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The Local Roots of Corporate Social Responsibility

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Abstract We provide new evidence that the prosocial attitudes of local residents play a significant role in determining a firm's corporate social responsibility (CSR) engagement. We show that firms are more likely to engage in CSR initiatives when they are headquartered in areas with large senior citizen populations and where a large fraction of the population makes charitable donations. In contrast, we find that firms are less likely to engage in CSR initiatives when they are headquartered in areas with large religiously affiliated groups. After establishing the local demographic roots of CSR demand, we then examine the relationship between the firm's CSR activities and its market valuation. Our results suggest that CSR initiatives create value when they are properly aligned with local residents' prosocial attitudes. Overall, our study stresses the role of local residents' CSR preferences in mediating the relationship between CSR and market valuations.

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Introduction

Research on corporate social responsibility (CSR) continues to be an important contemporaneous area of interest for both academics and practitioners. For instance, a survey by KPMG (2011) shows that the percentage of Fortune Global 250 firms that issues stand-alone CSR reports has increased from 52 % in 2005 to 80 % in 2008, and 95 % in 2011. In academia, CSR has produced a large body of knowledge that has evolved into two main lines of inquiry. A first line of inquiry, too vast for us to provide a comprehensive overview of herein, is confined to understanding the link between CSR and corporate financial performance. A second line of inquiry, still seeking to gather momentum, focuses on the antecedents of a firm's CSR (e.g., Campbell 2007; Ioannou and Serafeim 2012; Husted et al. 2014; Attig and Cleary 2014, among others). Our study contributes to this shift in the literature's focus from the financial implications of CSR to the characterization of its determinants by investigating the extent to which the prosocial attitude of residents is associated with more social behavior by local firms.

Prosocial attitudes refer "to voluntary actions undertaken to benefit others, such as sharing, donating, caring, comforting, and helping" (Caprara et al. 2012, p. 1289). As a proxy of prosocial attitudes, we use the fraction of residents that makes charitable donations. We use this proxy because the prosocial behavior of a firm's stakeholders is driven by their intrinsic altruism (Bénabou and Tirole 2010). We focus on the prosocial attitude of households in the state in which the firm is headquartered because corporate headquarters are the center of information exchange between the firm and its investors and are close to corporate core business activities (Pirinsky and Wang 2006, and references therein). In particular, corporate social actions

are commonly directed to "the locales in which a corporation's executives reside" (Marquis et al. 2007, p. 927).

We posit that firms are more likely to engage in CSR initiatives when they are located in geographic areas where a large fraction of the population favors prosocial behavior. This contention is grounded in the matching that takes place between the local residents (and more broadly, stakeholders) preferring particular CSR activities and those firms that find it cost-efficient to implement them. The matching between a firm's CSR initiatives and the prevailing social norms of local residents likely leads to more sustainable competitive advantage through gaining more committed stakeholders and a larger shareholder base.

Two recent studies are explicitly relevant to our work. First, Kitzmueller and Shimshack (2012, p. 69) argue that CSR initiatives are rooted "in social pressures and norms within geographic communities or functional entities." Second, Husted et al. (2014) show that firms located close to financial centers exhibit more CSR engagement than those located in remote areas. The authors also find that CSR engagement interacts with geographic location in shaping a firm's cost of equity financing. Husted et al.'s (2014) evidence is particularly germane to the focus of our paper. Indeed, our work draws on Husted et al.'s (2014) insights on the relevance of firm geographic location in influencing CSR engagement. Our study, however, departs from Husted et al. (2014) in two main aspects. First, while they focus on the impact of geographic proximity to major cities and financial centers in shaping the firm's CSR engagement, we focus on the impact of local residents' prosocial behavior. Second, we investigate the impact of stakeholder demand in altering the link between CSR and corporate financial performance.

