – Ethnicity

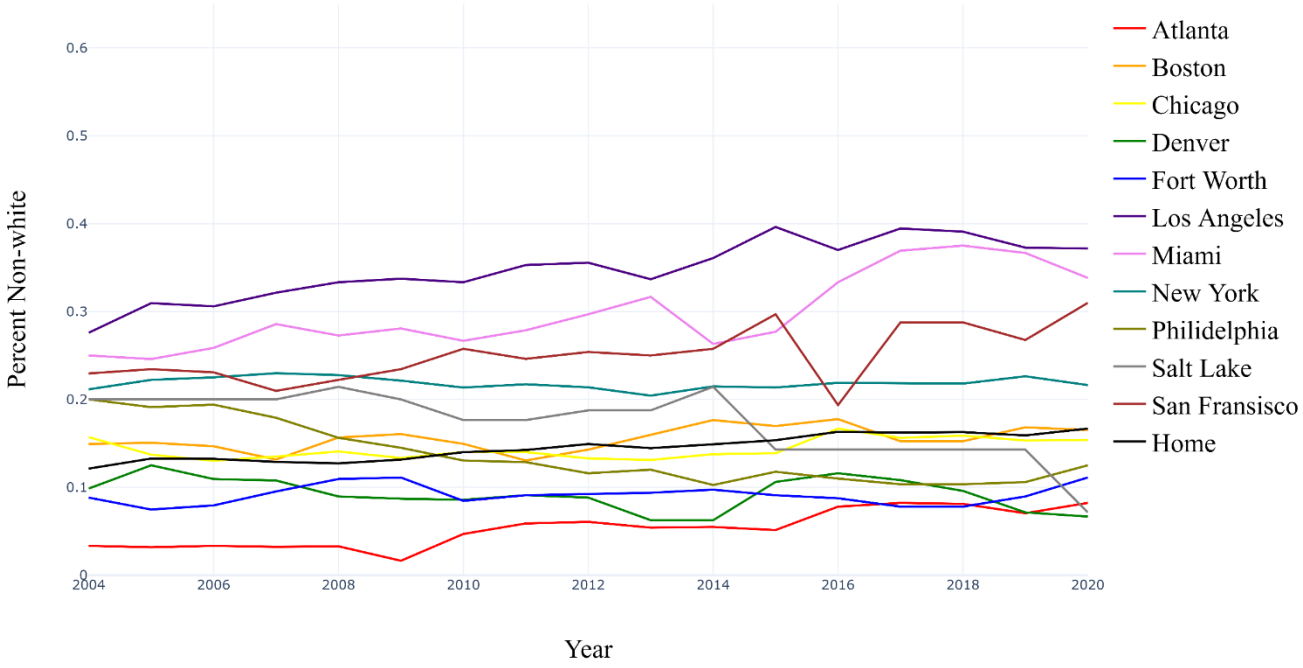
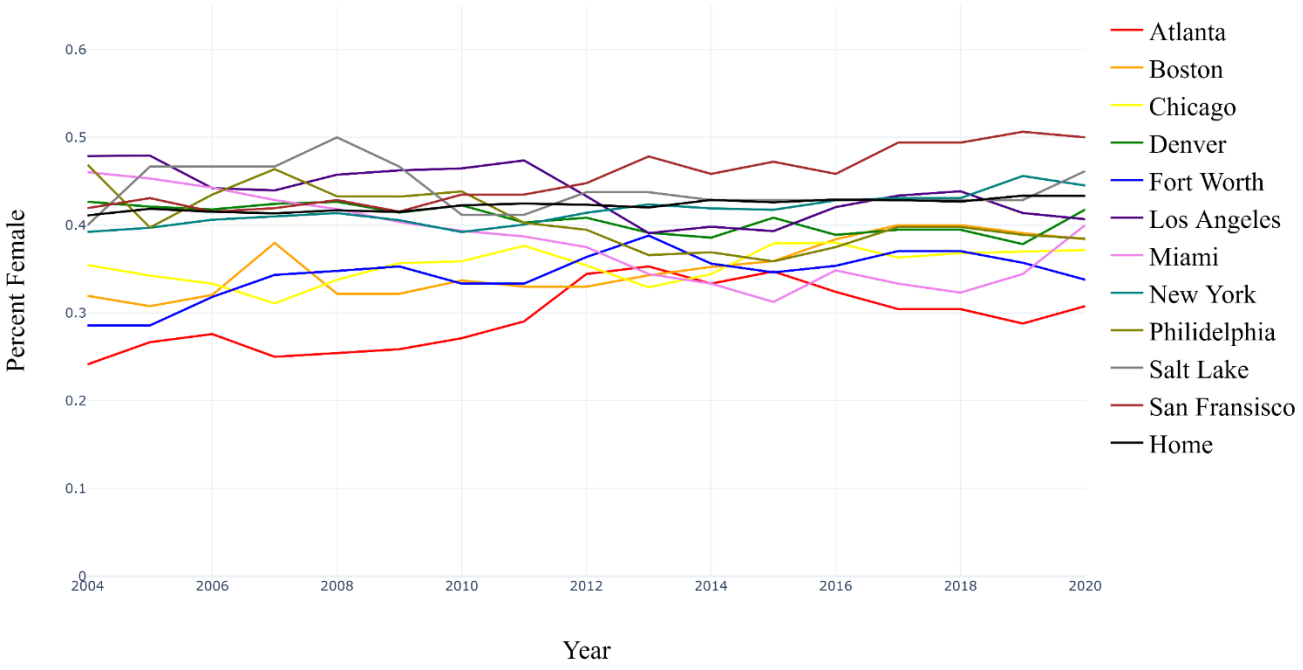


