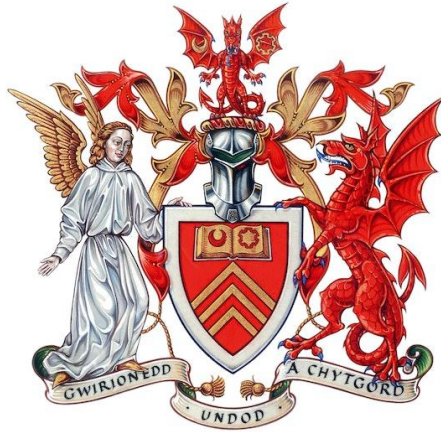# Essays on Corporate Social Responsibility

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Acknowledgments

In the name of Allah (SWT), the Most Gracious and the Most Merciful, whose love and guidance made the completion of this thesis possible. All praise to Him who bestowed upon me all the opportunities, trials and blessings of strength and wisdom in life and throughout my PhD journey.

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Conference and Workshop presentations

I have participated in the following academic conferences and workshops and presented my research papers there:

2018: Cardiff Corporate Governance Research Group International Conference, Cardiff University, United Kingdom

2018: CGEUI Comparative Corporate Governance workshop, Cardiff University, United Kingdom

2019: 42nd Intercollegiate Accounting and Finance Colloquium, Gregynog, United Kingdom

2019: Young Finance Scholars' Conference, University of Sussex, United Kingdom

2019: Welsh Post-Graduate Research Conference (WPGRC), Cardiff University, United Kingdom

2019: Conference on CSR, the Economy and Financial Markets, Dusseldorf, Germany

2021: Sustainable Finance and Governance, Bath University (virtually via Zoom)

2021: Tri-Universities annual conference: Towards a Post-pandemic Sustainable World, Virtually via Zoom

2022: AsianFA Annual Conference 2022, 25th of April 2022, Hong Kong Polytechnic University, Virtually via Zoom.

2022: 43rd Intercollegiate Accounting and Finance Colloquium, Gregynog, United Kingdom

2022: 31st EFMA Annual Conference 2022, Bio-Medico University, Rome, Italy.

2022: Welsh Post-Graduate Research Conference (WPGRC), Cardiff University, United Kingdom

2022: South West Area Group (SWAG) of the British Accounting and Finance Association (BAFA), Bristol University, United Kingdom

2022: Tri-University Annual Conference: Recovery and Rebalancing" in Newcastle University Business School, Newcastle University Business School, United Kingdom.

2022: The International Conference on Sustainability, Environment, and Social Transition in Economics and Finance, University of Paris Saclay, Paris, France.

2022 FMA International Global Conference in the Middle East, 14-16 November 2022, Zayed University, Dubai, United Arab Emirates

2023:Northern Area Group (NAG) Annual Conference 2023, Nottingham University, Nottingham, United Kingdom

2023: 12th International Conference of the Financial Engineering and Banking Society, 1-4 June 2023, University of Crete, Greece

Abstract

The thesis comprises three empirical chapters on the determinants of corporate social responsibility activities. Chapter 2 contributes to our understanding of how firms adopt more stakeholder-friendly policies to meet the expectations and preferences in CSR of their customers for legitimacy purposes. Chapter 3, studies whether the characteristics surrounding geographical areas near a firm's headquarters, as captured by legal heritage, can foster its engagement in CSR activities to conform to the regional norms and values. Chapter 4 investigates how firms' CSR performance is influenced when they are socially connected to firms involved in a corporate scandal.

In Chapter 2, we use data on offshore activities by U.S. publicly listed companies, and document that firms selling to countries characterized by higher social capital respond to customer demand for corporate social responsibility (CSR) by increasing their CSR strengths but not CSR-concerns. The improved social performance stems from the adoption of firm policies that are favorable to the employees and diversity. The effect persists after controlling for country economic development and legal origins and is robust to an alternative social-capital measure constructed based on Google search data. Subsample tests show that the positive effect concentrates on industries that sell predominantly to businesses (as opposed to end consumers) and have low environmental activism. Overall, our evidence is consistent with firms seeking legitimacy vis-à-vis their business customers through engaging in socially responsible activities.

In chapter 3, we document that firms headquartered in U.S. counties where the majority of residents trace their ancestral roots to civil law countries have significantly higher (lower) CSR strengths (concerns). The results provide empirical evidence consistent with the conjectures that the attribute of civil law is associated with being stakeholder-oriented. This finding is robust in instrumental variable regressions, using immigration from England at the turn of the 19th century as an instrument. The results also hold when employing propensity score matching and difference-in-differences regressions using firm headquarters relocations as a design. Further tests indicate that the positive effect is concentrated in low polluting industries rather than high polluting industries. These findings support arguments in the literature that the altruistic inclination of the region might also play a role in a firm's decision to adopt socially responsible policies.

In Chapter 4, we test how firms respond to corporate violations when they are located in a county that is socially connected to the scandal area. We find that the sudden shock to the perceived legitimacy risk leads firms to increase their CSR strength, but not change their CSR

concerns. Overall, the firm's response to the announcement of corporate violations is consistent with the salience effect, as increased media scrutiny increases the perceived risk of legitimacy loss. Consequently, firms will increase their socially responsible initiatives as a strategic hedge against this risk. The improved CSR performance is attributed to implementation of stakeholder-friendly policies regarding employee relations and the community. Subsample tests document that the results vary across different industries and we find that the positive effect concentrates on high-polluting industries and firms faced with highly competitive pressure. Overall, these findings support that the firm's reaction to corporate violations is consistent with the salience effect.

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Chapter 1 : Introduction

1.1 Background and Motivation

> "If what we're doing or what another company is doing inspires others to contribute, that's good, but increasingly, our investors actually do care. Our customers want to know where we stand on these kinds of issues and what we're doing. Our employees care, and frankly our future employees really care."
>
> - Chuck Robbins, CEO of Cisco Systems (Forbes 2016)

The above quote reflects the growing demand for Corporate Social Responsibility (CSR), where firms are expected to manage the interest of multiple stakeholders and not merely contribute to the global economy (Jamali et al. 2008) to obtain legitimacy (Sharfman 1994). It is difficult to explain the behavior of firms that engage in socially responsible activities at the expense of economic gains, however, such occurrences are ubiquitous. As businesses recognize the growing significance of CSR, they are allocating a greater portion of their discretionary resources towards CSR investments (e.g., Kitzmueller and Shimshack 2012; McKinsey and Co 2021).

The interest in CSR started as early as in the 1920s and early 1930s, where businesses started to recognize the need to balance maximizing shareholder value and meeting the demands of their stakeholders, such as the customers, employees and the community (Carroll 2008). Stakeholders are referred to as the "groups who have a stake in or claim on the firm. Specifically, we include suppliers, customers, employees, stockholders, and the local community, as well as management in its role as agent for these groups." (Evan and Freeman 1988, p.97). The increase of businesses during the World War II and the 1940s, contributed to a further shift of firms to broaden their responsibility and encompass societal obligations (Heald 1970). Nevertheless, prior to the 1960s, the evidence of widespread consideration of CSR concepts was still scarce. The initial attempts to define CSR were with Keith Davis as one of the early pioneers. Davis (1960, p70) defined CSR as "businessmen's decisions and actions taken for reasons at least partially beyond the firm's direct economic and technical interest." This definition contrasts Friedmans well-known perspective that objects to CSR if it doesn't maximize shareholder value. Friedman argues that "few trends could so thoroughly undermine the very foundation of our free society as the acceptance by corporate officials of a social responsibility other than to make money for their stockholders as possible" (1962, p.133).

Davis (1971) however countered this by arguing that the modern world does not only engage in social responsibility, rather they need to do so.

In the 1980s there was a shift towards the recognition and implementation of CSR. Particularly, because the 80s was marked by a surge in widely publicized corporate scandals drawing public scrutiny towards managerial and corporate misconduct. Significant corporate wrong doings included the infant-formula controversy spanning the late 1970s and half of the 1980s as well as notable events like the Union Carbide Bhopal explosion in Dia, resulting in the loss of thousands of lives. Moreover, corporate controversies surrounding firms engaging in business activities in South Africa, seemingly in support of apartheid, and the Ivan Boesky insider trading scandal in the mid-to-late 1980s further contributed to the perception of this decade as one characterised by greed and self-absorption. Therefore, the government started to encourage business to stimulate economic growth while advocating for more firms to take a socially responsible role (Carroll 2015). Furthermore, the increased interest in CSR was also depicted in the increased number of studies analyzing the impact of CSR.

Nevertheless, one of the most significant events that made CSR gain global attention, was the seminal address by then secretary General of the United Nations, Kofi Annan, at the World Economic Forum. The proposal requested the initiation of a global compact based on shared values and principles, aiming to humanize the global market (United Nations Global Compact, paragraph 5). This resulted into United Nations Global Compact (UNGC) in 2000, bringing together 44 global companies, 6 business associations as well as 2 labor and 12 civil society organizations (United Nations Global Compact). The main achievement was the formulation of ten principles that address governance gaps regarding human rights, social and environmental concerns with the aim to integrate those into their strategies, policies as such that it fosters corporate culture imbued with integrity and long-term objectives. Despite that the UNGC is not explicity related to CSR, it did contribute significantly on the focus on human rights, employees and environment which drew global attention towards social responsibility. During the 2000s there was a significant shift towards more implementation of CSR, where the significant body of academic literature played an important role in driving this change. According to Smith (2001), corporate policies underwent changes in response to heightened public interest, leading to often positive social outcomes.

Furthermore, following high-profile corporate scandals like those involving Enron, Worldcom, and Tyco, the U.S. Congress enacted the Sarbanes-Oxley Act (SOX) in 2002. The primary objective of this legislation was to elevate the standards of internal

controls and financial reporting within publicly traded U.S. companies. Moreover, the financial crisis that followed the corporate scandals like those of Enron and WorldCom compelled corporate managers to contemplate a broader strategy beyond a focus on stockholders' wealth maximization. A general understanding is emerging that the reputation of a company and the welfare of distinct stakeholders are crucial to stockholders' wealth maximization and long-term survival. In such scenarios, the ultimate value of shareholder wealth may be linked to "maximizing the sum of various stakeholder surpluses." Studies by Geczy, Stambaugh, and Levin (2005) and Bauer, Koedijk and Otten (2005) reveal that investors are equally interested in such initiatives, as documented by the increased flow of funds into ethically managed mutual funds. Consequently, the definition of CSR also changed and included a broader spectrum of stakeholders. For example Smith (2001, p.142) defined CSR as "Corporate social responsibility (CSR) refers to the obligations of the firm to its stakeholders – individuals affected by corporate policies and practices. These obligations surpass legal requirements and the firm's duties to its shareholders. The fulfilment of these obligations is intended to minimize any harm and maximize the enduring positive impact of the firm on society". These obligations surpass legal requirements and the firm's duties to its shareholders. The fulfilment of these obligations is intended to minimize any harm and maximize the enduring positive impact of the firm on society". The evolution and trend of CSR that has been highlighted here underlines the importance of CSR and the growing of importance. Thus, in recent years, the landscape of corporate social responsibility (CSR) has witnessed a series of milestone events that have redefined the expectations and commitments of companies worldwide. Regulations and corporate initiatives have directed businesses toward greater social responsibility and sustainability, shaping a new era of responsible corporate conduct. Events such as the Paris Agreement on climate change, the United Nations' Sustainable Development Goals have set significant benchmarks, indicating an era where social and environmental responsibility is not merely an option but a fundamental imperative. The Paris Agreement, a landmark global accord adopted in 2015, has compelled companies to evaluate and mitigate their carbon footprints, aligning their strategies with the urgent need to address climate change. Concurrently, the United Nations' Sustainable Development Goals have provided a comprehensive framework for businesses to direct their efforts towards sustainable development, influencing CSR practices on a global scale. Moreover, the emergence and widespread adoption of Benefit Corporations, legally bound to prioritize societal and environmental concerns alongside profitability, have symbolized a paradigm shift

in corporate governance and purpose (Baudot et al., 2020).Furthermore, the increasing trend in CSR is observed in the business world. For example, the Fortune 500 companies have spent $20 billion on CSR, to provide an understanding of the magnitude of this expenditure, this amount represents 1.8 percent of their total profits (Thompson 2020). The rising interest in CSR over the past decades is also evidenced by the increasing number of firms engaging in CSR initiatives such as corporate donations (e.g., Build-a Bear donated over $50 million to support local charities), increasing diversity (e.g., Intel's pledge to increase female representation), socially responsible employment policies (e.g., Starbucks initiative to launch parental leave), and sustainability initiatives that reduce resource use, waste, or emissions (e.g., Drumwright 1994; Smith 1994; Rangan et al. 2015; Bhardwaj et al. 2018).

These transformative events underscore the critical role of understanding what drives CSR performance. In this thesis, we explore the role of customers social capital or legal and cultural foundations, encapsulated in the concept of legal heritage, as well as corporate scandals in shaping CSR strategies and initiatives (Liang and Renneboog 2017). Understanding how customers, corporate scandals and legal heritage influences a firm's engagement in stakeholder-friendly actions is imperative for dissecting the complexities of contemporary CSR, thereby steering corporations towards socially responsible practices that resonate with the demands of a rapidly evolving global society.

The debate about whether corporations should be socially responsible (as opposed to only maximizing shareholder wealth) is longstanding (e.g., Orts 1992; Ferrell et al. 2016). Discrepancies persist among researchers and between academic findings and observed firm behaviors. Two main theories in finance reflect this debate on CSR.

On the one hand, under the assumptions of the neoclassical economics, firms should act to maximize shareholder value (Berle and Means 1932). The American economist Milton Friedman's famous quote "The only responsibility of corporations is to make profits" (New York Times Magazine 1970, p.122), indicates opposition against CSR because resources should be merely used for activities to increase its profits (Karnani 2011). In this viewpoint, it is argued that when firms maximize shareholder value in an efficient market, it will ultimately result in the maximization of social welfare. In this vein, making profits is congruent with stakeholders' interests. Firms investing in CSR need to generate more social value compared to profit-maximizing firms as a trade-off between profit-maximizing strategies and investment in CSR strategies is required. The CSR definition offered by Elhauge (2005, p.744) "sacrificing profits in the social interest" provides a perspective consistent with prior literature (Graff Ziven

and Small 2005; Portney 2005; Reinhardt 2005). In accordance with the traditional perspective, firms that adopt socially responsible policies that prioritize stakeholders over shareholders incur significant costs and there is a trade-off between profit maximizing and stakeholders' interest. The firm's decision-makers, such as the managers, will penalize the shareholders when managing the firm in a socially responsible manner. This is supported by the literature, for example, Di Giuli and Kostovetsky (2014) suggest that any CSR investment comes at the expense of firm value. They document a negative relationship between CSR investments and return on assets. Consistent with this, firms with a high CSR performance have been found to have lower long-run returns (see Hong and Kacperczyk 2009; Bolton and Kacperczyk 2020). Thus, the traditional view asserts that adopting firm policies in favor of stakeholders incurs substantial costs and yields little monetary benefits or even has a negative impact on financial performance (e.g., McWilliams and Siegel 2001; Smith 2003; Lopez et al. 2007; Ferrell et al. 2016).

On the other hand, in the field of finance, Freeman (1984) gained significant prominence through the stakeholder theory. Despite Ansoff (1965) is perceived as the pioneer in introducing the "stakeholder theory" (Roberts 1992), it gained significant attention following the seminal contributions of Freeman (1984) and other notable scholars including Clarkson (1994) and Carroll and Buchholtz (2009), particularly after the mid-1980s.

The stakeholder theory's main premise is that different stakeholders can have distinct and sometimes conflicting expectations, nevertheless an organization is tasked meeting these multiple expectations, as opposed to solely meeting the demand of shareholders as per traditional shareholder theories, such as the neoclassical economics. This is aligned with the notion that stakeholder theory underlines the organizational accountability that goes above economic or financial performance (Guthrie et al. 2006). The stakeholder theory has several key assumptions including that organizations must balance conflicting interests of their stakeholders. Organizations are expected to manage the financial, social and environmental responsibilities towards their stakeholders, regardless if these socially responsible activities lead to improved financial performance (Hasnas 1998). Thus, in other words, organizations do not merely focus on driving the maximization of shareholders' wealth, but, rather as one that aims to meet the expectations of all stakeholders. From a practitioner perspective, the stakeholder theory imparts sound practices and instruments to firms. In the contemporary business, CSR predominantly adhere to the stakeholder model, that remains dynamic and shifts with the firm's framework (Dunfee 1991; Hasnas 1998).

The literature highlights that stakeholders are important and should be paid attention to (Freeman 1984). The stakeholder theory provides a vehicle for connecting ethics and strategy (Phillips 2003). Firms diligently seek to serve the interests of a broad group of stakeholders will create more value over time (e.g. Campbell 1997; Freeman 1984; Freeman, Harrison and Wicks 2009). The empirical studies aligned with the stakeholder theory, find a positive link between CSR and firm financial performance (i.e., Berman et al., 1999; Choi & Wang, 2009; Hillman & Keim, 2001). This is aligned with the notion that when firms meet stakeholder demand, they will be able to obtain support from them and thrive over time (Freeman 1984). The predominant presumption in financial literature is that it seeks to measure the value created by favourable treatment of stakeholders using economic measures, possibly neglecting value that eludes quantification through such indicators. Although economic gains are fundamental to a firm's primary stakeholders, it is important to acknowledge that most stakeholders also have additional preferences (Bosse, Phillips & Harrison, 2009), including considerations such as a firm's reputation.

Advocates of corporate social responsibility argue that rather than perceiving CSR as a cost or constraint, there is a significant potential benefit to society and the company (Flammer and Kacperczyk 2016; Lins et al. 2017). Much of the contemporary literature highlights its association with various benefits to the firms, such as improved firm financial performance (see Edmans 2011; Deng et al. 2013; Kim et al. 2019; Cheng et al. 2023), lower idiosyncratic risk (Lee and Faff 2009) as well as a lower cost of capital (e.g., Goss and Roberts 2011; El Ghoul et al. 2011; Dhaliwal et al. 2011). The existing literature suggests that CSR should be acknowledged as a strategic component that can help firms obtain a competitive advantage (Porter and Kramer 2006; Matten and Moon 2020) and can be even crucial to a firm's long term growth and survival (Lins et al. 2017). Several stakeholders have also pressured firms to engage in CSR behavior. Furthermore, investors increasingly incorporate CSR criteria into their financial decisions (Edmans 2011; Renneboog et al. 2008) and in turn, pressure firms to improve their CSR performance (Barko et al. 2021). This increasing popularity of CSR is reflected in the growing ESG fund assets. A report from 2022 indicates that ESG fund assets have increased to $2.84 trillion by the end of the first quarter of 2022, up from $1.65 trillion in December 2020.

The mixed evidence on the benefits of CSR on firm performance highlights that firms do not merely engage in CSR activities to yield monetary benefits (Choi et al. 2010; Gillan et al. 2021). There is significant within-country variation in CSR performance among U.S. public listed firms. Therefore, why companies voluntarily engage in socially responsible activities

remains an open question. As highlighted by Gillan et al. (2021), there is a necessity for additional research on the factors that influence a firm's top decision makers to engage in CSR. In this thesis, we attempt to offer some insights into this question by studying the determinants of a firm's decisions to engage in stakeholder-friendly activities. This thesis consists of three separate empirical chapters, all of which are united under the overarching theme of examining factors that determine CSR decisions.

Throughout the thesis, our sample starts with all non-financial U.S.-listed firms during the period between 1998 and 2018. Financial and utility firms are excluded due to their heavily regulated nature (e.g., Fama and French 1992; Bentley et al. 2013). We measure CSR performance using the scores constructed from the MSCI ESG Stats database. In this thesis, we differentiate between CSR strengths and CSR concerns. The CSR measures "strength" and "concern" respectively indicate "doing good" and "causing/allowing harm." The presence (absence) of strength or concern is indicated by one (zero) because the assumption that strengths and weaknesses are equivalent may be invalid (Mattingly and Berman 2006). In addition, creating a composite measure using independent variables can obscure the underlying relationship and complicate the interpretation of the results (Carver 1989).

1.2   Organisational structure and content overview

Chapters 2, 3 and 4 are individual self-contained working papers. Chapter 2 tests for customer demand. Chapter 3 examines the role of a firm's geographical location. Chapter 4 refers to the examination of the contagion effect. Chapter 5 concludes this thesis and makes a number of recommendations for future research. Table 1 provides a summary of my research topics.

Table 1.1 A Brief Summary of Research Topics

	First Essay	Second Essay	Third Essay
Research Question	What is the role of customers in influencing the firm's decisions of "doing good"?	How does legal heritage affect firms' CSR performance?	How does the contagion effect of corporate violations impact the CSR performance of connected firms?
Previous Literature	An extensive body of literature documents the important role of firms' relationships with stakeholders in driving CSR policies and outcomes. A contemporaneous study by Dai et al. (2021) analyzes international supply chain data and documents that the CSR performance of customer firms is positively associated with that of their suppliers.	A vast body of literature documents that (CSR) decision-making can be influenced by the altruistic inclination fostered by the region where the firm is headquartered. Studies show that a firm located in a high social capital county (Jha and Cox 2015) and Democratic rather than Republican-leaning states (Di Giuli and Kostovetsky 2014) is associated with a higher CSR performance.	The existing literature documents that CSR decision-making can also be through the spill over effect. Studies show that firms' CSR decision-making is influenced by that of their industry competitors (Liu and Wu 2016) or that following a narrow passage and adoption of a CSR proposal, its peer firms adopt similar CSR practices (Cao et al. (2019)

Table 1.1 A Brief Summary of Research Topics (cont'd)

	First essay	Second Essay	Third Essay
My Study	I contribute to the literature by complementing the above studies and document new empirical evidence that firms adopt more stakeholder-friendly policies to meet the expectations and preferences in CSR of their customers for legitimacy purposes.	This study extends the above literature by analyzing how legal heritage affects CSR decision-making: firms headquartered in counties with residents tracing their ancestors to civil law countries exhibit higher CSR performance to obtain a positive social identity.	This study adds to the literature above and analyses the firm's CSR decision-making when they are socially connected to firms that have experienced a corporate violation for legitimacy purposes.
My Findings	I find that firms selling to countries with higher social capital have significantly greater CSR performance, measured by an overall firm-level CSR index based on MSCI KLD data. I find that the increased CSR performance stems from the adoption of firm policies that favor employee relations and diversity. Using an alternative social-capital measure, constructed using Google's search volume index, I find further credence to the customer-demand story. The effect is more prominent among firms operating in non-polluting firms and among B2B firms.	U.S. firms headquartered in counties with a majority of residents having ancestry linked to civil law countries are associated with higher CSR strength and lower CSR concerns. I find that the increased CSR strength performance is driven primarily by the employee, diversity, product, and community sub-scores. Meanwhile, the reduction in CSR concerns is related to policies addressing the environment, diversity, and community. I empirically compare the changes in CSR over time among firms that relocated to counties with higher levels of civil law legal heritage to those that did not. The findings indicate that firms with an increasing civil law legal heritage after relocation have improved CSR performance. Finally, the effect is more prominent among firms operating in non-polluting firms and among B2B firms.	I find that U.S. firms that are socially connected to firms with a corporate violation have significantly greater CSR strength but do not significantly impact CSR concerns. Additional tests reveal that the increased CSR strength performance is driven primarily by policies that favor employee relations and community. The effect is more prominent among firms operating in polluting firms and among firms that have relatively highly competitive pressure.

1.3 "Doing Good" for the Customers? Evidence from Offshore Sales

The second chapter investigates the role of customers in influencing the firm's decision of "doing good". We make an important empirical contribution by testing the relationship between CSR preferences of customers and the firm's decision to adopt socially responsible policies for legitimacy purposes. To the best of my knowledge, this is the first study that empirically examines if customer demand for social responsibility drives firms to expend effort and resources to improve their CSR performance. While some research argues that the growing demand for CSR is driven by stakeholders who protect their own interests by pressuring firms to engage in more CSR-related activities (Benabou and Tirole 2010), there is a scarcity of studies examining the influence of customer demand on firms engagement in CSR.

Previous research encountered two primary challenges, the first being the identification of the customer base of public listed firms and the second being quantifying customer preferences in CSR. We overcome this by using two primary databases to construct a unique customer-social-capital index to measure cross-country variations preference in CSR. The two primary databases are: (1) a relatively newly available database by Hoberg and Moon (2017) to obtain the geographical composition of a firm's customer base and (2) the World Value Survey (WVS) to measure social capital with questions relating to social trust as a proxy.

The legitimacy theory provides the theoretical framework for predicting the relationship between customer social capital and CSR performance. The concept of legitimacy refers to the extent to which an organization's behavior aligns with societal expectations (Mathews 1993). Legitimacy is vital for a firm's survival and can be obtained through communicating strong engagement in socially responsible activities (Deegan 2002). Accordingly, we argue that for firms to attain legitimacy, they must meet the societal expectations of one of their key stakeholders' groups, namely their customers.

Chapter 2 provides important findings with respect to CSR. First, we find that firms selling to countries with higher social capital have significantly greater CSR performance. The tests show that firms meet customer demand for CSR by increasing CSR strength, but not by reducing their CSR concerns. This supports Flammer (2015) findings, who theorizes that one of the external pressures for firms to engage in environmental activities is the customers' sensitivity to these CSR matters. These results are also consistent with the legitimacy theory that firms will "do extra well" to meet their customers' demand for CSR (Brown and Deegan 1998). After we have established that firms increase their CSR strengths in response to the demand of their customers, we analyze the areas the improved performance stems from. The

MSCI KLD database does not merely differentiate between CSR strengths and concerns, but also assigns scores across six areas: community, diversity, employee relations, environment, human rights, product safety and quality. The results show that firms improve their firm policies that favor the employee and diversity and not other aspects of CSR performance, such as community, environment, human rights and product safety and quality. The positive effect persists when we control for other salient country attributes and characteristics, such as average economic development and legal origins. An alternative measure of measuring a country's demand and attention for CSR is through using search engines, such as Google, to gauge their interest in CSR. Following prior studies (Da et al. 2011; Ginsberg et al. 2009) we use Google's search volume index (SVI) on topics relating to CSR as an alternative social-capital measure and document that selling to countries with higher CSR-related search activities have significantly greater CSR performance, lending further credence to the customer-demand story.

Chapter 2 is most closely related to the contemporaneous study by Dai et al. (2021), who document that among 34,117 unique corporate customer-suppliers pairs from 50 countries across the world, socially responsible corporate customers can exert influence on their supplier's CSR. Compared to this study, chapter 2 contributes by studying the CSR preferences of the international customer base of offshore-selling, publicly listed firms in the U.S.

1.4 "Legal Heritage and Corporate Social Responsibility"

The third chapter examines how a firm's geographical locations affect the firm's CSR performance. We make an important empirical contribution by examining the role of legal heritage surrounding corporate headquarters on a firm's CSR performance. This study provides novel evidence to the existing body of research that analyses the impact of social environment on corporations. A vast body of literature shows that firm decision makers can be influenced by the prevailing norms and values of the region where they operate (Hilary and Hui 2009; Jha and Cox 2015; Hasan et al. 2017; Gatchev et al. 2018; Hasan et al. 2020). Nevertheless, to the best of our knowledge, we are the first to analyze the link between CSR and stakeholder preferences for CSR, as measured by their legal heritage.

To conduct this analysis we obtain three key information. First, we obtain information about the location(county) of a firm's headquarters from Compustat. Second, we obtain information on the county's residents' heritage from IPUMS U.S. Census 2000. Finally, we identify each country's legal origin based on La Porta et al. (1997). Following the approach by

Gatchev et al. (2018), we link each resident's ancestry to one of the four major legal origins. For example, a person with British heritage is linked to English common law, whereas ancestry from countries such as France, Germany or Norway is linked to civil law.

Two main theories underpin this study. We rely on the social identity theory to explain how firms are required to conform to the group's norms, values, and characteristics. In line with the social identity theory, individuals and institutions aim to obtain a positive social identity by aligning their attitudes and behavior with the norms and values of their surroundings (Tajfel and Turner 1979). Consequently, managers conform to the dominant values of people's surroundings in the region because they feel morally obliged to (Schneider et al. 1995; Eigen 2012) and deviating from the general norms and values can be costly (Akerlof 2007). To explain the variation in CSR preferences through legal heritage, we rely on La Porta et al. (1997). Generally, the presumption is that civil law legal traditions, in contrast to the common law, are associated with more government interventions that protect the interest of various stakeholders (Botero et al. 2004; Djankov et al. 2008; La Porta et al. 2008). In contrast, the common law legal system is associated with more private market outcomes with the underlying assumption that maximizing shareholder wealth in perfect markets will also benefit other stakeholders, such as employees and customers (Magill et al. 2015). Accordingly, we assume that civil(common) law is associated with the stakeholder (shareholder) view (La Porta et al. 2008; Allen et al. 2015; Magill et al. 2015). Accordingly, we argue that firms headquartered in counties where the majority of residents trace their ancestry to civil law countries are likely to have stronger incentives to adopt socially responsible policies.

Chapter 3 provides important findings with respect to CSR. We find that U.S. firms headquartered in counties with a majority of residents having ancestry linked to civil law countries are associated with higher CSR strength and lower CSR concerns. The findings show that firms aim to obtain a positive social identity by aligning their attitudes and behavior with the norms and values of their surroundings. Thus, the findings are consistent with the social identity theory. We address potential endogeneity concerns by using two-stage least square (2sls) regressions and propensity score matching. Our results remain robust, further indicating that the findings are unlikely to be purely driven by endogeneity. Our quasi-experiment that examines the effect of corporate relocation events indicates that firms with an increasing civil law legal heritage after relocation have improved CSR performance, lending further support to our social identity theory.

Our study is closely related to prior research that explores how the norms surrounding the firm's headquarters affect firm performance. We differ from these studies (Hilary and Hui

2009; Jha and Cox 2015; Hasan et al. 2017; Gatchev et al. 2018; Hasan et al. 2020) in that we focus on CSR performance as firm outcome. Furthermore, our study complements the work by Jha and Cox (2015) and Di Giuli and Kostovetsky (2014) in that we investigate the possibility that the CSR decision-making may stem from altruistic inclination fostered by the legal heritage of the county in which the firm is headquartered.

1.5 "The Contagion Effect: The Role of Social Interactions on CSR"

Chapters two and three document determinants that influence a firm's decision of "doing good". These two chapters contribute to the understanding of how certain factors directly impact a firm's decision to engage in CSR. However, relatively little is known about the contagion effect in CSR. In this chapter, we examine how the announcement of corporate violations impacts the decision-making process of connected firms in relation to CSR, specifically examining the variation of the contagion effect. This chapter extends the current literature by providing the first empirical evidence that a firms' social performance can be significantly influenced by corporate scandals in its connected firms, supporting the contagion effect. While some studies find that firms with corporate violations face significant damage to their reputation (Karpoff et al. 2008), an important unanswered question remains if corporate violations affect socially connected firms.

Testing if corporate violations generate externalities for other firms is important, particularly because prior literature has documented a contagion effect from other corporate events such as bankruptcy (Lang and Stulz 1992). This chapter focuses on how corporate violations committed by a firm impact the managerial decision-making of connected firms in relation to CSR. This is in line with the salience effect, which posits that the announcement of a corporate scandal can amplify the risk of an event. Therefore, the risk of losing legitimacy is not limited to the errant firm, rather also poses an indirect legitimacy threat to firms that are connected to such firm. In response, firms may use CSR initiatives strategically to hedge against that risk. Hence, testing firms' decision-making in response to such events provides valuable insights into CSR strategies and practices in the face of heightened attention and potential legitimacy challenges.

To employ such test, we identify the announcement of 41 corporate violations to establish a research setting that allows us to observe a firm's decision-making related to social responsibility in the face of legitimacy threats. The extant literature has measured the contagion effect through various forms of connectedness, such as the shared board of directors (Fich and

Shivdasani 2007; Kang 2008; Cowen and Marcel 2011), industry ties (Akhigbe and Madura 2008; Gleason et al. 2008; Paruchuri and Misangyi 2015), geographical proximity (Kedia et al. 2015). In light of the latest intellectual paradigm and empirical findings documenting the impact of social interactions on economic outcomes, in this chapter, we measure the connectedness of firms through the effect of social interactions as captured by the county-pairwise Social Connectedness Index (Bailey et al. 2018a). In this chapter, connected firms constitute firms that are located in the top five highest socially connected counties to each corporate violation in our sample. Following the approach by Dessaint and Matray (2017), we conduct a difference-in-differences identification strategy to estimate the effect of legitimacy saliency on perceived risk by comparing how a treatment group of unaffected firms located in the connected area of the scandal area and a group of non-connected firms adjust their CSR performance following a corporate violation.

Our findings document that U.S. firms that are socially connected to firms with a corporate violation have significantly greater CSR strength but do not significantly impact CSR concerns. Thus, consistent with the salient effect and the legitimacy theory, the firm's decision makers in connected areas will respond to the potential risk of losing legitimacy by increasing their CSR performance as a strategy to obtain trust. The findings further suggest that the increase in CSR performance stems from increased initiatives that support community and employee relations. Finally, the findings in our subsample analysis suggest that firms in high-polluting industries are more sensitive to the salient effect because they derive greater advantages from obtaining legitimacy. Furthermore, our findings document that the positive link on firm CSR performance is more profound among connected firms that are exerted with higher competitive pressure, consistent with the conjecture that these firms are more sensitive to legitimacy risk compared to firms in low-competitive-pressure groups.

Our study is closely related to prior research that explores how the contagion effect impacts other firms' CSR performance. We differ from these studies (Li and Wang 2022; Cao et al. 2019) in two ways. First, we measure the contagion effect as a strategic response following the announcement of corporate violations, rather than passage or failure of CSR proposals (Cao et al. 2022). Second, we are the first study in the CSR literature to measure the connectedness of the firms through the social connectedness index (Bailey et al. 2018; Hu 2022).

The remainder of this thesis is organized as follows. Chapter 2 examines the role of customers in influencing the firm's decision to engage in CSR, Chapter 3 investigates the role of legal heritage in a firm's CSR performance, while Chapter 4 examines the contagion effect on connected firms' CSR performance following a corporate violation. Finally, the thesis concludes with Chapter 5, which provides an overview of the overall contribution, limitations, and suggestions for future research.

Chapter 2 : "Doing Good" for the Customers? Evidence from Offshore Sales

"The fundamental problem isn't lack of capital. It's lack of trust. And without trust, Wall Street might as well fold up its fancy tents."

—Former U.S. Labor Secretary Robert Reich (2008)

2.1 Introduction

The past decades have witnessed a significant increase in the prevalence of corporate social responsibilities (CSR) in business practices globally. A growing body of research has studied the impact of CSR engagement on firms' operations. Advocates of the stakeholder view argue that socially responsible firms benefit from a greater support from stakeholders (e.g., Flammer and Kacperczyk 2016). Some studies find a positive link between CSR and firm value (e.g., Margolis and Walsh, 2003; Orlitzky et al., 2003; Ferrell et al., 2016). Moreover, Lou and Bhattacharya (2006) suggest that higher CSR performance leads to improved customer loyalty. Other studies find that firms engaging in CSR will build greater stakeholder trust and cooperation and consequently improve the firm's profitability and firm value (Lins et al. 2017).

On the other hand, the traditional view, rooted in classical economics, asserts that adopting firm policies in favor of stakeholders incurs substantial costs and yields little monetary benefits (e.g., Smith, 2003; Ferrell et al. 2016). No consensus has been reached on the relationship between CSR and firm performance because of the mixed evidence. Therefore, the questions of why companies voluntarily engage in socially responsible activities and what has contributed to such an increasing trend remain not fully understood. In this paper, we attempt to offer some insights to these questions by examining the role of customers in influencing the firm's decisions of "doing good."

Firms do not operate in a vacuum; their survival and competitiveness often depend on their relationships with other important stakeholders, such as customers. This is in line with the legitimacy theory which posits that a "social contract" exists between corporations and society (Deegan 2006). Aligned with the legitimacy theory, corporations must meet the expectations of the society, and not merely focus on the demands of the shareholders or investors as in line with economic theory. The prominent economic theory outlined by Friedman (1962), contends that businesses are primarily obligated to maximize profits. In the traditional theoretical

framework, CSR is avoided in order to maximize profit for the business owners, namely, shareholders (Friedman 1962; Falck and Heblich 2007).

Furthermore, Friedman (1970) supports this classical view on CSR with his statement: "The responsibility of business is to maximize profits, to earn a good return on capital invested and to be a good corporate citizen obeying the law no more and no less. To go further in a deliberate fashion is to exceed the mandate of business. It is to make what amounts to an ideological stand with someone else's money and possibly to engage in activities with which many stakeholders would not agree." In this line, Falck and Heblich (2007) posit that CSR should be undertaken within the bounds of legal compliance, and any venturing further constitutes potentially entailing ideological positions financed by others. This is based on the notion that managers have the sole responsibility of maximizing profit since they have the role of agents of the shareholders (Herremans et al., 1993). Moreover, Levitt (1983) advocates this theory and argues that the main objective of corporations is to maximize profits through assertive competitive strategies within the legal framework to ensure the survival of the business and leave it to the government to take responsibility for other stakeholders.

In contrast, the legitimacy theory, as argued by Gray et al (2010), posits a more comprehensive role for businesses within society. Within this theoretical framework, it is argued that a firm's survival depends on meeting the demands of stakeholders. It further asserts that for a business to obtain legitimacy, it must respond to societal demands and expectations, which is vital for the firm's long-term viability and survival. Aligned with the legitimacy theory, firms invest in stakeholder-friendly activities to retain, gain, and regain their legitimacy. Firms will do whatever they regard as necessary in order to preserve their image of a legitimate business with legitimate aims and methods of achieving it" (de Villiers & van Staden 2006, p. 763). Thus, they will aim to meet the CSR demand of their customers to obtain legitimacy.

Social contracts consist of explicit and implicit contracts. The explicit contracts pertain to the legal requirements, while the implicit terms are shaped by community expectations (Deegan et al. 2000). For an organization to obtain and maintain legitimacy from society, they must adhere to these terms, thereby obtaining the license to operate. Prior literature has shown that customers, especially those with large buying power and more advantageous bargaining positions (Williamson 1971; Williamson 1979; Ganesan 1994), may exercise their power and exert substantial influence over their supplier firms (Iyer and Villas-Boas 2003; Leung et al. 2020). At the same time, they are not always competitive but also collaborative, since customers must induce supplier firms to make relationship-specific investments (RSI) that have

little and often negative outside value. Firms ignoring the requests and demands of their customers risk losing sales and incurring substantial switching costs if the relationship terminates (Maxwell et al. 2000; Godfrey et al. 2009).[1]

Similarly, prior research shows that firms collaborate with close trading partners and often imitate and learn from one another through RSIs, repeated transactions, and frequent interactions, such as in the form of knowledge spillover (Isaksson et al. 2016) and coordinated tax planning strategies (Cen et al. 2017; 2022). Since firm behaviors are shaped continuously by their connections with customers, such inter-relationships are important and must be accounted for when analyzing corporate policies and outcomes.

From the demand side, firms have strategic incentives to obtain legitimacy vis-à-vis their customers. Organizational legitimacy helps corporations gain access to valuable resources from other stakeholders (Sonpar et al. 2010), build moral capital that protects against future negative contingencies (Godfrey et al. 2009), and foster trustful relationships with other business partners all of which are vital to firm survival and growth (Lins et al. 2017). Apart from ensuring the quality of products and services, one of the most important ways through which firms obtain legitimacy or foster trust vis-à-vis customers is by meeting the latter's requirements, standards, or preferences in social performance. As such, facing customers who have a strong preference for social responsibility, firms are driven or pressurized to expend effort and resources to improve their social performance. To the best of our knowledge, only one study has examined the impact of firms' decision to adopt CSR in response to customer demand. In their recent work, Dai et al. (2021) conducted an extensive examination of international supply chain data, uncovering a notable positive correlation between the CSR performance of customer firms and that of their suppliers. This finding signifies a substantial interrelationship between the CSR initiatives undertaken by corporations and the practices adhered to within their supply chain. Nevertheless, there remains an existing gap in the literature concerning the assessment of customer's demand impact on firm-level CSR initiatives.