In this paper, we adopt Aguinis' (2011, p. 855) definition of CSR as "context-specific organizational actions and policies that take into account stakeholders' expectations and the triple bottom line of economic, social, and environmental performance." As such, CSR refers to firms' "actions that appear to further some social good, beyond the interests of the firm and that which is required by law" (McWilliams and Siegel 2001, p. 117). We are cautious in operationalizing this definition because CSR is difficult to measure directly (Carroll 1991). We use Kinder Lydenburg Domini (KLD) data, which are drawn from MSCI ESG Research and are widely used in studies of corporate social performance, to construct a proxy for CSR activity based on a firm's engagement in social, ethical, governance, and legal practices (Attig et al. 2014). As a multidimensional construct, our CSR score is a relevant measure for the purpose of this study because the perception of a firm's social responsibility by local residents—a diverse group—draws on relevant information pertaining to the firm's different social initiatives.

We summarize our four main empirical results as follows. First, we find that the fraction of residents that makes charitable donations in the state in which a company is headquartered, the degree of religiosity of the community in which a company is headquartered, and, to a lesser degree, the fraction of residents that is 60 years or older all play significant roles in explaining a firm's CSR rating. Second, prosocial attitudes of local residents are associated with different dimensions of CSR initiatives. Third, we provide novel evidence that prosocial attitudes of local residents mediate the link between CSR and corporate financial performance. In particular, we find some evidence that CSR engagement enhances market valuation of firms headquartered in areas with a strong presence of philanthropic local residents and areas with higher degrees of religiosity.

The rest of this study is organized as follows. In the next section, we present a brief review of the related literature and develop our main hypotheses. In "Data Sources and Sample Construction" section, we describe our research design and sample construction. We then report the main results and, finally, draw our principal conclusions.

Literature Background and Hypotheses

The argument that CSR activities reflect a firm's initiatives to conform to prevailing social norms and the system of values in which they are a part provides the underlying foundation for our main hypothesis. Our main hypothesis also builds on the insights of Marquis et al. (2007) that the institutional environment and commonly accepted (local) norms can discipline firms into certain social behaviors. Our identification strategy is grounded in two concepts.

First, as stated in the outset, corporate social actions are commonly directed to "the locales in which a corporation's executives reside" (Marquis et al. 2007, p. 927) and are influenced by a firm's interaction with its local community actors. Husted et al. (2014) suggest that CSR activities are mainly developed close to the firm's location. Since prosocial local residents belong to social groups of the firm's geographic location, their interaction and shared norms and values likely influence the firm's social behavior (e.g., Dyreng et al. 2013). For instance, the potential interaction and sociability between the managers of a firm and its local community actors increase managers' awareness of the local stakeholders' preferences, and motivate managers to engage in CSR activities that are consistent with the social expectations (and values) of the firm's local community. In this regard, Galaskiewicz (1991) finds that corporations are more likely to engage in socially responsible behavior, evident in corporate philanthropy, when

they or their managers are involved in charitable giving associations.

Second, we expect firms to engage in CSR activities to conform to prevailing social norms of their local residents. They do so to build local capacity and leverage social embeddedness capability and legitimacy. This, in turn, strengthens their competitive position, ease their access to societal resources (Meyer and Rowan 1977), reduce uncertainty (Powell and DiMaggio 1991), and increase the loyalty of their stakeholders. These relationships are plausible because, all else being equal, the local residents—as stakeholders (e.g., clients, employees, suppliers, investors, among others)—will choose and support local firms with corporate (social) behavior that is in accord with their prosocial attitudes.

In sum, we expect that the prosocial attitudes and expectations of local stakeholders influence a firm's CSR initiatives. For the purpose of this study, we expect firms to act in more socially responsible ways when they are located in areas with more pronounced philanthropic stakeholders. Our first and main hypothesis is as follows:

H₁ Firms headquartered in states with more philanthropic stakeholders tend to engage in more CSR-related activities.