Figure 2: SEC Diversity Trends – Gender



APPENDIX C
TABLES

Table 1
Sample Construction

Panel A - Primary Sample	Number of Observations
Total firm-year observations from Compustat (2004-2017)	158,677
Less: firm-year observations without required data	(91,925)
Observations in Primary Sample	66,752
Panel B - Investigation Subsample	
Total firm-years in Primary Sample	66,752
Less: firm-year observations without required data	(64,883)
Observations in Similarity Subsample	1,869
Panel C - Similarity Subsample	
Total firm-years in Primary Sample	66,752
Less: firm-year observations without required data	(42,489)
Observations in Similarity Subsample	24,263

Table 2
Descriptive Statistics

Panel A - Full Sample

Variables	N	Mean	S.D.	0.25	0.5	0.75
Office Diversity - Ethnic	66,752	0.17	0.06	0.13	0.17	0.21
Office Diversity - Gender	66,752	0.40	0.04	0.37	0.40	0.43
High Office Diversity - Ethnic	66,752	0.44	0.50	0	0	1
High Office Diversity - Gender	66,752	0.45	0.50	0	0	1
Office Accounting Expertise	66,752	0.40	0.07	0.36	0.41	0.45
Age	66,752	215.80	169.20	96.00	168.00	283.00
Analyst Following	66,752	1.98	4.29	0	0	1
Begin Investigation	66,752	0.03	0.17	0	0	0
Book to Market	66,752	0.37	1.55	0.19	0.44	0.78
Closest Office Distance	66,752	4.34	1.64	3.27	4.18	5.90
Fortune 500	66,752	0.01	0.10	0	0	0
Leverage	66,752	0.39	0.93	0.02	0.17	0.39
Litigation	66,752	0.05	0.22	0	0	0
Office Staff Ability	66,752	0.01	0.03	-0.02	0.00	0.03
Restatement	66,752	0.09	0.29	0	0	0
Size	66,752	5.50	2.35	3.80	5.55	7.20

Panel B - Investigation Subsample

Variables	N	Mean	S.D.	0.25	0.5	0.75
Investigation Length	1,869	13.87	3.88	12.65	16.10	16.10
Enforcement Action	1,869	0.10	0.30	0	0	0

Panel C - Similarity Subsample

Variables	N	Mean	S.D.	0.25	0.5	0.75
Firm Diversity - Ethnic	24,263	0.07	0.14	0	0	0
Firm Diversity - Gender	24,263	0.09	0.15	0.00	0.00	0.20
SEC-Firm Similarity - Ethnic	24,263	-0.16	0.09	-0.20	-0.14	-0.11
SEC-Firm Similarity - Gender	24,263	-0.32	0.12	-0.41	-0.37	-0.23
High SEC-Firm Similarity - Ethnic	24,263	0.44	0.50	0	0	1
High SEC-Firm Similarity - Gender	24,263	0.46	0.50	0	0	1

This table presents descriptive statistics for my sample. All continuous variables are winsorized at the first and ninety-ninth percentiles.