Testing this relationship is challenging because the CSR preferences of customers are difficult to quantify. For instance, under a revealed preference approach, one may analyze whether customers purchase more products from companies with better CSR. Yet, as pointed out by McWilliams et al. (2006), consumers formulate purchase decisions based on many

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[1] Similarly, in cases where downstream customers are the end consumers, firms may be subject to the latter's demand because a failure to comply could result in boycotting campaigns that are costly and damaging to firm reputation and brand value.

factors other than simply how well firms treat their stakeholders, making it almost impossible to isolate the customer-side factors. Another way to capture preferences is to survey consumers directly. However, the survey approach is costly, typically has a limited sample size, and is subject to potential "social desirability bias"– attitudes expressed in surveys tend to echo views favored by others but differ from actual behaviors (Auger and Devinney 2007). A third approach would be to examine how firms alter CSR policies in response to negative events, such as those triggered by sales of "bad" products causing harm to the environment. Nonetheless, past engagement in CSR develops "moral capital" that mitigates adverse consequences of negative events (Godfrey et al. 2009), and, hence, such analysis is open to simultaneity or selection issues.[2]

Our paper devises a new empirical test strategy that exploits variation in the preference for CSR, captured by "social capital" at the country level. The managerial literature defines social capital as the extent of trust among individuals that one person (institution) expects another person (institution) to act beneficially (Paldam 2000) or at least not detrimentally (Sapienza and Zingales 2012). A growing body of literature shows that social capital vis-`a-vis strong cooperative norms associate with more philanthropic behaviors (Brown and Ferris 2007; Wang and Graddy 2008), higher pressure in constraining opportunistic behaviors (Hasan et al. 2017), fewer crimes (Buonanno et al. 2009), and higher social trust and thus financial development (Putnam 1993; Guiso et al. 2004). To the extent that more altruistic individuals tend to expect others to behave in a similarly ethical and socially optimal manner, because a strong network stimulates good behavior and punishes adverse behaviors (Coleman 1994; Spagnolo 1999). This idea is further supported by Akerlof (2007) who argues that humans develop a set of norms and ideals based on their environment, and aim to conform by the group's expectations, because deviating from these norms is costly (Akerlof 2007; Coleman 1994). Walker et al. (2019) demonstrate that corporate behaviors mirror the external environment in accordance with social expectations. This is supported by empirical findings with the proposition that firms located in high social capital counties facilitate positive CSR activities (Hoi et al. 2013), lowers poverty rates (Rupasingha and Goetz 2007), and property crime rates (Buonanno et al. 2009).

Given this premise, we posit that customers from high social-capital countries likely have a stronger preference for CSR compared to those from other countries. Consequently,

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[2] Furthermore, since boycotting campaigns are mostly organized by groups of consumers or political activists, the role of business customers would be underestimated.

firms who have trading relationships with such customers have strong incentives to adopt socially responsible policies as a means to establish and maintain legitimacy. Therefore, we formulate the following hypothesis:

H1: Firms selling to countries with higher social capital have significantly greater CSR performance.

A test of this hypothesis requires information about the geographical composition of a firm's customer base. To this end, we make use of offshore sales data, recently developed by Hoberg and Moon (2017) using text analysis on U.S. firms' 10-K reports. From the database, we obtain the names of all countries to which a firm is selling and the number of times these countries are mentioned in the 10-K reports. To measure the social capital of customers, we rely on the responses from the World Value Survey (WVS) that assesses the beliefs, values, and motivations of people from different nations worldwide, and use those from questions relating to social trust as a proxy for social capital. For each offshoring-selling firm, an overall customer-social-capital index (henceforth referred to as "customer social capital") is constructed by averaging the country's social-capital measure across the offshore countries within a firm's customer base.

Based on a comprehensive sample of offshore-selling, publicly listed firms in the U.S., our tests show that consistent with our main hypothesis, firms selling to countries with higher social capital have significantly greater CSR performance, measured by an overall firm-level CSR index based on MSCI KLD data. The economic magnitude is relatively small. A one-standard-deviation increase in customer social capital is associated with a 2.9% increase in the CSR index (relative to the sample mean). Additional tests reveal that the increased CSR performance stems from the adoption of firm policies that favor employee and diversity.

Although the social-capital measure based on the worldwide survey evidence is widely applied in prior studies, it may be measured with errors and may pick up the effects of other salient country attributes or characteristics; as such, our results may be driven by confounding country factors as opposed to social capital embedded in nations. To alleviate this concern, we control for average economic development and legal origins (among the offshore countries). Our results remain similar, suggesting that the effect of customer social capital on CSR is independent of that of these two important country attributes.

An important concern is that the relationship between customer social capital and CSR may be endogenous. For instance, if socially responsible firms prefer selling offshore to countries with high social capital, causality would be reversed. Moreover, if a firm's decisions

to engage in CSR and offshoring activities are codetermined by some omitted or unobserved factors, OLS estimates would be biased. We adopt the instrumental variable approach and find that our results are qualitatively similar. Therefore, our findings are unlikely to be driven purely by endogeneity.

To reinforce our interpretation, we apply an alternative social-capital measure, constructed using Google's search volume index (SVI), that gauges the nation's information demand and attention on CSR issues/topics. The rationale behind this alternative measure is that people concerned with social responsibility commonly use search engines, such as Google, to gather relevant information on these topics (Da et al. 2011). As such, the aggregate search activities on Google in a country on topics relating to CSR likely reflect the extent to which local businesses and people pay attention to CSR. Previous studies document a positive link between the aggregate SVI for a particular product and the demand for that product, such as home sales, car sales, and tourism (Ginsberg et al. 2009). Aggregating the SVI on CSR keywords across offshore countries within each firm's offshore-customer portfolio, we find that firms selling to countries with higher CSR-related search activities have significantly greater CSR performance, lending further credence to the customer-demand story.

To glean more insights into the mechanisms, we examine the heterogeneity in the effect of customer social capital on CSR across customer clienteles and industry groups. First, increased preferences in CSR may stem from downstream business customers with whom firms have strong collaborative trading relationships or from end consumers who have low collective power but high activism. Dividing firms into (1) business-to-consumer (B2C) industries in which firms predominantly sell to end consumers and (2) business-to-business (B2B) industries in which firms mainly sell to businesses, we find that the positive association between customer social capital and CSR is more prevalent among the B2B firms. Seeking legitimacy vis-à-vis business customers appears to be the dominant motive behind.

Second, improved CSR may be due to improved corporate policies favoring certain types of stakeholders, such as those relating to the environment, the community, or the employee. Given our finding of increasingly friendly policies for the employees and diversity, but not for the environment, our prior is that the positive association between customer social capital and CSR is weak among industries where the benefits of environment-friendly policies are more evident, such as those characterized by heavy pollution and thus often targeted by environmental activists. Following Flammer and Kacperczyk (2016) and U.S. Environmental Protection Agency (2017), seven industry sectors that are responsible for 89% of the Toxics

Release Inventory (TRI) chemicals are defined as "polluting" industries. Consistent with our expectation, we find that customer social capital does not significantly affect firms operating in the polluting industries, but significantly and positively on the non-polluting firms.

Our paper contributes to the literature in several ways. First, our study extends the literature on what drives firms' socially responsible activities. Liang and Renneboog (2017) show that legal origin plays a significant role in shaping countries' and firms' CSR performance. Cronqvist and Yu (2017) report that having a daughter induces CEOs to engage more in socially responsible activities. Recent research documents the important role of firms' relationships with other parties in driving CSR policies and outcomes. For instance, Cao et al. (2019) find that firms respond to the adoption of CSR practices by product market peers and invest more in CSR activities. A contemporaneous study by Dai et al. (2021) analyzes international supply chain data and documents that the CSR performance of customer firms is positively associated with that of their suppliers. Applying a novel methodology and exploiting cross-country variations in national social capital, our research complements the above studies and documents new empirical evidence that firms adopt more stakeholder-friendly policies to meet the expectations and preferences in CSR of their customers for legitimacy purposes.

Our evidence shows that offshore activities play a significant role in shaping the focal firms' engagement in socially responsible activities.

The rest of the paper is structured as follows. Section 2 explains our data sources, variable construction, and empirical methodology; Section 3 presents the results of our baseline tests, robustness checks, endogeneity test, and additional subsample analysis; Section 4 concludes.

2.2 Data, Variables, and Empirical Methodology

2.2.1 Data and Sample Selection

Our sample includes all non-financial U.S.-listed firms that sell offshore during the period between 1998 and 2018. Financial and utility firms are excluded due to their heavily regulated nature. After excluding observations with missing values in the main variables, our final sample consists of 20,180 firm-year observations (2,593 unique firms). Our dataset is obtained from six different sources, including the MSCI ESG stats database (formerly known as the Kinder, Lydenberg, and Domini, or KLD, database), Hoberg and Moon (2017) offshoring database, the World Value Survey (WVS) database, Compustat Annual database, CRSP and Thomas Reuters 13F.

2.2.2 Measuring Firm CSR Performance

To measure a firm's CSR performance, we use the scores constructed from the MSCI ESG Stats database. This database has been widely used in the literature (e.g., Deng et al. 2013; Becchetti et al. 2015; Cahan et al. 2015; Dutordoir et al. 2018; Cai et al. 2020). MSCI obtains data from various public information sources, such as filings, questionnaires, financial statements, media reports, academic publications, and government data. An analyst from a sector-specific research team assesses and assigns scores to each firm on "strengths" and "concerns" in six areas: community, diversity, employee relations, environment, human rights, product safety and quality.[3] The database sets several indicators for each strength and concern activity. Appendix 2.2 provides a detailed description of how MSCI ESG defines the strength items in each domain.

The CSR measures "strength" and "concern" respectively indicate "doing good" and "causing/allowing harm". The presence (absence) of a strength or concern is indicated by one (zero). A raw CSR score is measured by aggregating six major dimensions based on their respective strength and concern indicators. A drawback of this approach is the lack of comparability, since the number of indicators for both the strength and concerns varies significantly every year (Manescu 2009). To alleviate the concern of a changing number of strengths and concerns over time and across firms, following Deng et al. (2013) and Becchetti et al. (2015), we compute an adjusted CSR strength (concern) score by dividing the strength (concern) scores for each dimension by the respective number of strength (concern) indicators available for that dimension.

In this paper, we focus on the CSR strength ratings for several reasons. First, in line with the legitimacy theory, firms will cater to customers' demands by "doing well" and increasing CSR strengths. Second, we do not combine CSR strengths and concerns into a single performance measure because the assumption that strengths and weaknesses are equivalent may be invalid (Mattingly and Berman 2006). In addition, there are significant discrepancies between empirical findings based on CSR strengths and concerns and combining them prevents attributing the observed results to appropriate sources (Carver 1989).

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[3] KLD also rates firms' corporate governance, but it is different from CSR, and thus not included in this study Our main findings remain significant when including corporate governance (results are omitted from the paper for reasons of space but are available upon request).

Third, while MSCI ESG Stats database provides concern ratings for six exclusionary criteria such as gambling, tobacco, alcohol, firearms, military, and nuclear power. We exclude them from this study as they are not a part of discretionary managerial activities (Kim and Ko 2012) and constitute CSR concerns (Hegde and Mishra 2019). Therefore, in line with previous studies (e.g., Deng et al. 2013; Becchetti et al. 2015), we construct the adjusted CSR strength (concern) index by the sum of each of the above strengths (concern) reported by a company in each domain divided by the total number of the above strengths.

2.2.3 Measuring Customer Social Capital

Our main explanatory variable is customer social capital, constructed based on respondent results from the World Value Survey (WVS) that assesses the beliefs, values, and motivations of people around the world. It conducts national representative surveys across 97 different countries that contain over 90% of the entire world's population. This survey is carried out in several waves over our sample period.[4] A significant number of studies in numerous disciplines, such as economics, sociology, political science and psychology, use WVS as a data source because they are well understood and have been found to be a reliable measure of trust (La Porta et al. 1997; Dudley and Zhang 2016). The responses to the questions can then be aggregated to the country level, allowing researchers to obtain estimates of social capital at the national level (La Porta et al. 1997; Levine et al. 2018).

Following Levine et al. (2018), we measure the national level of social capital using the answers from the survey question: "Generally speaking, would you say that most people can be trusted, or that you can't be too careful in dealing with people?" Respondents can choose from one of the following three answers: (i) Most people can be trusted; (ii) you can't be too careful in dealing with other people; or (iii) I don't know. The proportion of people (out of the total number of respondents) choosing (i) is our measure of country-level social trust that proxies for social capital. Subsequently, social capital value is constructed based on the mean value for each firm in each year. Similar to Dudley and Zhang (2016), we linearly interpolate and fill this variable for years the survey has not been conducted, since not all countries have observations in each survey wave.

To create the geographical composition in a firm's customer base, we obtain data from Hoberg and Moon (2017) offshoring database which provides data on the international trading

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[4] Three waves of surveys were conducted during our sample period: 1999–2004, 2005–2009, and 2010–2014.

activities of publicly listed U.S. firms that file 10-K reports. Hoberg and Moon (2017) and Hoberg and Moon (2019) create a list of words that represent each country or region and search for these keywords in the 10-K filings. A full panel of offshoring data with the raw counts of how many times a firm mentions its offshoring countries is obtained.

For each firm that has offshore sales in a given year, we construct an overall index of customer social capital by taking the value-weighted average of the country-specific social capital across the offshore countries within its customer base.[5] We use the following equation to do this:

$$CSC_{i,t} = \frac{\sum_z^n (CSC_{i,t,z} \times \# \text{ of Mentions}_{i,t,z})}{\sum_z^n \# \text{ of Mentions}_{i,t,z}} \tag{1}$$

where $CSC_{i,t}$ is the firm-year mention-weighted customer social capital; $CSC_{i,t,z}$ is the national social capital value of country z to which firm i has sold in year t; # of Mentions$_{i,t,z}$ is the number of times country z is mentioned by firm i in year t;[6] n is the number of countries to which firm i has sold in year t.

To illustrate, an example showing how CSC is computed for AAR Corporation who made offshore sales to three countries in 2002 is provided in Appendix 2.3. The customer social-capital measure for AAR Corporation in 2002 is thus measured as the mention-weighted average of the three countries.

For robustness, an equal-weighted customer social-capital index for firm i in year t is constructed as follows:

$$CSC\ EW_{i,t} = \frac{\sum_z^n CSC_{i,t,z}}{n} \tag{2}$$

Moreover, we construct an alternative measure of customer demand for CSR using Google's Search Volume Index (SVI). SVI is a ratio of Google web searches on specific keywords to the total number of Google searches within a region/country over a given period and is normalized and scaled from 0 to 100. Following Gao et al. (2020), the keywords of interest are "CSR" or "Corporate Social Responsibility." The two keywords, which are in English, are translated into each country's corresponding language using Google Translate and then cross-validated by native speakers. We do this for all the top-20 countries to which the

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[5] For robustness, we keep the firm-country observations rather than constructing an overall index using the value or equal weighted average. However, the obtained results do not demonstrate statistical significance. Therefore, we proceed with using the weighted average value for the remainder of this paper, though the results of the firm-country pair are reported in Appendix 2.5.

[6] Due to unavailability of actual sales data, we use the number of mentions of the firm selling goods to the given nation. Therefore, there is some measurement error, however our results from both equally weighted and mentions-weighted customer social capital are consistent.

firms sell as they make up 75% of all sales. The weekly SVI is downloaded and accumulated to annual SVI terms over the period from January 2004 to December 2018. Each of these annual time series is then standardized.

2.2.4 Constructing the Control Variables

In line with prior literature (Levine et al. 2018; Dai et al. 2021), a set of firm control variables, including firm size, return on assets, leverage, R&D expenditure, and cash holdings is constructed using Compustat data. Firm size (Size) is measured as the natural logarithm of total assets. Return on assets (ROA) is net income divided by total assets. Leverage (Leverage) is the total debt to total asset ratio. Cash holdings (Cash) is cash divided by net assets. Research and development (R&D) is the R&D expenditure divided by net sales. To measure firm risk (Risk), we follow Cui et al. (2012) and proxy it with the (total) volatility of stock returns using the daily returns data from CRSP. Moreover, we control for institutional ownership (Inst.Own.) to account for shareholder demand as Dyck et al. (2019) find that institutional ownership leads to higher CSR. Institutional ownership data are downloaded from the Thomson Reuters 13-F filings. All firm-level variables are winsorized at the 1% and 99% levels to reduce the impact of outliers.

2.2.5 Our Empirical Methodology

To test whether customer social capital drives firm CSR, we estimate the following panel regression:

$$\text{CSR}_{it} = \alpha_0 + \beta_1\,\text{CSC}_{i,t-1} + \gamma\text{Controls}_{i,t-1} + \text{Industry FE} + \text{Year FE} + \varepsilon_{i,t} \qquad (3)$$

where $\text{CSR}_{i,t}$ is our measure of the CSR performance of firm i in year t constructed using data from the MSCI KLD database as described in section 2.2. $\text{CSC}_{i,t}$ is a proxy for the value-weighted customer demand for social capital for firm i in year t as described in section 2.3. $\text{Controls}_{i,t-1}$ is a vector of lagged firm-specific control variables (i.e., Size, ROA, Leverage, Risk, R&D, Cash, and Inst.Own). α_0, β_1, and γ are the (vectors of) parameters to be estimated. To control for any unobserved, time- and industry-invariant factors that may influence firm i's CSR, we include year and industry-fixed effects in the model.[7] ε is the error term. Standard errors are clustered at the firm level.

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[7] The industry dummies are constructed based on two-digit SIC codes.

2.3 Empirical Results

2.3.1 Summary and Descriptive Statistics

Table 2.1 lists the top-20 countries to which our sample of U.S. firms has sold.[8] The top-10 countries make up 53.06% of the sales, while the top 20 countries make up 75.68% of the total sales. The national social-capital score for each listed country is also reported. There is a large cross-country variation in the social-capital score. Among the 20 countries, The Netherlands scores the highest (0.592) while Brazil scores the lowest (0.057). This pattern is similar to Cuñat and Fons-Rosen (2013).

<div align="center">Insert Table 2.1 about here</div>

Panel A of Table 2.2 reports summary statistics for our main sample. CSR ranges from a minimum of 0 to a maximum of 2.150 with a mean of 0.299, consistent with the statistics reported by Becchetti et al. (2015). As for customer social capital (i.e., CSC), its mean is 35.1%. The average ROA is 0.023; Risk and Leverage have a mean of 0.028 and 0.213, respectively, similar to the statistics by Jo and Na (2012).

Panel B reports the average CSC, CSR, and CSR concern by year over our sample period. The sample size increases significantly after 2003 due to increased firm coverage of the MSCI ESG Stats database. Overall, the average CSC remains largely constant over the years, moving from its lowest of 0.317 in 2000 to its highest of 0.372 in 2018. In 2018, CSR was at its peak with a value of 0.662. Such a high value may come from the intensive reporting of socially responsible activities in this year. As the sample size increases in 2003, it reaches the lowest value of 0.153, nevertheless, steadily increases over the years. Similarly, the CSR concern also increases from 0.274 in 2004 to a value of 0.533 in 2010. CSR concern, however, significantly plummets in 2012, which could be justified by the ability of firms to recover from the financial crisis and spend more resources on reducing their harmful activities.

Panel C presents sample distribution by Fama-French 12 industries. Manufacturing and Business equipment is the largest in terms of sample coverage. The variation in CSC appears relatively small across the industries with the lowest value of 0.309 in Energy, Oil, Gas and Coal and the highest of 0.366 in Healthcare. CSR varies more across industries. Notably, Consumer non-durables and Healthcare industries not only have high CSR values of 0.398 and 0.366, respectively but are also accompanied by high levels of CSR concern. A plausible explanation is that firms operating in these two industries compensate for their higher levels of CSR concerns by "doing good", though this does not seem to apply to the energy industry,

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[8] In unreported results, as per our sample, U.S. public firms have sold to 183 different countries.

which has the highest CSR concern but relatively low CSR strength, leading to the lowest net CSR performance among all industries.

Insert Table 2.2 about here

2.3.2 Customer Social Capital and Firm CSR Performance

Lindblom (1994) posits that firms can employ one of four legitimization strategies to obtain legitimacy from the society in which they operate. These include methods such as informing the stakeholders regarding their actual performance, and influencing and changing the stakeholder's perceptions regarding a concern without necessitating a change in the organization's conduct. Additionally, firms can divert attention away from a concern by highlighting a more favourable subject, or alternatively, change external expectations regarding the firm's performance. These strategies can be used by implementing CSR activities or CSR reporting. For example, firms generally disclose favourable CSR activities as opposed to negative occurrences (Gray et al. 2010) to convey their efforts towards legitimization (Deegan 2002; Deegan and Soltys 2007).

Thus, legitimacy theory assumes that firms can enhance legitimacy and meet customers demand for CSR by increasing CSR strengths, constraining CSR concerns, or by doing both. However, firms apt to increase CSR strengths, due to the significant costs linked to decreasing CSR concerns. For example, in the case of a hypothetical firm facing issues with employee health and safety, can increase employee involvement or invest in other aspects that improve employee benefits beyond the firm's basic economic-legal mandate. On the other hand, the firm has to reduce CSR weaknesses through investments in costly structural aspects, such as changing building designs or technical advancements that can improve the employee's health and safety. Thus, these significant idiosyncratic costs to reduce negative CSR activities will incentive firms to increase their positive CSR activities, and not make an effort in mitigating their negative CSR activities. Evidence is consistent with this conjecture. For instance, Zyglidopoulos et al. (2012) find that firms, after receiving increased media attention, respond by increasing positive CSR activities, whereas CSR concerns are not sensitive to the level of media attention. Similarly, Hoi et al. (2019) suggest that firms imitate other corporations headquartered in the same community engagement in CSR strengths, however this relation does not hold for engagement in negative CSR activities.

Based on the preceding arguments and legitimacy theory, one would expect that firms selling to countries with high social capital will respond to their customer's demand for CSR

by increasing their CSR strength activities. However, we do not expect a change in the CSR concern.

Table 2.3 reports the estimation results for our main tests of equation (3). Regressions (1) and (2) show that the coefficients of CSC are significantly positive after controlling for the core and full sets of control variables, respectively. These findings indicate that on average, firms that sell offshore to countries with higher levels of social capital have significantly higher CSR performance. This is in line with the legitimacy theory that firms will "do extra well" to meet their customers' demand for CSR (Brown and Deegan 1998). In addition, regression (3) and (4), quantifies the effect of social capital on CSR concerns, while (5) and (6) quantifies the effect of social capital on Net CSR. These results show that social capital does not significantly impact CSR concerns or Net CSR. Both regression results imply that firms selling to countries with high trust levels aim to obtain legitimacy through doing good, not by reducing their harmful CSR-related activities. Thus, consistent with the legitimacy theory that firms will "do extra well" to distract the focus away from CSR concerns.

Insert Table 2.3 about here

Table 2.4 presents the estimates on the association between CSC and the six individual components of CSR: Environment (Regressions (1) and (2)), Community (Regressions (3) and (4)), Human rights (Regressions (5) and (6)), Employee (Regressions (7) and (8)), Diversity (Regressions (9) and (10)), and Product (Regressions (11) and (12)). These analyses shed light on the specific types of stakeholder-friendly policies that are improved, driven by customer social capital.

The coefficients of CSC are positive and highly significant for Employee and Diversity, implying that the increased CSR performance stems from adopting firm policies that favor the employee and diversity. Our evidence is consistent with the view that firms increase CSR to meet the expectations of the employee and the diversity stakeholders through diversity in the workplace, recruitment practices, and employee compensation and benefits. This result is in line with the legitimacy theory, which posits that organizations want to obtain legitimacy from their consumers.

The employee relations quality, captured by diversity and employee relations, is perceived as a key signal of a management's commitment to its employees and their claims. In turn, harmful behavior toward employees can cause an increased risk of litigation and reputation loss (Bauer et al.,2009). Numerous studies suggest a positive relationship between employee satisfaction and customer satisfaction (Harter et al. 2002; Tornow and Wiley 1991;

Wangenheim et al. 2007). Moreover, corporations are increasingly engaging in employee volunteering to increase community involvement to meet the demand of being socially responsible (Muthuri et al. 2009).

This observation is consistent with the notion that better company's HR practices, such as the treatment of employees and diversity policies improve firms' reputation (Hannon and Milkovich 1996; Lins et al. 2017). Further empirical evidence shows that HR-related announcements by organizations had an immediate positive effect on share price (Hannon and Milkovich 1996), and investors perceive employee and diversity relations as valuable during the 2008-2009 financial crisis to build trust (Lins et al. 2017). These results are further corroborated by Jiao (2010) suggesting that employee relations are of more importance to shareholders than relationships with other stakeholders. Thus, implying that investors and other stakeholders, such as customers, value good employee and diversity practices. This notion is also popularized by other forms of media, such as the Fortune magazine that publishes a list of the best companies to work for. Companies listed in such popular magazines will benefit from greater corporate reputation (Hannon and Milkovich 1996) and since these magazines are visible to the consumers, firms aim to obtain legitimacy through improved employee and diversity practices. Lastly, many customers are themselves employees, therefore selling firms with a strong reputation in this dimension are likely to be more attractive than those with a poor reputation.

Insert Table 2.4 about here

2.3.3   Robustness to Alternative Control Variables

In this section, we examine the robustness of our findings to additional or alternative independent variables and report the results in Table 2.5. First, Hoberg and Moon (2017) recommend users of the offshore database to include the document length (DocLength), which is the natural logarithm of the number of paragraphs in a given firm's 10-K report, as a control in their estimations.

Second, since the country's social-capital measure may capture other salient country characteristics, we introduce additional country control variables. Similar to Adrian et al. (2023), we include Regulatory Quality which is one of the dimensions of the WGI indices[9].

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[9] It is important to consider the high collinearity among the six WGI indices. Following Tashman et al. (2019), I undertook a principle component analysis, synthesizing the diverse dimensions of WGI. Subsequently, I re-run my analyses, incorporating the derived Principal Component Analysis (PCA) scores as PCA1 and PCA2. Notably,

Regulatory quality captures perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development. In other words, regulatory quality pertains to the effectiveness of a country's formal institutional framework (Busenitz, Gomez and Spencer 2000). Regression (1) in Table 2.5 shows that our results remain similar after controlling for DocLength an Regulatory Quality in the model.

Third, it is possible that a country's legal origin which a U.S. firm is selling to influences the customer's demand for CSR activities. To account for this, we re-estimate our main regression while accounting for the country's legal origin. Following La Porta et al. (1997), we categorize countries into five origins: (1) English common laws; (2) French commercial laws; (3) German commercial laws; (4) Scandinavian commercial laws; and (5) Socialist/Communist laws. CivilOrigin is a dummy variable that equals one when the country follows French, German, or Scandinavian legal origins, and zero otherwise. Regression (2) reports the estimation results, and it shows that CSC is still significant at the 10% level, while legal origin is insignificant.

Fourth, we examine whether our results are sensitive to controlling for alternative measures of firm performance or valuation. In Regression (3), we replace ROA with Tobin's q and return on equity (ROE). Our results remain intact.

Finally, a firm's CSC (Equation 1) is thus far computed as the weighted average of social capital across offshore countries, with weights assigned based on the number of times the countries are mentioned in the 10-K reports. For robustness, we adopt an alternative equal weighting scheme in aggregating country social capital (CSC EW) and report these results in Regression (4). We find similar results again.

Insert Table 2.5 about here

2.3.4 Endogeneity Concerns

While our results thus far have shown that firms selling offshore to countries with high social capital invest more in CSR, they may be driven by endogeneity arising from two sources. First, there might be reverse causality if socially responsible firms prefer selling to customers residing in countries where social capital or trust is high. Second, if a firm's decisions to engage in CSR and offshoring activities are codetermined by some omitted or unobserved factors, OLS

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the results did not yield any significant results in the outcomes. Therefore, the results are provided in Appendix 2.6

estimates would be biased. Two approaches are adopted to mitigate such endogeneity concerns.[11]

We employ a two-stage-least-square (2SLS) regression using two instrumental variables (IVs) for customer social capital. Following Gorodnichenko and Roland (2017), the first IV we use is information on the amount of particular genes in a population. The short allele (S-Allele) variable is defined as a country-level measure of the prevalence of the S-Allele in the in the polymorphism 5-HTTLPR of the serotonin transporter gene SLC6A4 (Nash and Patel 2019). This gene makes people more susceptible to depression when dealing with stressful situations. The cross-cultural psychology literature finds that this genetic variable directly impacts individuals' characteristics and elucidates the existence of collective or individualistic cultures in some populations. Therefore, countries identified as having high collective cultures are more likely to carry the S-Allele gene (Way and Lieberman 2010). The mechanism connecting genetic characteristics with a collectivist culture is that strongly connected communities can protect individuals from these stressful situations by providing more psychological support. Beilmann and Realo (2012) find that collectivism is positively related to social capital. Importantly, S-Allele is a good candidate to be an instrumental variable as it meets the exclusion restriction condition, as it is not correlated to CSR other than through collectivism and is one of the cleanest instrumental variables that one can use (Gorodnichenko and Roland 2017).

The first-stage regression is specified as follows:

$$\text{CSC}_{it} = \beta_0 + \beta_1 \text{IV}_{i,t-1} + \gamma \text{Controls}_{i,t-1} + \text{Industry FE} + \text{Year FE} + \varepsilon_{i,t} \qquad (6)$$

Where $\text{IV}_{i,t-1}$ denotes the instrumental variable used, S-Allele. The same set of baseline controls and fixed effects are included in the model.

Motivated by Harjoto and Jo (2015) who show that a firm's CSR is closely related to that of its industry peers, our second IV is the peer-average customer social capital (Peer CSC), computed as the average value of CSC within the same 2-digit SIC industry in a given year. Following the rationale of other studies, such as Benlemlih and Bitar (2018) and El Ghoul et al. (2011), the average offshore sales practice and CSC among peers are less likely to be determined by firm-level covariates.

The first-stage regression is written as follows:

$$\text{CSC}_{it} = \beta_0 + \beta_1 \, \text{IV}_{i,t-1} + \gamma \text{Controls}_{i,t-1} + \text{Industry FE} + \text{Year FE} + \varepsilon_{i,t} \qquad (7)$$

Where $\text{IV}_{i,t-1}$ denotes the instrumental variable used, either S-Allele or Peer CSC. The same set of baseline controls and fixed effects are included in the model.

In the second-stage regression, firm CSR is regressed on the predicted values of CSC ($\widehat{\text{CSC}_{it}}$) from the first-stage regressions along with the same set of firm controls and fixed effects from the first-stage regression. Under the two-stage approach, the predicted values of CSC from the first-stage regression would be uncorrelated with the error terms of the second-stage regression, and, thus, the estimated coefficients are consistent. The second stage regressions are shown below:

$$\text{CSR}_{it} = \beta_0 + \beta_1 \widehat{\text{CSC}_{it}} + \gamma \text{Controls}_{i,t-1} + \text{Industry FE} + \text{Year FE} + \varepsilon_{I,t} \quad (8)$$

Table 2.6 reports the estimation results.[12] Results from the first-stage regressions (see Regressions (1) and (3)) confirm that both IVs are relevant as shown by their positive and significant coefficient estimates. In the second-stage tests, Regressions (2) and (4) show that the predicted CSC values from the first-stage tests are positive and significant at the 1% level. Overall, these results suggest that endogeneity is unlikely to fully drive our findings.

Insert Table 2.6 about here

2.3.5 An Alternative Measure of Social Capital Based on Google Search

To alleviate the concern that social capital is measured with errors, we apply an alternative social-capital measure constructed using Google's search volume index. The rationale for this search-based measure is that people who are concerned with social performance likely use search engines such as Google to gather relevant information on these topics. As such, the aggregate search activities on Google in a country on topics relating to CSR can reflect the extent to which customers pay attention to CSR. We then similarly aggregate the Google-based measure of CSR attention within each firm's offshore customer portfolio to arrive at an alternative measure of customer social capital (CSVI).

Using a change-on-change regression similar to equation (5), we examine whether one-year lagged changes in CSVI predict future changes in firm CSR. As Table 2.7 shows, the coefficient for ΔCSVI is positive and statistically significant. The evidence suggests that firms

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[12] Both the Sargan test and the Craig Donald Wald F-test were conducted. These test results indicated that the Sargan test of over-identifying restrictions did not pass, indicating that the instruments (S-allele and industry social capital) are weak and endogenous. Despite the theoretical justification for using these instruments, none of the instruments pass the weak instrument identification tests.

that sell offshore to countries where CSR-related search activities are high have superior CSR performance, thereby confirming our baseline results.

<p style="text-align:center">Insert Table 2.7 about here</p>

2.3.6 Cross-Sectional Heterogeneity

Our analysis has thus far established a strong, positive link between firm CSR and customer social capital, supporting the notion that firms will "do extra well" to meet the demand of their customers for social performance. In this section, we further examine the heterogeneity in the effects of CSC on CSR across customer clienteles and industry groups.

Different types of customers may differ in their CSR preferences. For instance, prior evidence shows that firms mainly selling to end consumers, i.e., Business-to-Consumers (B2C) firms, engage more in CSR (Dupire and Zali 2018) because they are more visible to the final consumers, under greater scrutiny from consumers, and thus have to directly deal with customer activism (Schaltegger and Hörisch 2017; Dupire and Zali 2018). By contrast, others argue that firms selling to downstream business customers, i.e., Business-to-Business (B2B) firms, engage more in socially responsible activities, compared to B2C firms, because they are under pressure by their supply chain partners who usually have strong bargaining power (Salam 2009). Other important motives for B2B firms to engage in CSR include the attraction of more skilled and motivated employees, increased cost-effectiveness (Carter and Dresner 2001), and reduced investor activism (Nofsinger et al. 2019), all of which are critical success factors for B2B firms (Andersen and Kumar 2006). Taken together, whether B2B or B2C firms would cater more to their customers' demands is ultimately an empirical question.

To shed light on this, we divide firms into B2B and B2C industry groups based on their 4-digit SIC codes following Lev et al. (2010, p.188)[13] and estimate the baseline models on the two subsamples. The estimation results are provided in Table 2.8, where Regressions (1) and (2) report the estimation results for the sub-samples of B2C and B2B firms, respectively. As Regression (1) shows, CSC does not significantly affect firm CSR in B2C firms but positively and significantly affects firm CSR in B2B firms. This subsample result indicates that seeking legitimacy vis-à-vis business customers is the dominant motive behind the increased CSR activities.

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[13] Firms are defined as B2C if their four-digit SIC codes are as follows: 0000-0999, 2000-2399, 2500-2599, 2700-2799, 2830-2869, 3000-3219, 3420-3429, 3523, 3600-3669, 3700-3719, 3751, 3850-3999, 4813, 4830-4899, 5000-5079, 5090-5099, 5130-5159, 5220-5999, 7000-7299, and 7400-9999. Firms in all other SIC-4 industries are classified as B2B firms.

Insert Table 2.8 about here

Second, we investigate whether the increased CSR activities depend on the types of activism firms face. For instance, improved CSR may stem from corporate policies favoring certain types of stakeholders, such as those relating to the natural environment, the social community, and the company workforce. Given our finding of increasingly friendly policies for the employees and diversity but not for the environment, the positive link between CSC and firm CSR should be weak among industries where the benefits of environment-friendly policies are more evident, such as those characterized by heavy pollution and thus often targeted by environmental activists.

To test this conjecture, we divide our main sample into sub-samples of polluting and non-polluting industry sectors.[14] According to Flammer and Kacperczyk (2016) and U.S. Environmental Protection Agency (2017), seven industry sectors account for 89% of the Toxic Release Inventory (TRI) chemicals. Accordingly, we classify firms into the polluting subsample if firms operate in one of these seven industry sectors and into the non-polluting subsample otherwise.

Table 2.9 shows that, in line with our expectation, social capital does not significantly impact CSR performance in polluting firms but improves the CSR performance of non-polluting firms. This evidence corroborates our baseline findings that the improved firm CSR performance likely stems from policies unrelated to the environment.

Insert Table 2.9 about here

2.4 Conclusion

Do customers play a role in influencing the firm's decisions to "doing good"? Consistent with firms seeking legitimacy vis-à-vis their business customers, we argue that firms do engage in more socially responsible activities when their customers have a higher preference for CSR.

To test this question, we devise a new empirical test strategy that exploits variations in the preference for CSR, captured by "social capital" at the country level. We use data on offshore activities by 2,593 U.S. publicly listed companies from 1998 to 2018. We find that firms selling to countries characterized by higher social capital have significantly better CSR performance. The improved social performance stems from the adoption of firm policies that are favorable to the employees and diversity.

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[14] The seven sectors are metal mining (NAICS 212), electric utilities (2211), chemicals (325), primary metals (331), paper (322), food, beverages, and tobacco (311 and 312), and hazardous waste management (5622 and 5629).

Further, to verify that the association between social capital and CSR is independent of other salient country attributes, we control for two offshore country factors, namely the economic development and legal origins. In addition, we re-estimate our main analysis with an alternative measure for social capital, constructed using Google's search volume index. Also, we provide additional controls for the document length of the 10-K reports. Throughout these tests, our results remain robust.

Then, we address endogeneity concerns between customer social capital and firm CSR performance. To this end, we adopt an instrumental variable approach. We confirm that our results are unlikely to be driven purely by endogeneity.

Finally, we perform two subsample tests to examine the heterogeneity in the effect of customer social capital on CSR across customer clienteles and industry groups. These tests show that the positive effect concentrates on industries that sell predominantly to businesses (as opposed to end consumers) and have low environmental activism.

Our research findings carry important implications that resonate across both policy and managerial spheres. First, our study sheds light on a critical aspect – the plasticity of CSR practices in response to changes in social capital at the country level. Social capital, in this context, represents the social relationships and trust within a society. What our research underscores is that as the level of social capital varies across different countries, so do the CSR preferences of companies. These shifts can have far-reaching consequences because they not only affect domestic operations but also extend beyond borders through complex supply chain relationships. In simpler terms, a company's CSR practices can adapt and evolve based on the evolving expectations of its international customer base. This insight urges a compelling argument for a more globally harmonized approach to socially responsible practices. In other words, companies should consider aligning their CSR strategies on an international scale to meet the diverse demands stemming from varying levels of social capital across countries. This is not only a strategic move but also a way to enhance reputation and market competitiveness.

Second, beyond the macroeconomic policy perspective, our findings have direct and practical implications for the internal workings of firms, particularly for managers. We emphasize the critical role played by social capital and trust within the firm. These factors are not merely abstract concepts but tangible forces that shape a company's economic outcomes and policies. Managers must recognize the pivotal role of social capital in influencing consumer perceptions, employee morale, and even regulatory considerations. Consequently, strategic planning for offshore activities takes on added significance. Managers need to factor

in the substantial influence these activities have on the company's overall CSR efforts. This means that CSR practices should be integrated into the core strategic planning of businesses, becoming an integral part of their identity and operations. Such an approach is not only reactive but proactive, fostering a heightened awareness of the company's social responsibility and its impact on long-term success.

In summary, our research uncovers the complex relationship between social capital, CSR practices, and their implications for both the global policy landscape and the day-to-day operations of firms. These findings call for a re-evaluation of CSR strategies on an international scale and a more strategic incorporation of CSR practices into the core business operations, recognizing their pervasive influence on reputation and overall success.

Table 2.1 Offshore Countries and National Social Capital

This table lists the top 20 countries to which our sample firms sell. The number and proportion of firm-years sold to each of the countries are reported. The average country-level social-capital index, computed using data from the World Values Surveys, is reported in the rightmost column in the table. Detailed definitions for the main variables can be found in Appendix 2.1.

Country	Firm-years	% of firm-years	Cumulative %	WVS Social-Capital Index
Canada	45,272	11.53	11.53	0.407
United Kingdom	30,042	7.65	19.18	0.322
China	25,190	6.41	25.59	0.555
Japan	24,008	6.11	31.70	0.377
Mexico	19,086	4.86	36.56	0.174
Australia	19,067	4.85	41.42	0.464
Germany	18,740	4.77	46.19	0.368
France	15,847	4.03	50.22	0.225
India	11,952	3.04	53.27	0.229
Brazil	10,358	2.64	55.90	0.057
Italy	10,085	2.57	58.47	0.302
South Korea	9,811	2.5	60.97	0.291
Singapore	9,464	2.41	63.38	0.230
Netherlands	8,719	2.22	65.60	0.592
Spain	8,557	2.18	67.78	0.277
Taiwan	7,885	2.01	69.78	0.313
Switzerland	6,414	1.63	71.42	0.449
Ireland	5,884	1.5	72.92	0.379
Russia	5,757	1.47	74.38	0.258
Belgium	5,090	1.3	75.68	0.319

Table 2.2 Summary Statistics and Sample Distribution

This table reports the descriptive statistics of our main variables (Panel A) and the mean values of CSC, CSR and CSR concern by year over the sample period (Panel B) and by Fama-French 12 industries (Panel C). Our sample consists of all U.S. publicly listed firms that sell offshore between 1998 and 2018.