To shed further light on the extent to which the CSR engagement of a firm relates to the stakeholders' prosocial attitudes of its geographic location, we examine the impact of the seniority of the population of the firm's geographic location on its CSR rating. We expect firms headquartered in areas with more senior citizens, defined as the fraction of state residents that is 60 years or older, to exhibit more socially responsible behavior to meet the higher demand for CSR by older people. This is because the ability to reason morally appears to develop and increase with age (e.g., Kohlberg 1984). In addition, senior people, all else being equal, tend to be associated with relatively high levels of risk aversion. As such, seniors may have a preference for firms with more CSR initiatives because such firms are perceived to be of relatively lower risk.[1] Our second hypothesis is then:

H₂ Firms headquartered in states with large populations of senior citizens tend to engage in more CSR-related activities.

In an additional test, we examine the extent to which the religiosity of geographic regions in which the firm is located relates to its CSR engagement. Early articulation on the relevance of religiosity to social behavior and economic outcomes was provided by Weber (1930). All else being equal, religious people have a stronger tendency toward solidarity (van Oorschot 2006) and are more inclined toward certainty (Altemeyer 2002) than less religious people. Greater religiosity is also associated with more social capital, such as trust and reciprocity (e.g., Guiso et al. 2003; Welch et al. 2007; Arruñada 2010), and thus, with more prosocial behavior. Relatedly, El Ghoul et al. (2012, and references therein) argue that religiosity is a major source of morality and ethical behavior, and show that firms located in more religious counties enjoy cheaper equity financing costs. Further, Reitsma et al. (2006) find that religiosity positively affects individuals' intentional donations. Building on these insights, we expect firms located in geographic areas with pronounced religiosity to engage in more CSR initiatives. Our third hypothesis is therefore:

H₃ Firms headquartered in geographic areas with greater expressions of religiosity tend to engage in more CSR initiatives.

Despite a voluminous and growing literature on the effect of CSR on corporate performance (see Margolis and Walsh 2003 for a review), the precise causal mechanism(s) remain(s) unclear.[2] Margolis and Walsh (2003) and Orlitzky et al. (2003) attribute, at least in part, the lack of unequivocal evidence on the link between CSR and corporate financial performance to the omission of variables that may influence this relationship. Building on these insights, we expect CSR engagement to affect corporate performance through local residents' prosocial attitudes. Specifically, we posit that CSR initiatives of firms located in areas with more prosocial local residents likely lead to higher performance. Our argument draws on Baron's (2008) positive theory of CSR, which suggests that CSR initiatives attract consumers who reward such social initiatives, attract investors who prefer such social expenditures, increase employees' productivity, and reflect managers' prosocial preferences.[3]

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[1] Frederick (1995), Starks (2009), and El Ghoul et al. (2011) show that investors perceive socially irresponsible firms as having a higher level of risk than other firms. Further, Hong and Kacperczyk (2009) argue that 'sin' firms (e.g., tobacco, alcohol, and gaming firms) face higher litigation risk than other firms. Thus, seniors may invest in high CSR firms because they provide insurance against the potential risk of socially irresponsible behavior.

[2] Margolis and Walsh (2003) show that 56 of 109 reviewed studies do not find a distinguishable relationship between CSR and financial performance, whereas 54 (7) document a positive (negative) relationship. The meta-analytic findings of Orlitzky et al. (2003), however, suggest a positive correlation between CSR and financial performance.

[3] This is, to some degree, contained in the argument of increased stakeholders' social awareness, which is supported by the findings of the Ipsos MORI (2003) survey that "more than half of American consumers say that a company's social reputation influenced purchase decisions, and 70 % of U.K. consumers state that they are willing to pay more for a product that they perceive as ethically superior" (Kitzmueller and Shimshack 2012, p. 52).