Table 3
Sample Correlations

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)
(1) Office Diversity - Ethnic	1.00																			
(2) Office Diversity - Gender	**0.68**	1.00																		
(3) High Office Diversity - Ethnic	**0.84**	**0.64**	1.00																	
(4) High Office Diversity - Gender	**0.58**	**0.77**	**0.55**	1.00																
(5) Office Accounting Expertise	**-0.29**	**-0.20**	**-0.14**	**-0.31**	1.00															
(6) Age	**-0.09**	**-0.09**	**-0.11**	**-0.12**	**0.07**	1.00														
(7) Analyst Following	**-0.04**	**-0.02**	**-0.03**	**-0.01**	**-0.01**	**0.12**	1.00													
(8) Begin Investigation	**0.02**	0.01	**0.02**	**0.05**	0.01	**0.03**	**0.08**	1.00												
(9) Book to Market	**-0.06**	**-0.04**	**-0.06**	**-0.04**	**0.05**	**0.04**	**0.03**	**0.01**	1.00											
(10) Closest Office Distance	**-0.07**	**-0.15**	**-0.13**	**-0.11**	**-0.11**	**0.05**	**-0.02**	**-0.01**	**0.03**	1.00										
(11) Office Staff Ability	**0.55**	**0.51**	**0.50**	**0.45**	**0.13**	**-0.07**	**-0.01**	**0.04**	**-0.03**	**-0.14**	1.00									
(12) Fortune 500	**-0.01**	0.00	-0.01	**-0.02**	0.01	**-0.04**	**0.11**	**0.01**	**0.01**	0.00	**-0.02**	1.00								
(13) Leverage	**0.07**	**0.03**	**0.06**	**0.03**	**-0.09**	**-0.08**	**-0.07**	**-0.03**	**-0.42**	0.00	**-0.02**	-0.01	1.00							
(14) Litigation	0.00	0.00	0.00	0.00	0.00	**0.06**	**0.10**	**0.14**	0.00	**-0.03**	0.01	**0.05**	**-0.02**	1.00						
(15) Restatement	**0.02**	**0.01**	**0.02**	**0.02**	**-0.01**	**-0.03**	**-0.02**	**0.08**	**-0.03**	**-0.01**	**0.01**	0.00	**0.03**	**0.04**	1.00					
(16) Size	**-0.10**	**-0.06**	**-0.12**	**-0.07**	**0.03**	**0.32**	**0.43**	**0.10**	**0.16**	**-0.04**	**-0.04**	**0.15**	**-0.25**	**0.17**	**-0.03**	1.00				
(17) High SEC-Firm Similarity - Ethnic	**-0.44**	**-0.29**	**-0.36**	**-0.22**	**-0.11**	**0.02**	**0.03**	0.01	-0.01	**0.09**	**-0.31**	0.00	0.01	0.00	0.01	**0.02**	1.00			
(18) High SEC-Firm Similarity - Gender	**-0.22**	**-0.39**	**-0.19**	**-0.24**	**0.03**	**0.02**	**0.02**	**0.03**	0.00	**0.04**	**-0.14**	0.01	**-0.01**	**0.01**	0.01	0.01	**0.13**	1.00		
(19) Investigation Length	**0.01**	0.00	**0.02**	**0.04**	**0.01**	**0.02**	**0.07**	**0.96**	**0.01**	**-0.01**	**0.03**	**0.02**	**-0.03**	**0.14**	**0.08**	**0.10**	0.01	**0.03**	1.00	
(20) Enforcement Action	**-0.06**	-0.02	**-0.08**	0.02	**-0.06**	**0.05**	0.01	NA	0.02	0.02	**-0.05**	-0.01	-0.02	**0.09**	**0.11**	0.04	0.02	-0.03	**0.17**	1.00

This table presents pairwise correlation coefficients for my sample. Bolded text in the above table indicate statistical significance at the .05 level. All continuous variables are winsorized at the first and ninety-ninth percentiles.