Panel A. Summary Statistics					
	Mean	**S.D.**	**Min.**	**Max.**	**Obs.**
CSR_t	0,299	0,452	0,000	2,150	20,180
CSC_{t-1}	0,351	0,081	0,105	0,615	20,180
$SIZE_{t-1}$	7,222	1,659	1,643	11,879	20,180
ROA_{t-1}	0,023	0,178	-7,782	0,417	20,180
$Leverage_{t-1}$	0,213	0,217	0,000	3,769	20,180
$Risk_{t-1}$	0,028	0,014	0,006	0,118	20,180
$R\&D_{t-1}$	0,222	1,282	0,000	14,966	20,180
$Cash_{t-1}$	-2,373	1,417	-8,000	2,540	20,180
$Inst.Own_{t-1}$	0,737	0,226	0,001	1,109	20,180
GDP per Capita$_{t-1}$	9,847	0,696	6,107	11,541	20,180
CPI_{t-1}	0,515	1,022	-0,324	5,698	20,180

Panel B. By Year				
Year	**CSC**	**CSR**	**CSR concern**	**No. of Obs.**
1998	0,361	0,405	0,272	201
1999	0,358	0,430	0,280	218
2000	0,317	0,423	0,284	224
2001	0,322	0,291	0,244	391
2002	0,327	0,317	0,297	407
2003	0,330	0,153	0,216	1.015
2004	0,332	0,172	0,274	1.069
2005	0,339	0,193	0,287	1.085
2006	0,344	0,199	0,304	1.128
2007	0,347	0,223	0,336	1.141
2008	0,345	0,221	0,345	1.264
2009	0,344	0,212	0,339	1.349
2010	0,344	0,289	0,533	1.356
2011	0,367	0,312	0,470	1.297
2012	0,366	0,259	0,136	1.280
2013	0,359	0,310	0,101	1.111
2014	0,362	0,209	0,111	1.154
2015	0,362	0,432	0,104	1.187
2016	0,359	0,493	0,049	1.162
2017	0,362	0,401	0,068	1.065
2018	0,372	0,662	0,082	1.076
Total				20,180

Table 2. Summary Statistics and Sample Distribution (cont'd)

Panel C. By Industry				
Fama-French 12 industries	**CSC**	**CSR**	**CSR concern**	**No. of Obs.**
Consumer Non-Durables	0,398	0,400	0,276	1,415
Consumer Durables	0,351	0,284	0,237	772
Manufacturing	0,356	0,256	0,267	3,238
Energy, Oil, Gas, and Coal	0,309	0,368	0,515	777
Chemicals and Allied products	0,347	0,341	0,362	960
Business Equipment	0,354	0,285	0,169	5,180
Telephone and Television	0,327	0,280	0,274	526
Wholesale, Retail and services	0,352	0,268	0,238	2,256
Healthcare and Medical	0,366	0,359	0,188	2,538
Other	0,345	0,269	0,281	2,518
Total				20,180

Table 2.3 Customer Social Capital and CSR Performance

This table reports the estimates for CSC with core (Regression 1, 3 and 5) and full set of control variables (Regression 2, 4 and 6), namely Size, ROA, Leverage, Risk, R&D, Cash, Inst.Own., GDP per Capita and CPI. The dependent variable is CSR in regression (1) and 2. The dependent variable is CSR concern in Regressions (3) and (4). The dependent variable is Net CSR in Regressions (5) and (6). Variable definitions are given in Appendix 2.1. The sample contains U.S. public listed firms that sell offshore. The time span for this study is between 1998 and 2018. There are 20,180 observations across 2,593 firms in this study. Explanatory variable and controls are lagged by one year. Year and industry fixed effects are included. Industry effects are constructed based on the 2-digit SIC industry classification. Standard errors are clustered by firms and reported in parentheses. ***, **, and * indicate statistical significance at the 1%, 5%, and 10% level, respectively.

	CSR_t		$CSR\ Concern_t$		$Net\ CSR_t$	
	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**
CSC_{t-1}	0.122**	0.118**	0.010	0.026	0.105	0.093
	(0.060)	(0.060)	(0.051)	(0.053)	(0.083)	(0.085)
$Size_{t-1}$	0.144***	0.161***	0.085***	0.099***	0.052***	0.055***
	(0.006)	(0.007)	(0.006)	(0.006)	(0.008)	(0.009)
ROA_{t-1}		-0.061***		-0.075***		0.047*
		(0.020)		(0.016)		(0.025)
$Leverage_{t-1}$		-0.139***		-0.088***		-0.056
		(0.032)		(0.022)		(0.034)
$Risk_{t-1}$		-0.828**		0.673**		-2.070***
		(0.382)		(0.327)		(0.535)
$R\&D_{t-1}$		0.012***		-0.004*		0.018***
		(0.003)		(0.002)		(0.004)
$Cash_{t-1}$		0.030***		0.009***		0.018***
		(0.004)		(0.003)		(0.005)
$Inst.Own._{t-1}$		-0.213***		-0.191***		-0.091**
		(0.028)		(0.026)		(0.039)
$GDPperCapita_{t-1}$		-0.007		-0.011*		0.003
		(0.008)		(0.006)		(0.011)
CPI_{t-1}		-0.012**		-0.000		-0.017**
		(0.006)		(0.004)		(0.008)
Intercept	0.122**	0.118**	0.010	0.026	-0.435***	-0.303***
	(0.060)	(0.060)	(0.051)	(0.053)	(0.061)	(0.115)
Industry FE	Yes	Yes	YES	Yes	YES	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
No. of observations	20,180	20,180	20,180	20,180	20,180	20,180
Adjusted R-squared	0.345	0.369	0.371	0.345	0.257	0.262

Table 2.4 Customer Social Capital and CSR Components

This table reports the estimates for CSC with core and full set of control variables, namely Size, ROA, Leverage, Risk, R&D, Cash, and Inst.Own., GDP per Capita and CPI. For each pair of Regressions, the dependent variable captures an individual aspect of the firm's CSR. In Regressions (1) and (2), the dependent variable captures the Environment aspect of the firm's CSR. In Regressions (3) and (4), the dependent variable captures the Community aspect of the firm's CSR. In Regressions (5) and (6), the dependent variable captures the Human Rights aspect of the firm's CSR. In Regressions (7) and (8), the dependent variable captures the Employee aspect of the firm's CSR. In Regressions (9) and (10), the dependent variable captures the Diversity aspect of the firm's CSR. In Regressions (11) and (12), the dependent variable captures the Product aspect of the firm's CSR. Variable definitions are given in Appendix 2.1. The sample contains U.S. public listed firms that sell offshore. The time span for this study is between 1998 and 2018. There are 20,180 observations across 2,593 firms in this study. Explanatory variable and controls are lagged by one year. Year and industry fixed effects are included. Industry effects are constructed based on the 2-digit SIC industry classification. Standard errors are clustered by firms and reported in parentheses. ***, **, and * indicate statistical significance at the 1%, 5%, and 10% level, respectively.

	Environment t		Community t		Human Rights t	
	(1)	(2)	(3)	(4)	(5)	(6)
CSC_{t-1}	0.005	0.020	0.005	0.008	-0.006	-0.009
	(0.017)	(0.017)	(0.009)	(0.009)	(0.010)	(0.011)
$Size_{t-1}$	0.038***	0.040***	0.015***	0.015***	0.006***	0.007***
	(0.002)	(0.002)	(0.001)	(0.001)	(0.001)	(0.001)
ROA_{t-1}		-0.006		-0.003		-0.012***
		(0.005)		(0.003)		(0.004)
$Leverage_{t-1}$		-0.016**		-0.012***		-0.007*
		(0.007)		(0.005)		(0.004)
$Risk_{t-1}$		-0.442***		-0.323***		0.166***
		(0.110)		(0.062)		(0.059)
$R\&D_{t-1}$		-0.001		0.001***		-0.000
		(0.001)		(0.000)		(0.000)
$Cash_{t-1}$		0.005***		0.002***		0.001
		(0.001)		(0.001)		(0.001)
$Inst.Own._{t-1}$		-0.069***		-0.018***		-0.012***
		(0.007)		(0.004)		(0.004)
$GDPperCapita_{t-1}$		-0.004**		-0.003*		0.002*
		(0.002)		(0.001)		(0.001)
CPI_{t-1}		0.006***		-0.002***		0.005***
		(0.002)		(0.001)		(0.001)
Intercept	-0.218***	-0.121***	-0.090***	-0.038***	-0.027***	-0.057***
	(0.013)	(0.021)	(0.007)	(0.013)	(0.007)	(0.015)
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
No. of observations	20,180	20,180	20,180	20,180	20,180	20,180
Adjusted R-squared	0.297	0.314	0.201	0.210	0.158	0.164

Table 2.4. Customer Social Capital and CSR Components (cont'd)

	Employee$_t$		Diversity$_t$		Product$_t$	
	(7)	(8)	(9)	(10)	(11)	(12)
CSC$_{t-1}$	0.049***	0.054***	0.096**	0.071*	-0.001	-0.013
	(0.018)	(0.018)	(0.043)	(0.043)	(0.014)	(0.015)
Size$_{t-1}$	0.032***	0.035***	0.045***	0.054***	0.013***	0.014***
	(0.002)	(0.002)	(0.003)	(0.004)	(0.001)	(0.001)
ROA$_{t-1}$		0.007		-0.046***		-0.005
		(0.007)		(0.015)		(0.007)
Leverage$_{t-1}$		-0.036***		-0.049***		-0.019***
		(0.009)		(0.018)		(0.006)
Risk$_{t-1}$		0.038		-0.017		-0.139
		(0.125)		(0.238)		(0.111)
R&D$_{t-1}$		0.002***		0.010***		0.002
		(0.001)		(0.003)		(0.001)
Cash$_{t-1}$		0.005***		0.017***		0.002**
		(0.001)		(0.002)		(0.001)
Inst.Own.$_{t-1}$		-0.048***		-0.065***		-0.010
		(0.008)		(0.017)		(0.006)
GDPperCapita$_{t-1}$		-0.004*		-0.003		0.003
		(0.002)		(0.005)		(0.002)
CPI$_{t-1}$		-0.001		-0.024***		-0.003*
		(0.002)		(0.006)		(0.002)
Intercept	-0.181***	-0.119***	-0.205***	-0.124***	-0.058***	-0.067***
	(0.013)	(0.024)	(0.027)	(0.048)	(0.010)	(0.022)
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
No. of observations	20,180	20,180	19,026	19,026	20,180	20,180
Adjusted R-squared	0.211	0.224	0.316	0.328	0.088	0.091

Table 2.5 Robustness Tests

This table presents tests examining the robustness of our results to additional controls. DocLength is measured using the natural logarithm of the number of paragraphs in a given firm's 10-K report as identified by the meta-heuristic system; Regulatory Quality captures perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development. This variable ranges from -2.5 to 2.5. A higher score indicates a higher regulatory quality ; CivilOrigin is a dummy variable that equals one for countries following the French, German, or Scandinavian laws, and zero for countries following the British law; ROE is the firm's return on equity; Tobin's q captures firm value, computed as total assets minus the book equity plus the market value of equity, all divided by total assets; MB is the market-to-book value ratio; CSC EW is the equal-weighted average of social capital across offshore countries. All other lagged control variables are identical to those of the baseline tests. Year and industry fixed effects are included. Industry effects are constructed based on the 2-digit SIC industry classification. Standard errors are clustered by firms and reported in parentheses. ***, **, and * indicate statistical significance at the 1%, 5%, and 10% level, respectively.

	CSR t			
	(1)	**(2)**	**(3)**	**(4)**
CSC_{t-1}	0.127*	0.126**	0.079	
	(0.071)	(0.063)	(0.060)	
$CSC\ EW_{t-1}$				0.134**
				(0.064)
$Size_{t-1}$	0.000	0.162***	0.080***	0.161***
	(0.012)	(0.007)	(0.007)	(0.007)
$ROA_{t-1}1$	-0.038	-0.051***		-0.061***
	(0.030)	(0.020)		(0.020)
$Leverage_{t-1}$	-0.153***	-0.145***		-0.139***
	(0.035)	(0.030)		(0.032)
$Risk_{t-1}$	-1.062**	-0.933**		-0.828**
	(0.494)	(0.383)		(0.382)
$R\&D_{t-1}$	0.015***	0.011***		0.012***
	(0.004)	(0.003)		(0.003)
$Cash_{t-1}$	0.031***	0.029***		0.030***
	(0.004)	(0.004)		(0.004)
$Inst.Own._{t-1}$	-0.205***	-0.209***	-0.074***	-0.213***
	(0.032)	(0.028)	(0.024)	(0.028)
$GDPperCapita_{t-1}$	-0.002	-0.009	-0.011	-0.008
	(0.009)	(0.008)	(0.008)	(0.008)
CPI_{t-1}	-0.016**	-0.013**	-0.000	-0.012**
	(0.007)	(0.006)	(0.008)	(0.006)
$Regulatory\ Quality_{t-1}$	0.174***			
	(0.007)			
$CivilOrigin_{t-1}$		0.008		
		(0.018)		
ROE_{t-1}			-0.019**	
			(0.009)	
$Tobin's\ q_{t-1}$			0.007**	
			(0.003)	
MB_{t-1}			0.000***	
			(0.000)	
$DocLength_{t-1}$	-0.001		0.013	
	(0.011)		(0.010)	
Intercept	-0.704***	-0.647***	-0.356***	-0.545***
	(0.098)	(0.049)	(0.097)	(0.079)
Industry FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes

	No. of observations	15,634	18,736	15,753	20,180
	Adjusted R-Squared	0.371	0.357	0.428	0.369

Table 2.6 The Instrumental Variable Approach

This table reports results for the instrumental variable estimation. Two instrumental variables are used. The first is the country-level measure of genetic diversity, capturing the prevalence of the S-Allele in the serotonin transporter gene SLC6A4 (S-Allele). Higher values suggest greater sensitivity to depression-inducing effects of social stress. The second is a firm's CSC among its industry peers, computed as the mean of CSC among all other firms in the same 2-digit SIC industry (Peer CSC). The baseline controls and fixed effects are included. Industry effects are constructed based on the 2-digit SIC industry classification. Standard errors are clustered by firms and reported in parentheses. ***, **, and * indicate statistical significance at the 1%, 5%, and 10% level, respectively.

	1st stage	2nd stage	1st stage	2nd stage
	S-Allele	**CSR**	**Peer CSC**	**CSR**
	(1)	**(2)**	**(3)**	**(4)**
S-Allele	0.002***			
	(0.000)			
CSC (fitted)		1.700***		1.733***
		(0.165)		(0.261)
Peer CSC			0.622***	
			(0.030)	
Size$_{t-1}$	-0.001**	0.168***	-0.000	0.166***
	(0.000)	(0.002)	(0.000)	(0.002)
ROA$_{t-1}$	0.016**	-0.080***	0.012**	-0.082***
	(0.005)	(0.025)	(0.004)	(0.024)
Leverage$_{t-1}$	-0.009**	-0.118***	-0.009**	-0.130***
	(0.003)	(0.017)	(0.003)	(0.016)
Risk$_{t-1}$	-0.018	-2.508***	0.188**	-2.242***
	(0.072)	(0.365)	(0.064)	(0.350)
R&D$_{t-1}$	-0.001**	0.026***	-0.000	0.026***
	(0.001)	(0.003)	(0.001)	(0.003)
Cash$_{t-1}$	-0.000	0.039***	0.000	0.037***
	(0.001)	(0.003)	(0.000)	(0.003)
Inst.Own.$_{t-1}$	0.007**	-0.248***	0.002	-0.234***
	(0.003)	(0.016)	(0.003)	(0.016)
GDPperCapita$_{t-1}$	0.046***	-0.052***	0.036***	-0.060***
	(0.001)	(0.008)	(0.001)	(0.011)
CPI$_{t-1}$	0.001	-0.016***	0.000	-0.012**
	(0.001)	(0.005)	(0.000)	(0.005)
Year FE	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	No	No
Observations	15,580	15,580	16,844	16,844
Adjusted R-squared	0.179	0.290	0.160	0.282

Table 2.7 An Alternative Social-Capital Measure Using Google Search Data

This table reports regressions using an alternative measure of social capital based on Google search data. The dependent variable is the annual change in firm CSR (DCSR). The main variable of interest is the average annual average weekly changes in Google's search volume index (SVI) for two search terms, "CSR" and "Corporate Social Responsibility," within a firm's offshore customer portfolio. Annual changes in the lagged baseline controls are included in the model. Industry and year fixed effects are included. Industry effects are constructed based on the 2-digit SIC industry classification. Standard errors are clustered by firms and reported in parentheses. ***, **, and * indicate statistical significance at the 1%, 5%, and 10% level, respectively.

	ΔCSR $_t$
	(1)
ΔCSVI$_{t-1}$	0.033***
	(0.010)
ΔSize$_{t-1}$	0.060***
	(0.012)
ΔROA$_{t-1}$	-0.034
	(0.021)
ΔLeverage$_{t-1}$	-0.006
	(0.030)
ΔRisk$_{t-1}$	-0.848**
	(0.265)
ΔR&D$_{t-1}$	-0.000
	(0.005)
ΔCash$_{t-1}$	0.002
	(0.003)
ΔInst.Own.$_{t-1}$	0.021
	(0.026)
ΔGDP Per Capita$_{t-1}$	0.002
	(0.004)
ΔCPI$_{t-1}$	0.001
	(0.004)
Intercept	-0.015
	(0.037)
Industry FE	Yes
Year FE	Yes
No. of observations	12,149
Adjusted R-squared	0.075

Table 2.8 Subsample Analysis by Customers' Clientele

This table reports regression results for two types of customers clienteles. Firms are classified as having a Business-to-Business (B2B) clientele if they sell to other businesses, or as a Business-to-consumer (B2C) clientele if to end consumers. The baseline controls are included. Variable definitions are given in Appendix 2.1. The sample contains U.S. public listed firms that sell offshore. The time span for this study is between 1998 and 2018. There are 20,180 observations across 2,593 firms in this study. Explanatory variable and controls are lagged by one year. Year and industry fixed effects are included. Industry effects are constructed based on the 2-digit SIC industry classification. Standard errors are clustered by firms and reported in parentheses. ***, **, and * indicate statistical significance at the 1%, 5%, and 10% level, respectively.

Subsample:	CSR $_t$	
	B2C	B2B
	(1)	(2)
CSC_{t-1}	-0.040	0.247***
	(0.089)	(0.080)
$Size_{t-1}$	0.157***	0.166***
	(0.010)	(0.009)
ROA_{t-1}	-0.037	-0.070***
	(0.030)	(0.027)
$Leverage_{t-1}$	-0.115***	-0.184***
	(0.042)	(0.041)
$Risk_{t-1}$	-1.354**	-0.589
	(0.570)	(0.506)
$R\&D_{t-1}$	0.006*	0.025**
	(0.003)	(0.011)
$Cash_{t-1}$	0.032***	0.022***
	(0.006)	(0.005)
$Inst.Own._{t-1}$	-0.163***	-0.249***
	(0.039)	(0.039)
$GDPperCapita_{t-1}$	-0.001	-0.017*
	(0.011)	(0.010)
CPI_{t-1}	-0.020**	-0.005
	(0.009)	(0.007)
Intercept	-0.520***	-0.551***
	(0.124)	(0.101)
Industry FE	Yes	Yes
Year FE	Yes	Yes
No. of observations	8,629	11,551
Adjusted R-squared	0.369	0.383

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Table 2.9 Subsample Analysis by the Degree of Environmental Activism

This table reports regression results based on subsamples divided by whether a firm operates in industries with high or low environmental activism. Industries are defined as having high environmental activism if they are one of the seven polluting industry sectors as identified by the U.S. Environmental Protection Agency (2017), and otherwise as having low environmental activism. The baseline controls are included. Variable definitions are given in Appendix 2.1. The sample contains U.S. public listed firms that sell offshore. The time span for this study is between 1998 and 2018. There are 20,180 observations across 2,593 firms in this study. Explanatory variable and controls are lagged by one year. Year and industry fixed effects are included. Industry effects are constructed based on the 2-digit SIC industry classification. Standard errors are clustered by firms and reported in parentheses. ***, **, and * indicate statistical significance at the 1%, 5%, and 10% level, respectively.

Subsample	CSR t	
	Environmental activism/Polluting	
	High	**Low**
	(1)	**(2)**
CSC $_{t-1}$	-0.213	0.177***
	(0.173)	(0.063)
Size $_{t-1}$	0.174***	0.161***
	(0.017)	(0.007)
ROA $_{t-1}$	-0.088**	-0.039
	(0.035)	(0.026)
Leverage $_{t-1}$	-0.152***	-0.129***
	(0.040)	(0.039)
Risk $_{t-1}$	-1.795**	-1.037**
	(0.845)	(0.418)
R&D $_{t-1}$	0.002	0.032**
	(0.003)	(0.014)
Cash $_{t-1}$	0.030***	0.025***
	(0.010)	(0.004)
Inst.Own. $_{t-1}$	-0.234***	-0.228***
	(0.066)	(0.030)
GDPperCapita $_{t-1}$	0.030	-0.014*
	(0.025)	(0.008)
CPI $_{t-1}$	-0.034**	-0.007
	(0.016)	(0.006)
Intercept	-0.702***	-0.517***
	(0.271)	(0.082)
Industry FE	Yes	Yes
Year FE	Yes	Yes
No. of observations	2,860	17,320
Adjusted R-squared	0.447	0.363

Appendix

Appendix 2.1. Variable Definition and Data Sources

This table provides the detailed definitions and data sources of the variables used in our study.

Variable	Definition	Source
Adjusted CSR	The sum of yearly adjusted score of CSR strengths across six different CSR dimensions: Product, Employee, Community, Human Rights, Diversity and Environment.	MSCI ESG Stats database
	Adjusted CSR is estimated by scaling the raw strength scores of each category by the number of items of the strength of that category in the year.	
Adjusted CSR concern	The sum of yearly adjusted scores of CSR concerns across six different CSR dimensions: Product, Employee, Community, Human Rights, Diversity and Environment.	MSCI ESG Stats database
	Adjusted CSR concern is estimated by scaling the raw concern scores of each category by the number of items of the concerns of that category in the year.	
CSC	The weighted average level of social capital across the countries to which a firm sells in a given year. Social capital of a country is measured by the degree of social trust of its residential, based on evidence from the World Value Survey. In particular, social trust is measured using respondent answers to the question: "Generally speaking, would you say that most people can be trusted, or that you can't be too careful in dealing with people?"	World Values Survey
	With: "Most people can be trusted".	
Size	Natural log of total assets in million dollars.	Compustat
ROA	Firm profitability is measured as net income divided by total assets.	Compustat
Leverage	The proportion of total debt to total assets; total debt is the sum of short-term liabilities and long-term debt.	Compustat
Risk	The standard deviation of daily stock returns in the current year.	CRSP
R&D	R&D intensity, computed as research and development expenses divided by total sales.	Compustat
Cash	The ratio of cash to net assets. Net assets is total assets minus cash.	Compustat
Inst.Own.	The percentage of shares owned by institutional investors.	Thompson 13F
GDPperCapita	The average natural logarithm of gross domestic product (GDP) per capita across the countries to which a firm sells in a given year.	World Bank
CivilOrigin	The legal origin of the Company Law or Commercial Code of each country.	Reynolds and Flores (1989) and La Porta et al. (1997).
CPI	Rate of change in the national consumer price index.	World Bank

DocLength	The natural logarithm of the number of paragraphs in a given firm's 10-K report as identified by the meta-heuristic system.	Hoberg and Moon (2017)
ROE	Return on the book value of equity, measured as net income divided by equity	Compustat
Tobin's q	Tobin's q, computed as market value of equity (the product of fiscal year-end closing stock price and number of shares outstanding) plus total assets minus the book value of equity, all divided by total assets.	Compustat
MB	Market-to-book equity ratio, computed as market value of equity divided by the book value of equity.	Compustat
S-Allele	Country-level measure of genetic variation in the serotonin transporter gene (SLC6A4). The statistic is a measure of the prevalence of the S-Allele in the polymorphism 5-HTTLPR of the serotonin transporter gene SLC6A4. Higher values suggest greater sensitivity to depression-inducing effects of social stress.	Chiao and Blizinsky (2010)
Peer CSC	The average value of customer social capital within a 2-digit SIC industry classification.	WVS
Google's search volume index (ΔCSVI)	The annual standardized average weekly changes in SVI (ΔSVI) for the two search terms, "CSR" and "Corporate Social Responsibility." SVI is the aggregate search frequency from Google Trends for the two search terms "CSR" and "Corporate Social Responsibility."	Google

Appendix 2.2 A List of Strength Items in the MSCI KLD Database

Category	Strength items	Description
Community (COM)	Charitable Giving	The company has consistently given over 1.5% of trailing three-year net earnings before taxes (NEBT) to charity or has otherwise been notably generous in its giving. In 2002, KLD renamed the Generous Giving Strength as Charitable Giving.
	Innovative Giving	The company has a notably innovative giving program that supports nonprofit organizations, particularly those promoting self-sufficiency among the economically disadvantaged. Companies that permit nontraditional federated charitable giving drives in the workplace are often noted in this section as well.
	Support for Housing	The company is a prominent participant in public/private partnerships that support housing initiatives for the economically disadvantaged, e.g., the National Equity Fund or the Enterprise Foundation.
	Support for Education	The company has either been notably innovative in its support for primary or secondary school education, particularly for those programs that benefit the economically disadvantaged, or the company has prominently supported job-training programs for youth. In 1994, KLD added the Support for Education Strength.
	Indigenous People Relations	The company has established relations with indigenous peoples in the areas of its proposed or current operations that respect the sovereignty, land, culture, human rights, and intellectual property of the indigenous peoples. KLD began assigning this strength in 2000. In 2002 KLD moved this strength rating into the Human Rights area.
	Non-U.S. Charitable Giving	The company has made a substantial effort to make charitable contributions abroad, as well as in the U.S. To qualify, a company must make at least 20% of its giving, or have taken notably innovative initiatives in its giving program, outside the U.S.
	Volunteer Programs	The company has an exceptionally strong volunteer program. In 2005, KLD added the Volunteer Programs Strength.
	Other Strength	The company has either an exceptionally strong in-kind giving program or engages in other notably positive community activities.
Product quality and safety (PRO)	Quality	The company has a long-term, well-developed, company-wide quality program, or it has a quality program recognized as exceptional in U.S. industry.

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	R&D/ Innovation	The company is a leader in its industry for research and development (R&D), particularly by bringing notably innovative products to market.
	Benefits to Economically Disadvantaged	The company has as part of its basic mission the provision of products or services for the economically disadvantaged.
	Other Strength	The company's products have notable social benefits that are highly unusual or unique for its industry.
Environment (ENV)	Beneficial Products and Services	The company derives substantial revenues from innovative remediation products, environmental services, or products that promote the efficient use of energy, or it has developed innovative products with environmental benefits. (The term "environmental service" does not include services with questionable environmental effects, such as landfills, incinerators, waste-to-energy plants, and deep injection wells.)
	Pollution Prevention	The company has notably strong pollution prevention programs including both emissions reductions and toxic-use reduction programs.
	Recycling	The company either is a substantial user of recycled materials as raw materials in its manufacturing processes, or a major factor in the recycling industry.
	Clean Energy	The company has taken significant measures to reduce its impact on climate change and air pollution through use of renewable energy and clean fuels or through energy efficiency. The company has demonstrated a commitment to promoting climate-friendly policies and practices outside its own operations. KLD renamed the Alternative Fuels strength as Clean Energy Strength.
	Communications	The company is a signatory to the CERES Principles, publishes a notably substantive environmental report, or has notably effective internal communications systems in place for environmental best practices. KLD began assigning strengths for this issue in 1996, and then incorporated the issue with the Corporate Governance: Transparency rating (CGOV-str-D), which was added in 2005. In files prior to 2005, this column does not appear. In all spreadsheets it is incorporated into the Transparency rating
	Property, Plant, and Equipment	The company maintains its property, plant, and equipment with above-average environmental performance for its industry. KLD has not assigned strengths for this issue since 1995.
	Management Systems	The company has demonstrated a superior commitment to management systems through ISO 14001 certification

		and other voluntary programs. This strength was first awarded in 2006.
	Other Strength	The company has demonstrated a superior commitment to management systems, voluntary programs, or other environmentally proactive activities.
Diversity (DIV)	CEO	The company's chief executive officer is a woman or a member of a minority group
	Promotion	The company has made notable progress in the promotion of women and minorities, particularly to line positions with profit-and-loss responsibilities in the corporation.
	Board of Directors	Women, minorities, and/or the disabled hold four seats or more (with no double counting) on the board of directors, or one-third or more of the board seats if the board numbers less than 12.
	Work/Life Benefits	The company has outstanding employee benefits or other programs addressing work/life concerns, e.g., childcare, elder care, or flextime. In 2005, KLD renamed this strength from Family Benefits Strength.
	Women & Minority Contracting	The company does at least 5% of its subcontracting, or otherwise has a demonstrably strong record on purchasing or contracting, with women- and/or minority-owned businesses.
	Employment of the Disabled	The company has implemented innovative hiring programs; other innovative human resource programs for the disabled, or otherwise has a superior reputation as an employer of the disabled.
	Gay and Lesbian Policies	The company has implemented notably progressive policies toward its gay and lesbian employees. In particular, it provides benefits to the domestic partners of its employees. In 1995, KLD added the Gay & Lesbian Policies Strength, which was originally titled the Progressive Gay/Lesbian Policies strength.
	Other Strength	The company has made a notable commitment to diversity that is not covered by other KLD ratings.
Employee Relations (EMP)	Union Relations	The company has taken exceptional steps to treat its unionized workforce fairly. KLD renamed this strength from Strong Union Relations.
	No-Layoff Policy	The company has maintained a consistent no-layoff policy. KLD has not assigned strengths for this issue since 1994.
	Cash Profit Sharing	The company has a cash profit-sharing program through which it has recently made distributions to a majority of its workforce.

	Employee Involvement	The company strongly encourages worker involvement and/or ownership through stock options available to a majority of its employees; gain sharing, stock ownership, sharing of financial information, or participation in management decision-making.
	Retirement Benefits	The company has a notably strong retirement benefits program. KLD renamed this strength from Strong Retirement Benefits.
	Health and Safety	The company has strong health and safety programs.
	Other Strength	The company has strong employee relations initiatives not covered by other KLD ratings.
Human Rights (HUM)	Positive Record in South Africa	The company's social record in South Africa is noteworthy. KLD assigned strengths in this category in 1994 and 1995.
	Indigenous Peoples Relations	The company has established relations with indigenous peoples near its proposed or current operations (either in or outside the U.S.) that respect the sovereignty, land, culture, human rights, and intellectual property of indigenous peoples. In 2000, KLD added the Indigenous Peoples Relations Strength. In 2004, KLD moved the Indigenous Peoples Relations Strength from Community to Human Rights.
	Labor Rights	The company has outstanding transparency on overseas sourcing disclosure and monitoring, or has particularly good union relations outside the U.S., or has undertaken labor rights-related initiatives that KLD considers outstanding or innovative. In 2002, the Labor Rights Strength was added.
	Other Strength	The company has undertaken exceptional human rights initiatives, including outstanding transparency or disclosure on human rights issues, or has otherwise shown industry leadership on human rights issues not covered by other KLD human rights ratings.

Appendix 2.3. An Example Showing How Customer Social Capital Is Computed

This table provides a simple example to illustrate how our customer social capital (CSC) measure is constructed.

Name	Year	Offshore country	Mentions_{itz}	CSC_{itz}	CSC_{it}
AAR Corp.	2002	Netherlands	1	0.422	
AAR Corp.	2002	Canada	2	0.366	
AAR Corp.	2002	Mexico	2	0.213	
AAR Corp.	2002				$\frac{(1\times0.422)+(2\times0.366)+(2\times0.213)}{1+2+2}=0.316$

Appendix 2.4. Correlation Matrix

This table reports the pairwise correlations between the main variables used in our study. The variable definitions are given in Table A.1, Appendix. * indicates statistical significance at the 1% level.

		V1	V2	V3	V4	V5	V6	V7	V8	V9	V10
Risk	V1	1.000									
CSR	V2	-0.220*	1.000								
CSR concern	V3	-0.036*	0.156*	1.000							
CSC	V4	0.020	-0.037*	-0.028*	1.000						
Firm size	V5	-0.438*	0.445*	0.333*	-0.101*	1.000					
ROA	V6	-0.354 *	0.136*	0.028*	0.000	0.147*	1.000				
Leverage	V7	-0.127*	0.072*	0.118*	-0.064*	0.426*	-0.166*	1.000			
R&D	V8	0.179*	0.007	-0.084*	0.057*	-0.260*	-0.168*	-0.297*	1.000		
Cash/TA	V9	0.214*	-0.063*	-0.090*	0.066*	-0.335*	0.023*	-0.442*	0.422*	1.000	
Inst. Own.	V10	-0.099*	-0.001	0.020	-0.023*	0.181*	0.065*	0.074*	-0.007	0.002	1.000

Appendix 2.5 Company pair Customer Social Capital and CSR Performance
This table reports the estimates for CSC with a full set of control variables. The dependent variable is CSR strength in regression (1), CSR concern in Regression (2) and Net CSR in Regression (3). The company country pairs are treated as one observation. Variable definitions are given in Appendix 2.1. The sample contains U.S. public listed firms that sell offshore. Explanatory variable and controls are lagged by one year. Year and industry fixed effects are included. Industry effects are constructed based on the 2-digit SIC industry classification. Standard errors are clustered by firms and reported in parentheses. ***, **, and * indicate statistical significance at the 1%, 5%, and 10% level, respectively.

	CSR Strength$_t$	CSR Concern$_t$	Net CSR$_t$
	(1)	(2)	(3)
CSC$_{t-1}$	0.008	0.008	-0.006
	(0.013)	(0.010)	(0.018)
Size$_{t-1}$	0.188***	0.115***	0.069***
	(0.010)	(0.011)	(0.012)
ROA$_{t-1}$	-0.036	-0.108***	0.099**
	(0.030)	(0.025)	(0.040)
Leverage$_{t-1}$	-0.147***	-0.097**	-0.046
	(0.042)	(0.039)	(0.050)
Risk$_{t-1}$	-1.045*	1.280**	-2.536***
	(0.603)	(0.531)	(0.796)
R&D$_{t-1}$	0.019***	-0.003	0.027***
	(0.005)	(0.003)	(0.006)
Cash$_{t-1}$	0.045***	0.019***	0.022**
	(0.006)	(0.007)	(0.009)
Inst.Own.$_{t-1}$	-0.226***	-0.222***	-0.087
	(0.042)	(0.040)	(0.054)
GDPperCapita$_{t-1}$	0.001	-0.022*	0.027
	(0.014)	(0.013)	(0.021)
CPI$_{t-1}$	-0.004	0.005	-0.012
	(0.010)	(0.005)	(0.012)
Constant	-0.736***	-0.172	-0.579***
	(0.146)	(0.138)	(0.211)
Observations	130,578	130,578	130,578
Adjusted R-squared	0.410	0.449	0.250
Industry FE	YES	YES	YES
Year FE	YES	YES	YES

Appendix 2.6 World Governance Index and CSR Performance

This table presents tests examining the robustness of our results to additional controls. PCA1 and PCA2 are principle component analysis, synthesizing the diverse dimensions of WGI, namely Voice and accountability, Political stability and absence of violence, Government effectiveness, Regulatory quality, Rule of law, and Absence of corruption. All other lagged control variables are identical to those of the baseline tests. Year and industry fixed effects are included. Industry effects are constructed based on the 2-digit SIC industry classification. Standard errors are clustered by firms and reported in parentheses. ***, **, and * indicate statistical significance at the 1%, 5%, and 10% level, respectively.

	CSR_t	
	(1)	(2)
CSC_{t-1}	0.115	0.063
	(0.072)	(0.078)
$PCA1_{t-1}$	0.002	
	(0.003)	
$PCA2_{t-1}$		-0.020
		(0.012)
$Size_{t-1}$	0.174***	0.174***
	(0.007)	(0.007)
ROA_{t-1}	-0.037	-0.037
	(0.030)	(0.030)
$Leverage_{t-1}$	-0.154***	-0.153***
	(0.035)	(0.035)
$Risk_{t-1}$	-1.052**	-1.094**
	(0.494)	(0.494)
$R\&D_{t-1}$	0.015***	0.016***
	(0.004)	(0.004)
$Cash_{t-1}$	0.031***	0.031***
	(0.004)	(0.004)
$Inst.Own._{t-1}$	-0.206***	-0.205***
	(0.032)	(0.032)
$GDPperCapita_{t-1}$	-0.006	-0.001
	(0.009)	(0.009)
CPI_{t-1}	-0.015**	-0.017***
	(0.007)	(0.006)
Constant	-0.661***	-0.692***
	(0.104)	(0.093)
Observations	15,634	15,634
Adjusted R-squared	0.371	0.371
Industry FE	YES	YES
Year FE	YES	YES

Appendix 2.7 Offshore Sales to a Country for the First Time.

This table reports the estimation results from OLS panel regressions with CSR as the dependent variable. *First time sale* is a dummy that equals one when a firm sells to a country for the first time, and zero otherwise; *First time sale (high social capital)* [*First time sale (low social capital)*] is a dummy that equals one when a firm sells to a new country for the first time conditional on the country having a higher [lower] level of social capital than the average level of social capital among all offshore countries in the sample, and zero otherwise. The baseline controls and fixed effects are included. Industry effects are constructed based on the 2-digit SIC industry classification. Standard errors are clustered by firms and reported in parentheses. ***, **, and * indicate statistical significance at the 1%, 5%, and 10%

	ΔCSR_t	
	(1)	(2)
First time sale $_{t-1}$	-0.003	
	(0.004)	
First time sale (high social capital) $_{t-1}$		0.001
		(0.006)
First time sale (low social capital) $_{t-1}$		-0.004
		(0.005)
$\Delta Size_{t-1}$	0.044***	0.045***
	(0.009)	(0.009)
ΔROA_{t-1}	-0.021	-0.021
	(0.013)	(0.014)
$\Delta Leverage_{t-1}$	0.002	-0.001
	(0.024)	(0.023)
$\Delta Risk_{t-1}$	-0.843***	-0.997***
	(0.222)	(0.224)
$\Delta R\&D_{t-1}$	0.001	-0.002
	(0.003)	(0.004)
$\Delta Cash_{t-1}$	0.000	-0.000
	(0.002)	(0.002)
$\Delta Inst.Own._{t-1}$	0.007	0.002
	(0.021)	(0.021)
ΔGDP_{t-1}	0.002	0.005*
	(0.003)	(0.003)
ΔCPI_{t-1}	0.001	0.002
	(0.004)	(0.004)
Intercept	-0.006	-0.024
	(0.027)	(0.028)
Industry FE	Yes	Yes
Year FE	Yes	Yes
No. of observations	15,632	15,632
Adjusted R-squared	0.069	0.102

level, respectively.

Appendix 2.8 Customer Social Capital and Change CSR Performance

This table reports the estimates for CSC with a full set of control variables, namely Size, ROA, Leverage, Risk, R&D, Cash, and Inst.Own. The dependent variable is change in CSR from year t to year t+1. Industry effects are constructed based on the 2-digit SIC industry classification. Standard errors are clustered by firms and reported in parentheses. ***, **, and * indicate statistical significance at the 1%, 5%, and 10% level, respectively.

| | ΔCSR_t |
	(1)
CSC_{t-1}	0.035
	(0.022)
$Size_{t-1}$	0.003***
	(0.001)
ROA_{t-1}	0.015
	(0.013)
$Leverage_{t-1}$	-0.007
	(0.009)
$Risk_{t-1}$	-0.521***
	(0.188)
$R\&D_{t-1}$	0.003
	(0.003)
$Cash_{t-1}$	0.002
	(0.001)
$Inst.Own._{t-1}$	0.014**
	(0.007)
$GDPperCapita_{t-1}$	0.003
	(0.003)
CPI_{t-1}	0.001
	(0.004)
Constant	-0.036
	(0.031)
Observations	15,617
Adjusted R-squared	0.068
Industry FE	YES
Year FE	YES

Appendix 2.9 Customer Social Capital and CSR Performance: a change-on-change analysis

This table reports regressions of the change in CSR from year *t* to year *t+1* on the change in CSC from year *t-1* to year *t*. All control variables are in change forms from year *t-1* to year *t*. Industry effects are constructed based on the 2-digit SIC industry classification. Standard errors are clustered by firms and reported in parentheses. ***, **, and * indicate statistical significance at the 1%, 5%, and 10% level, respectively.