Along the same line, the models of Heinkel et al. (2001) and Barnea et al. (2005) suggest that philanthropic investors (or green investors) tend to hold shares of clean firms, whereas shares of polluting firms are more likely to be held by 'neutral' investors. Graff Zivin and Small (2005) argue that investors earn an "ethical premium" by investing in companies whose management's social and charitable practices match their own. With this in mind, and since investors tend to learn more about nearby stocks and tilt their portfolios toward firms headquartered in the same geographic area (e.g., Coval and Moskowitz 1999), managers have strong incentives to engage in CSR activities that conform to the local residents' prosocial attitudes. By doing so, firms likely benefit from a larger shareholder base and more committed investors, thus reducing financing frictions. This improves the cost of capital of local green firms and eases the financing of their growth opportunities, which in turn improves corporate performance.[4]

Furthermore, the view that corporate headquarters are the center of an information exchange between the firm and its investors and are close to corporate core business activities (see Pirinsky and Wang 2006, and references therein) underlies much of the logic of our argument. Local firms that engage in CSR initiatives can be associated with improved information quality and stock price informativeness. Dhaliwal et al. (2011) argue that high CSR firms are associated with better information quality and low cost of equity capital. Thus, local information production could also contribute to an increase of the local shareholder base, since local investors might have an advantage in discovering local information (Pirinsky and Wang 2006) and can quickly exploit this local knowledge (e.g., Coval and Moskowitz).

Arguably, even if much of the business activity and sales are not generated locally, firms benefit from increasing investment in CSR activities to match the societal expectations of local stakeholders. For instance, the match between prosocial attitude of local residents and CSR initiatives enables firms (headquartered locally, yet operating across many geographic areas) to adopt a socially proactive posture to reduce their perceived risk, and enhance stakeholders' continued involvement with the firm (Brammer et al. 2009). The increase in CSR initiatives enables local firms to build strong socially responsible reputations and take into consideration the interests and expectations of a more diversified pool of stakeholders (in the geographic area of the firm's core business activities, even if these stakeholders do expect not firms to engage in CSR initiatives). This reduces stakeholders' perceived risk and increases their satisfaction, increases the shareholder

base, and attracts long-term institutional investors (e.g., Attig et al. 2013). Adhering to high CSR standards (to match the prosocial residents/stakeholders) improves sustainable competitive advantage by attracting loyal consumers and more committed suppliers, which translates into higher and more stable cash flows. In turn, this leads to higher corporate value.[5] El Ghoul et al. (2011) show that firms with better CSR scores exhibit cheaper equity financing, lending credence to the argument that high CSR firms tend to have higher valuation and lower risk.

Our discussion does not seek to polarize the argument by underlining the match between local residents' prosocial attitude and firm CSR initiatives. Indeed, this argument should be viewed cautiously, since low CSR firms may not suffer from a value discount if their principal stakeholders do not expect (or do not prioritize) socially responsible behavior.[6] Arguably, the mismatch between local residents' prosocial standards and CSR initiatives can be associated with weak investment efficiency and a decrease in value creation. For instance, if the principal stakeholders' firms fulfill their societal obligations by increasing their profits and complying with applicable laws and regulations (e.g., in line with Friedman's (1970) view of CSR), any additional firm CSR initiatives may be associated with agency costs and can be symptomatic of managerial (in)discretion. Alternatively, if principal stakeholders value CSR engagement, then low CSR firms may be missing a non-negligible channel of creating and preserving a firm's competitive advantage, which may lead to value destruction.

H₄ CSR initiatives are more valuable for firms located in geographic areas in which residents have more prosocial attitudes.

Data Sources and Sample Construction

To analyze the impact of stakeholder demand on a firm's CSR, we run variations of the following model:

$$\begin{aligned} CSR_{it} = &\ \beta_0 + \beta_1 SIZE_{it} + \beta_2 LEVR_{it} + \beta_3 SGRW_{it} \\ &+ \beta_4 CPEX_{it} + \beta_5 NWCP_{it} + \beta_6 RD_{it} \\ &+ \beta_7 AGE_{it} + \beta_8 ISOW_t + \beta_9 PHLSTAKE_t \\ &+ \beta_{10} LOCSEN_t + \beta_{11} RELEG_t + FIXED + \varepsilon_{it} \end{aligned}$$
(1)

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[4] Husted et al. (2014) provide fresh insights that CSR engagement interacts with geographic location in shaping a firm's cost of equity financing.