Table 4

SEC Office Diversity and the Propensity to Open Investigations

Panel A - Ethnic Diversity

	Dependent Variable = *Begin Investigation*			
Variables	(1)	(2)	(3)	(4)
Office Diversity	0.0328 *	0.4070 ***		
	(1.711)	(2.968)		
High Office Diversity			0.0025	0.0383
			(1.319)	(1.082)
Office Staff Ability	0.1860 ***	0.3280 ***	0.2060 ***	0.3690 ***
	(5.220)	(3.776)	(6.075)	(4.206)
Office Accounting Expertise	-0.0743 ***	-0.1950 **	-0.0813 ***	-0.2090 **
	(-3.618)	(-2.018)	(-4.385)	(-2.164)
Size	0.0071 ***	0.0002	0.0071 ***	0.0003
	(16.66)	(0.196)	(16.62)	(0.291)
Book to Market	-0.0003	0.0008	-0.0003	0.0007
	(-0.952)	(1.316)	(-0.958)	(1.226)
Leverage	0.0002	0.0008	0.0002	0.0010
	(0.469)	(1.336)	(0.542)	(1.557)
Age	0.0000	0.0002 *	0.0000	0.0003 *
	(1.409)	(1.754)	(1.447)	(1.926)
Closest Office Distance	-0.0010 **	-0.0005	-0.0009 *	-0.0005
	(-2.017)	(-0.321)	(-1.949)	(-0.296)
Fortune 500	0.0002	-0.0081	0.0003	-0.0076
	(0.0241)	(-0.550)	(0.0310)	(-0.513)
Analyst Following	0.0015 ***	0.0021 ***	0.0015 ***	0.0022 ***
	(5.393)	(3.259)	(5.371)	(3.276)
Observations	66,752	66,752	66,752	66,752
R-squared	0.02	0.17	0.02	0.17
Firm FE	No	Yes	No	Yes
Jur. Office FE	No	Yes	No	Yes
Year FE	Yes	Yes	Yes	Yes

Table 4 (Continued)
SEC Office Diversity and the Propensity to Open Investigations

Panel B - Gender Diversity

	Dependent Variable = *Begin Investigation*			
Variables	(1)	(2)	(3)	(4)
Office Diversity	-0.0410	-0.0682		
	(-1.527)	(-0.955)		
High Office Diversity			0.0126 ***	0.0305 ***
			(7.318)	(7.255)
Office Staff Ability	0.2590 ***	0.4220 ***	0.1230 ***	0.3190 ***
	(7.135)	(4.551)	(3.594)	(3.420)
Office Accounting Expertise	-0.0916 ***	-0.1980 **	-0.0472 ***	-0.1600 *
	(-5.472)	(-2.086)	(-2.715)	(-1.710)
Size	0.0070 ***	0.0003	0.0071 ***	0.0003
	(16.53)	(0.317)	(16.72)	(0.316)
Book to Market	-0.0003	0.0007	-0.0003	0.0007
	(-0.984)	(1.193)	(-0.976)	(1.168)
Leverage	0.0002	0.0010	0.0003	0.0010
	(0.643)	(1.552)	(0.658)	(1.517)
Age	0.0000	0.0003 *	0.0000 *	0.0002 *
	(1.372)	(1.885)	(1.704)	(1.780)
Closest Office Distance	-0.0011 **	-0.0005	-0.0007	-0.0003
	(-2.288)	(-0.297)	(-1.368)	(-0.186)
Fortune 500	0.0007	-0.0076	0.0004	-0.0075
	(0.0739)	(-0.513)	(0.0443)	(-0.503)
Analyst Following	0.0015 ***	0.0022 ***	0.0015 ***	0.0021 ***
	(5.372)	(3.298)	(5.360)	(3.235)
Observations	66,752	66,752	66,752	66,752
R-squared	0.02	0.17	0.02	0.17
Firm FE	No	Yes	No	Yes
Jur. Office FE	No	Yes	No	Yes
Year FE	Yes	Yes	Yes	Yes

This table presents analyses examining the effects of SEC Office Diversity on the Commission's propensity to begin an investigation into a firm. Specifically, this table presents the results of various models of Equation 1, as outlined in Section 4. *, **, *** indicate statistical significance at the 0.10, 0.05, and 0.01 levels, respectively, using two-tailed test otherwise. T-statistics in parentheses are calculated based on standard errors that are clustered by firm. All variables are defined in Appendix A.

Table 5
SEC Office Diversity and the Propensity to Open Investigations - Restatement Trigger