	ΔCSR_t
	(1)
ΔCSC_{t-1}	-0.018
	(0.051)
ΔROA_{t-1}	0.043***
	(0.009)
$\Delta Leverage_{t-1}$	-0.021
	(0.013)
$\Delta Risk_{t-1}$	0.000
	(0.024)
$\Delta R\&D_{t-1}$	-0.850***
	(0.222)
$\Delta Cash_{t-1}$	0.001
	(0.003)
$\Delta Size_{t-1}$	-0.000
	(0.002)
$\Delta Inst.Own._{t-1}$	0.007
	(0.021)
ΔGDP_{t-1}	0.000
	(0.006)
ΔCPI_{t-1}	-0.002
	(0.004)
Constant	0.014***
	(0.001)
Observations	15,595
Adjusted R-squared	0.069
Industry FE	YES
Year FE	YES

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Chapter 3 : "Legal Heritage and Corporate Social Responsibility

3.1 Introduction

Firms are increasingly allocating more of their discretionary resources to the company's corporate social responsibility (hereafter CSR) investments since it has become a core element of responsibility for businesses (Kitzmueller and Shimshack 2012; McKinsey and Co 2021). Over the past decades, the rising interest in CSR is evidenced by an increase in the proportion of S&P 500 firms that published ESG reports from merely 20% in 2011 to 92% in 2020 (to 70% of the Russell 1000 firms).[15][16] Given this significant increase in CSR investments by publicly listed U.S. firms, it is important to understand the motivation behind it.

The academic discourse emphasizes that executives at the top of the organizational hierarchy hold a crucial position in determining CSR initiatives. Consequently, a substantial volume of scholarly works has explored elements influencing their CSR decision-making. Both governmental bodies and publicly traded corporations, being organizations, are influenced by the societal milieu in the regions they conduct their operations. The literature shows that managers are influenced by the prevailing norms and values of the region they operate; the norms prevalent in the vicinity of a firm's headquarters serve as a proxy for the norms firms' managers adhere to (Hilary and Hui 2009; Jha and Cox 2015; Hasan et al. 2017; Gatchev et al. 2018; Hasan et al. 2020).). For example, Hilary and Hui (2009) demonstrate that firms based in regions with strong religious affiliations tend to make less risky decisions. Furthermore, the literature shows that firms headquartered in U.S. counties characterized by higher social capital experience lower bank loan spreads (Hasan et al. 2017), and these firms have higher innovation, as proxied by patent counts and citations (Hasan et al. 2020). Similarly, Gatchev et al. (2018) analyze the influence of legal heritage on management-friendly provisions in their corporate bylaws. They note that U.S. firms situated in regions where most residents have ancestry from countries with a common law legal system tend to adopt corporate bylaws that prioritize management, indicating a lower concern about potential misconduct by corporate insiders.

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[15] 2021 Sustainability Reporting In Focus (ga-institute.com).

[16] Interest in CSR also extends to investors. According to a report in 2022, ESG fund assets have increased to $2.84 trillion by the end of the first quarter of 2022, up from $1.65 trillion in December 2020 . Available at: https://www.morningstar.com/lp/global-esg-flows

In this strand of literature, some studies have analyzed the impact of a firm's regional headquarters on CSR, particularly. For instance, Jha and Cox (2015) find that firms located in regions characterized by a high degree of social capital tend to exhibit higher CSR performance compared to other firms operating in regions with a low degree of social capital. Additionally, Di Giuli and Kostovetsky (2014) argue that firms headquartered in states leaning towards Democratic political affiliations tend to score higher on CSR metrics as opposed to those in Republic-leaning states.

The central contention in these studies, drawing from insights in psychology literature on employees, is that when managers reside in close proximity to the firm's headquarters, their cultural inclinations are significantly aligned with the prevailing culture of the region. This is motivated by the social identity theory, which posits that an individual's characteristics are shaped by factors such as their nationality, ethnicity, religion, as well as social group membership (Tajfel 1981; Hogg and Abrams 1988). An important notion is that the literature contends that cultural values are deeply ingrained and evolve slowly (Glazer and Moynihan 1963). For instance, a vast number of studies have demonstrated that the descendants of immigrants exhibit a degree of cultural distinctiveness persisting across several generations (e.g. Guiso, Sapienza, and Zingales 2006; Fernandez and Fogli 2009; Giavazzi et al. 2019). Norms, values, and characteristics prevalent within social groups are internalized by individuals to adhere to the communal norms and expectations of their respective groups.

This notion is also extended to organizations, as they are required to conform to the group's norms, values, and characteristics, as regional cultural norms and values will shift within local firms (Hilary and Hui 2009). For example, Schneider (1987) suggests that "attraction to an organization, selection by it, and attrition from it yield particular kinds of persons in an organization. These people determine organizational behavior". This builds upon the earlier work of Vroom (1966), who observed that individuals tend to select organizations they believe will be most effective in helping them obtain their desired goals. Additionally, Holland (1976) noted that individuals select career environments that align with their characteristics, hence organizations tend to exhibit a degree of social homogeneity. Consequently, it is expected that the organizational behavior mirrors the prevailing local environment of the corporation.

Given that individuals with similar norms and values tend to cluster in specific regions, it follows that firms located in these areas will likely employ a higher proportion of individuals with comparable norms across various levels of the corporation. This is particularly because deviating from the general norms and values can be costly (Akerlof 2007). Consequently,

managers conform to the dominant values of people's surroundings in the region because they feel morally obliged to (Schneider et al. 1995; Eigen 2012). As such, firms headquartered in regions that have a strong preference for social responsibility are driven to allocate resources to exhibit improved social performance.

Furthermore, drawing on North's (1994, p.360) perspective, institutions "are made up of formal constraints (e.g., rules, laws, and constitutions) and informal constraints (e.g., norms of behavior, self-imposed codes of conduct), and their enforcement characteristics". Since investing in CSR initiatives is generally voluntary in the U.S., there is an absence of sanctions for not being proactive in terms of the implementation of CSR policies and initiatives. While certain regulations exist that address issues like pollution, workplace safety, or consumer protection (Hess 2001), it is important to note that all firms in the U.S. are subject to the same legal framework. Consequently, this study seeks to explore how informal, non-legal social institutions may foster a focus on stakeholder-oriented activities within organizations.

This paper introduces a novel method for identifying why some firms have a higher preference for CSR compared to other firms within the U.S., using the concept of "legal heritage". Legal heritage refers to the connection between a person's ancestry and the legal system that is associated with it. For instance, a person of British descent is linked to English common law, French ancestry to French civil law, German ancestry to German civil law, and Norwegian ancestry to Scandinavian civil law (Engstrand 1993; Gatchev et al. 2018). Although every individual and organization in the U.S. is binding to the common law legal system, legal heritage itself is not considered a direct measure of the legal system but rather a proxy for the cultural traits associated with a particular legal origin system.

The distinct historical origins of civil and common legal systems have resulted in significant disparities in firms' decision-making processes and their subsequent activities. For instance, Pastor (2006) argues that civil law countries adopt a stakeholder-oriented approach to corporate decision-making, while common law countries emphasize the maximization of shareholder value. In alignment with this perspective, Liang and Renneboog (2017) underscore the significance of legal norms in CSR performance. A large body of literature argues that attributes linked to civil law are more inclined towards prioritizing stakeholders' interests rather than shareholder interests (La Porta et al. 2008; Liang and Renneboog 2017). Conversely, civil law legal traditions place greater emphasis on meeting the demands and interests of various stakeholders, extending beyond shareholders (La Porta, López-de-Silanes, and Shleifer 2008; Allen, Carletti, and Marquez 2015; Magill, Quinzii, and Rochet 2015; Pistor 2006). An

important presumption in this notion is that civil law legal traditions, in contrast to common law, emphasize the rights of the state compared to private property rights (La Porta et al. 1999). Civil law is associated with more government intervention in the market through stricter regulations and restrictions that protect the interests of various stakeholders (Botero et al. 2004; Djankov et al. 2008; La Porta et al. 2008). Countries with a civil law tradition generally also have stronger unions, stricter regulations regarding dismissals, or better bargaining positions, as well as consumer protection laws that address the interests of various stakeholders (Botero et al. 2004; Djankov et al. 2008; La Porta, López-de-Silanes, and Shleifer 2008). Existing literature provides clear evidence that firms located in civil law countries adopt a governance framework that prioritizes the interests of various stakeholders (Ekelenburg 2016; Liang and Renneboog 2017). Consequently, people from civil law countries tend to align with the stakeholder-oriented ideology, placing more value on activities that benefit a wide range of stakeholder groups. Another contribution to a more CSR-friendly orientation is that in civil law legal origin, the risk of shareholder litigation against management is lower, hence firms can go beyond regulatory requirements to meet stakeholders' demand (Enriques 2004; Cheffins and Black 2006; La Porta, López-de-Silanes, and Shleifer 2008; Issacharoff and Miller 2009; Cox and Thomas 2009; Gelter 2012). Consequently, when firms are not pressured into short-term shareholder pressure, through corporate bylaws such as those in common law legal traditions, corporations can invest more in CSR activities, which are often long-term oriented (Cremers and Sepe 2016). Notably, the level of CSR in a country reflects consumers' and other citizens' preferences for corporations to exhibit altruistic behavior (Benabou and Tirole 2006; 2010). Therefore, the more stakeholder-orientation in civil law legal origin may signify a more pronounced preference for CSR. Bénabou and Tirole (2010) argue that, in this vein, firms in counties with a higher proportion of civil law legal heritage tend to cater to the demand of multiple stakeholders in response to the preference of local residents.

On the other hand, the common law legal system is associated with more private market outcomes with the underlying assumption that maximizing shareholder wealth in perfect markets will also benefit other stakeholders, such as employees and customers (Magill et al. 2015). In this view, the common law is linked to shareholder-oriented attributes (Enriques 2004; La Porta et al. 2008; Gelter 2012). The idea is that CSR is perceived as an unnecessary expenditure within this short-term profit orientation. As a result, individuals with ancestry from civil law (common law) countries likely have a stronger (weaker) preference for CSR.

The earlier points imply that a legal system rooted in civil law nurtures an environment focused on stakeholders, ultimately promoting CSR efforts. We can state the corresponding testable hypothesized relationship as follows:

H1. Firms headquartered in counties with majority of residents trace their ancestry to civil law countries are likely to have higher CSR performance.

To empirically examine the effects of legal heritage on firms' CSR performance, we first obtain information about the location(county) of a firm's headquarters. Following Gatchev et al. (2018), we measure legal heritage by obtaining data from the U.S. Census to determine the ancestry of respondents and link them to one of four major legal origins based on their ancestral country of origin. We then calculate a legal heritage index for each U.S. county by determining the proportion of the population linked to each of the four legal origins. We then use the CSR scores of the MSCI ESG Stats database as our proxy for the CSR performance.

Based on a sample of 17,855 firm-year observations for 2,699 unique firms during 1998-2018, we find that consistent with our main hypothesis, U.S. firms headquartered in counties with a majority of residents having ancestry linked to civil law countries are associated with higher CSR strength and lower CSR concerns, after controlling for firm characteristics and county-level variables. Additional tests reveal that the increased CSR strength performance is driven primarily by the employee, diversity, product, and community sub-scores, not the other sub-category (human rights). Meanwhile, the reduction in CSR concerns is related to policies addressing the environment, diversity, and community.

The relationship between legal heritage and Corporate Social Responsibility (CSR) may raise endogeneity concerns, such as the possibility of immigrants from common law countries residing in counties characterized by certain shareholder-focused attributes or socially responsible firms choosing to headquarter in high civil law counties. To address these concerns, two tests were conducted.

First, we use instrumental-variable two-stage regression analysis to address both reverse causality and omitted variable bias at the same time. Using immigration from England in the 19th century as an instrument for common law legal heritage, we find that CSR is negatively associated with common law legal heritage. Second, we use propensity score matching, a nonparametric method, to analyze the link between CSR and civil law legal heritage. We continue to find a positive association between CSR and civil law legal heritage, further indicating that the findings are unlikely to be purely driven by endogeneity.

Additionally, we employ a quasi-experiment that examines corporate headquarters relocation events' effect on the increase in civil law legal heritage. Conducting a difference-in-differences analysis, we empirically compare the changes in CSR over time among firms that relocated to counties with higher levels of civil law legal heritage to those that did not. The findings indicate that firms with an increasing civil law legal heritage after relocation have improved CSR performance.

Finally, additional analysis reveals that the impact of legal heritage on CSR is more pronounced for firms in low-polluting industries. As defined by Flammer and Kacperczyk (2016) and the U.S. Environmental Protection Agency (2017), seven industry sectors that are responsible for 89% of the Toxics Release Inventory (TRI) chemicals are considered "polluting" industries. Our findings show that civil law legal heritage does not significantly affect firms operating in polluting industries, but it does have a positive and significant effect on those in non-polluting industries.

Our paper makes the following significant contributions to the existing literature. First, our research expands upon the current understanding of how a firm's geographical locations affect the firms' CSR performance. For example, Liang and Renneboog (2017) use a cross-country sample and suggest that legal origin is a key determinant in firms' decision to engage in CSR. Similarly, Cai (2016) documents that economic development, law, and culture explain cross-country variation in CSR. Recent research documents that within-country variation in market characteristics also plays a vital role. For example, in the United States, studies show that a firm located in a high social capital county (Jha and Cox 2015) and Democratic rather than Republican-leaning states (Di Giuli and Kostovetsky 2014) is associated with higher CSR performance. Their results suggest that the altruistic inclinations of the region also determine a firm's CSR performance. Our findings extend this line of inquiry further by uncovering how legal heritage affects CSR performance: firms headquartered in counties with residents tracing their ancestors to civil law countries exhibit higher CSR performance.

Second, our study contributes to the literature that suggests that managers make decisions that align with their ideologies, such as the political values of the region where their firms are located (Graff Zivin and Small 2005) or the altruism in the region as measured by social capital (Jha and Cox 2015). Our results indicate that legal heritage, as a measure of cultural characteristics, also affects a firm's CSR performance.

Third, our study makes a significant contribution to the growing body of research that examines the implications of legal origin on various economic outcomes. Notable examples in this realm include the impact of legal origin on investor protection (Doidge et al. 2007), the

number of equity offerings following the cross-listing (Reese and Weisbach 2002), cross-firm and cross-industry capital allocation (Wurgler 2000; Beck and Levine 2002), and financial fragility (Johnson et al. 2000), among others. Moreover, Liang and Renneboog (2017) provide crucial empirical evidence on the impact of legal origin on CSR performance, affirming that a country's legal heritage is a key determinant on a firm's CSR practices. Using international data, the findings of their study highlights that the extent of CSR engagement reflects the societal demand for CSR, primarily influenced by the legal origin of a given country. Specifically, their findings establish that firms headquartered in countries with a civil law legal origin tend to exhibit a higher CSR performance compared to those located in countries with a common law legal origin. This in turn, prompts further inquiry into how the distinct characteristics associated with civil law and common law legal origins serve as determinants of CSR practices from a legal heritage perspective. Therefore, our study complements the study by Liang and Renneboog (2017) by underlining that legal heritage, a construct measuring the cultural attributes linked to legal origin, significantly impacts the social demand that underlies a firm's decision to engage in stakeholder-friendly initiatives.

The paper proceeds as follows. Section 1 provides the theoretical foundations for the relationship between legal heritage and CSR. Section 2 details the data sources, variable construction, and empirical methodology. Section 3 presents the empirical results of our baseline tests, robustness checks, endogeneity tests, and further subsample analysis. Finally, section 4 concludes.

3.2 Data and Sample Selection

3.2.1   Data Sources

Our initial sample consists of all firms with available data from six different sources, including accounting variables from Compustat, stock return data from CRSP and institutional stock holdings from the Thomson Reuters 13F database. Moreover, we obtain our CSR data from the MSCI ESG stats database (formerly known as the Kinder, Lydenberg, and Domini, or KLD, database), the legal heritage data from IPUMS U.S. Census 2000 and the legal origin data from La Porta et al. (1997). Following Fama and French (2001), Bardos et al. (2020) and Hasan et al. (2020), we exclude firms in financial industries (Standard Industrial Classification (SIC) codes 6000-6999) and regulated utilities industries (SIC codes 4900-4949) since these industries are highly regulated. We drop firms with missing values on their headquarters address in Compustat and missing values on key variables. Our final sample consists of 17,855

firm-year observations (2,699 unique firms) from 1998 to 2018. We winsorize all continuous variables at the upper and lower 1% of the sample distribution.

3.2.1 Measuring CSR

The measurement of CSR scores; CSR strength, CSR concern, and Net CSR, were previously discussed in more detail in **Section 2.2.2.** Following the existing literature, we ignore corporate governance CSR area (e.g., El Ghoul et al. 2011; Cronqvist and Yu 2017; Hedge and Mishra 2019).

3.2.2 Measuring Legal Heritage

We construct our explanatory variable, legal heritage, based on the U.S. Census 2000 information on residents' ancestry, i.e., the respondent's self-reported ancestry or ethnic origin. The responses to the ancestry information can then be aggregated at the county level, allowing researchers to obtain estimates of the proportion of different ancestries per county. There were respondents with ancestries that could not be identified. They did not answer, for example the question regarding their ancestry or had given responses that can not be linked to a specific country since they refer to a country group, e.g., Scandinavia, or to an ethnic group that is spread over several countries, e.g., Berber.

Following Gatchev et al. (2018), we link every respondent ancestry to one of the four major legal origins associated with the country. For example, a person with British heritage is linked to English common law, French heritage is linked to French civil law, Norwegian heritage is linked to Scandinavian civil law, German heritage is linked to German civil law, and so on. Following prior literature (e.g., Gatchev et al. 2018), we measure civil law legal heritage for each county by calculating the sum of the proportion of the population associated with the three civil law legal origins.[17] Then we measure common law legal heritage for each county by calculating the sum of the proportion of the population associated with the common law legal origins.

3.2.3 Constructing the Control Variables

In line with prior literature (Levine et al. 2018; Dai et al. 2021), we incorporate the same set of firm control variables, including firm size, return on assets, leverage, R&D expenditure, and cash holdings using Compustat data. These control variables were previously discussed in more detail in **Section 2.2.4.**

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[17] We categorize the legal systems around the world into English common law, French civil law, German civil law, and Scandinavian civil law following La Porta et al. (1997). For convenience, we report the list of countries in Appendix 3.2

We furthermore control for county-level characteristics as the firm's location influences firm behavior. Moreover, the county-level control variables, such as income level, population size and educational level, can be correlated with cross-county variation in firm performance (Alesina and La Ferrara 2000; Hasan et al. 2020). Accordingly, we control for the aforementioned county-level factors to isolate the effects of income and education inequality as well as variation in population size. Following Gatchev et al. (2018), we obtain information on the county-control variable from IPUMS U.S. Census 2000. County education (County Education) is the proportion of residents in each county with a college education degree. County population (County Population) is measured as the log of the number of residents per county. County income (County Income) is calculated as the log of the average household income. Lastly, we include industry and year fixed effects in the models to isolate the influences of unknown omitted factors across industries and years (Audretsch and Feldman 1996). All firm-level and county-level variables are winsorized at the 1% and 99% levels to reduce the impact of outliers.

3.2.4   Our Empirical Methodology

To test whether legal heritage drives firm CSR, we estimate the following regression:

$$CSR_{it} = \alpha_0 + \beta_1 CivilLH_{i,t} + \gamma Controls_{i,t} + Industry\ FE + YearIFE + \varepsilon_{i,t} \quad (1)$$

where $CSR_{i,t}$ proxies for three CSR variables: CSR strength (CSR Strength), CSR concern (CSR Concern) and overall CSR performance (Net_CSR) of firm i in year t constructed using data from the MSCI KLD as defined in section 3.2. $CivilLH_{i,t}$ is a proxy for the proportion of civil law legal heritage for firm i in year t as described in section 3.3. $Controls_{i,t}$ is a vector of lagged firm-specific control variables (i.e., Size, ROA, Leverage, Risk, R&D, Cash, and Inst.Own) and county-specific control variables (i.e., county population size, county education, county income). α_0, β_1, and are the (vectors of) parameters to be estimated. We include year and industry fixed effects in the model to control for any unobserved, time- and industry-invariant factors that may influence firm i's CSR. Standard errors are clustered at the firm and state levels.

3.3 Empirical results

3.3.1   Spatial distribution of U.S. population legal heritage

Figure 1 presents the spatial distribution of the U.S. population declaring American (Including Native American and African American) ancestry, as well as English, French, German and

Scandinavian legal heritage across U.S. counties using our data, in which a darker shade represents a higher proportion of the variable. The figure shows that there is significant dispersion in legal heritage across U.S. counties and U.S. states.

Insert Figure 3.1 about here

3.3.2 Summary and Descriptive statistics

Table 3.1 lists the proportion of the U.S. population with English, French, German and Scandinavian legal heritage by state in our sample. Among the states, New Hampshire and Utah have the highest proportion of English legal heritage, making up almost half of the legal heritage (48.5%), while the state of Hawaii has the lowest proportion of people with ancestry tracing back to the English legal heritage (8.9%). The states with the largest fraction of their population originating from French law countries are Rhode Island (50.1%), New Mexico (42%) and California (41.6%), while the states with the smallest French law countries reside in North Dakota (4.9%) and Kentucky (8.5%). Immigrants from German law countries are most likely to reside in Wisconsin (40.1%), North Dakota (36.5%) and Hawaii (32.2%) and least likely to reside in Rhode Island (3.3%), Massachusetts (4.3%) and Maine (4.8%). Finally, immigrants originating from countries with Scandinavian law countries are most represented in the state of North Dakota (39.8%) and Minnesota (22.6%) and least likely to reside in Alabama (0.8%) and Louisiana (0.7%)

Insert Table 3.1 about here

Table 3.2 reports the sample size and the average CSR strength (CSR Strength), CSR concern (CSR Concern) and overall CSR performance (Net_CSR) by year over the sample period. The base sample contains 17,855 firm-year observations. The sample size before 2003 is limited because up to 2001, the MSCI ESG merely covered 650 companies that comprise the Domini 400 Social SM Index and S&P 500. In 2003, the database added all firms listed on the Russell 3000. The sample size is roughly equally distributed between the period 2003-2018. In 2018, CSR strength peaked at a value of 0.947. Such a high value might be derived from that year's intensive reporting of socially responsible firms. Throughout the sample years, the sample size increases significantly from the year 2003. The average CSR strength reached its lowest of 0.144 in 2003, steadily increasing over the years.

Similarly, CSR concern also increased significantly until 2010, when it reached its peak value of 0.552. Nevertheless, CSR concerns plummeted in 2012, which could be argued by the ability of firms to recover from the financial crisis and spend more resources on reducing their harmful activities. This is also reflected in the overall CSR performance during the financial

crisis, which reached its lowest value of -0.195, whereas it reached its highest value of 0.868 in 2018.

Table 3.2 further reports the CSR strength (CSR Strength) for firms in areas where the population has above median, measured by year, English, French, German, and Scandinavian legal heritage. The average CSR strength performance across counties with above-median English legal heritage is lower than the mean in the overall CSR strength performance. For example, in 2007, the average CSR strength in our sample was 0.212 compared to the average CSR strength of 0.170 for firms located in counties with a higher proportion of residents with English legal heritage.

On the other hand, the CSR strength of firms located in counties with a larger percentage of residents with French and Scandinavian legal heritage exceeds the average CSR strength performance across all counties. For instance, in 2007, firms situated in areas with more French residents and Scandinavian residents had a CSR strength of 0.226 and 0.228, respectively. Finally, in our sample, the mean CSR performance is comparable to that of firms based in counties where a larger percentage of the population has German legal heritage. For instance, in 2007, the CSR strength was 0.212, consistent with the overall sample.

Insert Table 3.2 about here

The descriptive statistics of the 2,699 U.S. listed firms in the sample are reported in Table 3.3. Looking at the measures of CSR performance, our outcome variable in this chapter, we find that in Panel A, the firms in our sample have a positive overall CSR performance of 0.07 since the firms engage more in CSR strength activities (0.348) compared to activities that affect their CSR concerns (0.276). The sample's CSR performance is much higher than Jha and Cox's (2015), with a mean of a net CSR performance of -0.198. The higher CSR performance in our sample is not surprising, given that their sample includes observations from 1995 to 2009. Similarly, the average CSR performance in our sample up to 2009 is -0.195, and the performance has improved since then and our data cover the period up to 2018. Our results are also similar to Ge and Liu (2015) with a mean overall CSR performance of 0.05 compared to 0.07 in our sample.

In Panel B, we see that the firms in our sample are headquartered in U.S. counties have , on average, approximately 47% of their population with legal heritage linked to civil law and 22.7% with legal heritage linked to common law. These results are consistent with those reported by Gatchev et al. (2018). The descriptive statistics of the firm characteristics in Panel

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C and county control variables in Panel D are also similar to those in other studies (e.g., Hasan et al. 2020; Jha and Cox 2015; Hoi et al. 2019).

The Pearson correlations are reported in Panel E of Table 3.3. We find that Legal heritage is significantly and positive correlated with CSR strength and negatively with CSR concern, which provides preliminary evidence to support our hypothesis.

<center>Insert Table 3.3 about here</center>

3.3.3 Baseline results

Table 3.4 reports the ordinary least squares (OLS) regressions testing the validity of our hypothesis on the impact of civil law legal heritage on CSR performance. The standard errors are clustered two-way by firm and state. Moreover, we control for industry-year fixed effects to mitigate the concern that time-varying industry-specific factors drive our results (e.g., Heider and Ljungqvist 2015; Hasan et al. 2020). Regressions 1 and 2 show the results using CSR strength (*CSR Strength*) as the dependent variable for the OLS regression after controlling for the core and full set of control variables, respectively. Concerning the economic magnitude, a one-standard-deviation increase (11.6 percentage points) in *civil legal heritage* is expected to increase CSR Strength by 3.90 (=0.336 x 0.116) percentage points in regression (2), which corresponds to an 11.2% increase in the *CSR Strength*, given a sample mean of 0.348 for *CSR Strength*.

The coefficients on *CivilLH* are positive and significant at the 1% level. Regressions 3 and 4 show the results using CSR concern (*CSR Concern)* as the dependent variable for the OLS regression after controlling for the core and full set of control variables, respectively. The coefficients on *CivilLH* are negative and significant at the 1% level when controlling for the full set of control variables. A one-standard-deviation increase (11.6 percentage points) in *civil legal heritage* is expected to reduce CSR Concern by 1.94 (=-0.167 x 0.116) percentage points in regression (4), which corresponds to a 7.03% decrease in the *CSR Concern*, given a sample mean of 0.276 for *CSR Concern*. Finally, regressions 5 and 6 use CSR overall performance (*Net_CSR*) as the dependent variable for the OLS regression after controlling for the core and full set of control variables, respectively. The coefficients on *CivilLH* are positive and significant at the 1% level.

Overall, these findings indicate that on average, firms headquartered in regions with immigrants originating from civil law countries have significantly higher CSR strength, lower CSR concern, and a higher overall CSR performance. Consistent with our hypothesis, our results indicate that firms located in higher *Civil legal heritage* counties exhibit better CSR

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performance. This is in line with the argument that individuals with ancestry linked to civil law countries likely have a stronger preference for CSR compared to those linked to common law countries (La Porta et al. 2008; Allen et al. 2015; Magill et al. 2015) and these regional cultural norms shift within local firms (Scott 1995; Hilary and Hui 2009).

Insert Table 3.4 about here

Table 3.5 presents the estimates on the link between the proxies for legal *Civil legal heritage* and the six individual components of CSR: *Environment strength* and *concern* (Regressions (1) and (2)), *Employee strength* and *concern* (Regressions (3) and (4)), *Diversity strength* and *concern* (Regressions (5) and (6)), *Community strength* and *concern* (Regressions (7) and (8)), *Human Rights strength* and *concern* (Regressions (9) and (10)), *Product strength* and *concern* (Regressions (11) and (12)). These analyses shed light on what type of CSR is driven most by legal heritage, hence we analyze the various CSR components separately.

The results imply that the increased CSR strength performance stems from adopting policies favoring *environment, employee, diversity, community, and product.* The coefficients of *Civil legal heritage* are positive and highly significant for all the CSR strength components except for *human rights*. This is in line with the findings of prior studies (Hafsi and Turgut 2013; Chin et al. 2013). It might be related to human rights issues focusing on aspects such as Indigeno's peoples' relations, which only applies to overseas firms.

On the other hand, the coefficients of *Civil legal heritage* are negative and significant for *Environment, Diversity, and Community concerns*. This implies that the firm reduces activities that cause harm to the environment, diversity, and community, such as reducing hazardous waste, not making investments in controversies or diminishing non-representation in the workplace. These three areas of CSR capture the firm's actions toward the community and the wider part of society (Bartkus and Glassman 2007; Hillman and Keim 2001). This is in line with our hypothesis that characteristics associated with civil law legal heritage are linked to meeting stakeholders' demands. Hence, concerns in these aspects are reduced to benefit the wider community.

Insert Table 3.5 about here

3.3.4 Robustness to Alternative Control variables

In this section, we examine the robustness of our findings to alternative measures of CSR performance and additional independent variables. First, despite that most studies in the CSR

literature do not consider the corporate governance element, a few studies do incorporate it (e.g., Deng et al. 2013; Dutordoir et al. 2018). To ensure the reliability and validity of the findings, we include this aspect as a robustness test in columns (1) and (2) of Table 3.6. To show that our results are largely unchanged, we conduct the empirical test in columns 1 and 2 of Table 3.6 using the measure of CSR performance, including the corporate governance aspect. We find that the impact of Civil law legal heritage on CSR strength remains significant at the 1% level, while it becomes significant at the 5% level on CSR concern.

Second, following the prior literature (e.g., Cronqvist and Yu 2017; Hedge and Mishra 2019), we construct the CSR score by aggregating the scores within each CSR component without adjusting for the changing numbers of strength and concern over time and across firms. Thus, each CSR strength adds +1 to the score of CSR strength, and each CSR concern adds +1 to the CSR Concern. The results in columns (3) and (4) show that our results are similar again.

Finally, column (5) and (6) examines if our results are sensitive to controlling for alternative measures of firm performance. These measures include the firm's return on equity (ROE), Tobin's Q, and the market-to-book value ratio (MB). We find that our results remain intact.

Insert Table 3.6 about here

3.3.5 Endogeneity

While our results thus far suggest that firms with higher *Civil law legal heritage* exhibit higher CSR strength, lower CSR concern, and a higher overall CSR performance, these findings may be subject to endogeneity concerns. In this paper, potential endogeneity may arise from omitted variables, a selection bias, or reverse causality. The effect of omitted unobservable variables is considered and adjusted for using industry and year fixed effects when analyzing the link between *Civil legal heritage* and *CSR performance*.[18] To address the endogeneity issue further, we use the following approaches.

3.3.5.1   Instrumental variable approach

A potential endogeneity concern is that lower CSR performance is not a result of firms operating in regions with higher common law legal heritage, rather immigrants from common law countries choose to live in areas with specific shareholder-focused attributes. We employ

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[18] As the measure of civil legal heritage is constant across time, we do not include firm fixed effects as this will eliminate any within firm variation.

an instrumental variable technique to further validate the findings (Barton and Waymire 2004; Jha and Cox 2015; Hasan et al. 2017; 2020). This approach helps address potential reverse causality as well as omitted variable bias in the OLS simultaneously (Wooldridge 2002). Gatchev et al. (2018) argue that common law legal heritage (*CommonLH)* can be instrumented using immigration from England at the turn of the 19th-century relative to all county immigrants. The instrument will be exogenous to future CSR engagements.

The second IV (Instrumental Variable) is the industry common law legal heritage (Peer Common Law LH), which is less likely to be determined by firm-level covariates. Following the approach of El Ghoul et al. (2016) and Jha and Cox (2015), we use the industry's average Common Law Legal heritage as an instrument. The first-stage regression is specified as follows:

$$CommonLH_{it} = \beta_0 + \beta_1 \, IV_{i,t-1} + \gamma Controls_{i,t-1} + Industry \; FE + \; Year \; FE + \; \varepsilon_{i,t} \quad (2)$$

Where $IV_{i,t-1}$ denotes the two instrumental variables used, *Immigration from England at the turn of the 19th Century* and *Peer Common Law Legal Heritage*. The same set of baseline controls and fixed effects are included in the model.

In the second-stage regression, firm CSR is regressed on the predicted values of common law legal heritage ($\widehat{CommonLH}_{i,t}$) from the first-stage regression along with the same set of firm and county controls and fixed effects from the first-stage regression. Under the two-stage approach, the predicted values of *CommonLH* from the first-stage regression would be uncorrelated with the error terms of the second-stage regression, and, thus, the estimated coefficients are consistent. The second-stage regressions are shown below:

$$CSR_{it} = \beta_0 + \beta_1 \widehat{CommonLH}_{it} + \gamma Controls_{i,t-1} + Industry \; FE + \; Year \; FE + \; \varepsilon_{I,t} \quad (3)$$

Table 3.7 reports the estimation results.[19] Results from the first-stage regression (Regression (1) and (3)) confirm that the instrument is relevant, as shown by their positive and significant coefficient estimates. It shows that higher immigration from England in the 19th century led to a higher Common law legal heritage in the 20th century. Results from the second-stage regression (Regression (2) and (4)) show that the coefficient of *CommonLH* is negative and significant at the 5% level and 10% level, respectively. This result further supports that the

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[19] Both the Sargan test and the Craig Donald Wald F-test were conducted. These test results indicated that the Sargan test of over-identifying restrictions did not pass, indicating that the instruments (Immigration from England and Peer common law legal hertiage) are weak and endogenous. Despite the theoretical justification for using these instruments, none of the instruments pass the weak instrument identification tests.

legal heritage of the firm's headquarters affects its CSR. Moreover, these results also suggest that endogeneity is unlikely to drive our findings fully.

<center>Insert Table 3.7 about here</center>

3.3.5.2   Propensity score-matching results

An important note is that CSR performance and counties' legal heritage could be affected by an unobserved variable that is not firm, county or industry specific. Moreover, if the firm's headquarter location decision is endogenous, then this would apply to legal heritage. These endogeneity issues could affect the link between CSR and legal heritage. Therefore, we use the propensity score-matching technique to reduce these concerns. This method allows us to cautiously match the treatment and control groups based on several firm and county variables, aside from year and industry, to reduce endogeneity and selection bias that may emerge from observable characteristics.

Using our sample dataset spanning from 1998 to 2018, we conduct variable ranking on an annual basis by utilizing the data for each respective year. Thereafter, we classify the firm-years falling in the top quartile as our treatment group and those falling in the bottom quartile as the control group. The treatment variable, denoted as *High Civil LH=1,* represents firms that have their headquarters in counties falling within the top quartile for that year. Conversely, the control group, denoted as *High Civil LH=0,* pertains to the matching sample if a firm's headquarters is located in a county that falls within the bottom quartile for the corresponding year. This generates 4,762 firm-year observations for treatments (*High CivilLH=1*) and 4,285 firm-years for controls (*High CivilLH=0).* We run a Logit regression model to generate the propensity score using *High CivilLH* as the dependent variable. The independent variables include all variables as specified in the baseline model except the year and industry dummies.

We then match, without replacement, each treatment in a given year (*High CivilLH=1*) with a unique control in that same year (*High CivilLH=0*) using the closest propensity score. We use a caliper of 0.2%, similar to the study by Neupane et al. (2017), to find the closest match. This procedure gives us 1,011 matched pairs of treatment-control firms.

We conduct two diagnostic tests to check whether the treated and untreated firms are indistinguishable in terms of firm and county characteristics, such as firm size, leverage, risk, and county income. These tests confirm the quality of the match for the treated and untreated firms. In the first test, we estimate a logit regression to predict the probability that firms are located in counties with a civil law legal heritage ranking in the top quartile. The dependent

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variables in the logit regressions reported in columns 1 and 2 is Civil law legal heritage (*CivilLH*). *High CivilLH* dummy takes a value of one if the firm ranks at the top quartile in a given year and zero if the civil law legal heritage for a firm in a given year ranks at the bottom quartile. In the pre-match logit regression in Table 3.8 in Panel A, the results (column 1) indicate a negative relationship between firm size and leverage, significant at the 1% level. This shows that larger or highly levered firms are less likely to be in areas with civil law legal heritage ranking in the top quartile. The post-match results in column 2 show that previously significant firm size and leverage results disappear, and all firm characteristics are now insignificant. The results suggest that between the treated (firms located in areas ranking in the top quartile) and the untreated (firms located in areas ranking in the bottom quartile), there is no significant difference in observable firm and county characteristics which confirms the quality of the match for civil law legal heritage.

In the second diagnostic test, we employ t-tests on the matched samples to test the mean difference in firm and county characteristics between the treated and untreated firms, consistent with Chen et al. (2018). Panel B compares firm and county control variables across the treatment sample (*High CivilLH=1*) and control sample (*High CivilLH=0*) and shows a significant difference between CivilLH, but no significant difference in any of the other variables across both samples.

To sum up, these results suggest that the matching is appropriate and the OLS re-estimated on the matched sample will reflect the treatment effect (i.e., the effect of firms located in areas with civil law legal heritage ranked in the top quartile on CSR performance) which mitigates endogeneity concerns. Accordingly, we re-estimate the OLS on the matched samples for the impact of high civil law legal heritage on CSR performance in Panel C of Table 3.8, which shows that High CivilLH remains positive and significant at the 1% level.

<div align="center">Insert Table 3.8 about here</div>

3.3.6   Evidence from corporate Relocations

This section empirically analyses corporate headquarters relocations' impact on the link between time-variation in CSR and time-variation in civil law legal heritage. Using a difference-in-differences design, we compare firms that relocated to a county with a higher proportion of residents with civil law legal heritage than their original county against firms that either did not relocate or relocated to a county with a lower proportion of residents with civil

law legal heritage.[20] We identify relocation events when 10-k filings of a firm have different corporate headquarter zip codes in two consecutive years. All sample firms must have at least one year of data available in the pre-and post-relocation times to obtain at least one observation in each event window. Finally, we exclude firms with multiple relocations to prevent confounding event windows.

After accounting for all the above factors, the final sample is 338 unique firms with a single relocation to a county with a higher civil law legal heritage and 1,731 firms without relocation or relocation to a county with a lower civil law legal heritage. For these 338 firms, we extract the firm-year level data from our full sample used in the baseline regressions. We obtain a final testing sample of 6,488 firm-year observations.

Panel A in Table 3.9 shows the pre-match and post-match logit regressions results for firms relocating to counties with high civil law legal heritage. Comparing the pre-match and post-match logit regression is the first diagnostic test to check the quality of matching. Coefficients and robust t-statistics are reported for the logit regressions in Panel A. The dependent variables in the logit regressions reported in columns 1 and 2 is relocation to a county with higher civil law legal heritage.

In the first test, we estimate a logit regression predicting firms' probability of relocating to a county with higher civil law legal heritage. In the pre-match logit regression in Panel A, the results (column 1) indicate a positive relationship between relocation to a county with higher civil law legal heritage and firm size, risk, institutional ownership and counties' education level, significant at the 1% level. This indicates that firms with large size, high risk, or high institutional ownership are more likely to relocate to counties with higher civil law legal heritage. In column 2 post-match, the results show that previously significant results for firm size, risk, institutional ownership and counties education level disappear, and all firm and county characteristics are now insignificant. This implies that between the treated (firms relocating to higher civil law counties) and the untreated (firms relocating to lower civil law counties or not relocating), there is no significant difference in observable firm and county characteristics which confirms the quality of the match for civil law legal heritage.

Next, we use a difference-in-differences design to examine how over time changes in legal heritage affect CSR performance. We modify the baseline regression models as follows. We replace the *Civil Legal Heritage* variable with *Post, Increasing relocation*, and their interaction

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[20] As a robustness check, we conducted an analysis on corporate relocations to areas with lower civil law. The findings from this analysis, which are non-significant, can be found in Appendix 3.3. This suggests that there is no notable impact on CSR performance when firms relocate to a county with a lower civil law legal heritage.

term, *Post x Increasing* relocation. Post equals one if a firm-year observation is from the post-relocation window and zero if a firm-year observation is from the pre-relocation window. Increasing relocation equals one if a firm had a civil-law legal heritage increasing relocation, and zero otherwise. We continue using the same set of controls to estimate the models based on the dependent variable, CSR strength.

We are particularly interested in the coefficients on the interaction term*, Post x Increasing relocation*, because they provide direct estimates of the differences in the overtime changes in corporate innovation outputs across the two periods straddling the relocation event and across those firms with a civil-law-increasing relocation versus those firms that did not have a relocation. Table 3.9 shows that the interaction term is positive and significant at the 1% level, indicating that firms with a civil-law-legal-heritage-increasing relocation have greater, more positive, changes in CSR performance outputs after the relocation event when compared to firms without a relocation. This findings provide further credence to the social identity theory, that firms will aim to conform with the norms and values of their surroundings.

<p align="center">Insert Table 3.9 about here</p>

3.3.7   Cross-Sectional Heterogeneity

Our study has thus far established a strong and positive link between *Civil legal heritage* and *CSR performance*. In auxiliary analysis, we further examine if CSR has the same meaning in different industries. More specifically, we analyze if the effect of civil legal heritage varies across different business sectors and pollution-intensive industries.

