

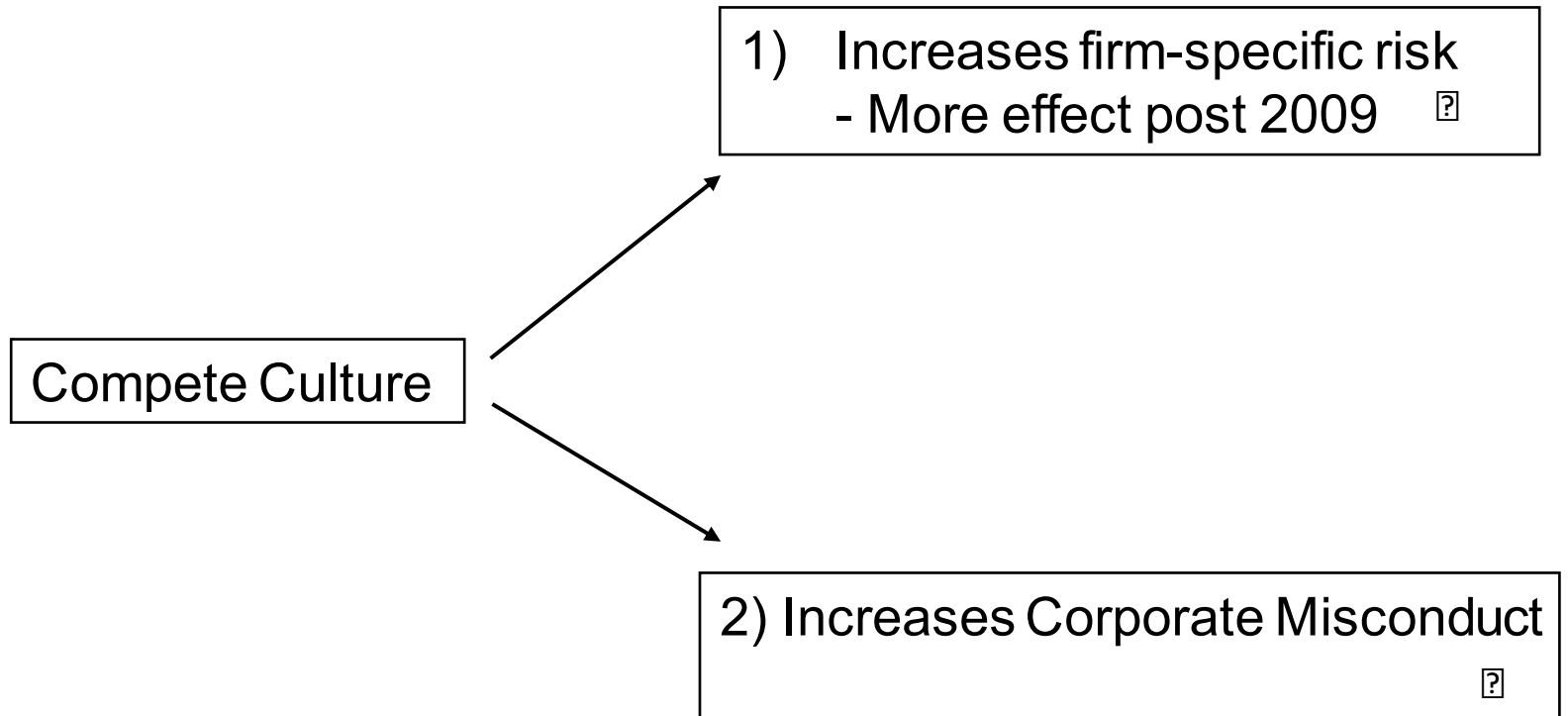
Tournament Culture and Corporate Misconduct : Evidence using Machine Learning

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Main Hypothesis



Measuring Culture

- Use Competing Value Framework from Cameron and Quinn (2006) and Thakor (2016)
- Gives Four Cultural Orientation:
 - Collaborate, Control, Compete, Create

Culture Construction

- Textual Analysis on 10-K reports
- Primarily a “bag of words” approach

Qualitative Questions

- Text can be determined by prevailing (broader) cultural norms
 - Revealed Preference
- Are the four norms mutually exclusive?

	<i>FIRM-SPECIFIC RISK</i>	<i>COLLABORATE</i>	<i>CREATE</i>	<i>COMPETE</i>	<i>CONTROL</i>
<i>FIRM-SPECIFIC RISK</i>	1.000				
<i>COLLABORATE</i>	0.031	1.000			
<i>CREATE</i>	0.068	0.080	1.000		
<i>COMPETE</i>	0.117	0.171	0.222	1.000	
<i>CONTROL</i>	-0.036	0.035	0.073	0.186	1.000

Identification

Major Comments:

- None of the main specifications include Firm-FE
 - Used in Table VI for external validity
- IV discussion should include exclusion restriction

$$MISCONDUCT_{j,t} = \alpha + \beta_1 \times High_Risk + \beta_2 \times Culture_Type_{j,t-1} + \beta_3 \times High_Risk \times Culture_Type_{j,t-1} + Controls + Industry_i + Year_t + \epsilon_{j,t} \quad (3)$$

- Why an interaction term? Compete → risk taking
- Why no horse race?

Results

- Discussion on other dimensions

	<i>FIRM-SPECIFIC RISK</i>				
	(1)	(2)	(3)	(4)	(5)
<i>COMPETE</i>	0.493*				0.657**
	(0.258)				(0.271)
<i>CONTROL</i>		-0.337			-0.180
		(0.503)			(0.512)
<i>CREATE</i>			-0.623***		-0.580***
			(0.145)		(0.185)
<i>COLLABORATE</i>				2.689*	2.790*
				(1.415)	(1.602)
<i>Intercept</i>	5.550***	3.973***	3.921***	0.051	3.932
	(1.210)	(1.033)	(0.167)	(1.683)	(2.683)
Industry	Yes	Yes	Yes	Yes	Yes
Year	Yes	Yes	Yes	Yes	Yes
Controls	Yes	Yes	Yes	Yes	Yes
Observations	7,546	5,619	9,946	7,546	5,619
R-squared	0.306	0.326	0.371	0.306	0.332

Text Analysis

- Li et al. (2020) use LDA method for unsupervised topic modelling
 - Culture is nuanced, multi-dimensional
 - Human inconsistency
 - Is percentage occurrence right metric?

VARIABLES	(1) <i>COMPETE</i>	(2) <i>COLLABORATE</i>	(3) <i>CONTROL</i>	(4) <i>CREATE</i>
Innovation	0.160*** (0.026)	0.026** (0.010)	0.067*** (0.016)	0.103*** (0.012)
Respect	0.018 (0.024)	0.055*** (0.010)	-0.013 (0.014)	0.036*** (0.010)
Integrity	-0.018 (0.014)	0.016*** (0.006)	0.034*** (0.009)	0.004 (0.006)
Team Work	-0.006 (0.057)	0.130*** (0.027)	-0.035 (0.027)	0.076*** (0.020)
Quality	0.106*** (0.024)	0.007 (0.013)	0.003 (0.015)	-0.019 (0.012)
Constant	3.910*** (0.032)	0.998*** (0.015)	2.516*** (0.020)	1.036*** (0.014)
Observations	11,717	11,717	11,717	11,717
Adjusted R-squared	0.844	0.767	0.777	0.829
Firm	Yes	Yes	Yes	Yes
Year	Yes	Yes	Yes	Yes

Discussion

- Present results only for Compete
 - Sharpen the hypothesis
- Use LDA directly to identify “Compete” culture type
- Present examples from 10-K