Panel A - Ethnic Diversity

	DV = *Begin Investigation*	
Variables	(1)	(2)
Restatement X High Office Diversity	0.0104	0.0118
	(1.526)	(1.580)
High Office Diversity	0.0012	0.0360
	(0.636)	(1.021)
Restatement	0.0427 ***	0.0400 ***
	(9.384)	(8.331)
Office Staff Ability	0.2090 ***	0.3600 ***
	(6.189)	(4.124)
Office Accounting Expertise	-0.0767 ***	-0.2110 **
	(-4.145)	(-2.193)
Size	0.0071 ***	0.0003
	(16.81)	(0.247)
Book to Market	-0.0002	0.0008
	(-0.515)	(1.323)
Leverage	-0.0001	0.0010
	(-0.271)	(1.589)
Age	0.0000 *	0.0003 **
	(1.780)	(2.133)
Closest Office Distance	-0.0008 *	-0.0005
	(-1.749)	(-0.331)
Fortune 500	-0.0004	-0.0090
	(-0.0464)	(-0.600)
Analyst Following	0.0015 ***	0.0023 ***
	(5.472)	(3.457)
Observations	66,752	66,752
R-squared	0.028	0.176
Firm FE	No	Yes
Jur. Office FE	No	Yes
Year FE	Yes	Yes

Table 5 (Continued)
SEC Office Diversity and the Propensity to Open Investigations - Restatement Trigger

Panel B - Gender Diversity

	DV = *Begin Investigation*	
Variables	(1)	(2)
Restatement X High Office Diversity	0.0312 ***	0.0315 ***
	(4.545)	(4.220)
High Office Diversity	0.0097 ***	0.0282 ***
	(5.698)	(6.753)
Restatement	0.0331 ***	0.0313 ***
	(8.174)	(7.156)
Office Staff Ability	0.1210 ***	0.3050 ***
	(3.566)	(3.289)
Office Accounting Expertise	-0.0417 **	-0.1600 *
	(-2.401)	(-1.726)
Size	0.0072 ***	0.0003
	(16.92)	(0.287)
Book to Market	-0.0002	0.0007
	(-0.636)	(1.163)
Leverage	-0.0001	0.0010
	(-0.140)	(1.566)
Age	0.0000 **	0.0003 **
	(2.017)	(1.991)
Closest Office Distance	-0.0006	-0.0004
	(-1.203)	(-0.241)
Fortune 500	-0.0001	-0.0083
	(-0.0121)	(-0.543)
Analyst Following	0.0015 ***	0.0022 ***
	(5.474)	(3.429)
Observations	66,752	66,752
R-squared	0.03	0.18
Firm FE	No	Yes
Jur. Office FE	No	Yes
Year FE	Yes	Yes

This table presents analyses examining the effects of SEC Office Diversity on the Commission's propensity to begin an investigation into a firm after a restatement. Specifically, this table presents the results of various models of Equation 2, as outlined in Section 4. *, **, *** indicate statistical significance at the 0.10, 0.05, and 0.01 levels, respectively, using two-tailed test otherwise. T-statistics in parentheses are calculated based on standard errors that are clustered by firm. All variables are defined in Appendix A.

Table 6

SEC Office Diversity and the Propensity to Open Investigations - Litigation Trigger

Panel A - Ethnic Diversity

	DV = *Begin Investigation*	
Variables	(1)	(2)
Litigation X High Office Diversity	0.0301 **	0.0239 *
	(2.410)	(1.706)
High Office Diversity	0.0001	0.0352
	(0.0754)	(1.003)
Litigation	0.0855 ***	0.0684 ***
	(10.67)	(8.219)
Office Staff Ability	0.2060 ***	0.3640 ***
	(6.179)	(4.180)
Office Accounting Expertise	-0.0815 ***	-0.2130 **
	(-4.438)	(-2.224)
Size	0.0056 ***	0.0005
	(14.46)	(0.441)
Book to Market	-0.0001	0.0005
	(-0.355)	(0.900)
Leverage	0.0000	0.0009
	(-0.0140)	(1.481)
Age	0.0000	0.0002
	(1.255)	(1.471)
Closest Office Distance	-0.0007	-0.0002
	(-1.556)	(-0.108)
Fortune 500	-0.0055	-0.0078
	(-0.586)	(-0.532)
Analyst Following	0.0013 ***	0.0020 ***
	(4.945)	(3.102)
Observations	66,752	66,752
R-squared	0.04	0.18
Firm FE	No	Yes
Jur. Office FE	No	Yes
Year FE	Yes	Yes

Table 6 (Continued)
SEC Office Diversity and the Propensity to Open Investigations - Litigation Trigger