Prior studies show that the orientation of the customer segment, i.e., Business-to-Consumers (B2C) or Business-to-Business (B2B), significantly affects their preference for CSR. The underlying assumption is that B2C firms are more conspicuous to a broader set of stakeholders, experience more significant pressure from them, and consequently participate in more stakeholder-oriented initiatives to establish legitimacy (Aragon-Correa et al., 2016; Schaltegger and Horisch, 2017; Dupire and Zali, 2018). On the contrary, a plausible argument is that B2B firms may need to implement a more advanced level of CSR initiatives to foster robust relationships with their supply chain partners. This is especially pertinent for socially responsible-oriented business customers, such as Ford Motor Company, who uphold high-quality standards throughout their supply chain operations (Beske-Janssen et al. 2015; Johnson et al. 2018). Taken together, the question of whether B2B or B2C firms exhibit greater stakeholder orientation is fundamentally an empirical question that we aim to answer.

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To shed light on this, we divide firms into B2B and B2C industry groups based on their 4-digit SIC codes following Lev et al. (2010)[21] and estimate the baseline models on the two subsamples. The estimation results are provided in Table 3.10, where Regressions (1) and (2) report the estimation results for the sub-samples of B2C and B2B firms on CSR strength, respectively; Regressions (3) and (4) report the estimation results for the sub-samples of B2C and B2B firms on CSR concern respectively; Regressions (5) and (6) report the estimation results for the sub-samples of B2C and B2B firms on Net CSR respectively. The regressions show that Civil legal heritage significantly affects firm CSR strength, CSR concern, and Net CSR in B2C and B2B firms. This subsample result is aligned with the notion that *Civil legal heritage* is important in both *B2C* and *B2B firms*. An increasing stakeholder-oriented approach is undertaken by firms residing in locations with high civil law legal heritage.

Insert Table 3.10 about here

Lastly, we explore whether the positive effect of civil law legal heritage is more pronounced for firms operating in high-polluting industries. On the one hand, it can be contended that firms in such industries may exhibit lower levels of engagement in CSR initiatives due to the significant costs associated with them. Prior studies have shown that firms in heavily polluting sectors allocate nearly 20 percent of their total capital expenditure towards pollution control measures (Freedman and Jaggi 1982; Belkaoui 1976). This is further supported by Porter and Van der Linde (1995), who finds that firms operating in heavily polluting industries face greater financial costs, which impede their sustainable growth. Consistent with these arguments, firms operating in high-polluting industries may have fewer incentives to participate in CSR beyond what is legally mandated.

To echo Flammer and Kacperczyk (2016), the U.S. Environmental Protection Agency (2017) underline that seven industry sectors are responsible for 89% of the Toxic Release Inventory (TRI) chemicals. Accordingly, we classify firms into high-polluting subsample if firms operate in one of these seven industry sectors and into the low-polluting subsample otherwise. The results in Table 3.11 show that firms located in counties with a high Civil legal heritage tend to engage to a greater extent in CSR activities and this effect is particularly evident among firms that operate in low-polluting industries. Conversely, the impact of Civil

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[21] Firms are defined as B2C if their four-digit SIC codes are as follows: 0000-0999, 2000-2399, 2500-2599, 2700-2799, 2830-2869, 3000-3219, 3420-3429, 3523, 3600-3669, 3700-3719, 3751, 3850-3999, 4813, 4830-4899, 5000-5079, 5090-5099, 5130-5159, 5220-5999, 7000-7299, and 7400-9999. Firms in all other SIC-4 industries are classified as B2B firms.

legal heritage does not significantly impact CSR performance for firms operating in high-polluting industries.

<div align="center">Insert Table 3.11 about here</div>

3.4 Conclusion

Motivated by the scarce evidence on the effect of legal heritage on CSR activities in the U.S., this paper examines if the legal heritage of the region where a firm is headquartered plays a role in the firm's decisions to engage in CSR.

Guided by the social identity theory, we propose a novel empirical approach to examine the variation in stakeholder-oriented versus shareholder-oriented preferences by "legal heritage" at the county level. Our study analyzed a comprehensive dataset of 2,699 unique non-financial and non-regulated firms in the U.S. between 1998 and 2018. Our findings support our main hypothesis that firms headquartered in counties with a higher civil law legal heritage demonstrate stronger CSR strength and lower CSR concerns, even after controlling for firm characteristics and county-level variables.

Further analyses reveal that this effect is primarily driven by the employee, diversity, product, and community sub-scores, not the other sub-category (human rights). However, policies addressing the environment, diversity, and community have a greater impact on reducing CSR concerns. Our results also remain robust even after using alternative measures of CSR performance and providing alternative controls.

To ensure the validity of our findings, we also address potential endogeneity concerns through instrumental-variable-2-stage regression and propensity score matching techniques. These approaches further support for the robustness of our findings and suggest that endogeneity is unlikely to be the main driver of our results.

Finally, we also examine the heterogeneity in the impact of legal heritage on CSR by analyzing different customer clientele and industry groups. Our findings indicate that the positive effect is concentrated in industries with lower pollution levels.

Our research yields multifaceted policy and managerial implications: Our findings underscore the critical role of legal frameworks in shaping stakeholder-oriented preferences, particularly in regions with a low civil law legal heritage. Policymakers could deliberate on the implementation of legal frameworks that expressly promote stakeholder interests. These frameworks might encompass policies aligning with civil law stakeholder-friendly approaches, providing incentives to firms that prioritize stakeholder protection, such as employee well-being, workplace safety, and diversity. Moreover, policy initiatives can be directed towards

ensuring that various stakeholders, including employees, local communities, partners and suppliers, are systematically considered in organizational decision-making processes. Initiatives fostering social interaction, inclusiveness, and diversity should align with the prevalent norms and values of the region. By strengthening the relationships between firms and the community, policymakers can leverage local expectations to exert pressure on firms, encouraging them to align with community interests.

Furthermore, our study highlights the necessity for firm managers to consider the influence of the external environment on their decision-making processes. The interplay between legal frameworks, stakeholder-friendly initiatives, and organizational behavior emphasizes the need for managers to navigate this complex setting more effectively. Managers must recognize that their decisions are not made in isolation but are significantly impacted by the legal and societal contexts in which they operate. Understanding whether managers act responsibly due to intrinsic values or as a response to an environment where legitimacy is established through stakeholder-friendly initiatives is an open question that demands further research. Delving into this aspect can shed light on the underlying motivations driving managerial actions and decisions pertaining to CSR.

In a nutshell, our research advocates for a proactive approach by policymakers to shape legal frameworks that prioritize stakeholders and align with civil law principles. At the same time as, managers must remain aware of the dynamic interplay between their internal decisions and the external regulatory and societal setting.

Figure 3.1 Distribution of legal heritage across U.S. Counties.

Notes: The below show the distribution of the legal heritage across different counties in the U.S., where darker shades of blue represent higher proportion of the legal heritage. The diagram shows all available data from our sample.
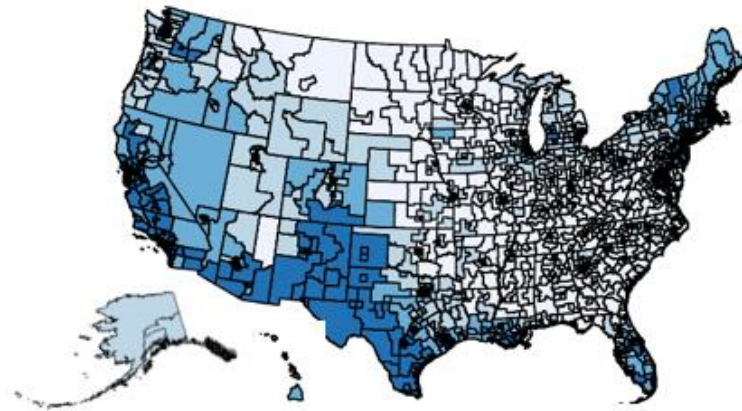
English legal heritage
- (.621303,.985072]
- (.453597,.621303]
- (.353109,.453597]
- [.03311,.353109]

American heritage
- (.3546196,.970544]
- (.1726362,.3546196]
- (.097028,.1726362]
- [.0221757,.097028]

Figure 3.1 Distribution of legal heritage across U.S. Counties (cont'd)

French legal heritage
- (.327038,.954033]
- (.197291,.327038]
- (.109698,.197291]
- [.006913,.109698]

Scandinavian legal heritage
- (.032195,.524567]
- (.016133,.032195]
- (.008668,.016133]
- [0,.008668]

German legal heritage
- (.221976,.658089]
- (.138725,.221976]
- (.082398,.138725]
- [.001163,.082398]
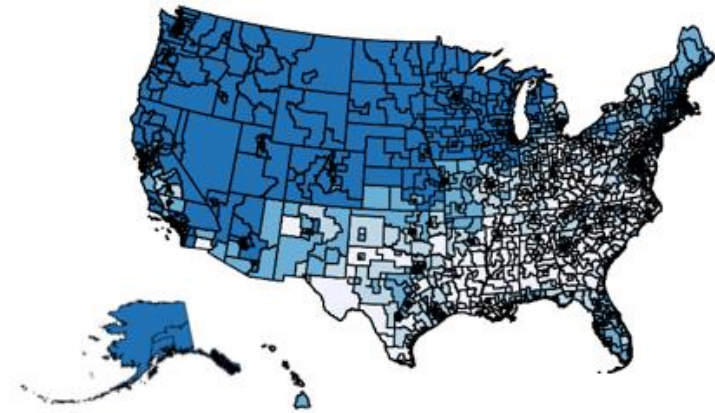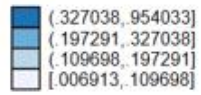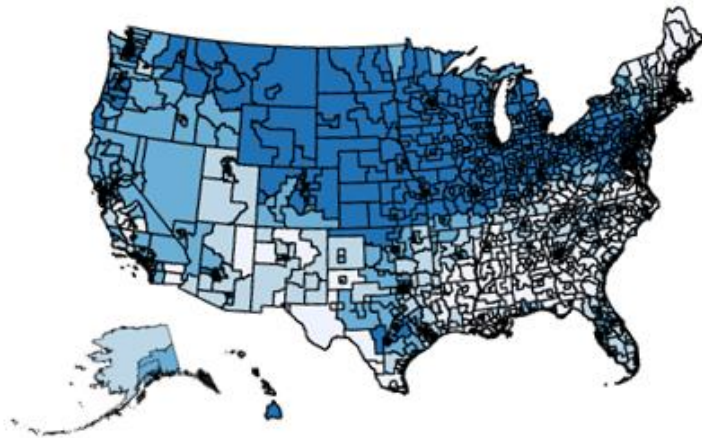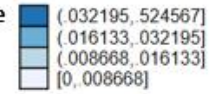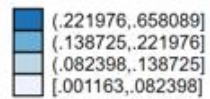
Table 3.1 Legal heritage by State

This table presents the distribution of legal heritage, by state, within our sample of firms with available data in Compustat and MSCI ESG database. Legal heritage reflects the proportion of the counties' population with ancestry from countries linked to one of the four major legal regimes; English common law, French civil law, German civil law or Scandinavian civil law following La Porta et al. (1997) and also shown in Appendix 3.2. The sample includes 17,855 firm years, excluding financial firms (SIC 6000-6999) and utilities (SIC 4900-4949).

State	Legal heritage				State	Legal heritage			
	English	French	German	Scandinavian		English	French	German	Scandinavian
Alabama	0.258	0.077	0.076	0.008	Michigan	0.228	0.201	0.179	0.026
Alaska	0.262	0.169	0.208	0.073	Minnesota	0.190	0.114	0.280	0.226
Arizona	0.235	0.366	0.166	0.045	Missouri	0.210	0.113	0.276	0.012
Arkansas	0.276	0.137	0.155	0.027	Nebraska	0.218	0.153	0.302	0.075
California	0.196	0.416	0.126	0.028	Nevada	0.223	0.367	0.142	0.040
Colorado	0.256	0.242	0.257	0.057	New Hampshire	0.485	0.258	0.075	0.028
Connecticut	0.283	0.360	0.092	0.023	New Jersey	0.224	0.373	0.109	0.012
Delaware	0.321	0.201	0.131	0.014	New Mexico	0.220	0.420	0.124	0.033
DC	0.141	0.129	0.052	0.011	New York	0.197	0.388	0.098	0.013
Florida	0.267	0.281	0.126	0.021	North Carolina	0.274	0.129	0.121	0.013
Georgia	0.234	0.136	0.089	0.012	North Dakota	0.104	0.049	0.365	0.398
Hawaii	0.089	0.272	0.322	0.013	Ohio	0.229	0.126	0.259	0.011
Idaho	0.355	0.153	0.220	0.088	Oregon	0.350	0.191	0.196	0.082
Illinois	0.182	0.285	0.153	0.034	Pennsylvania	0.270	0.191	0.242	0.010
Indiana	0.217	0.121	0.258	0.016	Rhode Island	0.311	0.501	0.033	0.015
Iowa	0.261	0.132	0.325	0.087	South Carolina	0.286	0.104	0.103	0.012
Kansas	0.306	0.149	0.271	0.045	Tennessee	0.292	0.101	0.103	0.015
Kentucky	0.299	0.085	0.210	0.011	Texas	0.190	0.377	0.099	0.014
Louisiana	0.175	0.144	0.050	0.007	Utah	0.433	0.180	0.126	0.117
Maine	0.525	0.233	0.048	0.026	Virginia	0.277	0.127	0.102	0.014
Maryland	0.278	0.179	0.163	0.015	Washington	0.289	0.170	0.205	0.112
Massachusetts	0.331	0.380	0.043	0.014	Winconsin	0.157	0.133	0.401	0.114

Table 3.2 Descriptive Statistics

This table provides the descriptive statistics for the main sample of 17,855 firm-year observations relating to the 2,699 firms in the sample between 1998 and 2018. Panel A provides the descriptive statistics for the measures of CSR Performance: *CSR strength, CSR Concern and Net CSR*. The main input variable CSR Strength (*CSR Concern)* is the sum of yearly adjusted score of CSR strengths (*concern)* across six different CSR dimensions: Product, Employee, Community, Human Rights, Diversity and Environment. Adjusted CSR is estimated by scaling the raw strength scores of each category by the number of items of the strength of that category in the year. Net CSR is the composite CSR score obtained by substracting CSR concern from CSR strength. The descriptive statistics in Panel B provide the mean of the CSR strength of subgroups based on firms located in counties where the English, French, German, or Scandinavian legal heritage is above that of the median, where medians are obtained at the year level.

Panel A: By Year

Year	No. Obs.	Mean			Std. Dev.		
		CSR Strength	CSR Concern	Net CSR	CSR Strength	CSR Concern	Net CSR
1998	193	0.397	0.285	0.113	0.375	0.364	0.487
1999	200	0.401	0.310	0.091	0.370	0.373	0.495
2000	215	0.412	0.319	0.090	0.378	0.394	0.490
2001	381	0.281	0.262	0.017	0.354	0.375	0.411
2002	358	0.300	0.305	-0.008	0.379	0.386	0.438
2003	934	0.144	0.251	-0.108	0.278	0.322	0.325
2004	1,036	0.155	0.337	-0.182	0.281	0.326	0.363
2005	1,005	0.179	0.365	-0.184	0.314	0.351	0.386
2006	1,041	0.187	0.381	-0.193	0.332	0.350	0.410
2007	1,045	0.212	0.404	-0.190	0.352	0.365	0.422
2008	1,114	0.210	0.405	-0.195	0.346	0.361	0.417
2009	1,191	0.205	0.400	-0.195	0.342	0.367	0.415
2010	1,152	0.412	0.552	-0.149	0.737	0.477	0.753
2011	1,143	0.422	0.489	-0.067	0.753	0.426	0.774
2012	1,125	0.422	0.134	0.286	0.794	0.345	0.723
2013	869	0.476	0.106	0.367	0.774	0.301	0.720
2014	960	0.262	0.116	0.144	0.443	0.305	0.429
2015	991	0.400	0.106	0.291	0.545	0.298	0.557
2016	991	0.491	0.049	0.440	0.626	0.181	0.614
2017	934	0.509	0.065	0.444	0.637	0.236	0.633
2018	977	0.947	0.077	0.868	0.768	0.270	0.746
Total	17,855	0.348	0.276	0.070	0.576	0.378	0.635

Table 3.2: Descriptive Statistics (cont'd)

Panel B: Above median Legal heritage

Year	English Legal Heritage >median	French Legal Heritage >median	German Legal Heritage >median	Scandinavian Legal Heritage >median
		Mean CSR Strength		
1998	0.379	0.434	0.405	0.412
1999	0.377	0.456	0.411	0.410
2000	0.383	0.457	0.426	0.422
2001	0.259	0.269	0.274	0.273
2002	0.259	0.308	0.295	0.309
2003	0.123	0.148	0.141	0.141
2004	0.129	0.169	0.155	0.165
2005	0.144	0.194	0.185	0.190
2006	0.148	0.201	0.189	0.207
2007	0.170	0.226	0.212	0.228
2008	0.177	0.221	0.209	0.220
2009	0.173	0.209	0.212	0.220
2010	0.379	0.410	0.410	0.418
2011	0.384	0.410	0.426	0.428
2012	0.371	0.457	0.417	0.427
2013	0.448	0.480	0.475	0.452
2014	0.232	0.277	0.260	0.246
2015	0.344	0.458	0.418	0.423
2016	0.436	0.571	0.485	0.510
2017	0.476	0.580	0.525	0.526
2018	0.916	0.994	0.944	0.974
Total	0.312	0.368	0.345	0.357

Table 3.3 Summary Statistics and Sample Distribution

This table provides descriptive statistics using all of the available observations from 1998 to 2018. The sample consists of 17,855 firm-year observations from 2,699 US listed nonfinancial companies. *CSR Strength* (*CSR Concern)* is the sum of yearly adjusted score of CSR strengths (concerns) across six different CSR dimensions: Product, Employee, Community, Human Rights, Diversity and Environment. *Net CSR* is the composite CSR score obtained by substracting CSR concern from CSR strength. *Legal heritage* is the fraction of the firm's headquarters county's population linked with common and civil law. Firm size is the natural log of total assets in million dollars. Return on Assets (ROA) is the ratio of net income to total assets. Leverage is the ratio of long-term debt to the total asset. Risk is the standard deviation of daily stock returns in the current year. Research and Development intensity (R&D) is the ratio of research and development expenses to total sales. Cash holding (Cash) is the ratio of cash to assets. Institutional Ownership (Inst) is the percentage of shares owned by institutional investors. County education is the natural logarithm of the fraction of county residents who are 25 years or older with at least one year of college. County population is the natural logarithm of the population (in million) of a county during a year. County income is the natural logarithm of median household income per capita in the county. Panel E reports the pairwise correlations between the main variables used in our study. * indicates statistical significance at the 1% level.

Panel A: CSR Performance						
	Number of Obs.	Mean	St Dev	P25	Median	P75
CSR Strength	17,855	0.348	0.576	0.000	0.000	0.476
CSR Concern	17,855	0.276	0.383	0.000	0.200	0.500
Net CSR	17,855	0.070	0.632	-0.333	0.000	0.250
Panel B: Legal heritage						
Common law legal heritage	17,855	0.227	0.061	0.182	0.214	0.276
Civil law legal heritage	17,855	0.470	0.116	0.425	0.484	0.554
Panel C: Firm Characteristics						
Firm Size	17,855	7.117	1.629	5.915	7.044	8.235
ROA	17,855	0.017	0.196	0.006	0.049	0.090
Leverage	17,855	0.215	0.230	0.016	0.181	0.323
Risk	17,855	0.028	0.014	0.018	0.025	0.034
R&D	17,855	0.326	2.040	0.000	0.008	0.087
Cash Holding	17,855	-2.374	1.474	-3.248	-2.232	-1.399
Instit. Ownership	17,855	0.702	0.255	0.564	0.763	0.891

Panel D: County Characteristics

County education		17,855	0.384	0.067	0.333	0.378	0.439
County income ('000)		17,855	325.561	102.342	258.915	297.723	385.351
County income (log)		17,855	12.649	0.290	12.464	12.604	12.862
County population (mil)		17,855	5.217	5.187	1.735	4.123	5.161
County population (log)		17,855	14.977	1.068	14.367	15.232	15.457

Panel E: Pairwise Correlations

		V1	V2	V3	V4	V5	V6	V7	V8	V9	V10	V11	V12	V13
CSR strength	V1	1.000												
CSR concern	V2	0.186*	1.000											
Legal heritage	V3	0.031*	-0.088*	1.000										
Firm size	V4	0.462*	0.298*	-0.105*	1.000									
ROA	V5	0.055*	0.029*	-0.074*	0.243*	1.000								
Leverage	V6	0.069*	0.035*	-0.123*	0.288*	-0.076*	1.000							
Risk	V7	-0.211*	0.003	0.106*	-0.409*	-0.370*	-0.040*	1.000						
R&D	V8	-0.011	-0.048*	0.061*	-0.185*	-0.409*	-0.018	0.178*	1.000					
Cash/TA	V9	-0.008	-0.094*	0.195*	-0.325*	-0.136*	-0.320*	0.186*	0.161*	1.000				
Inst. Own.	V10	0.053*	-0.070*	-0.030*	0.226*	0.134*	0.058*	-0.229*	-0.089*	-0.060*	1.000			
County education	V11	0.059*	-0.061*	0.233*	-0.065*	-0.075*	-0.064*	0.068*	0.079*	0.199*	0.001	1.000		
County population	V12	0.023*	0.021*	0.283*	0.022*	-0.034*	-0.041*	0.013	0.036*	0.065*	0.008	0.154*	1.000	
County income	V13	0.031*	-0.041*	-0.022*	-0.052*	-0.031*	0.008	-0.026*	0.054*	0.105*	0.008	0.301*	-0.150*	1.000

Table 3.4 Baseline regression: Civil law legal heritage and CSR performance

This table reports the estimates for Civil law legal heritage with core (Regression 1,3, and 5) and full set of control variables (Regression 2,4, and 6), namely Size, ROA, Leverage, Risk, R&D, Cash, Inst.Own, County population, County education, and County income. The dependent variables are the measures of CSR performance:*CSR Strength* (Regression 1 and 2), *CSR Concern* (Regression 3 and 4), and *Net_CSR* (Regression 5 and 6). *CSR Strength* (*CSR Concern*) is the sum of yearly adjusted score of CSR strengths (concerns) across six different CSR dimensions: Product, Employee, Community, Human Rights, Diversity and Environment. *Net_CSR* is the composite CSR score obtained by substracting CSR concern from CSR strength. *CivilLH* is the fraction of the firm's headquarters county's population linked with French, German, and Scandinavian legal origin. Definitions and data sources for the firm and county control variables are provided in in Appendix 3.1. The sample contains U.S. public listed firms. The time span for this study is between 1998 and 2018. There are 17,855 observations across 2,699 firms in this study. Explanatory variable and controls are lagged by one year. Year and industry fixed effects are included. Industry effects are constructed based on the 2-digit SIC industry classification. We use two-way clustering of standard errors by Firm and State and they are reported in parentheses. ***, **, and * indicate statistical significance at the 1%, 5%, and 10% level, respectively.

	CSR Strength (1)	CSR Strength (2)	CSR Concern (3)	CSR Concern (4)	Net_CSR (5)	Net_CSR (6)
$CivilLH_{t-1}$	0.367***	0.336***	-0.128**	-0.167***	0.488***	0.496***
	(0.068)	(0.069)	(0.051)	(0.051)	(0.074)	(0.076)
$Size_{t-1}$	0.171***	0.188***	0.082***	0.096***	0.089***	0.091***
	(0.008)	(0.009)	(0.006)	(0.006)	(0.009)	(0.009)
ROA_{t-1}		-0.098***		-0.089***		-0.005
		(0.029)		(0.017)		(0.028)
$Leverage_{t-1}$		-0.136***		-0.095***		-0.045
		(0.042)		(0.026)		(0.034)
$Risk_{t-1}$		-1.576***		0.665*		-2.176***
		(0.466)		(0.342)		(0.532)
$R\&D_{t-1}$		0.006***		-0.004**		0.010***
		(0.002)		(0.002)		(0.003)
$Cash_{t-1}$		0.027***		0.010***		0.016***
		(0.005)		(0.003)		(0.005)
$Inst.Own._{t-1}$		-0.183***		-0.138***		-0.044
		(0.031)		(0.022)		(0.035)
County education.$_{t-1}$		0.410***		-0.195*		0.630***
		(0.142)		(0.111)		(0.159)
County population.$_{t-1}$		-0.010		0.011*		-0.021**
		(0.008)		(0.006)		(0.009)
County income.$_{t-1}$		0.039		-0.003		0.043
		(0.029)		(0.023)		(0.035)
Intercept	-1.044***	-1.386***	-0.246***	-0.259	-0.791***	-1.151**
	(0.066)	(0.410)	(0.044)	(0.345)	(0.070)	(0.488)
Industry FE	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES
Observations	17,855	17,855	17,855	17,855	17,855	17,855
Adjusted R-squared	0.338	0.356	0.371	0.386	0.318	0.338

Table 3.5 Civil law and CSR Components

This table reports the estimates for Civil law legal heritage with the full set of control variables, namely Size, ROA, Leverage, Risk, R&D, Cash, Inst.Own, County population, County education, and County income. In Regressions (1) and (2), the dependent variable captures the Environment strength and concern aspect of the firm's CSR, respectively. In Regressions (3) and (4), the dependent variable captures the Employee strength and concern aspect of the firm's CSR, respectively. In Regressions (5) and (6), the dependent variable captures the Diversity strength and concern aspect of the firm's CSR, respectively. In Regressions (7) and (8), the dependent variable captures the Community strength and concern aspect of the firm's CSR, respectively. In Regressions (9) and (10), the dependent variable captures the Human rights strength and concern aspect of the firm's CSR, respectively. In Regressions (11) and (12), the dependent variable captures the Product strength and concern aspect of the firm's CSR, respectively. CivilLH is the fraction of the firm's headquarters county's population linked with French, German, and Scandinavian legal origin. Definitions and data sources for the firm and county control variables are provided in in Appendix 3.1. The sample contains U.S. public listed firms. The time span for this study is between 1998 and 2018. There are 17,855 observations across 2,699 firms in this study. Explanatory variable and controls are lagged by one year. Year and industry fixed effects are included. Industry effects are constructed based on the 2-digit SIC industry classification. We use two-way clustering of standard errors by Firm and State and they are reported in parentheses. ***, **, and * indicate statistical significance at the 1%, 5%, and 10% level, respectively.

	Environment		Employee		Diversity	
	Strength	Concern	Strength	Concern	Strength	Concern
	(1)	(2)	(3)	(4)	(5)	(6)
CivilLH$_{t-1}$	0.048**	-0.041***	0.074***	-0.013	0.106***	-0.048**
	(0.023)	(0.013)	(0.019)	(0.016)	(0.027)	(0.020)
Size$_{t-1}$	0.049***	0.017***	0.038***	0.024***	0.050***	-0.007***
	(0.002)	(0.002)	(0.002)	(0.002)	(0.003)	(0.002)
ROA$_{t-1}$	-0.001	-0.009***	0.002	-0.037***	-0.073***	-0.003
	(0.007)	(0.003)	(0.007)	(0.007)	(0.018)	(0.008)
Leverage$_{t-1}$	-0.018*	-0.014**	-0.037***	-0.014*	-0.044**	-0.007
	(0.010)	(0.006)	(0.010)	(0.008)	(0.018)	(0.009)
Risk$_{t-1}$	-0.608***	0.077	-0.287**	0.424***	-0.239	0.485***
	(0.154)	(0.084)	(0.135)	(0.134)	(0.221)	(0.160)
R&D$_{t-1}$	-0.000	-0.001***	0.001*	0.000	0.005***	-0.001
	(0.001)	(0.000)	(0.001)	(0.001)	(0.002)	(0.001)
Cash$_{t-1}$	0.007***	0.000	0.004***	0.002*	0.009***	0.002
	(0.001)	(0.001)	(0.001)	(0.001)	(0.002)	(0.001)
Inst.Own.$_{t-1}$	-0.063***	-0.018***	-0.044***	-0.020***	-0.035***	-0.035***
	(0.010)	(0.005)	(0.009)	(0.006)	(0.013)	(0.008)
County education.$_{t-1}$	-0.035	-0.088***	0.046	-0.029	0.337***	-0.039
	(0.042)	(0.026)	(0.040)	(0.029)	(0.057)	(0.035)
County population.$_{t-1}$	-0.001	0.003*	-0.005**	-0.001	-0.002	0.002
	(0.003)	(0.001)	(0.002)	(0.002)	(0.003)	(0.002)
County income per capita .$_{t-1}$	0.027***	0.010*	0.009	-0.003	-0.008	-0.022***
	(0.010)	(0.006)	(0.008)	(0.007)	(0.012)	(0.008)
Intercept	-0.537***	-0.192**	-0.243**	-0.023	-0.209	0.455***
	(0.138)	(0.084)	(0.112)	(0.100)	(0.164)	(0.115)
Industry FE	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES
Observations	17,855	17,855	17,855	17,855	17,855	17,855
Adjusted R-squared	0.267	0.287	0.202	0.224	0.247	0.336

Table 3.5 Civil law and CSR Components (cont'd)

	Community		Human Rights		Product	
	Strength	Concern	Strength	Concern	Strength	Concern
	(7)	(8)	(9)	(10)	(11)	(12)
$CivilLH_{t-1}$	0.050***	-0.035**	0.000	0.010	0.066***	-0.026
	(0.017)	(0.017)	(0.009)	(0.006)	(0.020)	(0.017)
$Size_{t-1}$	0.029***	0.019***	0.012***	0.007***	0.022***	0.031***
	(0.002)	(0.002)	(0.002)	(0.001)	(0.002)	(0.002)
ROA_{t-1}	-0.009*	-0.018***	-0.016***	-0.006**	-0.007	-0.013**
	(0.005)	(0.006)	(0.006)	(0.002)	(0.009)	(0.005)
$Leverage_{t-1}$	-0.010	-0.023***	-0.013**	-0.004	-0.022***	-0.023**
	(0.010)	(0.008)	(0.006)	(0.003)	(0.008)	(0.009)
$Risk_{t-1}$	-0.592***	-0.050	0.092	-0.035	-0.237*	-0.281***
	(0.129)	(0.123)	(0.096)	(0.039)	(0.142)	(0.106)
$R\&D_{t-1}$	0.001**	-0.001	0.000	0.000	-0.001	-0.001***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.001)	(0.000)
$Cash_{t-1}$	0.003**	0.001	0.001*	0.001***	0.003*	0.003**
	(0.001)	(0.001)	(0.001)	(0.000)	(0.001)	(0.001)
$Inst.Own._{t-1}$	-0.028***	-0.030***	-0.018**	-0.009***	-0.020**	-0.028***
	(0.006)	(0.008)	(0.007)	(0.003)	(0.008)	(0.007)
County education $_{t-1}$	0.041	-0.010	0.023	-0.006	0.005	-0.045
	(0.033)	(0.037)	(0.022)	(0.013)	(0.038)	(0.036)
County population $_{t-1}$	-0.002	-0.001	-0.001	0.001**	0.001	0.006***
	(0.002)	(0.002)	(0.001)	(0.001)	(0.002)	(0.002)
County income per $_{t-1}$	0.008	-0.003	-0.008**	0.003	0.012	0.002
	(0.007)	(0.008)	(0.004)	(0.003)	(0.009)	(0.007)
Intercept	-0.236**	-0.008	0.045	-0.084*	-0.274**	-0.216*
	(0.097)	(0.113)	(0.053)	(0.043)	(0.124)	(0.114)
Industry FE	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES
Observations	17,855	17,855	17,855	17,855	17,855	17,855
Adjusted R-squared	0.171	0.141	0.100	0.154	0.094	0.264

Table 3.6 Robustness tests

This table reports the tests examining alternative measures of CSR performance and our results to additional controls. In Regressions (1) and (2), the dependent variable captures the strength and concern including corporate governance aspect, respectively. CSR Strength (CSR Concern) is the sum of yearly adjusted score of CSR strengths (concerns) across seven different CSR dimensions: Product, Employee, Community, Human Rights, Diversity, Environment and Corporate Governance. In Regressions (3) and (4), the dependent variable captures the non-adjusted CSR Strength and Concern, respectively. Non-adjusted strength(concern) is the number of CSR strengths (concern) across six different CSR dimensions: Product, Employee, Community, Human Rights, Diversity and Environment. In Regressions (5) and (6) we add additional control variables: ROE is the firm's return on equity; Tobin's Q captures firm value computed as total assets minus the book equity plus the market value of equity, all divided by total assets; MB is the market-to-book value ratio. Explanatory variable and controls are lagged by one year. Year and industry fixed effects are included. Industry effects are constructed based on the 2-digit SIC industry classification. We use two-way clustering of standard errors by Firm and State and they are reported in parentheses. ***, **, and * indicate statistical significance at the 1%, 5%, and 10% level, respectively.

	CSR including Corp. Gov aspect		Non-adjusted CSR		Additional Control Variables	
	CSR Strength (1)	CSR Concern (2)	CSR Strength (3)	CSR Concern (4)	CSR Strength (5)	CSR Concern (6)
$CivilLH_{t-1}$	0.321***	-0.109**	1.174***	-0.374**	0.291***	-0.153***
	-0.067	-0.049	(0.233)	(0.149)	(0.061)	(0.048)
$Size_{t-1}$	0.208***	0.124***	0.675***	0.306***	0.200***	0.104***
	-0.011	-0.007	(0.036)	(0.022)	(0.009)	(0.007)
ROA_{t-1}	-0.097***	-0.109***	-0.237**	-0.330***	-0.055**	-0.094***
	-0.031	-0.021	(0.094)	(0.065)	(0.026)	(0.022)
$Leverage_{t-1}$	-0.162***	-0.120***	-0.590***	-0.325***	-0.154***	-0.100***
	-0.047	-0.03	(0.138)	(0.090)	(0.037)	(0.028)
$Risk_{t-1}$	-1.741***	0.809**	-9.490***	1.975	-1.672***	0.898**
	-0.531	-0.379	(1.855)	(1.246)	(0.484)	(0.377)
$R\&D_{t-1}$	0.006**	-0.004**	0.022***	-0.011*	0.004*	-0.005***
	-0.003	-0.002	(0.007)	(0.006)	(0.002)	(0.002)
$Cash_{t-1}$	0.031***	0.015***	0.076***	0.023*	0.014***	0.009**
	-0.005	-0.004	(0.017)	(0.012)	(0.005)	(0.004)
$Inst.Own._{t-1}$	-0.222***	-0.131***	-0.633***	-0.376***	-0.230***	-0.182***
	-0.036	-0.024	(0.109)	(0.067)	(0.034)	(0.027)
County education $_{t-1}$	0.281*	-0.139	1.010*	-0.647*	0.251*	-0.187
	-0.161	-0.123	(0.555)	(0.372)	(0.147)	(0.125)
County population $_{t-1}$	-0.011	0.015**	-0.062*	0.049**	-0.012	0.013**
	-0.009	-0.007	(0.032)	(0.021)	(0.008)	(0.007)
County income per $_{t-1}$	0.048	-0.006	0.144	-0.018	0.043	0.003
	-0.033	-0.025	(0.111)	(0.079)	(0.029)	(0.025)
ROE_{t-1}					-0.022*	0.015*
					(0.011)	(0.009)
M/B Value $_{t-1}$					-0.029	0.002
					(0.019)	(0.013)
Tobin's Q $_{t-1}$					0.049***	0.007**
					(0.005)	(0.003)
Intercept	-1.505***	-0.442	-4.706***	-0.822	-1.512***	-0.390
	(0.473)	(0.379)	(1.587)	(1.160)	(0.414)	(0.366)
Industry FE	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES
Observations	17,855	17,855	17,855	17,855	17,626	17,626
Adjusted R-squared	0.370	0.400	0.341	0.455	0.411	0.416

Table 3.7 The Instrumental Variable Approach

This table shows the result from 2SLS estimations using an IV approach to test the association between Common Law Legal heritage and CSR strength. Both the first and second stages are shown. Two instrumental variables are used. The first is *Immigration from England,* and it is defined as county's fraction of immigrants from England relative to all immigrants based on the 1900 U.S. Census. The second is a firm's Common Law Legal heritage among its industry peers, computed as the mean of *Common Law Legal heritage* among all other firms in the same 2-digit SIC industry (*Peer Common Law LH*). All independent variables are lagged by one year. All regressions include the control variables reported in our baseline regression in Table 4. The time span for this study is between 1998 and 2018. Explanatory variable and controls are lagged by one year. Year, State, and industry fixed effects are included. Industry effects are constructed based on the 2-digit SIC industry classification. We use two-way clustering of standard errors by Firm and State and they are reported in parentheses. ***, **, and * indicate statistical significance at the 1%, 5%, and 10% level, respectively.

	1st stage	2nd stage	1st stage	2nd stage
	Common law	CSR Strength	Peer Common Law Legal Heritage	CSR Strength
Immigration England	0.109***			
	(0.007)			
CommonLH(fitted)		-1.231**		-3.121*
		(0.572)		(1.694)
Peer Common Law LH			0.065***	
			(0.011)	
$Size_{t-1}$	-0.001***	0.193***	-0.002***	0.201***
	(0.000)	(0.003)	(0.000)	(0.004)
ROA_{t-1}	-0.006**	-0.058**	-0.008**	-0.078**
	(0.003)	(0.024)	(0.003)	(0.035)
$Leverage_{t-1}$	-0.000	-0.122***	-0.002	-0.121***
	(0.002)	(0.019)	(0.002)	(0.022)
$Risk_{t-1}$	-0.143***	-1.900***	-0.175***	-3.670***
	(0.043)	(0.402)	(0.049)	(0.571)
$R\&D_{t-1}$	-0.000	0.007***	-0.000	0.015***
	(0.000)	(0.002)	(0.000)	(0.003)
$Cash_{t-1}$	-0.001***	0.023***	-0.001***	0.029***
	(0.000)	(0.003)	(0.000)	(0.004)
$Inst.Own._{t-1}$	-0.002	-0.222***	-0.003	-0.254***
	(0.002)	(0.018)	(0.002)	(0.022)
County education $_{t-1}$	0.000	-0.011*	-0.001	-0.018***
	(0.001)	(0.006)	(0.001)	(0.006)
County Population $_{t-1}$	0.040***	0.133***	0.041***	0.222***
	(0.002)	(0.030)	(0.002)	(0.072)
County income $_{t-1}$	-0.001***	-1.231**	-0.002***	-3.121*
	(0.000)	(0.572)	(0.000)	(1.694)
Industry FE	Yes	Yes	No	No
Year FE	Yes	Yes	Yes	Yes
State FE	Yes	Yes	Yes	Yes
No. of observations	15,248	15,248	13,283	13,283
Adjusted R-Squared	0.881	0.384	0.872	0.302

Table 3.8 Propensity score-matching technique

Panel A reports the pre and post-match logit regressions to estimate the propensity score for high legal heritage. The dependent variable in the logit regressions reported in columns (1) and (2) is high civil legal heritage and takes a value of one if the civil legal heritage for a firm in a given year ranks at the top quartile and zero if the civil legal heritage for a firm in a given year ranks at the bottom quartile in that year. The independent variables in this table are the controls used in main regressions. Panel B reports the result for the two-tailed t-test on the differences in the means of firm and county characteristics for the treated and untreated sub-samples. The sample in Panel C contains 1,011 matched pairs of treatment-control firm-years during 1998-2018. Explanatory variable and controls are lagged by one year. The control variables definitions are given in the Appendix 3.1. The sample contains U.S. public listed firms. Year and industry fixed effects are included. Industry effects are constructed based on the 2-digit SIC industry classification. We use two-way clustering of standard errors by Firm and State and they are reported in parentheses. ***, **, and * indicate statistical significance at the 1%, 5%, and 10% level, respectively.