Panel B - Gender Diversity

	DV = *Begin Investigation*	
Variables	(1)	(2)
Litigation X High Office Diversity	0.0630 ***	0.0623 ***
	(4.882)	(4.518)
High Office Diversity	0.0092 ***	0.0267 ***
	(5.548)	(6.537)
Litigation	0.0713 ***	0.0516 ***
	(9.727)	(6.605)
Office Staff Ability	0.1180 ***	0.3130 ***
	(3.517)	(3.382)
Office Accounting Expertise	-0.0465 ***	-0.1530 *
	(-2.704)	(-1.650)
Size	0.0057 ***	0.0005
	(14.64)	(0.463)
Book to Market	-0.0001	0.0004
	(-0.376)	(0.774)
Leverage	0.0001	0.0009
	(0.141)	(1.401)
Age	0.0000	0.0002
	(1.577)	(1.427)
Closest Office Distance	-0.0004	-0.0001
	(-0.930)	(-0.0522)
Fortune 500	-0.0051	-0.0082
	(-0.548)	(-0.551)
Analyst Following	0.0013 ***	0.0020 ***
	(4.891)	(3.034)
Observations	66,752	66,752
R-squared	0.04	0.18
Firm FE	No	Yes
Jur. Office FE	No	Yes
Year FE	Yes	Yes

This table presents analyses examining the effects of SEC Office Diversity on the Commission's propensity to begin an investigation into a firm after a shareholder lawsuit. Specifically, this table presents the results of various models of Equation 2, as outlined in Section 4. *, **, *** indicate statistical significance at the 0.10, 0.05, and 0.01 levels, respectively, using two-tailed test otherwise. T-statistics in parentheses are calculated based on standard errors that are clustered by firm. All variables are defined in Appendix A.

Table 7

SEC Office Diversity and the Outcome of Investigations

Panel A - Ethnic Diversity

	Dependent Variable = *Investigation Length*			
Variables	(1)	(2)	(3)	(4)
Office Diversity	-6.1180 ***	-5.7240		
	(-3.988)	(-1.495)		
High Office Diversity			-0.7490 ***	-0.8950 *
			(-3.816)	(-1.735)
Office Staff Ability	-5.0640	0.2540	-8.3460 ***	-0.1520
	(-1.440)	(0.0286)	(-2.677)	(-0.0174)
Office Accounting Expertise	1.0650	-1.9530	1.9680 **	-1.0470
	(1.341)	(-0.941)	(2.416)	(-0.475)
Size	0.0623	-0.0993	0.0664	-0.0876
	(1.337)	(-0.323)	(1.426)	(-0.289)
Book to Market	0.0275	0.2790	0.0269	0.2720
	(0.349)	(0.966)	(0.347)	(0.964)
Leverage	-0.2420	-0.1100	-0.2440	-0.0962
	(-0.794)	(-0.110)	(-0.779)	(-0.0961)
Age	-0.0013 **	0.0190	-0.0013 **	0.0179
	(-2.256)	(0.901)	(-2.299)	(0.839)
Closest Office Distance	0.0216	0.5480	0.0099	0.5270
	(0.438)	(0.994)	(0.200)	(0.988)
Fortune 500	0.4450	0.6740	0.4910	0.7240
	(0.706)	(0.278)	(0.765)	(0.298)
Analyst Following	-0.0238	-0.1190	-0.0237	-0.1140
	(-1.575)	(-1.101)	(-1.562)	(-1.058)
Observations	1,869	1,869	1,869	1,869
R-squared	0.17	0.80	0.16	0.80
Firm FE	No	Yes	No	Yes
Jur. Office FE	No	Yes	No	Yes
Year FE	Yes	Yes	Yes	Yes

Table 7 (Continued)
SEC Office Diversity and the Outcome of Investigations

Panel B - Gender Diversity

	Dependent Variable = *Investigation Length*			
Variables	(1)	(2)	(3)	(4)
Office Diversity	-4.3890 *	-8.5800		
	(-1.901)	(-1.439)		
High Office Diversity			-0.5730 **	-0.7600
			(-2.227)	(-1.224)
Office Staff Ability	-10.4700 ***	-1.2770	-9.9610 ***	-1.8290
	(-3.145)	(-0.143)	(-3.028)	(-0.209)
Office Accounting Expertise	0.6410	-3.5660	-0.1300	-4.1830
	(0.635)	(-1.551)	(-0.104)	(-1.575)
Size	0.0663	-0.1370	0.0694	-0.1330
	(1.410)	(-0.453)	(1.478)	(-0.442)
Book to Market	0.0374	0.2940	0.0419	0.2870
	(0.476)	(1.065)	(0.531)	(1.015)
Leverage	-0.1930	0.0009	-0.2020	-0.2050
	(-0.615)	(0.0008)	(-0.647)	(-0.205)
Age	-0.0013 **	0.0187	-0.0013 **	0.0183
	(-2.271)	(0.859)	(-2.344)	(0.825)
Closest Office Distance	0.0196	0.5230	0.0221	0.5150
	(0.397)	(0.953)	(0.446)	(0.958)
Fortune 500	0.4750	0.6540	0.4000	0.5610
	(0.747)	(0.270)	(0.637)	(0.230)
Analyst Following	-0.0240	-0.1250	-0.0243	-0.1230
	(-1.587)	(-1.166)	(-1.612)	(-1.120)
Observations	1,869	1,869	1,869	1,869
R-squared	0.16	0.80	0.16	0.80
Firm FE	No	Yes	No	Yes
Jur. Office FE	No	Yes	No	Yes
Year FE	Yes	Yes	Yes	Yes