Panel A: Diagnostic Test Results

Dependent Variables	High Civil Law$_t$	
Independent variables	Pre-match logit	Post-match logit
Size$_{t-1}$	-0.035***	0.014
	(-1.85)	(0.38)
ROA$_{t-1}$	-0.219	0.044
	(-1.13)	(0.16)
Leverage$_{t-1}$	-1.488***	0.260
	(-9.25)	(1.11)
Risk$_{t-1}$	20.022***	-4.099
	(7.30)	(-0.84)
R&D$_{t-1}$	0.048***	0.011
	(1.80)	(0.43)
Cash$_{t-1}$	0.272***	0.018
	(12.75)	(0.47)
Inst.Own.$_{t-1}$	-0.018	0.108
	(-0.16)	(0.53)
County education$_{t-1}$	12.835***	0.195
	(26.43)	(0.25)
County population$_{t-1}$	0.743***	0.037
	(19.12)	(0.75)
County income$_{t-1}$	0.700***	-0.095
	(6.05)	(-0.56)
Intercept	-24.104***	0.806
	(-13.63)	(0.32)
No. of observations	9,048	1,814
Pseudo R-Square	0.233	0.006
Chi-square	1354.921***	15.007
Number of matched firms	1,012	1,012

Table 3.8 (cont'd)

Panel B: Mean values and t-test for the difference in means across our control variables				
Variables	High Civil law=1 (N=1,012)	High Civil law=0 (N=1,012)	Difference	t-value
CivilLH	0.389	0.731	-0.341***	(-101.94)
Size	6.843	6.867	-0.024	(-0.16)
ROA	0.019	0.014	0.05	(0.59)
Leverage	0.177	0.192	-0.015	(-1.43)
Risk	0.029	0.028	0.000	(0.55)
R&D	0.359	0.364	-0.005	(-0.05)
Cash	-2.192	-2.202	0.010	(0.18)
Inst.Own.	0.692	0.700	-0.008	(-0.73)
County education	0.389	0.388	0.001	(0.33)
County Population	14.896	14.957	-0.062	(-1.36)
County income per capita	12.660	12.651	0.008	(0.67)

Panel C: Regression results	
Variables	**CSR Strength**
High CivilLH$_{t-1}$	0.172***
	(4.89)
Size$_{t-1}$	0.177***
	(9.08)
ROA$_{t-1}$	-0.021
	(-0.42)
Leverage$_{t-1}$	-0.208***
	(-3.08)
Risk$_{t-1}$	-2.570*
	(-1.94)
R&D$_{t-1}$	0.006
	(1.34)
Cash$_{t-1}$	0.032***
	(2.78)
Inst.Own.$_{t-1}$	-0.178***
	(-2.72)
County education$_{t-1}$	0.296
	(0.91)
County Population$_{t-1}$	-0.012
	(-0.61)
County income$_{t-1}$	-0.029
	(-0.37)
Intercept	-0.221
	(-0.19)
Industry FE	YES
Year FE	YES
No. of observations	2,024
Adjusted R-Square	0.385

Table 3.9 Corporate relocation events

The sample contains 6,488 firm-year observations from 338 unique firms with a single social-capital-changing relocation event to a higher civil-law legal heritage location during the period 2001-2015. The data are based on firm-year observations of these two subsamples in the year immediately preceding the relocation. Estimates in Panel B are based on ordinary least square regressions. The dependent variable is CSR strength and is the sum of yearly adjusted score of CSR strengths across six different CSR dimensions: Product, Employee, Community, Human Rights, Diversity and Environment. Our independent variable is replaced with Post, Increasing relocation, and Post x Increasing relocation. Post equals one if a firm-year observation is from post-relocation window; it equals zero otherwise. Increasing relocation equals one if a firm experienced a civil law legal heritage increasing relocation during the period 2001-2015; it equals zero otherwise. The control variables definitions are given in Appendix 3.1. The sample contains U.S. public listed firms. Year and industry fixed effects are included. Industry effects are constructed based on the 2-digit SIC industry classification. We use two-way clustering of standard errors by Firm and State and they are reported in parentheses. ***, **, and * indicate statistical significance at the 1%, 5%, and 10% level, respectively.

Panel A: Diagnostic Test Results

Dependent Variables	Increasing Relocation$_t$	
Independent variables	Pre-match logit	Post-match logit
Size$_{t-1}$	0.101***	0.010
	(6.53)	(0.51)
ROA$_{t-1}$	-0.048	0.001
	(-0.42)	(0.01)
Leverage$_{t-1}$	-0.538***	-0.078
	(-4.25)	(-0.58)
Risk$_{t-1}$	6.572***	2.333
	(3.58)	(0.93)
R&D$_{t-1}$	-0.016	0.000
	(-1.22)	(0.03)
Cash$_{t-1}$	-0.001	-0.017
	(-0.06)	(-0.85)
Inst.Own.$_{t-1}$	0.759***	0.020
	(8.31)	(0.18)
County education$_{t-1}$	3.209***	-0.332
	(9.27)	(-0.82)
County Population$_{t-1}$	-0.002	0.005
	(-0.09)	(0.21)
County income$_{t-1}$	-0.398***	-0.050
	(-5.07)	(-0.52)
Intercept	1.014	0.405
	(0.95)	(0.31)
No. of observations	13,878	6,488
Pseudo R-Square	0.020	0.001
Chi-square	279.840	7.844

Table 3.9 (cont'd)

Panel B: Univariate statistics on firm attributes from the respective samples in the pre-relocation period

Variables	Increasing relocation=1 (N=338)	Increasing relocation=0 (N=1,731)	Difference	t-value
Size	7.095	7.102	-0.007	-0.169
ROA	0.021	0.020	0.000	0.071
Leverage	0.190	0.189	0.001	0.170
Risk	0.029	0.030	-0.000	-0.662
R&D	0.272	0.267	0.005	0.105
Cash	-2.305	-2.333	0.027	0.770
Inst.Own.	0.725	0.725	-0.000	-0.078
County education	0.395	0.393	0.002	1.145
County Population	15.024	15.026	-0.002	-0.074
County income per capita	12.643	12.636	0.007	1.054

Panel C. Regression results based on a difference-in-differences design

Variables	CSR strength
Post	-0.175***
	(0.051)
Increasing relocation	-0.024
	(0.021)
Post x Increasing relocation	0.184***
	(0.054)
Size$_{t-1}$	0.188***
	(0.011)
ROA$_{t-1}$	-0.049
	(0.033)
Leverage$_{t-1}$	-0.232***
	(0.049)
Risk$_{t-1}$	-1.854***
	(0.631)
R&D$_{t-1}$	0.010***
	(0.003)
Cash$_{t-1}$	0.016***
	(0.006)
Inst.Own.$_{t-1}$	-0.265***
	(0.046)
County education $_{t-1}$	0.439**
	(0.181)
County Population $_{t-1}$	-0.007
	(0.010)
County income per capita $_{t-1}$	0.064*
	(0.035)
Intercept	-1.573***
	(0.487)
Industry FE	YES
Year FE	YES
No. of observations	6,488
Adjusted R-Square	0.365

Table 3.10 Subsample Analysis by Customers' Clientele
This table reports regression results for two types of customers clienteles. Firms are classified as having a Business-to-Business (B2B) clientele if they sell to other businesses, or as a Business-to-consumer (B2C) clientele if to end consumers. CSR strength is the sum of yearly adjusted score of CSR strengths across six different CSR dimensions: Product, Employee, Community, Human Rights, Diversity and Environment. Adjusted CSR is estimated by scaling the raw strength scores of each category by the number of items of the strength of that category in the year. The control variables definitions are given in Appendix 3.1. The sample contains U.S. public listed firms. The time span for this study is between 1998 and 2018. There are 17,855 observations across 2,699 firms in this study. Explanatory variable and controls are lagged by one year. Year and industry fixed effects are included. Industry effects are constructed based on the 2-digit SIC industry classification. We use two-way clustering of standard errors by Firm and State and they are reported in parentheses. ***, **, and * indicate statistical significance at the 1%, 5%, and 10% level, respectively.

Subsample:	CSRstrength $_t$		CSRconcern $_t$		NetCSR $_t$	
	B2C	B2B	B2C	B2B	B2C	B2B
	(1)	(2)	(3)	(4)	(5)	(6)
CivilLH$_{t-1}$	0.357***	0.231***	-0.149**	-0.143**	0.490***	0.372***
	(0.084)	(0.083)	(0.070)	(0.057)	(0.090)	(0.091)
Size$_{t-1}$	0.188***	0.189***	0.108***	0.088***	0.082***	0.099***
	(0.012)	(0.012)	(0.010)	(0.008)	(0.012)	(0.013)
ROA$_{t-1}$	-0.096**	-0.081**	-0.079***	-0.124***	-0.015	0.050
	(0.042)	(0.038)	(0.022)	(0.027)	(0.040)	(0.041)
Leverage$_{t-1}$	-0.108**	-0.173***	-0.068**	-0.143***	-0.053	-0.023
	(0.054)	(0.055)	(0.031)	(0.039)	(0.041)	(0.062)
Risk$_{t-1}$	-2.235***	-1.296**	0.744	0.817*	-2.991***	-2.017***
	(0.652)	(0.639)	(0.465)	(0.489)	(0.748)	(0.727)
R&D$_{t-1}$	0.003	0.013*	-0.001	-0.004	0.004	0.017*
	(0.003)	(0.007)	(0.001)	(0.004)	(0.003)	(0.009)
Cash$_{t-1}$	0.023***	0.023***	0.018***	0.007	0.004	0.016**
	(0.007)	(0.006)	(0.005)	(0.004)	(0.007)	(0.007)
Inst.Own.$_{t-1}$	-0.174***	-0.197***	-0.145***	-0.136***	-0.028	-0.061
	(0.046)	(0.042)	(0.033)	(0.028)	(0.047)	(0.049)
County education $_{t-1}$	-0.196	0.703***	-0.361**	0.096	0.209	0.619***
	(0.206)	(0.187)	(0.140)	(0.166)	(0.213)	(0.214)
County population $_{t-1}$	-0.004	-0.021*	0.010	0.023***	-0.013	-0.045***
	(0.011)	(0.012)	(0.009)	(0.008)	(0.013)	(0.013)
County income $_{t-1}$	0.103***	-0.029	-0.024	0.012	0.130***	-0.042
	(0.039)	(0.040)	(0.031)	(0.032)	(0.045)	(0.048)
Intercept	-2.078***	-0.477	0.031	-0.677	-2.188***	0.238
	(0.536)	(0.586)	(0.480)	(0.459)	(0.643)	(0.669)
Industry FE	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES
No. of observations	8,136	9,719	8,136	9,719	8,136	9,719
Adjusted R-squared	0.372	0.362	0.397	0.377	0.305	0.358

Table 3.11 Subsample Analysis by the Pollution

This table reports regression results based on subsamples divided by whether a firm operates in industries with high or low environmental activism. Industries are defined as having high environmental activism if they are one of the seven polluting industry sectors as identified by U.S. Environmental Protection Agency (2017), and otherwise as having low environmental activism. CSR strength is the sum of yearly adjusted score of CSR strengths across six different CSR dimensions: Product, Employee, Community, Human Rights, Diversity and Environment. Adjusted CSR is estimated by scaling the raw strength scores of each category by the number of items of the strength of that category in the year. The control variables definitions are given in Appendix 3.1. The sample contains U.S. public listed firms. The time span for this study is between 1998 and 2018. There are 17,855 observations across 2,699 firms in this study. Explanatory variable and controls are lagged by one year. Year and industry fixed effects are included. Industry effects are constructed based on the 2-digit SIC industry classification. We use two-way clustering of standard errors by Firm and State and they are reported in parentheses. ***, **, and * indicate statistical significance at the 1%, 5%, and 10% level, respectively.

Subsample:	CSRstrength $_t$		CSRconcern $_t$		Net CSR $_t$	
	High	**Low**	**High**	**Low**	**High**	**Low**
	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**
CivilLH$_{t-1}$	-0.021	0.356***	-0.241	-0.110***	0.202	0.459***
	(0.161)	(0.062)	(0.158)	(0.042)	(0.202)	(0.068)
Size$_{t-1}$	0.226***	0.181***	0.120***	0.090***	0.113***	0.089***
	(0.021)	(0.009)	(0.017)	(0.007)	(0.022)	(0.010)
ROA$_{t-1}$	-0.176***	-0.045	-0.093***	-0.118***	-0.089**	0.078**
	(0.049)	(0.033)	(0.031)	(0.022)	(0.040)	(0.035)
Leverage$_{t-1}$	-0.178***	-0.110**	-0.145***	-0.072**	-0.043	-0.041
	(0.059)	(0.047)	(0.041)	(0.030)	(0.053)	(0.039)
Risk$_{t-1}$	-2.025**	-1.854***	1.562**	0.438	-3.631***	-2.161***
	(0.887)	(0.511)	(0.680)	(0.398)	(1.121)	(0.580)
R&D$_{t-1}$	0.000	0.012**	-0.002	-0.002	0.002	0.013*
	(0.002)	(0.006)	(0.002)	(0.003)	(0.003)	(0.007)
Cash$_{t-1}$	0.024**	0.022***	0.013	0.011***	0.010	0.010*
	(0.011)	(0.005)	(0.008)	(0.004)	(0.011)	(0.005)
Inst.Own.$_{t-1}$	-0.261***	-0.191***	-0.238***	-0.117***	-0.038	-0.070*
	(0.077)	(0.033)	(0.048)	(0.024)	(0.074)	(0.037)
County education $_{t-1}$	0.098	0.305*	-0.033	-0.145	0.106	0.495***
	(0.314)	(0.157)	(0.238)	(0.126)	(0.331)	(0.168)
County population $_{t-1}$	0.019	-0.023***	0.030*	0.011*	-0.006	-0.034***
	(0.020)	(0.009)	(0.017)	(0.006)	(0.024)	(0.010)
County income $_{t-1}$	0.088	0.025	0.027	-0.018	0.061	0.043
	(0.061)	(0.031)	(0.052)	(0.026)	(0.077)	(0.036)
Intercept	-2.190**	-1.008**	-0.995	-0.063	-1.270	-0.945*
	(0.899)	(0.432)	(0.797)	(0.371)	(1.101)	(0.501)
Industry FE	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES
No. of observations	2,655	15,199	2,656	15,199	2,656	15,199
Adjusted R-squared	0.478	0.343	0.454	0.382	0.402	0.319

Appendix

Appendix 3.1. Variable Definition and Data Sources

This table provides the detailed definitions and data sources of the variables used in our study.

Variable	Definition	Source
CSR Strength	The sum of yearly adjusted score of CSR strengths across six different CSR dimensions: Product, Employee, Community, Human Rights, Diversity and Environment.	MSCI ESG Stats database
	Adjusted CSR is estimated by scaling the raw strength scores of each category by the number of items of the strength of that category in the year.	
CSR Concern	The sum of yearly adjusted score of CSR concerns across six different CSR dimensions: Product, Employee, Community, Human Rights, Diversity and Environment.	MSCI ESG Stats database
	Adjusted CSR concern is estimated by scaling the raw concern scores of each category by the number of items of the concerns of that category in the year.	
Net_CSR	The composite CSR score obtained by substracting CSR concern from CSR strength.	MSCI ESG Stats database
Environment Strength (Concern)	The sum of yearly adjusted score of CSR strengths (concern) in terms of Environment. Adjusted CSR is estimated by scaling the raw strength (concern) scores of the category Environment by the number of items of the strength(concern) of Environment in the year.	MSCI ESG Stats database
Employee Strength (Concern)	The sum of yearly adjusted score of CSR strengths (concern) in terms of Employee. Adjusted CSR is estimated by scaling the raw strength (concern) scores of the category Employee by the number of items of the strength(concern) of Employee in the year.	MSCI ESG Stats database
Diversity Strength (Concern)	The sum of yearly adjusted score of CSR strengths (concern) in terms of Diversity. Adjusted CSR is estimated by scaling the raw strength (concern) scores of the category Diversity by the number of items of the strength(concern) of Diversity in the year.	MSCI ESG Stats database
Community Strength (Concern)	The sum of yearly adjusted score of CSR strengths (concern) in terms of Community. Adjusted CSR is estimated by scaling the raw strength (concern) scores of the category Community by the number of items of the strength(concern) of Community in the year.	MSCI ESG Stats database
Human Rights Strength (Concern)	The sum of yearly adjusted score of CSR strengths (concern) in terms of Human Rights. Adjusted CSR is estimated by scaling the raw strength (concern) scores of the category Human Rights by the number of items of the strength(concern) of Human Rights in the year.	MSCI ESG Stats database
Product Strength (Concern)	The sum of yearly adjusted score of CSR strengths (concern) in terms of Product. Adjusted CSR is estimated by scaling the raw strength (concern) scores of the category Product by the number of items of the strength(concern) of Product in the year.	MSCI ESG Stats database

CivilLH	Link every U.S. Census 2000 respondent ancestry to the one of the four major legal regimes associated with the country. for each county, we calculate the proportion of the population associated with French, German and Scandinavian legal origins	IPUMS Census 2000
		La Porta et al. (1997)
CommonLH	Link every U.S. Census 2000 respondent ancestry to the one of the four major legal regimes associated with the country. for each county, we calculate the proportion of the population associated with English legal origins	IPUMS Census 2000
		La Porta et al. (1997)
Size	Natural logarithm of total assets (in million dollars).	Compustat
ROA	Firm profitability measured as net income divided by total assets.	Compustat
Leverage	The proportion of total debt to total assets; total debt is the sum of short-term liabilities and long-term debt.	Compustat
Risk	Standard deviation of daily stock returns in the current year.	CRSP
R&D	The ratio of research and development expenses to sales.	Compustat
Cash	The ratio of cash to net assets. Net assets is total assets minus cash.	Compustat
Inst.Own.	The percentage of shares owned by institutional investors.	Thomson Reuters 13F
County income	Natural logarithm of total income (in thousands of dollars) per county.	IPUMS Census 2000
County population	Natural log of total population (in millions) per county.	IPUMS Census 2000
County Education	Percentage of people 25 years and above with at least one year of college in a county.	IPUMS Census 2000

Appendix 3.2 Countries by Legal Heritage

The table in this appendix provides the list of countries by legal heritage as in La Porta et al. (1997). Individuals declaring American, Native American, or African American ancestry are classified as having American heritage, while individuals declaring any other ancestry are grouped into the "Other heritage" group.

English	French	German	Scandinavian
Austria	Argentina	Austria	Denmark
Canada	Belgium	Germany	Finland
Hong Kong	Brazil	Japan	Norway
India	Chile	South Korea	Sweden
Ireland	Colombia	Switzerland	
Israel	Ecuador	Taiwan	
Kenya	Egypt		
Malaysia	France		
New Zealand	Greece		
Nigeria	Indonesia		
Pakistan	Italy		
Singapore	Jordan		
South Africa	Mexico		
Sri Lanka	Netherlands		
Thailand	Peru		
UK	Philippines		
Zimbabwe	Portugal		
	Spain		
	Turkey		
	Uruguay		
	Venezuela		

Appendix 3.3 Lower Civil Law Legal Heritage Corporate relocation events

The sample contains 454 firm-year observations from 26 unique firms with a single social-capital-changing relocation event to a lower civil-law legal heritage location during the period 2001-2015. Estimates in Panel B are based on ordinary least square regressions. The dependent variable is CSR strength and is the sum of yearly adjusted score of CSR strengths across six different CSR dimensions: Product, Employee, Community, Human Rights, Diversity and Environment. Our independent variable is replaced with Post, Decreasing relocation, and Post x Decreasing relocation. Post equals one if a firm-year observation is from post-relocation window; it equals zero otherwise. Decreasing relocation equals one if a firm experienced a civil law legal heritage decreasing relocation during the period 2001-2015; it equals zero otherwise. The control variables definitions are given in Appendix 3.1. The sample contains U.S. public listed firms. Year and industry fixed effects are included. Industry effects are constructed based on the 2-digit SIC industry classification. We use two-way clustering of standard errors by Firm and State and they are reported in parentheses. ***, **, and * indicate statistical significance at the 1%, 5%, and 10% level, respectively.

Panel A: Univariate statistics on firm attributes from the respective samples in the pre-relocation period

Variables	Decreasing relocation=1	Decreasing relocation=0	Difference	t-value
Size	7.775	7.820	-0.045	-0.276
ROA	0.027	0.032	-0.005	-0.422
Leverage	0.186	0.203	-0.017	1.167
Risk	0.026	0.026	0.000	0.098
R&D	0.452	0.420	0.031	0.125
Cash	-2.345	-2.346	0.001	0.013
Inst.Own.	0.763	0.768	-0.004	-0.242
County education	0.406	0.395	0.011	1.138
County Population	15.026	14.968	0.058	0.547
County income per capita	12.680	12.675	0.204	0.204

Appendix 3.3 Lower Civil Law Legal Heritage Corporate relocation events (Continued)

Panel B. Regression results based on a difference-in-differences design	
Variables	**CSR strength**
Post	0.084
	(0.129)
Decreasing relocation	-0.085
	(0.096)
Post x Decreasing relocation	-0.101
	(0.175)
Size$_{t-1}$	0.207***
	(0.025)
ROA$_{t-1}$	0.227
	(0.225)
Leverage$_{t-1}$	-0.346*
	(0.199)
Risk$_{t-1}$	0.329
	(3.014)
R&D$_{t-1}$	0.009
	(0.008)
Cash$_{t-1}$	-0.011
	(0.026)
Inst.Own.$_{t-1}$	-0.378**
	(0.182)
County education $_{t-1}$	0.014
	(0.475)
County Population $_{t-1}$	-0.010
	(0.027)
County income per capita $_{t-1}$	0.041
	(0.104)
Intercept	-1.206
	(1.516)
Industry FE	YES
Year FE	YES
No. of observations	454
Adjusted R-Square	0.415

Chapter 4 : "The Contagion Effect: The Role of Social Interactions on CSR"

4.1 Introduction

Corporate violations resulting from financial instability or scandals are an important concern in the modern global business world, particularly as major corporate misconducts related to social, ethical, and environmental issues have emerged over the past few decades. These include high-profile cases involving Enron, WorldCom, as well as issues like child labor exploitation, accounting fraud and increased pollution and CO_2 emissions. In this study, we describe corporate misconduct as the aberrant actions of a corporation toward various stakeholders (Zaman et al. 2021), such as shareholders, lenders, auditors, regulators, and the wider community (Cole et al. 2021). It is estimated that the penalties resulting from corporate violations by U.S.-listed firms totaled over $917 billion during the period between 2002-2023. The considerable media attention to these scandals has resulted in widespread criticism and disapproval.[22] As a result, society has become more aware and committed to environmental, social, and ethical issues leading to an increase in mistrust towards how companies are being managed (Farber 2005; Holder-Webb et al. 2008, Lins et al. 2017). These studies suggest that corporate misconduct poses a significant risk to firms, investors and other stakeholders.

The adverse consequences of corporate wrongdoings on firm performance have been well documented. For example, several studies have found that having a low or high CSR performance does not impact a firm's stock market return (e.g., McWilliams et al. 1999; Curran and Moran 2007; Cheung 2011), however when firms get involved in corporate scandals it results in a significant and negative stock market reaction (e.g., Palmrose et al. 2004; Nelson et al. 2008; Bernile and Jarrell 2009; Janney and Gove 2011). This indicates that stakeholders, such as investors, strongly and significantly negatively react to corporate misconduct. In addition to the damage to the stock market value, corporate wrongdoings have been found to have a detrimental impact on firm performance (Nourayi 1994; Greve et al. 2010), damaging a firm's reputation (Karpoff and Lott 1993; Karpoff et al. 2008; Zaman et al. 2021) disrupting its operations (Agrawal and Chadha 2005; Chen et al. 2005), and potentially have adverse career consequences for firms' top management and other employees (Dou 2017; Choi and Gipper 2021).

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[22] For example, Bloomberg published an article on the 18th of December 2001 "Enron's "Contagion Effect" reporting how investors have lost trust in all companies following the Enron collapse.

Despite the vast literature on the impact of corporate violations in various corporate activities of the offending firm, an important yet largely underexplored notion is the "spillover effect". The spillover effect, i.e., the influence of corporate violations by one firm on its peers, can be quantified by combining two opposing effects: the competitive effect and the contagion effect (e.g., Lang and Stulz 1992). The competitive effect suggests that firms that are not directly responsible for the scandal can benefit from the loss of reputation of the errant firm or talented employees might switch to non-affected firms (e.g., Eckert 2019). On the other hand, the contagion effect argues that firms with corporate violations might face increased scrutiny of the activities that triggered the event. Such contagion effect is found in increased regulator costs, lower sales as a result of loss of legitimacy (Jonsson et al. 2009), and pressured higher investments to prevent future disasters (Blacconiere and Patten 1994).

The contagion effect aligns with the salient risk effect, which posits that increased media coverage can increase the salience of an event (Dessaint and Matray 2017). Salience is defined as "the phenomenon wherein directing attention to one part of the environment, as opposed to others, leads to disproportionate weighting of information from that part in subsequent judgments" (Taylor and Thompson 1982, p. 175). Furthermore, Kahneman (2011) underscores that the mind is drawn to what is distinctive or unusual, labeling it as "salient". The psychology literature contends that salience plays a crucial role in guiding human attention towards specific sensory information, given the limitation of cognitive resources (Taylor and Thompson 1982). In simpler terms, something is considered salient when it captures attention automatically and involuntarily. For instance, in consumer behavior theory, it is posited that, in line with the salience theory, consumers assign higher significance to distinctive product attributes (Bordalo et al. 2013; Koszegi and Szeidl 2013). Consequently, individuals' decision-making is influenced by what captures their attention, sometimes to the detriment of thoroughly evaluating all accessible information. This is a significant phenomenon as it enables individuals and firms to react promptly to changing conditions and to monitor potentially pertinent information for goals that may not yet be explicit but could become so, as in the case of sensing imminent danger.

The existing literature has examined the impact of salient risk in post-disaster scenarios. For instance, Dessaint and Matray (2017) observed an increase in concern among managers of firms situated in close proximity to hurricane-affected areas following the strikes. They find that the sudden increase in perceived liquidity risk leads managers to increase corporate cash holdings and express greater concerns about hurricane risk in their corporate reporting, even

though the actual risk remains unchanged. This indicates a potential bias in their risk perception and a tendency to overreact to natural disasters. Moreover, managers may be providing more information in response to shifts in investors' risk perception. In a similar vein, Huang et al. (2022) find that natural disasters impact the environmental, social, and governance (ESG) disclosure policies of firms located in close proximity to disaster-stricken areas. They posit that this could be attributed to the heightened risk salience exhibited by managers in the aftermath of disasters, thereby driving increased transparency. Conversely, it is plausible that investors themselves exhibit amplified risk salience and demand greater transparency in the ESG domain from firms. Thus, managers may be inclined to disclose more information as a reaction to investors' risk perception.

Extending this notion of risk salience in post-disasters to corporate misconduct, the announcement of a corporate scandal not only signifies the risk and weak corporate governance of the violating firm but also has implications for other connected firms (Jonsson et al. 2009). The study conducted by Jonsson et al. (2009) demonstrated that the two corporate scandals involving Skandia AB, a Swedish insurance company, caused a contagion effect on fellow mutual fund providers. The corporate scandals resulted in a loss of legitimacy not only for the offending firm but also for its peer firms. The risk of losing legitimacy after corporate wrongdoings is not limited to the errant firm but can have a widespread impact on a country or have spillover effects (Warner 1977; Zavgren 1983; Jones 1987; Davidson and Worrell 1988; Zahra et al. 2005; Szwajkowski 1985). Building on the salient effect, our research suggests that managers may perceive that their trust and legitimacy with stakeholders come under scrutiny following the corporate violation announcements involving firms they are connected to (Fligstein 2001; Zuckerman 2004). In this paper, we aim to examine how corporate violations impact the decision-making process of connected firms in relation to CSR, specifically examining the variation of the contagion effect.

Existing literature has shown that managers have become increasingly interested in developing and implementing CSR initiatives to rebuild stakeholder trust and confidence (Farber 2005; Lins et al. 2017; Flammer 2018). The extant literature suggests that firms employ CSR strategically to divert attention away from corporate scandals or to rebuild stakeholders' goodwill (Godfrey 2009; Groza et al. 2011; Du 2011). Particularly because managers refrain from investments in CSR until they are faced with uncertainties or instabilities, such as corporate scandals (Jia and Li 2020). Due to the salience of corporate misconduct

announcements, it can negatively affect the legitimacy of connected firms. In response, firms may use CSR initiatives strategically to hedge against that risk.

The existing literature analyses the impact of the contagion effect through various forms of connectedness, including the shared board of directors (Fich and Shivdasani 2007; Kang 2008; Cowen and Marcel 2011), industry ties (Akhigbe and Madura 2008; Gleason et al. 2008; Paruchuri and Misangyi 2015), geographical proximity (Kedia et al. 2015) and country-of-origin ties (Kang and Chintakananda 2019; Darrough et al. 2020). More recently, studies have used social contagion to analyze how ideas or information spread through social networks (Rogers 2010; Bakshy et al. 2011). The exposure of corporate violations can be spread through individuals that share the news on their social media, particularly when they are local to where the errant firm is headquartered. This is attributed to that individuals are more likely to be aware of local firms through local news coverage as well as through personal interactions (e.g., Grinblatt and Keloharju 2001; Ivković and Weisbenner 2005; Seasholes and Zhu 2010; Giannetti and Wang 2016). Consequently, spreading information on corporate violations through social networks can cause a contagion effect.

Testing social connectedness has been challenging because the concept is difficult to quantify. Prior studies have measured social connectedness through surveys that answer questions regarding affiliation and companionship (Lee and Robbins 1995) or utilized the Thwarted Belongingness subscale in the mental health notion (Hare-Duke et al. 2019). However, these approaches do not capture the actual connections between individuals. Researchers have measured peer groups through geographic neighbors or families to overcome this issue since this data is generally obtainable (Kuchler and Stroebel 2021). Additionally, until recently, the unavailability of comprehensive and representative data on social connectedness has presented a significant obstacle to researchers on social networks. Nevertheless, more researchers started using data on social connectedness from social networking platforms such as Facebook, LinkedIn, and Twitter to measure actual connections between individuals. For example, researchers built on anonymized microdata from Facebook through collaboration with Facebook employees, consequently limiting the number of researchers accessing such data. However, recently Bailey et al. (2018a) constructed an index, the Social Connectedness Index (SCI), which they made available to the public, allowing researchers to measure the social connections between county pairs in the U.S.

Recent papers have employed the SCI index developed by Bailey et al. (2018) as a metric to gauge the various impacts of social interaction. Hirshleifer (2020) and Kuchler and Stroebel (2023) emphasize the significant of utilizing social interaction to study how social interaction

impact various economic outcomes. They underscore the substantial influence social interactions can have on steering economic and financial decision-making. This is supported by empirical evidence. For instance, Hu et al.(2022) demonstrate the effect of social interaction on household insurance decisions, revealing that households increase their purchase of flood insurance by 1-5 percent when their geographically distant friends are exposed to flooding events. This impact on household insurance is through peer effects mediated by social interaction. Furthermore, Bailey et al. (2018) shows that individuals with geographically distant friends who have experienced substantial recent house price increases are more inclined to shift from renting to owning. Similarly, this shift is driven by the impact of social interactions on individuals' expectation in the housing market. Based on the literature review outlined here, it is evident that there is a notable gap in the existing research landscape. Specifically, there is a conspicuous absence of studies that thoroughly examine the impact of social interaction on firms' decisions to engage in CSR. This presents a significant opportunity for further exploration in this area of study. Considering the previously outlined theoretical framework, it is apparent that the salience of corporate misconduct announcements and their potential negative impact on the legitimacy of connected firms, it is likely that firms will strategically employ CSR initiatives as a means to mitigate this risk. Therefore, we formulate the following hypothesis:

H1: Firms will seek to enhance their legitimacy by implementing socially responsible activities following an announcement of corporate wrongdoing by a firm they are connected to.

Testing this hypothesis empirically requires the identification of a change in the risk of losing legitimacy. Therefore, in this paper we use the occurrence of corporate violations. The violations will have a direct risk of legitimacy on the errant firm; however, the salience of the risk is not directly for the connected firms. Using corporate violations allows for a difference-in-differences identification strategy, because the salience of losing legitimacy decreases when firms are less connected from the scandal area. This allows us to estimate the effect of legitimacy salience on perceived risk by comparing how a treatment group of unaffected firms located in the connected area of the scandal area and a group of non-connected firms adjust their CSR performance following a corporate violation.

We focus on different types of corporate violations, such as environmental (e.g., Anadarko oil spill), employment (e.g., Walmart unethical employee management practices in

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2008), safety (e.g., Merck manipulation of drugs that caused injury or death in 2007), government (e.g., Tenet Healthcare alleged unlawful billing practices), healthcare (e.g., Pfizer illegal promotion of certain pharmaceutical products) and financial violations (e.g., Verizon tax settlement) that have received widespread media coverage, generated public condemnation, and caused significant reputational damage. Following the prior literature (Stubben and Welch 2020; Raghunandan 2021; Zaman et al. 2021; Heese and Perez-Cavazos 2022, among others), we obtain the names, dates and headquarters' location (county) of the corporate violations from the Violation Tracker website to determine the shock events. After establishing the headquarters' locations of firms with a corporate violation in our sample, we then identify firms located in the top five counties with the highest social connectivity, as determined by Bailey et al.(2018). This allows us to create a treatment variable, denoted as *Connected,* representing firms headquartered in counties that are the top five highest socially connected firms to a corporate violation for that year and zero otherwise

Based on a sample of 41 corporate violations with 15,515 firm-year observations for 1,789 unique firms during 1998-2018, we document three main findings. First, U.S. firms that are socially connected to firms with a corporate violation have significantly greater CSR strength but do not significantly impact CSR concern. Thus, consistent with the legitimacy theory, the managers in connected areas will respond to the risk of losing legitimacy by increasing their CSR strength performance to obtain trust. The sudden salience of losing legitimacy increases perceived risk and leads managers to increase their CSR performance even though they are not directly at risk. The increase in CSR performance is not immediate, rather increases three years following the corporate violation.

Additional tests reveal that the increased CSR strength performance is driven primarily by policies that foster employee relations and community. Given that stakeholders are sensitive to events relating to the community and employee relations, firms will adopt policies that meet the investors' demand. Seeking legitimacy vis-à-vis investors appears to be the dominant motive behind it.

We further explore the channels through which connected firms increase CSR performance following a corporate violation. We expect that connected firms operating in the high-pollution industry will have a more significant impact on CSR performance. These less eco-friendly firms will benefit more significantly from engaging in stakeholder-friendly activities to obtain a better firm reputation and in turn enhance innovation. Indeed, our findings are consistent with this conjecture. Connected firms might be exerted with different levels of pressure to gain legitimacy following a corporate violation. We find that the effect of connected

on firm CSR performance is indeed greater for firms that are concentrated in a subsample where the competitive pressure is relatively high, suggesting that the effect of corporate violations on connected firms is more profound when competitive pressure is exerted.

Our paper contributes to the literature in several ways. First, our study extends the literature on the spillover effect on corporate behavior, such as bankruptcy (Lang and Stulz 1992), dividends (Firth 1996), financial policies (Leary and Roberts 2014), hostile takeover threats (Servaes and Tamayo 2014), and mergers and acquisitions (Akhigbe and Martin 2000; Albuquerque et al. 2019). Furthermore, the extant literature also has examined the spillover effect among investors or across firms on CSR performance. For example, Dimson et al. (2021) conducted a comparative analysis of targeted firms and their peers operating within the same country and industry. They find that coordinated activism among institutional investors affects a firm's CSR decision-making. Moreover, Cao et al. (2019) provide empirical evidence demonstrating that when a firm narrowly passes an ESG/CSR proposal and subsequently implements the recommended practices, its peer firms tend to adopt similar ESG practices. Finally, Liu and Wu (2016) find a positive and significant relationship between a firm's CSR performance and the CSR level of its industry competitors. Using a novel approach and analyzing the contagion effect following corporate violations, our study adds to the studies above and shows that firms tend to adopt more stakeholder-friendly policies when they are socially connected to firms that have experienced a corporate violation to increase their legitimacy.

Second, our paper adds to the growing body of literature analyzing the implications of corporate violations. Most studies on corporate violations typically focus their analysis only on event studies and assume that the implications are confined to the offending firm. However, our evidence shows that corporate violations have a notable and positive impact on CSR for both the errant firm and socially connected firms. Furthermore, we analyze various forms of CSR- related misconduct, rather than focusing on only one aspect as in the literature, such as environmental misconduct (Dasgupta et al. 2001; Gupta and Goldar 2005; Dasgupta et al. 2006), social misconduct (e.g., Song and Han 2017) and governance misconduct (Jonsson et al. 2009; Beatty et al. 2013).

Third, our study contributes to the new intellectual paradigm - the study of how social interaction influences economic outcomes (Hirshleifer 2020). This study is among the first to study the effect of social interaction on a firm's decision-making in CSR. A number of studies have examined how social interaction affects household insurance decisions against rare disaster risks (Hu et al. 2022) and has a contagion effect on the housing market (Bailey et al.

2018b) or mortgage choice (Maturana and Nickerson 2019) and household refinancing decisions (McCartney and Shah 2022), whereas our study focuses on an important firm behavior - CSR.

The rest of the paper proceeds as follows. Section 2 provides the theoretical foundations for the relationship between social connectedness and CSR. Section 3 details the data sources, variable construction, and empirical methodology. Section 4 presents the empirical results of our baseline tests, robustness checks, and further subsample analysis. Finally, section 5 concludes.

4.2 Data, Variables, and Empirical Methodology

4.2.1 Data and Sample Selection

We obtain our data from multiple databases, including Violation Tracker, MSCI ESG stats database (formerly known as the Kinder, Lydenberg, and Domini, or KLD, database), Bailey et al.(2018a) Social Connectedness Index, Compustat Annual database, CRSP and Thomas Reuters 13F. We then manually match companies' names from Violation Tracker with companies' names from Compustat. We employ a Google search to verify our matching based on companies' names. This process allows us to compile data on penalties for 60 US companies across the sample period between 1998 and 2018. Data on firm control variables, including firm size, ROA, Leverage, R&D expenditure and cash holding are obtained from Compustat. Firm age is the log of the number of years since the firm was incorporated. When the date of incorporation is unavailable from Jay Ritter's database[23], we use the number of years since the firm first appeared on the Datastream database. Institutional ownership data is obtained from Thomson Reuters Institutional (13F) holdings. We winsorize all continuous variables at the 1st and 99th percentiles to remove the effects of outliers. Financial and utility firms are excluded due to their heavily regulated nature. After excluding observations with missing values in the main variables, our final sample consists of 39 corporate violations with 15,515 firm-year observations (1,789 unique firms).

4.2.2 Dependent variable: Firm CSR performance

The measurement of CSR scores; CSR strength, CSR concern, and Net CSR, were previously discussed in more detail in **Section 2.2.2.** Following the existing literature, we

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[23] https://site.warrington.ufl.edu/ritter/ipo-data/, we thank Jay Ritter for making his data available to researchers.

ignore the corporate governance CSR aspect (e.g., El Ghoul et al., 2011; Cronqvist and Yu, 2017; Hedge and Mishra, 2019).

4.2.3 Independent variable: Social Connectedness

4.2.3.1 Identification strategy

In this section, we present the empirical methodology used to analyze the impact of a corporate violation by a firm on the CSR performance of socially connected firms. We use the occurrence of the corporate violation and the social connectedness of the firm to the scandal area to identify events in which the legitimacy of firms becomes salient. Corporate violations can be perceived as a salient event, since it draws the attention of stakeholders, such as investors and managers. Moreover, the salience effect is amplified by social connectedness to the firm with corporate violations. This enables an appropriate experiment to test the link between the corporate violation and the risk of losing legitimacy of socially connected firms, hence testing the subsequent changes in CSR performance after corporate violations. Finally, the corporate violations, as external shocks, do not directly impact the socially connected firms to engage in CSR, rather they are influenced through the contagion effects of these shocks. The salience to managers is increased through the attention on social media platforms such as Facebook.

Our empirical analysis is based on combining two primary datasets: corporate violations, as identified and obtained from Violation Tracker, and the second dataset is Social Connectedness, which is sourced from Bailey et al. (2018a) SCI database and used to identify the closest socially connected firms.

4.2.3.2 Violation Tracker

To identify corporate violations, we use the Violation Tracker database, which is prepared by the Corporate Research Project of Good Jobs First, a national policy resource center that aims to foster corporate and governmental accountability (Good Jobs First 2023).[24] The Violation Tracker database is a pioneering resource for information on corporate irresponsibility and is employed in several studies (Stubben and Welch 2020; Raghunandan 2021; Zaman et al. 2021; Heese and Perez-Cavazos 2022, among others).

In this study, we employ the Violation Tracker Database for three reasons. First, it has a comprehensive coverage of an extensive range of infringements of stakeholders' rights, comprising the following categories: i) environment-related misconduct; ii) employment-

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[24] We are grateful to "Good Jobs First" for making data on corporate misconduct available to researchers.

related misconduct; iii) government-related misconduct; iv) healthcare-related misconduct; v) financial-related misconduct; and vi) safety-related misconduct. In contrast, prior literature usually focuses on one category of misconduct, such as accounting-related or restatements or toxic releases (e.g., Karpoff et al. 2017; Xu and Kim 2022). Secondly, it only addresses violations that result in enforcement proceedings and penalties. Thirdly, in contrast to other databases, it exclusively concentrates on corporate misconduct, rather than including individual wrongdoings.