This table presents analyses examining the effects of SEC Office Diversity on the length of an SEC investigation. Specifically, this table presents the results of various models of Equation 3, as outlined in Section 4. *, **, *** indicate statistical significance at the 0.10, 0.05, and 0.01 levels, respectively, using two-tailed test otherwise. T-statistics in parentheses are calculated based on standard errors that are clustered by firm. All variables are defined in Appendix A.

Table 8

SEC Office Diversity and the Outcome of Investigations

Panel A - Ethnic Diversity

	Dependent Variable = *Enforcement Action*			
Variables	(1)	(2)	(3)	(4)
Office Diversity	-0.2600 **	-0.3690		
	(-2.176)	(-1.578)		
High Office Diversity			-0.0346 **	-0.0582 *
			(-2.043)	(-1.856)
Office Staff Ability	0.0177	-0.2290	-0.1030	-0.2520
	(0.0692)	(-0.420)	(-0.433)	(-0.516)
Office Accounting Expertise	-0.2180 ***	-0.0102	-0.1790 **	0.0488
	(-2.700)	(-0.0655)	(-2.218)	(0.304)
Size	0.0042	0.0170	0.0043	0.0178
	(0.885)	(1.039)	(0.919)	(1.097)
Book to Market	0.0024	0.0232	0.0023	0.0227
	(0.345)	(1.280)	(0.336)	(1.282)
Leverage	-0.0143	0.0170	-0.0145	0.0179
	(-0.688)	(0.256)	(-0.699)	(0.269)
Age	0.0001 *	0.0028	0.0001	0.0027
	(1.665)	(1.593)	(1.641)	(1.559)
Closest Office Distance	0.0004	-0.0125	-0.0002	-0.0139
	(0.0803)	(-0.761)	(-0.0365)	(-0.881)
Fortune 500	-0.0091	-0.0524	-0.0069	-0.0492
	(-0.191)	(-0.932)	(-0.144)	(-0.895)
Analyst Following	-0.0004	-0.0011	-0.0004	-0.0008
	(-0.300)	(-0.141)	(-0.295)	(-0.101)
Observations	1,869	1,869	1,869	1,869
R-squared	0.03	0.86	0.03	0.86
Firm FE	No	Yes	No	Yes
Jur. Office FE	No	Yes	No	Yes
Year FE	Yes	Yes	Yes	Yes

Table 8 (Continued)
SEC Office Diversity and the Outcome of Investigations

Panel B - Gender Diversity

	Dependent Variable = *Enforcement Action*			
Variables	(1)	(2)	(3)	(4)
Office Diversity	-0.3050 *	-0.2930		
	(-1.648)	(-0.674)		
High Office Diversity			-0.0139	-0.0257
			(-0.807)	(-0.643)
Office Staff Ability	-0.1290	-0.4830	-0.2570	-0.5040
	(-0.547)	(-0.893)	(-1.135)	(-1.002)
Office Accounting Expertise	-0.2660 ***	-0.0688	-0.2350 **	-0.0892
	(-3.013)	(-0.376)	(-2.507)	(-0.402)
Size	0.0043	0.0148	0.0044	0.0150
	(0.907)	(0.905)	(0.939)	(0.912)
Book to Market	0.0029	0.0240	0.0029	0.0237
	(0.412)	(1.374)	(0.413)	(1.346)
Leverage	-0.0117	0.0204	-0.0128	0.0134
	(-0.568)	(0.300)	(-0.619)	(0.213)
Age	0.0001	0.0028	0.0001	0.0027
	(1.643)	(1.605)	(1.633)	(1.595)
Closest Office Distance	0.0003	-0.0156	0.0003	-0.0159
	(0.0612)	(-0.972)	(0.0757)	(-0.991)
Fortune 500	-0.0066	-0.0526	-0.0105	-0.0557
	(-0.138)	(-0.933)	(-0.218)	(-0.982)
Analyst Following	-0.0004	-0.0010	-0.0005	-0.0010
	(-0.305)	(-0.137)	(-0.308)	(-0.128)
Observations	1,869	1,869	1,869	1,869
R-squared	0.03	0.86	0.03	0.86
Firm FE	No	Yes	No	Yes
Jur. Office FE	No	Yes	No	Yes
Year FE	Yes	Yes	Yes	Yes

This table presents analyses examining the effects of SEC Office Diversity on the likelihood an investigation will result in an enforcement action. Specifically, this table presents the results of various models of Equation 3, as outlined in Section 4. *, **, *** indicate statistical significance at the 0.10, 0.05, and 0.01 levels, respectively, using two-tailed test otherwise. T-statistics in parentheses are calculated based on standard errors that are clustered by firm. All variables are defined in Appendix A.

Table 9

SEC-Firm Similarity and the Propensity to Open Investigations

Panel A - Ethnic Diversity

	DV = *Begin Investigation*	
Variables	(1)	(2)
High SEC-Firm Similarity X High Office Diverstiy	-0.0213 ***	-0.0406 ***
	(-3.132)	(-3.765)
High Office Diverstiy	0.0137 ***	0.0934 *
	(2.738)	(1.766)
High SEC-Firm Similarity	0.0164 ***	0.0202 ***
	(4.477)	(3.432)
Office Staff Ability	0.3290 ***	0.4380 ***
	(4.291)	(2.661)
Office Accounting Expertise	-0.1520 ***	-0.4150 ***
	(-3.487)	(-2.652)
Size	0.0102 ***	0.0004
	(8.196)	(0.130)
Book to Market	0.0018	0.0007
	(1.248)	(0.356)
Leverage	0.0041	0.0095
	(0.762)	(0.920)
Age	0.0000	0.0001
	(-0.512)	(0.372)
Closest Office Distance	-0.0015	-0.0049
	(-1.470)	(-1.179)
Fortune 500	-0.0050	-0.0025
	(-0.499)	(-0.142)
Analyst Following	0.0010 ***	0.0006
	(3.065)	(0.692)
Observations	24,263	24,263
R-squared	0.02	0.17
Firm FE	No	Yes
Jur. Office FE	No	Yes
Year FE	Yes	Yes

Table 9 (Continued)
SEC-Firm Similarity and the Propensity to Open Investigations

Panel B - Gender Diversity

	DV = *Begin Investigation*	
Variables	(1)	(2)
High SEC-Firm Similarity X High Office Diverstiy	-0.0191 ***	-0.0202 **
	(-2.871)	(-1.967)
High Office Diverstiy	0.0331 ***	0.0563 ***
	(7.364)	(6.648)
High SEC-Firm Similarity	0.0253 ***	0.0275 ***
	(8.022)	(5.800)
Office Staff Ability	0.1590 **	0.4640 ***
	(2.174)	(2.701)
Office Accounting Expertise	-0.1010 **	-0.3460 **
	(-2.565)	(-2.323)
Size	0.0103 ***	0.0009
	(8.334)	(0.320)
Book to Market	0.0018	0.0005
	(1.295)	(0.268)
Leverage	0.0054	0.0095
	(1.016)	(0.916)
Age	0.0000	0.0001
	(-0.534)	(0.365)
Closest Office Distance	-0.0010	-0.0039
	(-1.032)	(-0.917)
Fortune 500	-0.0059	-0.0022
	(-0.582)	(-0.121)
Analyst Following	0.0009 ***	0.0005
	(2.960)	(0.606)
Observations	24,263	24,263
R-squared	0.027	0.167
Firm FE	No	Yes
Jur. Office FE	No	Yes
Year FE	Yes	Yes

This table presents analyses examining the effects of SEC Office Diversity on the Commission's propensity to begin an investigation into a firm, and how similarity with firms might influence this relationship. Specifically, this table presents the results of various models of Equation 4, as outlined in Section 4. *, **, *** indicate statistical significance at the 0.10, 0.05, and 0.01 levels, respectively, using two-tailed test otherwise. T-statistics in parentheses are calculated based on standard errors that are clustered by firm. All variables are defined in Appendix A.

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