From the database's 548,000 civil and criminal cases, we select the top 10 violations of each violation category in our sample in which the parent company is a publicly traded firm. We select corporate violations starting from 2004 up to 2015. The start date of the sample period is influenced by the fact that Facebook was launched in 2004, while the end date allows us to track the firm CSR performance until three years following the corporate violation. We obtain the names, dates and headquarter location of the corporate scandals and drop violations by financial institutions and utility firms. We use a [-3,+3] year window around the misconduct event. Moreover, we only include treated and control facilities if they are present in both pre and post-treatment periods, further reducing our sample. Our final data set consists of 41 violations perpetrated by 32 unique firms. Appendix 4.2. describes the violations, the firms' name, the violations' categories, the year and the penalty amount.

4.2.3.3   Social Connectedness

We use the Social Connectedness Index (SCI) developed by Bailey et al. (2018a) as a proxy for social ties between county pairs based on Facebook friendship links. Using aggregated anonymized information from all friendship links between all U.S. Facebook users as of April 2016. The SCI measure determines "the relative frequency of Facebook friendship links between each county-pair. This measure of social connectedness has been used and validated in prior studies (e.g., Bali et al. 2021; Bailey et al. 2019; Wilson 2022; Allen et al. 2020; Bailey et al. 2020; Kuchler et al. 2022).

Many studies have used the Social Connectedness Index measure by Bailey et al. (2018a) for a few reasons. First, Facebook is perceived as an appropriate platform representing a broad scale of U.S. friendship networks. Facebook has a significant user base and has been ranked first globally in terms of the most active social media platform with over 2.963 billion and 266 million active users globally and in the US and Canada, respectively (Meta Platforms 2023). Furthermore, Facebook is perceived as one of the main platforms that users use to

connect with real-world friends and acquaintances (Jones 1987; Gilbert and Karahalios 2009; Hampton et al. 2011) whereas other social media platforms, such as Twitter or LinkedIn, have more interaction between non-acquaintances. In this paper, we recognize that there is a strong correlation between physical proximity and the SCI by Bailey et al. (2018a). Most individuals tend to have Facebook friends who live within a 50-mile radius of their county, indicating high geographical homophily.

After we have obtained the names, dates and headquarter location of the corporate violations, we identify the top five counties that are socially connected to each corporate violation in our sample. To illustrate, consider Anadarko Petroleum, which committed a violation in 2015 and is headquartered in Montgomery County, Texas. From the SCI data, we find that the five closest counties in terms of social connectedness are San Jacinto, Walker, Grimes, Liberty, and Trinity, all located in the state of Texas.

4.2.4   Our Empirical Methodology

In this study, we are interested in measuring the salience of each corporate violation according to the social connectedness between the firm's headquarters and the county where the scandal occurred. Following the novel approach in Dessaint and Matray (2017), we define three distinct geographic perimeters. First, we identify the *scandal area,* which encompasses all counties where firms with corporate violations in our sample are headquartered. Second, we define the *social connected area*, which is identified by matching each county with a corporate violation with its top five highest non-affected counties based on social connectedness. This procedure leads to a set of matched counties that make up the socially connected area and a group of non-matched counties that make up the *rest of the US mainland area.*

The treatment group for this study are the firms located within the socially connected area since the corporate violation should be a salient event for firms operating in such regions. Particularly because managers' attention is more likely to be drawn to these firms since they are socially connected to people residing in the corporate violation area. Therefore, subsequent changes in CSR performance following corporate violations are more likely as a direct result of the corporate violation. Similar to Dessaint and Matray (2017), we separate firms located in the scandal area, since the corporate violation directly affects subsequent CSR performance. We do not remove, but rather control for these firms to account for the direct impact of the scandal area on the change in CSR performance.

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Next, we use a difference-in-differences design to examine the effect of social connectedness on CSR performance following a corporate violation. The treatment variable, denoted as *Connected,* represents firms that have their headquarters located in counties that are the top five highest socially connected firms to a corporate violation for that year and zero otherwise. *Scandal area* denotes firms headquartered in the same county as the firm that had a corporate violation for that year, and zero otherwise. We remove firm-year observations that are equal to one for the Connected variable and Scandal area variable. Using a difference-in-differences estimation, we examine corporate violations' impact on CSR performance through social connectedness. The basic regression we estimate is:

$$CSR_{it} = \alpha_i + \beta_1 Connected_{i,t} + \beta_2 Scandal\ area_{i,t} + \gamma Controls_{i,t} + FirmFE + YearFE + \varepsilon_{i,t} \quad (1)$$

where $CSR_{i,t}$ proxies for two CSR variables: CSR strength (CSR Strength) and CSR concern (CSR Concern) of firm i in year t. $Connected_{i,t}$ represents firms that have their headquarters located in counties that are the top five highest socially connected firms to a corporate violation for that year and zero otherwise. *Scandal area* denotes firms headquartered in the same county as the firm that had a corporate violation for that year, and zero otherwise. $Controls_{i,t}$ is a vector of firm-specific control variables (i.e., Size, ROA, Leverage, Risk, R&D, Cash, and Inst.Own and Age). α_0, β_1, and γ are the (vectors of) parameters to be estimated. We include year and firm fixed effects in the model to control for any unobserved, time- and firm-invariant factors that may influence firm i's CSR. Standard errors are clustered at the firm and county levels.

4.3 Empirical Results

4.3.1 Summary and Descriptive Statistics

Table 4.1 presents an overview of the corporate violations in our sample. Panel A lists the corporate violations based on the states where the firms are headquartered, while Panel B categorizes them by industry. Panel A shows that our sample includes firms with corporate violations across various states, however we find that the number of scandals is most frequent in Texas (with nine violations), California (with six violations), as well as New Jersey and New York (with five violations each). This is not surprising, because California, New York, and Texas are ranked the top 3 states with companies listed in the S&P 500 in 2022 (Forbes, 2022). Moreover, Panel B shows that corporate violations are predominantly linked to firms operating

in the Healthcare and Medical industry. This can be ascribed to factors such as weak governmental regulations or high incentives for short-term profitability due to internal compensation strategies (Ausness 2021).

<div align="center">Insert Table 4.1 about here</div>

Table 4.2 provides the detailed summary statistics of the variables in our study, with the mean, median, standard deviation, and their values at the 25th and 75th percentiles. For parsimony, the table presents the data only for the sample used in our primary analysis using the [-3, +3] sample. Panel A reports the statistics for our outcome variable, CSR strength and CSR concern. The average *CSR Strength (Concern)* is 0.365 and 0.295, respectively, suggesting that the firms in our sample engage more in CSR activities, rather than concerns. This is consistent with the literature (e.g., Ge and Liu 2015).

Panel B shows the summary statistics for the firm characteristics. The firm size in the sample has an average mean of 7.345 natural logarithm of total assets, which is equivalent to $1,548 million. The firm age average is equivalent to 16 years. Furthermore, Risk and R&D have a mean of 0.027 and 0.143, respectively. The percentage of shares owned by institutional investors is 70%. As for ROA the average is 0.031; Leverage has a mean value of 0.211 and Cash holding average is -2.407. This is consistent with the statistics in previous research (McGuire et al. 2012; Dudley and Zhang 2016; Fauver et al. 2017; Favara et al. 2021; Dai et al. 2021).

Panel C reports the summary statistics for the treatment variables. It shows that the mean of the treatment variable Connected and Scandal zone is 0.329 and 0.420, respectively. Panel D presents the summary statistics for the firm characteristics for the firms located in the S*candal zone* and *Social Connected area* one year prior to the corporate violation. It also provides the summary statistics for firms in the control group, the *Rest of the U.S.*
It is evident that prior to the corporate violations the mean of the variables in our sample are similar between the firms in the Scandal zone and Social Connected area.

<div align="center">Insert Table 4.2 about here</div>

Table 4.3 reports the Pearson correlation coefficients for the regression variables. We evaluate the correlation between all our variables prior to running our main regression in the next session. The pairwise correlations among the independent variables and control variables

are below 0.50, indicating that multicollinearity is unlikely to be a severe concern in our study.[25]

<p style="text-align:center">Insert Table 4.3 about here</p>

4.3.2 Baseline results

We examine the effect of event saliency on the perceived risk to a firm's legitimacy by managers through the change in CSR performance following corporate violations. Table 4.4 reports difference-in-differences estimates to analyze the effects of being socially connected to a scandal area after a corporate violation.[26] Regressions (1) and (2) show that, on average, connected firms increase their CSR strength. In Regression (1) and (2), the coefficient of Connected on CSR strength is 0.056 and 0.053, respectively and are significant at the 10% level. The economic magnitude is relatively small. A one-standard-deviation increase in customer social capital is associated with a 2.9% increase in the CSR index (relative to the sample mean). Concerning the economic magnitude, a one-standard-deviation increase (32.9 percentage points) in *Connected* is expected to increase CSR Strength by 1.74 (=0.053 x 0.329) percentage points in regression (2), which corresponds to an 4.65% increase in the *CSR Strength*, given a sample mean of 0.365 for *CSR Strength*.

In addition, regressions (3) and (4) show a negative link between Connected and CSR Concern, nevertheless the coefficient is insignificant. These findings support the contagion effect and align with the salience effect and legitimacy theory. The results of our analysis suggest that following an announcement of a corporate violation misconduct, managers perceive that the trust and legitimacy of their firm are at risk. Despite that there is no indication of an immediate legitimacy risk for the connected firms compared to the year prior to the corporate violation, firms engage in stakeholder-friendly activities to build trust and confidence among their stakeholders as a strategy to hedge against that risk. Thus, consistent with the legitimacy theory, managers are incentivized to adopt more stakeholder-friendly policies to improve the firm's reputation particularly as a strategy to shift attention from being connected to the firm that conducted corporate misconduct (Du 2011; Rothenhoefer 2018) and elicit

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[25] In untabulated results, we find a high correlation of 0.747 between *Connected*, the treatment variable defined as firms that have their headquarters located in counties that are the top five highest socially connected firms to a corporate violation for that year and zero otherwise, and *Geographically Connected*, variable defined as firms that have their headquarters located in counties that are the top five geographically closests firms to a corporate violation for that year and zero otherwise. Therefore, *Geographically Connected* is not included as a control in the main regression to avoid multicollinearity in the analysis.

[26] As an additional robustness check, we introduced an interaction term between Connected and Scandal area. Despite not yielding significant results, the findings are documented in Appendix 4.3.

positive image by stakeholders (Godfrey 2009; Groza et al. 2011). Our findings are also consistent with prior literature suggesting firms respond to increased media attention by increasing their CSR strengths rather than reducing their CSR concerns (Zyglidopoulos et al. 2012). Finally, in regressions (5) and (6) show a positive link between Connected and Net CSR, nevertheless the coefficient is insignificant.

Furthermore, Table 4.4 also reports the effect of the corporate violations on firms in the scandal area, which includes all firms in the county where firms with corporate violations in our sample are headquartered. Regressions (1) and (2) show that coefficient of Scandal area on CSR strength is 0.091 and 0.095, respectively and are significant at the 1% level. Furthermore, Regressions (5) and (6) show that the coefficient of Scandal area on Net CSR is 0.089 and 0.093, respectively and are significant at the 1% level. This indicates that firms in scandal areas will improve their CSR strengths and overall CSR performance following a corporate scandal in their county.

On the other hand, similar to connected firms, we do not find a significant connection between the Scandal area and CSR concerns. The findings are consistent with the legitimacy theory that firms will "do extra well" to divert attention away from CSR concerns. Particularly, because the firms in the Scandal area are more likely to be at direct risk of losing legitimacy following a corporate violation, it is expected that the firms will exert their resources into improving their firm performance.

Insert Table 4.4 about here

Table 4.5 reports difference-in-differences estimates of firms' CSR performance response to the announcement of corporate violations when being connected to an errant firm at different times before and after the corporate violation. We replace the primary variable, Connected, with a set of dummy variables. Connected_t+i (Scandal Area_t+i) is a dummy variable equal to one if the county of the firm headquarters at year t+i is in the top five highest socially connected firms (is in county) to a corporate violation during year 0. The coefficients in Table 4.5 for each dummy variable measure the difference-in-differences in the level of CSR Strength, CSR Concern and Net CSR from 1 year prior up to 3 years after the corporate violation. The same method is applied for the *Scandal_zone* variable.

The results show that there is no statistically significant change in CSR strength performance prior to the corporate violation for firms located in the connected area. The CSR strength performance started to increase three years after the corporate violation. The coefficients for the Connected_t +3 shows that, on average, firms located in the connected area

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respond to the salience of the corporate violation by increasing their CSR strength at the end of the third year. This is because CSR performance is a long-term strategy and is usually not reflected immediately. On the contrary, our findings show that there is no notable shift in either CSR concern or Net CSR before or after the corporate violation for firms headquartered in socially connected counties. This reaffirms the legitimacy theory's premise that firms aim to mitigate the risk of losing legitimacy by emphasizing "doing good", rather than directly reducing CSR concerns and subsequently improve the overall CSR performance.

On the other hand, we document that one year prior to the corporate violation and in the year of the corporate violation, the firms in the scandal area increased their CSR strength. These findings are consistent with the view that, firms aim to deviate attention away from their corporate wrongdoings. Several studies support this notion and document that firms enhance their reputation through CSR engagement as an insurance-like value that can protect the firm in adverse events (e.g., Godfrey et al. 2009; Hong et al. 2019). However, we do not obtain a significant CSR performance increase one year after the violation. The CSR strength performance started to increase two years following the occurrence of the corporate violation. The coefficients for the Scandal area_t +2 show that, on average, firms located in the scandal area will aim to obtain legitimacy by increasing their CSR at the end of the second year. Contrarily, we find that firms do not demonstrate an increase in CSR strengths during the initial year subsequent to the corporate scandal within their county. Nevertheless, there is a significant decrease in CSR concern. This is further reflected in a significant and positive overall CSR performance one year following the scandal. Firms can perceive the corporate scandal as a signal to reduce their CSR concerns. The coefficients for the Scandal area_ t+3 is not significant, and that can be argued that the perceived risk of losing corporate reputation decreases as time goes by and managers will reduce investing in CSR performance.

Insert Table 4.5 about here

Figure 4.1 reports the estimates of Regression (2) in Table 4.5, which shows the evolution of the differences in CSR performance between firms located in the connected and scandal area. Generally, the connected and scandal area firms follow similar trends. The trend shows that firms in the connected area witness a decline in CSR performance towards the end of the year when a corporate violation occurs, in contrast to the firms in the scandal area that seem to have a relatively stable CSR performance. The figure shows a substantial decline in

CSR performance for firms in both the connected and scandal area one year post the corporate violation. It is plausible that the reduction in CSR performance reflects the corporate violation.

Nevertheless, the firms in the connected area increase their CSR performance in the two and three years post corporate violation. On the other hand, firms in the scandal area increase their CSR performance up to the end of the second year, whereas they obtain a decline in CSR performance again by the end of the third year post corporate violation. Overall, it can be argued that firms initially perceive a decline in CSR performance as a reflection of the corporate violations or time required to implement the long-term strategy of CSR.

Insert Figure 4.1 about here

Figure 4.2 reports the estimates of Regression (2), (4) and (6) in Table 4.5, which shows the evolution of the differences in CSR strength, CSR concern and Net CSR performance between firms located in the connected area. The depicted trend reveals a distinct pattern. Specifically, in the year preceding the corporate scandal, there was a decline in both CSR strength and CSR concern, leading to an overall improvement in CSR performance. Subsequently, firms in connected area experienced an increase in their CSR performance during the two- and three-year periods following the corporate violation. In contrast, their CSR concerns remained relatively steady for the initial two years post-scandal, with an upward trajectory becoming evident towards the end of the third year. Notably, the overall CSR performance for firms in connected areas exhibit a decrease one year after the scandal, followed by a subsequent upward trend that persisted until the end of the third year. The initial decline is CSR performance can be an indicative of its long-term strategic nature.

Insert Figure 4.2 about here

Figure 4.3 reports the estimates of Regression (2), (4) and (6) in Table 4.5, which shows the evolution of the differences in CSR strength, CSR concern and Net CSR performance between firms located in the scandal area. The illustrated trend reveals intriguing dynamics. In the year leading up to the corporate scandal, CSR strength exhibited a relatively stable trajectory. However, in the aftermath of the scandal, there was a significant decline, with recovery only evident by the end of the second year. Remarkably, this pattern mirrors that of CSR concern. This observation holds particular significance, indicating that firms tend to prioritize either increasing their CSR strength performance or reducing their CSR concerns, rather than pursuing both concurrently. Furthermore, the overall CSR performance

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demonstrates a noteworthy surge one year post-scandal, and continues into the third year following the violation.

Insert Figure 4.3 about here

Table 4.6 presents the difference-in-differences estimates to analyze the effects of being socially connected to a scandal area after a corporate violation. We replace the main dependent variable CSR strength, with the six individual components of CSR: Environment (Regression (1)), Employee relations (Regression (2)), Diversity (Regression (3)), Community (Regression (5)), Product (Regression (5)), and Human Rights (Regression (6)). These analyses provide further insight into the aspects of CSR that are improved, driven by the risk of losing legitimacy following corporate violations.

The coefficients of Connected are positive and significant for Employee relations and Community, indicating that the results for the positive CSR strength are primarily driven by sub-scores relating to the primary stakeholders. In Regression (2) and (4) the coefficient of Connected on Employee relations is 0.056 and Community is 0.053 and significant at the 1% and 10% level, respectively. Our findings are further supported by prior literature in the peer effect literature. Li and Wang (2022) find that firms' CSR performance significantly comoves with their local peers in the community, employee relations, and product quality policies. The connected firms in our sample engage in policies to meet the demand of key stakeholders, such as employees and the community, to obtain a competitive advantage (Hillman and Keim 2001).

The coefficients of Connected are positive and highly significant for Employee relations. This result conjectures with the literature suggesting that investors perceive employee relations of more importance than relationships with other stakeholders (Jiao 2010) and empirical evidence shows that investors respond positively to HR-related announcements (Hannon and Milkovich, 1996). Furthermore, the increased attention firms receive after being connected to an errant firm might pressure firms to invest in stakeholder policies relating to employee relations because poor employee commitment can cause an increased risk of litigation and reputation loss (Bauer et al. 2009).

The significant and positive impact on the community is interesting, considering Krüger (2015) analyses the stock market reaction following two thousand positive and negative CSR events and documents the strongest reactions to adverse events relating to the environment and communities. Thus, implying that investors and other stakeholders are sensitive to how firms manage community practices.

Our findings are consistent with the legitimacy theory since the connected firms engage in CSR practices related to primary stakeholders, employee relations and community to improve the firm's reputation. This observation is consistent with the notion that they adopt policies that meet the investors' demand.

On the other hand, our results show that the increased CSR strength performance for firms in the Scandal area stems from adopting policies favoring environment, employee relations, diversity, community, and human rights. The results show that firms headquartered in the same county as the errant firm will aim to increase their reputation by employing stakeholder-friendly practices in all aspects, except for the sub-category product. The firms in the scandal area are either the firms that committed the corporate violation or within the same county, hence it is expected that their corporate reputation is under more scrutiny. Consequently, managers in such firms will adopt stakeholder-friendly in various ways to obtain legitimacy.

In untabulated results, we measure *Connected* for corporate violations relating to only *Healthcare*, and we find that our results all become insignificant on all CSR aspects. We repeat this process for corporate violations relating to only *Environment,* however the results do not show a significant relationship between *Connected* with any of the CSR sub-categories.

Insert Table 4.6 about here

4.3.3   Robustness to Alternative Control Variables

In this section, we examine the robustness of our findings to alternative measures of CSR performance and alternative measures of firm performance and report the results in Table 4.7.

In Regression (1) and (2), we examine the robustness of our findings after using an alternative measure of CSR strength and CSR concern, respectively. In conjecture with prior literature (e.g., Deng et al. 2013; Hedge and Mishra 2019), we replace the adjusted CSR score in our main measure of a firm's CSR performance with raw CSR scores. Our results are qualitatively similar to those using adjusted CSR scores.

We measure the CSR score by aggregating the raw CSR components without adjusting for the changing numbers of strength and concern over time and across firms. Our results are consistent with the findings in our baseline regression.

In regressions (3) and (4), we examine if our results are sensitive to controlling for alternative measures of firm performance. These measures include the firm's return on equity (ROE), Tobin's Q, and the market-to-book value ratio (MB). Our results are consistent with the findings in our baseline regression.

Insert Table 4.7 about here

4.3.4   Subsample analysis

We explore whether the positive effect of Connected is more pronounced for firms operating in high-polluting industries. On the one hand, it can be contended that firms in high-polluting industries might document lower participation in CSR activities due to the considerable expenses linked to them. Firms operating in heavily polluting industries already allocate nearly one-fifth of their capital expenditure towards CSR initiatives regarding pollution control (Freedman and Jaggi, 1982; Belkaoui, 1976). On the other hand, improving CSR performance can enhance the firm's reputation and employee satisfaction and improve innovation. Accordingly, firms operating in less eco-friendly industries will benefit more significantly from these stakeholder-oriented activities (Flammer and Kacperczyk 2016). Therefore, we expect connected firms operating in high-polluting industries to benefit more significantly from implementing various stakeholder-friendly activities.

As discussed in section 2.3.6. we follow the method by Flammer and Kacperczyk (2016) to categorize firms into high-polluting and low-polluting industries based on the U.S. Environmental Protection Agency (2017), which underlines that seven industry sectors are responsible for 89% of the Toxic Release Inventory (TRI) chemicals. Accordingly, we classify firms into high-polluting subsample if firms operate in one of these seven industry sectors and into the low-polluting subsample otherwise. The results in Table 4.8 show that *Connected* is positive and significant for firms operating in high polluting industries and insignificant for low polluting industries. Our findings are in line with the argument that firms in high polluting industries can benefit more significantly from implementing CSR initiatives following a corporate violation.

Insert Table 4.8 about here

Lastly, we examine the effects for firms with different levels of competitiveness. It can be contended that firms in more competitive markets employ CSR as a strategy to differentiate themselves from their competitors and gain legitimacy (e.g., Freeman 1984; Fisman et al. 2006; Baron 2009; Baron et al. 2011; Liu and Wu 2016). Accordingly, we expect connected firms to exert more resources into CSR initiatives to gain competitive advantage, particularly when operating in a competitive market.

To test this hypothesis, we categorize firms into those with low competitive pressure and highly competitive pressure. We obtain data from Hoberg et al. (2014) on the product market fluidity database, which measures competitive threats faced by a firm. Hoberg et al. (2014) use 10-K annual reports to construct this variable by measuring "the change in a firm's product space due to moves made by competitors in the firm's product markets". This variable is widely used in the literature (e.g., He and Wintoki 2016; Lyandres and Palazzo 2016; Cao et al. 2019) because in contrast to the traditional competition measure "Herfindahl–Hirschman Index (HHI)", the fluidity measure captures the competition market threat at firm level rather than by a particular industry. Thus, a higher product market fluidity implies a higher competition level in the current product market, hence a higher competitive threat. Accordingly, we classify firms into the high-fluidity subsample if firms have a fluidity above the median and into the low-fluidity subsample otherwise.

The results of the impact of high vs. low fluidity connected firms on CSR performance following a corporate violation are reported in Table 4.9. Consistent with the above conjecture, we find that connected firms will aim to obtain legitimacy in the high-competitive-pressure group since they are subject to more legitimacy risk than those in the low-competitive-pressure group.

<div align="center">Insert Table 4.9 about here</div>

4.4 Conclusion

Despite the growing body of research exploring the factors driving CSR, there remains a significant gap in understanding the influence of the contagion effect on other firms' CSR performance. Identifying the causal effect of the contagion effect among firms has been perceived to be complex. In this paper, we present evidence on the contagion effect of corporate violations on CSR performance.

Using a sample of 41 corporate violations with 15,515 firm-year observations for 1,789 unique firms during 1998-2018, this paper examines whether a firm's CSR engagement is determined by the corporate violation of firms they are socially connected to. We rely on the occurrence of corporate violations as events to identify variations in CSR performance and analyze the reactions of socially connected firms to such events.

Our results are consistent with the contagion effect. Firms that are socially connected with a firm that had a corporate violation, might be faced with a loss of legitimacy. The corporate violation announcements can put the stakeholder's trust and legitimacy of connected firms

under scrutiny. Therefore, firms will employ CSR strategically to divert attention away from corporate scandals or to rebuild goodwill from stakeholders by doing "extra well". Our findings are consistent with the above-mentioned proposition, and the results are robust when using alternative measures of CSR performance or alternative control variables. We find that the increase in CSR performance is not immediate but increases three years following the corporate violation. Finally, the improved social performance stems from the adoption of firm policies that are favorable to the employees and diversity.

We further perform several tests to provide a more rigorous understanding of our findings, more specifically we explore the channels through which a firm's CSR reacts to the corporate violations of the errant firms. In the subsample analysis, we attempt to explain the reasons behind the main results by comparing firms first based on if they belong to low vs. high polluting industries and then if they belong to the high vs. low competitive pressure group. The results show that the positive impact of connected on CSR performance is more pronounced in high polluting industries. Next, we find that connected firms will aim to obtain legitimacy in the high-competitive-pressure group since they are subject to more legitimacy risk than those in the low-competitive-pressure group.

Our research brings to light a nuanced understanding of the contagion effect and its profound impact on firms' decision-making processes, making significant contributions to both academic literature and practical applications in the corporate world. Here's a detailed exploration of the implications: In the academic domain, our findings stand as pioneering evidence, illustrating the tangible influence of social interaction on a firm's decision-making regarding CSR subsequent to a corporate violation. We delve into the dynamics of how social interactions within the business environment play a pivotal role in shaping a firm's approach to CSR, particularly in the aftermath of misconduct. This novel insight enriches the academic literature, providing a foundational understanding of the interplay between social dynamics and CSR decisions within firms.

In the management sphere, our results offer insights for investors. The research uncovers a crucial linkage that corporate misconduct significantly impacts the decision-making process of the violating firm concerning CSR, and this impact extends to socially connected firms. This result serves as a crucial strategic consideration for investors as well as other actors within the corporate sector. It implies that corporate misconduct events within connected firms can contagiously affect the CSR decision-making of other firms within the network. Therefore,

all actors including investors, suppliers and customers must carefully integrate the potential contagion effect of such events into their strategic decision-making processes.

Importantly, our findings are not limited to corporate violations alone. They can be extrapolated to a spectrum of events beyond violations and can be extended to different strategic decisions made by firms. This broadens the scope and applicability of our research. Moreover, the results shed light on the substantial role played by social connectedness in influencing a firm's economic outcomes and policies. Social interactions and relationships in the business landscape are not mere peripheral factors but central influencers that shape critical strategic decisions. This understanding is pivotal for academia, providing a foundational understanding, and equally critical for practitioners, urging a proactive approach in considering the contagion effect in strategic decision-making across various contexts within the corporate landscape.

Table 4.1: Corporate Violations by State

This table presents the distribution of corporate violations by state (Panel A) and by Fama-French 12 industries (Panel B). Our sample of corporate violations consist of 41 corporate violations that occurred between 2004 and 2015.

Panel A. Corporate violations by State

State	Number of Corporate Violations	State	Number of Corporate Violations
Alabama	0	Michigan	1
Alaska	0	Minnesota	0
Arizona	0	Missouri	0
Arkansas	0	Nebraska	0
California	5	Nevada	0
Colorado	1	New Hampshire	0
Connecticut	1	New Jersey	5
Delaware	0	New Mexico	0
DC	0	New York	5
Florida	0	North Carolina	0
Georgia	1	North Dakota	0
Hawaii	0	Ohio	1
Idaho	0	Oregon	0
Illinois	3	Pennsylvania	0
Indiana	0	Rhode Island	0
Iowa	2	South Carolina	1
Kansas	0	Tennessee	3
Kentucky	0	Texas	9
Louisiana	0	Utah	0
Maine	0	Virginia	0
Maryland	0	Washington	0
Massachusetts	3	Wisconsin	0
Total			41

Panel B. By Industry

Fama-French 12 industries	Number of Corporate Violations
Consumer Non-Durables	0
Consumer Durables	0
Manufacturing	2
Energy, Oil, Gas, and Coal	8
Chemicals and Allied products	1
Business Equipment	6
Telephone and Television	1
Wholesale, Retail and Services	2
Healthcare and Medical	18
Other	3
Total	41

Table 4.2: Summary Statistics and Sample Distribution

This table provides descriptive statistics of variables used in our analysis using the [-3, +3] sample. The sample consists of 15,515 firm-year observations from 1,789 US-listed nonfinancial companies. Panel A describes the descriptive statistics for measures of CSR. *CSR Strength* (*CSR Concern)* is the sum of yearly adjusted scores of CSR strengths (concerns) across six different CSR dimensions: Product, Employee, Community, Human Rights, Diversity and Environment. Panel B provides the descriptive statistics of our treatment variable. Social Connectedness (Connected) represents firms that have their headquarters located in counties that are the top five highest socially connected firms to a corporate violation for that year and zero otherwise. *Scandal area* denotes firms headquartered in the same county as the firm that had a corporate violation for that year, and zero otherwise. Panel C provides the descriptive statistics for our control variables. Firm size (Size) is the natural log of total assets in million dollars. Return on Assets (ROA) is the ratio of net income to total assets. Leverage (Leverage) is the ratio of long-term debt to the total asset. Risk (Risk) is the standard deviation of daily stock returns in the current year. Research and Development intensity (R&D) is the ratio of research and development expenses to total sales. Cash holding (Cash) is the ratio of cash to assets. Institutional Ownership (Inst) is the percentage of shares owned by institutional investors. Firm age (Age) is the natural logarithm of the number of years since a firm was established. Panel D presents average values of the variables for treated and control firms for each group of firms (*Scandal area, Connected area,* and *Rest of US*). All variables are winsorized at the 1st and 99th percentiles.

Panel A: CSR Performance

	N. of Obs.	Mean	St Dev	P25	Median	P75
CSR Strength	15,515	0.365	0.593	0.000	0.143	0.500
CSR Concern	15,515	0.295	0.393	0.000	0.200	0.500
Net CSR	15,515	0.068	0.639	-0.333	0.000	0.250

Panel B: Treatment effect

	N. of Obs.	Mean	St Dev	P25	Median	P75
Connected	15,515	0.123	0.329	0.000	0.000	0.000
Scandal Area	15,515	0.229	0.420	0.000	0.000	0.000

Panel C: Firm Characteristics

	N. of Obs.	Mean	St Dev	P25	Median	P75
Size	15,515	7.345	1.694	6.08	7.211	8.454
ROA	15,515	0.031	0.138	0.013	0.054	0.094
Leverage	15,515	0.211	0.200	0.018	0.182	0.324
Risk	15,515	0.027	0.013	0.018	0.024	0.033
R&D	15,515	0.143	0.558	0.000	0.010	0.095
Cash Holding	15,515	-2.407	1.402	-3.239	-2.256	-1.452
Instit. Ownership	15,515	0.746	0.221	0.629	0.789	0.904
Age	15,515	2.788	1.005	2.197	2.773	3.295

Panel D: Headquarter location

	Scandal Area	Connected Area	Rest of US
	Mean	Mean	Mean
	(1)	(2)	(3)
Size	7.391	7.755	7.327
ROA	0.012	0.042	0.032
Leverage	0.188	0.186	0.213
Risk	0.030	0.024	0.027
R&D	0.143	0.150	0.143
Cash Holding	-2.181	-2.379	-2.422
Instit. Ownership	0.728	0.781	0.746
Age	2.608	2.974	2.794
N	895	381	14,240

Table 4.3 Pairwise Correlation Matrix

This table reports the correlation matrix among the main variables used in our analysis. * Indicates statistical significance at the 1% level
Definitions are provided in Appendix 4.1

		V1	V2	V3	V4	V5	V6	V7	V8	V9	V10	V11	V12
CSR strength	V1	1.000											
CSR concern	V2	0.214*	1.000										
Connected	V3	0.174*	-0.022*	1.000									
Scandal Area	V4	0.165*	0.048*	0.142*	1.000								
Size	V5	0.532*	0.333*	0.161*	0.142*	1.000							
ROA	V6	0.110*	0.025*	0.056*	0.006	0.251*	1.000						
Leverage	V7	0.076*	0.052*	0.028*	-0.017*	0.304*	-0.062*	1.000					
Risk	V8	-0.258*	-0.005	-0.172*	-0.068*	-0.425*	-0.400*	-0.035*	1.000				
R&D	V9	-0.049*	-0.052*	-0.021*	-0.016	-0.233*	-0.420*	-0.046*	0.225*	1.000			
Cash/TA	V10	-0.031*	-0.096*	0.015	0.066*	-0.306*	-0.116*	-0.338*	0.183*	0.214*	1.000		
Inst. Own.	V11	0.024*	-0.102*	0.128*	0.063*	0.161*	0.158*	0.054*	-0.223*	-0.120*	-0.030*	1.000	
Age	V12	0.331*	0.114*	0.177*	0.084*	0.469*	0.182*	0.087*	-0.357*	-0.142*	-0.173*	0.096*	1.000

Table 4.4 Connected and CSR Performance

This table presents the difference-in-differences estimates of the effects of the social connectedness of a firm to a corporate violation event on the CSR performance with core (Regression 1 and 3) and full set of control variables (Regression 2 and 4) namely Size, ROA, Leverage, Risk, R&D, Cash, and Inst.Own. and Age. The dependent variable is CSR Strength in regression (1) and 2. The dependent variable is CSR concern in Regressions (3) and (4). The dependent variable is Net CSR in Regressions (5) and (6). *CSR Strength* (*CSR Concern)* is the sum of yearly adjusted score of CSR strengths (concerns) across six different CSR dimensions: Product, Employee, Community, Human Rights, Diversity and Environment. Net CSR is the composite CSR score obtained by substracting CSR concern from CSR strength. *Connected* is a dummy variable equal to one if the county of the firm headquarters is in the top five highest socially connected firms to a corporate violation for that year and zero otherwise. *Scandal Area* is a dummy variable equal to one if the county of the firm headquarters is in the same county as the firm that had a corporate violation for that year, and zero otherwise. Definitions and data sources for the firm control variables are provided in Appendix 4.1. The time span for this study is between 1998 and 2018. There are 15,515 observations across 1,789 firms in this study. Firm and year fixed effects are included. Standard errors are clustered at the county level and reported in parentheses. ***, **, and * denote statistical significance at the 1%, 5%, and 10% level, respectively.

	CSR Strength$_t$		CSR Concern$_t$		Net CSR$_t$	Net CSR$_t$
	(1)	(2)	(3)	(4)	(5)	(6)
Connected t	0.056*	0.053*	0.010	0.008	0.046	0.048
	(0.030)	(0.029)	(0.017)	(0.017)	(0.034)	(0.034)
Scandal Area $_t$	0.091***	0.095***	-0.003	-0.002	0.089***	0.093***
	(0.026)	(0.025)	(0.015)	(0.015)	(0.029)	(0.029)
Size$_t$		0.109***		0.064***	0.039**	0.044**
		(0.016)		(0.011)	(0.019)	(0.020)
ROA$_t$		-0.078*		-0.049*		-0.030
		(0.040)		(0.026)		(0.049)
Leverage$_t$		0.087*		0.001		0.092
		(0.051)		(0.030)		(0.057)
Risk$_t$		0.416		1.554***		-1.198*
		(0.532)		(0.392)		(0.615)
R&D$_t$		-0.004		0.000		-0.004
		(0.014)		(0.008)		(0.017)
Cash$_t$		0.006		0.007*		-0.002
		(0.006)		(0.004)		(0.007)
Inst.Own.$_t$		-0.104**		-0.073***		-0.026
		(0.051)		(0.027)		(0.059)
Age$_t$		-0.104***		0.005		-0.107***
		(0.022)		(0.013)		(0.026)
Intercept	0.102	-0.374***	0.103	-0.303***	-0.278	-0.057
	(0.073)	(0.145)	(0.073)	(0.099)	(0.190)	(0.190)
Firm FE	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES
No. of observations	15,515	15,515	15,515	15,515	15,515	15,515
Adjusted R-squared	0.255	0.266	0.321	0.329	0.318	0.321

Table 4.5 Connected and CSR Performance at different years surrounding the corporate violations.

This table presents the difference-in-differences estimates of the effects of the social connectedness of a firm to a corporate violation event on the CSR performance. The dependent variable is CSR Strength in regression (1) and 2. The dependent variable is CSR concern in Regressions (3) and (4). The dependent variable is Net CSR in Regressions (5) and (6).*CSR Strength (CSR Concern)* is the sum of yearly adjusted score of CSR strengths (concerns) across six different CSR dimensions: Product, Employee, Community, Human Rights, Diversity and Environment. Net CSR is the composite CSR score obtained by substracting CSR concern from CSR strength. *Connected_t+i (Scandal Area_t+i)* is a dummy variable equal to one if the county of the firm headquarters at year t+i is in the top five highest socially connected firms (is in county) to a corporate violation during year 0. Definitions and data sources for the firm control variables are provided in Appendix 4.1. The time span for this study is between 1998 and 2018. There are 15,430 observations across 1,789 firms in this study. Firm and year fixed effects are included. Standard errors are clustered at the county level and reported in parentheses. ***, **, and * denote statistical significance at the 1%, 5%, and 10% level, respectively.

	CSR strength$_t$		CSR Concern$_t$		Net CSR$_t$	
	(1)	(2)	(3)	(4)	(5)	(6)
Connected_$_{t-1}$	0.005	0.007	0.008	0.010	-0.006	0.000
	(0.029)	(0.028)	(0.016)	(0.016)	(0.030)	(0.030)
Connected_$_{t0}$	-0.013	-0.007	-0.013	-0.011	0.000	0.008
	(0.033)	(0.032)	(0.020)	(0.020)	(0.035)	(0.035)
Connected_$_{t+1}$	-0.013	-0.016	0.003	0.001	-0.011	-0.011
	(0.026)	(0.026)	(0.016)	(0.016)	(0.031)	(0.031)
Connected_$_{t+2}$	0.029	0.031	-0.003	-0.001	0.031	0.030
	(0.022)	(0.022)	(0.013)	(0.013)	(0.024)	(0.024)
Connected_$_{t+3}$	0.105***	0.092***	0.044	0.043	0.053	0.042
	(0.035)	(0.034)	(0.019)	(0.019)	(0.042)	(0.041)
Scandal Area_$_{t-1}$	0.048*	0.045*	0.008	0.008	0.032	0.032
	(0.026)	(0.025)	(0.015)	(0.015)	(0.029)	(0.029)
Scandal Area_$_{t0}$	0.047*	0.047*	0.017	0.019	0.024	0.025
	(0.028)	(0.028)	(0.017)	(0.017)	(0.033)	(0.032)
Scandal Area_$_{t+1}$	0.021	0.026	-0.034***	-0.034***	0.055**	0.058**
	(0.017)	(0.017)	(0.013)	(0.013)	(0.023)	(0.023)
Scandal Area_$_{t+2}$	0.051**	0.048**	0.018	0.018	0.023	0.021
	(0.023)	(0.022)	(0.013)	(0.013)	(0.026)	(0.025)
Scandal Area_$_{t+3}$	0.034	0.034	-0.011	-0.010	0.048	0.048*
	(0.027)	(0.026)	(0.013)	(0.013)	(0.030)	(0.029)
Size$_t$		0.107***	0.053***	0.063***	0.038**	0.044**
		(0.016)	(0.011)	(0.011)	(0.019)	(0.020)
ROA$_t$		-0.079*		-0.052*		-0.031
		(0.041)		(0.026)		(0.049)

Table 4.6 Connected and CSR Performance at different years surrounding the corporate violations (Continued)

	CSR strength$_t$		CSR Concern$_t$		Net CSR$_t$	
	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**
Leverage$_t$		0.079		-0.000		0.081
		(0.052)		(0.030)		(0.058)
Risk$_t$		0.528		1.531***		-1.081*
		(0.534)		(0.393)		(0.616)
R&D$_t$		-0.006		-0.000		-0.006
		(0.014)		(0.008)		(0.017)
Cash$_t$		0.005		0.006*		-0.002
		(0.006)		(0.004)		(0.007)
Inst.Own.$_t$		-0.100*		-0.072***		-0.022
		(0.051)		(0.027)		(0.059)
Age$_t$		-0.100***		0.006		-0.106***
		(0.023)		(0.013)		(0.026)
Intercept	-0.374**	0.061	-0.242**	-0.301***	-0.275	-0.060
	(0.145)	(0.089)	(0.099)	(0.099)	(0.189)	(0.190)
Firm FE	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES
Observations	15,430	15,430	15,430	15,430	15,430	15,430
Adjusted R-squared	0.269	0.259	0.326	0.328	0.320	0.3322

Figure 4.1 Corporate scandal proximity and Corporate Social Responsibility strength

This graph shows difference-in-differences in the level of CSR Strength at different years surrounding the corporate violations (year 0). The solid blue line plots the difference-in-differences in the level of CSR Strength for firms located in the Connected area. The dashed orange line plots the difference-in-differences in the level of CSR Strength for firms located in the Scandal area. All difference-in-differences estimates use firms in the Rest of the US as the control group. The graph plots the regression coefficients from Table 4.5 (Regression 2) ***, **, and * denote statistical significance at the 1%, 5%, and 10% level, respectively.
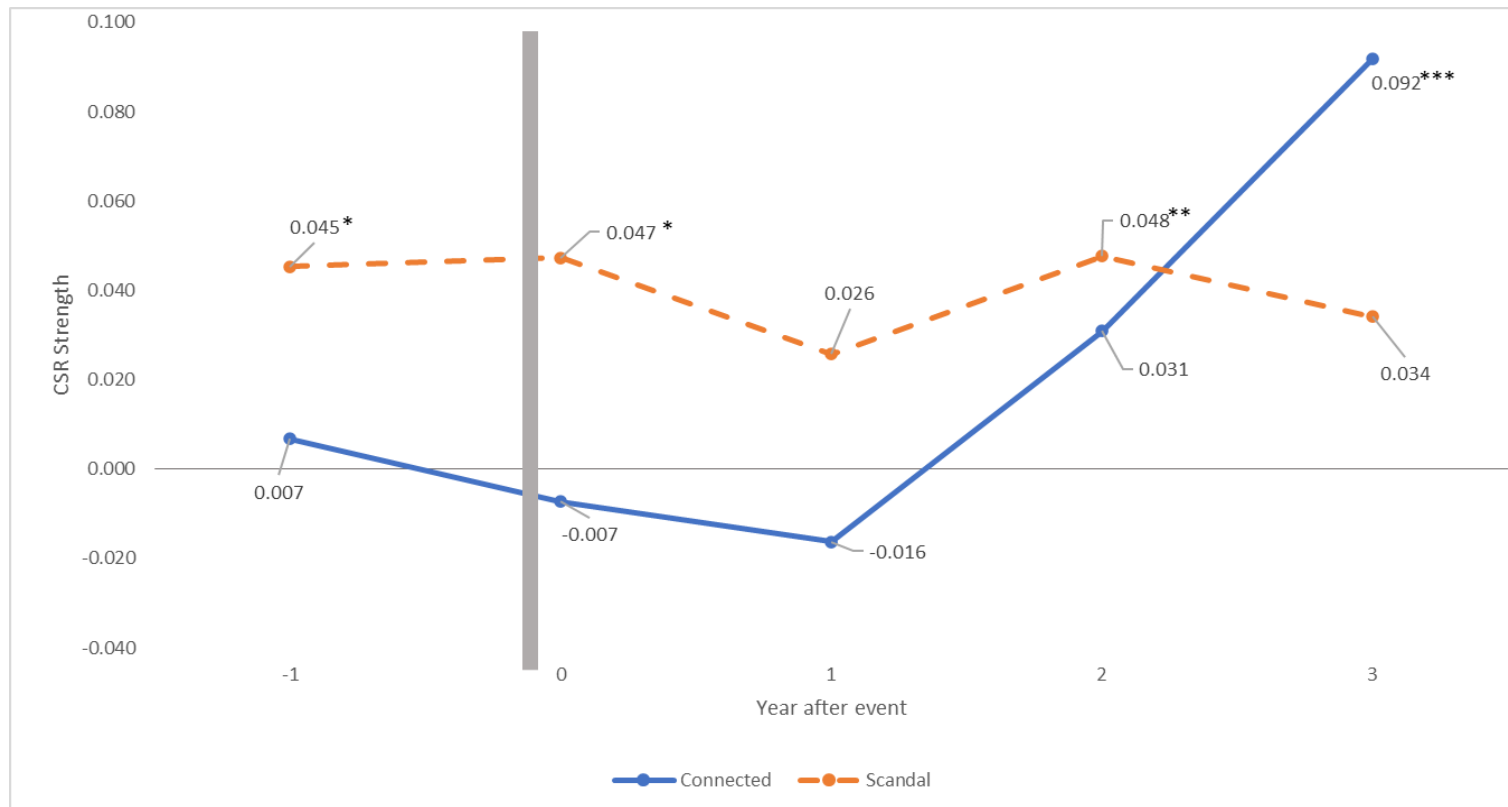
Figure 4.2 Connected and Corporate Social Responsibility

This graph shows difference-in-differences in the level of CSR Strength, CSR Concern and Net CSR at different years surrounding the corporate violations (year 0) in the Connected areas. The solid blue line plots the difference-in-differences in the level of CSR Strength for firms located in the Connected area. The solid orange line plots the difference-in-differences in the level of CSR Concern for firms located in the Connected area. The solid gray line plots the difference-in-differences in the level of Net CSR for firms located in the Connected area. All All difference-in-differences estimates use firms in the Rest of the US as the control group. The graph plots the regression coefficients from Table 4.5 (Regression 2,4 and 6) ***, **, and * denote statistical significance at the 1%, 5%, and 10% level, respectively.
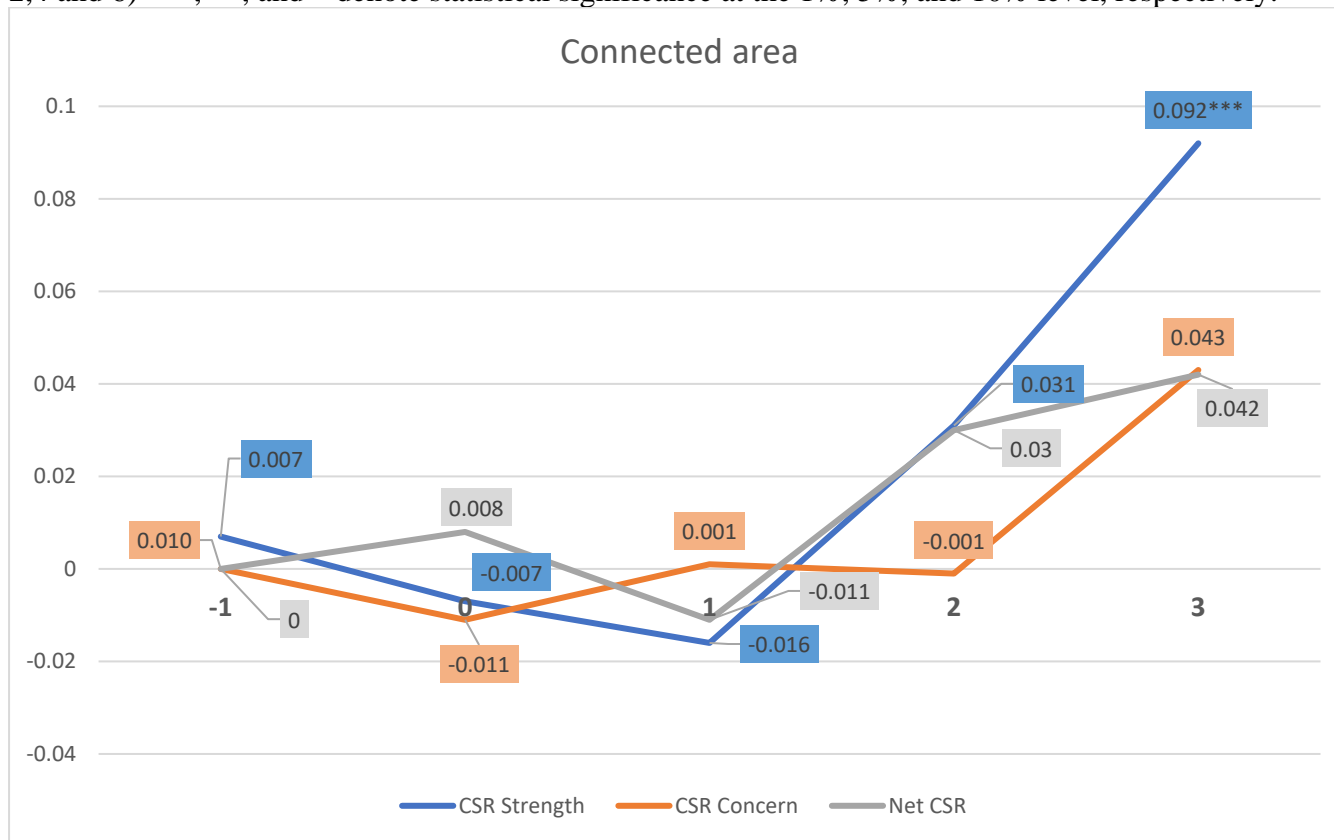
Figure 4.3: Scandal area and Corporate Social Responsibility

This graph shows difference-in-differences in the level of CSR Strength, CSR Concern and Net CSR at different years surrounding the corporate violations (year 0) in the Scandal areas. The solid blue line plots the difference-in-differences in the level of CSR Strength for firms located in the Scandal area. The solid orange line plots the difference-in-differences in the level of CSR Concern for firms located in the Scandal area. The solid grey line plots the difference-in-differences in the level of Net CSR for firms located in the Scandal area. All All difference-in-differences estimates use firms in the Rest of the US as the control group. The graph plots the regression coefficients from Table 4.5 (Regression 2,4 and 6) ***, **, and * denote statistical significance at the 1%, 5%, and 10% level, respectively.
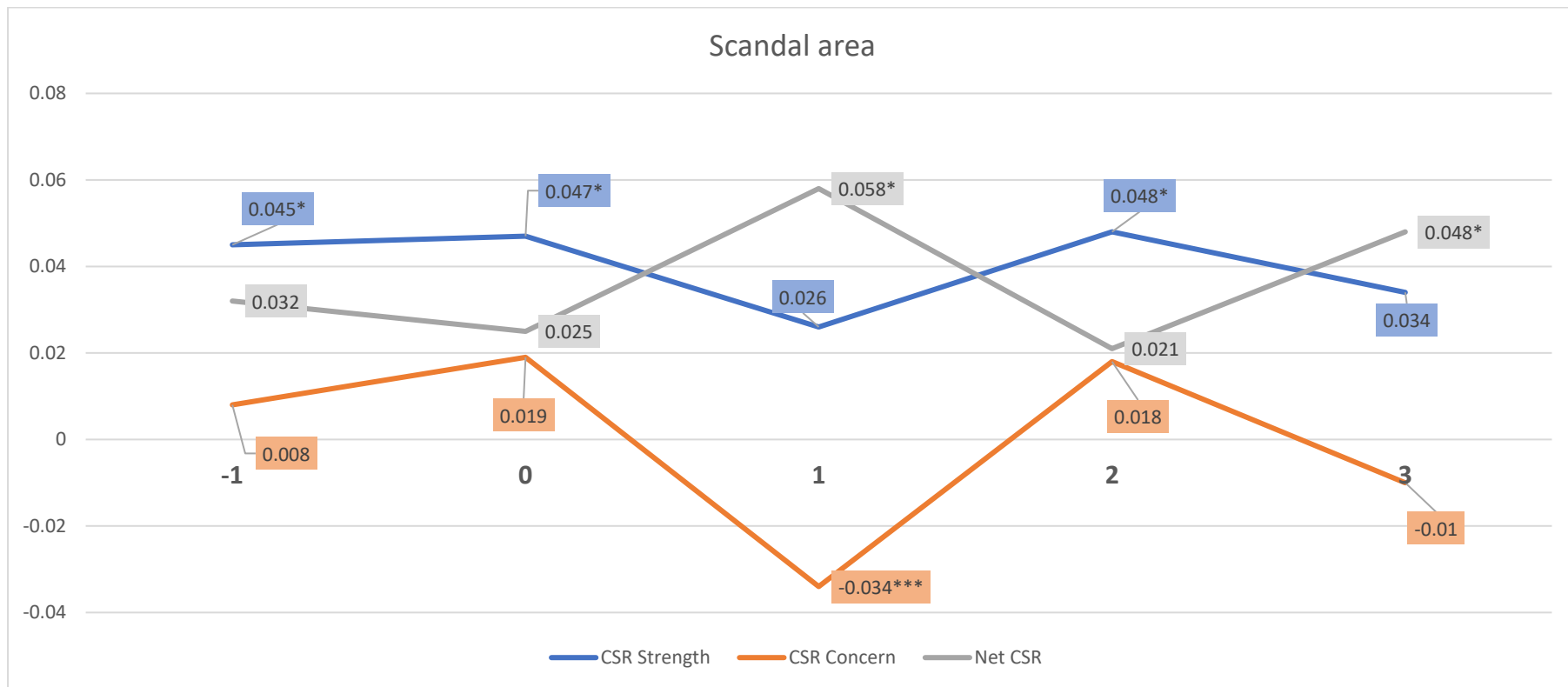
Table 4.7 Connected and CSR Components

This table presents the difference-in-differences estimates of the effects of the social connectedness of a firm to a corporate violation event on the CSR performance with full set of control variables namely Size, ROA, Leverage, Risk, R&D, Cash, and Inst.Own. and Age. The dependent variable captures an individual aspect of the firm's CSR: Environment aspect (Regression 1) Employee aspect (Regression 2) Diversity aspect (Regression 3) Community aspect (Regression 4) Product aspect (Regression 5) and Human rights aspect (Regression 6). *Connected* is a dummy variable equal to one if the county of the firm headquarters is in the top five highest socially connected firms to a corporate violation for that year and zero otherwise. *Scandal Area* is a dummy variable equal to one if the county of the firm headquarters is in the same county as the firm that had a corporate violation for that year, and zero otherwise. Definitions and data sources for the firm control variables are provided in Appendix 4.1. The time span for this study is between 1998 and 2018. There are 15,515 observations across 1,789 firms in this study. Firm and year fixed effects are included. Standard errors are clustered at the county level and reported in parentheses. ***, **, and * denote statistical significance at the 1%, 5%, and 10% level, respectively.

| | CSR Strength$_t$ | | | | | |
| | ENV | EMP | DIV | COM | PRO | HUM |
	(1)	(2)	(3)	(4)	(5)	(6)
Connected $_t$	-0.001	0.020**	0.010	0.015*	0.016	0.001
	(0.012)	(0.010)	(0.013)	(0.008)	(0.013)	(0.007)
Scandal Area $_t$	0.025**	0.024***	0.018*	0.013*	0.008	0.016***
	(0.011)	(0.009)	(0.010)	(0.007)	(0.010)	(0.006)
Size$_t$	-0.007	0.018***	0.049***	0.015***	0.032***	0.008
	(0.006)	(0.005)	(0.007)	(0.004)	(0.007)	(0.005)
ROA$_t$	-0.004	-0.001	-0.014	-0.025**	-0.001	-0.058***
	(0.014)	(0.014)	(0.022)	(0.010)	(0.015)	(0.014)
Leverage$_t$	0.064***	0.039**	-0.000	-0.005	0.008	-0.013
	(0.018)	(0.017)	(0.028)	(0.013)	(0.019)	(0.012)
Risk$_t$	0.095	-0.421**	-0.177	-0.003	0.713***	0.168
	(0.190)	(0.196)	(0.264)	(0.147)	(0.189)	(0.153)
R&D$_t$	0.012***	0.000	-0.009	0.004	-0.008	-0.002
	(0.003)	(0.005)	(0.012)	(0.002)	(0.006)	(0.002)
Cash$_t$	-0.000	-0.001	0.003	0.002	-0.002	0.002
	(0.002)	(0.002)	(0.003)	(0.002)	(0.002)	(0.002)
Inst.Own.$_t$	-0.020	-0.065***	-0.012	-0.008	0.006	-0.019
	(0.019)	(0.015)	(0.022)	(0.015)	(0.017)	(0.018)
Age$_t$	-0.087***	-0.005	0.012	-0.005	-0.026***	-0.012*
	(0.010)	(0.008)	(0.010)	(0.005)	(0.009)	(0.007)
Intercept	0.155***	0.005	-0.360***	-0.115***	-0.137***	0.071
	(0.047)	(0.045)	(0.058)	(0.034)	(0.053)	(0.066)
Firm FE	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES
No. of observations	15,515	15,515	15,515	15,515	15,515	15,515
Adjusted R-squared	0.236	0.085	0.200	0.140	0.050	0.032

Table 4.8 Robustness tests

This table presents tests examining the robustness of our results to alternative measure of CSR and additional controls. In Regressions (1) and (2), the dependent variable captures the non-adjusted CSR Strength and Concern, respectively. Non-adjusted strength(concern) is the number of CSR strengths (concern) across six different CSR dimensions: Product, Employee, Community, Human Rights, Diversity and Environment. In Regressions (3) and (4) we control for alternative measures of firm performance and valuation. ROE is the firm's return on equity; Tobin's q captures firm value, computed as total assets minus the book equity plus the market value of equity, all divided by total assets; MTB is the market-to-book value ratio. All other control variables are identical to those of the baseline tests. Year and firm fixed effects are included. Standard errors are clustered by county and reported in parentheses. ***, **, and * indicate statistical significance at the 1%, 5%, and 10% level, respectively.

| | Non-adjusted CSR | | Alternative Control Variables | |
| | CSR Strength$_t$ | CSR Concern$_t$ | CSR Strength$_t$ | CSR Concern$_t$ |
	(1)	**(2)**	**(3)**	**(4)**
Connected $_t$	0.264**	0.083	0.049*	0.006
	(0.104)	(0.078)	(0.029)	(0.017)
Scandal Area $_t$	-0.009	-0.055	0.088***	-0.005
	(0.098)	(0.075)	(0.025)	(0.015)
Size$_t$	0.415***	0.338***	0.075***	0.050***
	(0.056)	(0.044)	(0.015)	(0.010)
ROA$_t$	-0.291**	-0.043		
	(0.132)	(0.114)		
Leverage$_t$	-0.371**	-0.013		
	(0.182)	(0.133)		
Risk$_t$	-4.019*	2.180		
	(2.199)	(1.624)		
R&D$_t$	-0.040	-0.017		
	(0.037)	(0.028)		
Cash$_t$	0.039*	0.027		
	(0.020)	(0.016)		
Inst.Own.$_t$	0.042	-0.187		
	(0.166)	(0.115)		
Age$_t$	0.402***	0.280***		
	(0.081)	(0.072)		
Tobin Q$_t$			0.000***	0.000
			(0.000)	(0.000)
ROE$_t$			-0.042*	-0.039**
			(0.023)	(0.019)
MTB$_t$			-0.013	-0.019
			(0.029)	(0.018)
Intercept	-2.721***	-2.059***	-0.397***	-0.196*
	(0.529)	(0.413)	(0.135)	(0.102)
Firm FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES
No. of observations	15,559	15,559	15,512	15,512
Adjusted R-squared	0.257	0.374	0.264	0.327

Table 4.9 Subsample Analysis by the Degree of Environmental Activism

This table reports regression results based on subsamples divided by whether a firm operates in industries with high or low environmental activism. Industries are defined as having high environmental activism if they are one of the seven polluting industry sectors as identified by U.S. Environmental Protection Agency (2017), and otherwise as having low environmental activism. The baseline controls are included. Variable definitions are given in Appendix 4.1. The time span for this study is between 1998 and 2018. There are 15,515 observations across 1,789 firms in this study. Year and firm fixed effects are included. Standard errors are clustered by county and reported in parentheses. ***, **, and * indicate statistical significance at the 1%, 5%, and 10% level, respectively.

	CSR Strength t Low pollution	CSR Strength t High pollution
	(1)	(2)
Connected $_t$	0.029	0.177***
	(0.031)	(0.062)
Scandal Area $_t$	0.074***	0.154**
	(0.026)	(0.071)
Size$_t$	0.088***	0.154***
	(0.017)	(0.044)
ROA$_t$	-0.096**	-0.065
	(0.045)	(0.087)
Leverage$_t$	0.062	0.190*
	(0.056)	(0.109)
Risk$_t$	-0.007	1.260
	(0.586)	(1.211)
R&D$_t$	0.004	0.004
	(0.025)	(0.014)
Cash$_t$	0.003	0.022
	(0.007)	(0.018)
Inst.Own.$_t$	-0.125**	-0.026
	(0.055)	(0.116)
Age$_t$	-0.084***	-0.197***
	(0.024)	(0.058)
Intercept	-0.255*	-0.741**
	(0.148)	(0.308)
Firm FE	YES	YES
Year FE	YES	YES
Observations	13,283	2,232
Adjusted R-squared	0.254	0.357

Table 4.10 Subsample Competitive Pressure

This table reports regression results based on subsamples divided by whether a firm has a low or highly competitive pressure. Firms are identified as having a highly competitive pressure if they have a product market fluidity above the median, and into the low fluidity otherwise. A firm's product market fluidity is identified by Hoberg, Phllips, and Prabhala (2014). The baseline controls are included. Variable definitions are given in Appendix 4.1. The time span for this study is between 1998 and 2018. There are 15,515 observations across 1,789 firms in this study. Year and firm fixed effects are included. Standard errors are clustered by county and reported in parentheses. ***, **, and * indicate statistical significance at the 1%, 5%, and 10% level, respectively.

	CSR Strength t Low competitive pressure	CSR Strength t Highly competitive pressure
	(1)	**(2)**
Connected $_t$	0.028	0.078*
	(0.037)	(0.047)
Scandal Area $_t$	0.097**	0.100***
	(0.040)	(0.033)
Size$_t$	0.070***	0.122***
	(0.024)	(0.019)
ROA$_t$	-0.090	-0.056
	(0.087)	(0.043)
Leverage$_t$	0.108	0.099*
	(0.087)	(0.060)
Risk$_t$	0.314	0.638
	(0.960)	(0.633)
R&D$_t$	0.020	0.002
	(0.048)	(0.013)
Cash$_t$	0.010	0.003
	(0.010)	(0.008)
Inst.Own.$_t$	-0.188***	-0.020
	(0.068)	(0.063)
Age$_t$	-0.092**	-0.164***
	(0.040)	(0.027)
Intercept	0.047	-0.697***
	(0.219)	(0.164)
Firm FE	YES	YES
Year FE	YES	YES
Observations	7,547	7,968
Adjusted R-squared	0.303	0.249

Appendix

Appendix 4.1 Variable Definition and Data Sources

This table provides the detailed definitions and data sources of the variables used in our study.

Variable	Definition	Source
Adjusted CSR	The sum of yearly adjusted score of CSR strengths across six different CSR dimensions: Product, Employee, Community, Human Rights, Diversity and Environment.	MSCI ESG Stats database
	Adjusted CSR is estimated by scaling the raw strength scores of each category by the number of items of the strength of that category in the year.	
Adjusted CSR concern	The sum of yearly adjusted score of CSR concerns across six different CSR dimensions: Product, Employee, Community, Human Rights, Diversity and Environment.	MSCI ESG Stats database
	Adjusted CSR concern is estimated by scaling the raw concern scores of each category by the number of items of the concerns of that category in the year.	
Connected	Denotes firms that have their headquarters located in counties that are the top five highest socially connected firms to a corporate violation for that year and zero otherwise.	Bailey et al. 2018
Scandal Area	Denotes firms are headquartered in the same county as the firm that had a corporate violation for that year, and zero otherwise.	Bailey et al. 2018
Size	Natural log of total assets in million dollars.	Compustat
ROA	Firm profitability measured as net income divided by total assets.	Compustat
Leverage	The proportion of total debt to total assets; total debt is the sum of short-term liabilities and long-term debt.	Compustat
Risk	Standard deviation of daily stock returns in the current year.	CRSP
R&D	R&D intensity, computed as research and development expenses divided by total sales.	Compustat
Cash	The ratio of cash to net assets. Net assets is total assets minus cash.	Compustat
Inst.Own.	The percentage of shares owned by institutional investors.	Thompson 13F
Age	Natural Log of the number of years since the firm was incorporated	Jay Ritter
ROE	Return on the book value of equity, measured as net income divided by equity	Compustat
Tobin's q	Tobin's q, computed as market value of equity (the product of fiscal year-end closing stock price and number of shares outstanding) plus total assets minus the book value of equity, all divided by total assets.	Compustat
MB	Market-to-book equity ratio, computed as market value of equity divided by the book value of equity.	Compustat
Competitive pressure	The Competitive Pressure is proxied by the fluidity measure as defined in Hoberg, Phllips, and Prabhala (2014), which is a similarity between a firm's products and changes in the peers' products and is scaled between 0 and 1. Higher fluidity indicates greater product-market threats. Details are in Hoberg, Phillips, and Prabhala (2014).	Hoberg, Phllips, and Prabhala (2014)

Appendix 4.2 List of Corporate Violations

Company	Year	Type of violation	Industry	Penalty amount
Anadarko Petroleum	2015	Environmental violation	oil and gas	$5,150,000,000
Valero	2005	Environmental violation	oil and gas	$711,000,000
ExxonMobil	2005	Environmental violation	oil and gas	$589,400,000
ConocoPhillips	2005	Environmental violation	oil and gas	$539,500,000
ExxonMobil	2008	Environmental violation	oil and gas	$507,500,000
AVX	2013	Environmental violation	electrical and electronic equipment	$366,250,000
Murphy Oil USA	2007	Environmental violation	oil and gas	$330,126,000
Valero	2007	Environmental violation	oil and gas	$236,250,000
Frontier Refining	2009	Environmental violation	oil and gas	$142,380,000
United Parcel Service	2007	Environmental violation	freight and logistics	$87,000,000
Cabot	2013	Environmental violation	chemicals	$84,975,000
Walmart Stores	2013	Environmental violation	retailing	$81,600,000

Company	Year	Type of violation	Industry	Penalty amount
Walmart Stores	2008	Employment violation	retailing	$640,000,000
Apple	2014	Employment violation	electrical and electronic equipment	$450,000,000
Xerox	2004	Employment violation	miscellaneous services	$239,000,000
AK Steel	2011	Employment violation	mining and minerals	$178,600,000
Intel	2015	Employment violation	electrical and electronic equipment	$103,750,000
FedEx	2007	Employment violation	freight and logistics	$53,500,000
Tenet Healthcare	2006	Government Violation	healthcare services	$900,000,000
Merck & Company	2008	Government Violation	pharmaceuticals	$650,000,000
Boeing	2006	Government Violation	aerospace and military contracting	$615,000,000
DaVita Healthcare Partners	2015	Government Violation	healthcare services	$450,000,000
Quest Diagnostics	2009	Government Violation	healthcare services	$302,000,000
Abbott Laboratories	2010	Government Violation	pharmaceuticals	$126,500,000

Company	Year	Type of violation	Industry	Penalty amount
Pfizer	2009	Healthcare Violations	pharmaceuticals	$2,300,000,000
Johnson and Johnson	2013	Healthcare Violations	pharmaceuticals	$2,200,000,000
Abbott Laboratories	2012	Healthcare Violations	pharmaceuticals	$1,500,000,000
Eli Lilly and Company	2009	Healthcare Violations	pharmaceuticals	$1,415,000,000
Amgen	2012	Healthcare Violations	pharmaceuticals	$762,000,000
Bristol-Myers Squibb	2007	Healthcare Violations	pharmaceuticals	$515,000,000
Schering-Plough	2006	Healthcare Violations	pharmaceuticals	$435,000,000
Verizon Communications	2005	Financial Violations	telecommunications	$315,000,000
Broadcom	2004	Financial Violations	electrical and electronic equipment	$225,000,000
Broadcom	2009	Financial Violations	electrical and electronic equipment	$160,500,000
Merck & Company	2007	Safety Violations	pharmaceuticals	$4,850,000,000
Stryker	2014	Safety Violations	medical equipment and supplies	$1,425,000,000
General Motors	2015	Safety Violations	motor vehicles	$900,000,000
Pfizer	2004	Safety Violations	pharmaceuticals	$750,000,000
Pfizer	2008	Safety Violations	pharmaceuticals	$745,000,000
Eli Lilly and Company	2005	Safety Violations	pharmaceuticals	$690,000,000
Boston Scientific	2011	Safety Violations	medical equipment and supplies	$296,000,000

Appendix 4.3 Interaction term Connected and Scandal Area

This table presents the difference-in-differences estimates of the effects of the social connectedness of a firm to a corporate violation event on the CSR performance with core (Regression 1 and 3) and full set of control variables (Regression 2 and 4) namely Size, ROA, Leverage, Risk, R&D, Cash, and Inst.Own. and Age. The dependent variable is CSR Strength in regression (1) and 2. The dependent variable is CSR concern in Regressions (3) and (4). *CSR Strength (CSR Concern)* is the sum of yearly adjusted score of CSR strengths (concerns) across six different CSR dimensions: Product, Employee, Community, Human Rights, Diversity and Environment. Our independent variable is replaced with *Connected, Scandal Area,* and *Connected X Scandal Area. Connected* is a dummy variable equal to one if the county of the firm headquarters is in the top five highest socially connected firms to a corporate violation for that year and zero otherwise. *Scandal Area* is a dummy variable equal to one if the county of the firm headquarters is in the same county as the firm that had a corporate violation for that year, and zero otherwise. Definitions and data sources for the firm control variables are provided in Appendix 4.1. The time span for this study is between 1998 and 2018. There are 15,515 observations across 1,789 firms in this study. Firm and year fixed effects are included. Standard errors are clustered at the county level and reported in parentheses. ***, **, and * denote statistical significance at the 1%, 5%, and 10% level, respectively.

	$CSR\ strength_t$ (1)	$CSR\ concern_t$ (2)	Net CSR_t (3)
$Connected_t$	0.032	0.016	0.017
	(0.035)	(0.019)	(0.040)
$Scandal\ Area_t$	0.084***	0.002	0.074**
	(0.025)	(0.016)	(0.029)
$Connected_t\ X\ Scandal\ Area_t$	0.052	-0.021	0.079
	(0.055)	(0.033)	(0.065)
$Size_t$	0.108***	0.063***	0.045**
	(0.016)	(0.011)	(0.020)
ROA_t	-0.074*	-0.052*	-0.025
	(0.040)	(0.026)	(0.049)
$Leverage_t$	0.090*	0.001	0.090
	(0.052)	(0.030)	(0.058)
$Risk_t$	0.389	1.558***	-1.243**
	(0.530)	(0.391)	(0.613)
$R\&D_t$	-0.004	0.000	-0.004
	(0.014)	(0.008)	(0.017)
$Cash_t$	0.006	0.006*	-0.002
	(0.006)	(0.004)	(0.007)
$Inst.Own._t$	-0.104**	-0.071***	-0.027
	(0.051)	(0.028)	(0.059)
Age_t	-0.101***	0.003	-0.103***
	(0.023)	(0.013)	(0.026)
Constant	-0.380***	-0.299***	-0.070
	(0.145)	(0.099)	(0.190)
Observations	15,515	15,515	15,515
Adjusted R-squared	0.266	0.328	0.321
Industry FE	YES	YES	YES
Year FE	YES	YES	YES

Chapter 5 : Conclusion

5.1 Findings and contribution

This thesis contributes to our understanding of the determinants of Corporate Social Responsibility. By gaining insights and understanding of the motivation and drivers of CSR, both researchers as well practitioners can gain a better comprehension on how it impacts various stakeholders, such as the public, the environment, employees, and shareholders. This understanding can further help to inform the development of policies, practices and strategies that can encourage sustainable and responsible business practices. Nevertheless, despite the existing research on CSR, there is still a lack of understanding of the reasons for the significant variance in CSR engagement among U.S. public listed firms.

Chapter two aims to fill this gap in the literature by extending the understanding of what drives firms' socially responsible activities. Our empirical findings contribute novel evidence that firms adopt more stakeholder-friendly policies to meet the societal expectations of their customers, a key stakeholder group. This evidence aligns with the legitimacy theory that posits firms need to meet customer standards and preferences to ensure their survival and improve their competitiveness. In our study, social capital is utilized as a proxy for assessing demand for corporate social responsibility, as existing literature has demonstrated a positive correlation between social capital vis-`a-vis strong cooperative norms with more philanthropic behaviors (Brown and Ferris 2007; Wang and Graddy 2008). Based on our empirical findings, we have identified a significant and positive correlation between customer social capital and firm CSR performance. Therefore, we posit that firms selling to countries with high social capital should consider expending effort and resources to improve their social performance. We also add to the existing body of literature on social capital. Previous literature has established that social capital can impact firm value and economic performance (Guiso et al. 2015; Butler et al. 2016; Lins et al. 2017). We add to this growing body of literature by documenting that social capital has significant and positive influences over CSR across borders through supply chain relationships. Finally, this chapter adds to the nascent but growing literature on the effects of offshore activities (Hoberg and Moon 2019). Our evidence shows that offshore activities play a significant role in shaping focal firms' engagement in socially responsible activities.

Our results have significant policy implications. We argue that any changes in the preference for CSR, measured with social capital at the country level, can potentially be transmitted across borders through supply chain relationships. Thus, firms may need to adapt

their CSR practices in response to changes in the social demand of their international customers. This highlights the need for the implementation of more comprehensive strategies at the international level. The increased pressure from customers on the firm's CSR performance has also ramifications for the firm's managers. This is particularly, because the results underline the role of social capital and trust in the firm's various policies. Hence, it is important for managers to strategically plan their offshore activities since they significantly impact the firm's CSR activities. Furthermore, our findings highlight the important pressure customers can exert on companies to improve social performance. Policy makers could consider implementing policies or quotas that incentivizes firms to meet customer demand for CSR activities, such as through subsidies. Ultimately, this can help firms to adopt better practices but also meet customer demand and in turn obtain better firm performance.

Chapter three further aims to contribute to our understanding of factors impacting a firm's CSR decision-making. More specifically, this chapter contributes to the economic literature that posits that manager's decision-making is influenced by the norms and values of the region they operate (Hilary and Hui 2009; Jha and Cox 2015; Hasan et al. 2017; Gatchev et al. 2018; Hasan et al. 2020). We aim to contribute to new evidence by drawing on the social identity theory and the legal origin view. To the best of our knowledge, this is the first study that attempts to measure the preference for social responsibility using the concept of legal heritage. In this paper, we have decided to focus on legal origin because prior empirical findings show that legal origin is the strongest determinant of CSR performance (Liang and Renneboog 2017). By using legal origin to underpin our study, we posit that civil (common) law is associated with protecting the interest of various stakeholders (shareholders) (Botero et al. 2004; Djankov et al. 2008; La Porta et al. 2008), therefore aligning with the stakeholder (shareholder) view (La Porta et al. 2008; Allen et al. 2015; Magill et al. 2015; Bénabou and Tirole 2010). Our empirical findings suggest that firms headquartered in counties with a higher proportion of civil law legal heritage tend to cater to the demand of multiple stakeholders in response to the preference of local residents.

This chapter makes several contributions to the existing literature. First, empirical studies on the relationship between a firm's geographical location and CSR performance are surprisingly scarce. For example, Liang and Renneboog (2017) examine a cross-country sample and find a significant and positive effect of civil law legal origin on CSR performance. Additionally, Cai (2016) shows support for economic development, law, and culture determining cross-country variation in CSR. Moreover, the literature on within-country

variation in market characteristics on CSR decision-making is relatively limited. The literature shows that firms located in high social capital counties (Jha and Cox (2015) and Democratic rather than Republican-leaning states (Di Giuli and Kostovetsky 2014) have higher CSR performance. We add to the literature by providing further evidence that legal heritage affects CSR decision-making: firms headquartered in counties with residents tracing their ancestors to civil law countries exhibit higher CSR performance.

Second, we add to the literature on the social identity theory, which posits that managers will adhere to the norms and values surrounding a firm's headquarter (Hilary and Hui 2009; Jha and Cox 2015; Hasan et al. 2017; Gatchev et al. 2018; Hasan et al. 2020). Our findings provide new evidence that managers increase their CSR activities to adhere to the stakeholder-oriented values when they are headquartered in counties with a higher proportion of residents tracing back their ancestry to civil law countries. Finally, this chapter contributes to the understanding of legal origin on various economic outcomes. The extant literature has documented the impact of legal origin on CSR performance (Liang and Renneboog 2017), investor protection (Doidge et al. 2007), and financial fragility (Johnson et al. 2000), amongst others. What has not been studied is the effect of legal heritage on the decision-making of CSR performance. By using legal heritage as a measure of the cultural characteristics associated with the legal origins, our findings indicate that civil law legal heritage has a significant and positive impact on CSR within the U.S.

This research also has significant implications for policymakers and managers. Our results show that firms adhere to the norms and values of the region they operate. Therefore, policymakers could consider introducing policies that foster stakeholder-friendly behavior. Moreover, by strengthening the relationship between firms and the community in which they operate, it is easier for the community to exert pressure on firms to behave socially responsibly. Policymakers could also encourage firms to implement more stakeholder-friendly activities through incentive programs in counties or states that are predominately shareholder focused. The findings in this chapter also have practical values for managers. The decision makers need to consider the external environment in their strategies.

Chapter four contributes to extending the understanding of what drives firms' socially responsible activities through the contagion effect. This chapter documents that U.S. firms that are socially connected to firms with a corporate violation will respond by increasing their CSR activities but do not significantly change their activities related to CSR concerns. Thus, we provide further evidence of the contagion effect in CSR decision-making (Cao et al. 2019; Liu

and Wu 2016; Li and Wang 2022). Our findings provide further empirical evidence that the contagion effect also exists when measured through social interaction in addition to industry connections and geographical proximity.

Additionally, our chapter makes significant contributions to the growing body of research on corporate violations (Zaman et al. 2021; Heese and Perez-Cavazos 2022). We extend this literature by providing evidence on the externalities of corporate violations by showing that the implications of such events are not limited to the offending firm but also extend to socially connected firms. Moreover, in contrast to the extant literature on corporate violations, we focus on various forms of misconduct opposed to only one aspect, such as environmental misconduct (Dasgupta et al. 2006), social misconduct (e.g., Song and Han 2017), and governance misconduct (Jonsson et al. 2009; Beatty et al. 2013).

Finally, we add to the new research field of "social finance" which studies how social processes shape economic outcomes (Hirshleifer 2020). The extant literature has analyzed how social interactions impact household insurance decisions (Hu 2022), mortgage choices (Maturana and Nickerson 2019), or household refinancing decisions (McCartney and Shah 2022). We contribute to this literature by studying the role of social interactions and the contagion effect in explaining a firm's decision-making regarding CSR.

Thus, this chapter examines how social interactions impact firms' decisions regarding CSR. The findings in this chapter have significant implications for policymakers and practitioners. The findings shed light on the role of using CSR as a strategic tool for firms to obtain legitimacy following a corporate violation. In this study, we suggest that firms need to gain a better understanding of how the behavior of socially connected firms can impact their strategic decision-making in response to such events. Furthermore, the implications also extend to policymakers, as the findings highlight the importance of social interaction in firms' decision-making.

5.2   Limitations and Recommendations for Future Research.

We conclude this thesis with the limitations and several suggestions for future research.

A limitation in our thesis is the potential measurement error for Corporate Social Responsibility performance. Despite the fact that this limitation is not unique to our thesis but applies to the general CSR literature, we would like to address it. Following prior literature (e.g., Cahan et al. 2015; Dutordoir et al. 2018; Cai et al. 2020), we measure CSR performance using the popularized MSCI KLD database. Nevertheless the limitations of this measure, such as its unbalanced panel structure and reliability concerns should be acknowledged (e.g., Chatterji et al. 2009; Chatterji et al. 2016). Therefore, future research is needed to find a more

reliable measure. Furthermore, given that CSR performance data is merely available for publicly listed firms, our thesis can only offer insight into the drivers of CSR performance for larger firms. Hence, future research needs to examine if our findings also apply to a sample of smaller firms. Particularly because smaller firms are more sensitive to customer demand and the norms and values of the region they operate.

In Chapter 2, this study uses a country level variable (social capital) to explain CSR at the firm level within the U.S. To improve the comprehensiveness of this study, it would be advantageous to integrate the Compustat Customer Segment Database (CSD), which provides insight into U.S. firms' major customers and their corresponding sales allocations, gleaned from public filings spanning back to 1976. This augmentation would allow for a more detailed examination of the customer-supply dynamic throughout the entirety of our dataset. Consequently, a promising avenue for future research would be to incorporate the current analysis with the data from CSD.   Another opportunity for future research concerns the characteristics of CEOs, the firm's key decision makers. In Chapter 3, we outline how the norms and values, as captured by the legal heritage of the geographical location in which firms are headquartered, can influence a firm's behavior. In this vein, an interesting future research avenue is to examine how the CEO's legal heritage impacts a firm's decision to employ socially responsible initiatives.

While our study contributes to the literature by extending the drivers behind firms' improved social performance, we also shed light on how companies focus on improving their CSR performance through policies that mainly favor employee relations, diversity and the community. To build on these findings, future research could benefit from further exploring the motivations behind why boards of directors prioritize certain stakeholder groups over others. Since most of the decision-making takes place behind the scenes and through other channels unobservable to the researchers (McCahery et al. 2016; Dimson et al. 2015), conducting interviews with the firms' decision makers could provide valuable insight into the decision-making regarding their CSR strategy.

Finally, future research could extend our findings by analyzing the impact of customer demand, legal heritage and social connectedness on various firm decision-making processes, including firm risk. Exploring these factors may provide further insight into the manager's decision-making process and help firms shape their CSR strategies.

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