[5] In this regard, Servaes and Tamayo (2013) find a positive effect of CSR on financial performance only for firms with high customer awareness. Supportive evidence is also provided by Sen and Bhattacharya (2001) who show that the extent to which consumers perceive congruence between the firm CSR and their own characters mediates the positive effect of CSR initiatives on consumers' behavior (e.g., purchase of company's products).

[6] We are indebted to an anonymous referee for this discussion.

where *CSR* is a composite empirical measure constructed by *MSCI ESG STATS*. *MSCI ESG STATS* (and its predecessor, *KLD Research & Analytics Inc*) is a widely used CSR database that evaluates each firm in 13 different categories of CSR strengths or concerns using surveys, financial statement information, media reports, government documents, regulatory filings, proxy statements, and peer-reviewed legal journals. These 13 CSR categories are grouped into qualitative issue areas and controversial business issues. Qualitative issue areas are the community, corporate governance, diversity, employee relations, the environment, human rights, and product characteristics. Controversial business issues include alcohol, gambling, tobacco, firearms, the military, and nuclear power. Because qualitative issue areas and controversial business issues are inherently different, we examine them separately in our empirical analyses as well. As in El Ghoul et al. (2011) and Attig et al. (2014), we exclude corporate governance when constructing our CSR metric.

Following the established CSR literature, for each qualitative issue area, we calculate a score equal to the number of strengths minus the number of concerns. We then sum the qualitative issue areas scores to obtain an overall CSR score (*CSRS*). For each qualitative issue area, *MSCI ESG STATS* assigns a binary (0/1) rating to a set of concerns and strengths. We calculate a score for each qualitative issue area equal to the number of strengths minus the number of concerns. We then sum the qualitative issue areas scores to obtain an overall CSR score (*CSRS*). We also separate *CSRS* into two components: the sum of the total number of strengths (*CSRS_STR*) and the sum of the total number of concerns (*CSRS_CON*) across all qualitative issue areas.

PHLRES is our proxy for philanthropic local residents, measured by the fraction of residents that makes charitable donations in the state in which a company is headquartered. We collect data on charitable donations from the Center on Philanthropy Panel Study, which is the Philanthropy Module of the Panel Study of Income Dynamics (PSID). The 2001, 2003, 2005, and 2007 Center Panels contain survey data on the charitable giving and volunteering of more than 5000 American families. For this reason, our sample consists of pooled cross-sections for 2001, 2003, 2005 and 2007.[7] The charitable giving data describe the donations by the family unit as a whole. According to PSID, charitable donations are "gifts of money, assets, or property/goods made directly to the organization, through payroll deduction, or collected by other means on behalf of the charity." In order to avoid the double counting of assets, incomes, and donations, we focus on the responses

provided by family members who define themselves as "heads" of their respective family units, and disregard responses from other family members. As previously stated (H_1), we expect a positive effect of *PHLSTAKE* on *CSR*.

LOCSEN is our proxy for local seniors, measured by the (log of the) fraction of residents that is 60 years or older in the state in which a company is headquartered (e.g., Becker et al. 2011). County-level demographic data are collected from the 1980, 1990, and 2000 U.S. Censuses. As implied by H_2, we expect that *LOCSEN* is positively related to CSR.

RELEG refers to the degree of religiosity of the firm's geographic location. After El Ghoul et al. (El Ghoul et al. 2012 and references therein), we use two proxies to measure *RELEG*: (i) the natural logarithm of the number of adherents affiliated with a church per capita (*ADH*) and (ii) the natural logarithm of the number of churches per 1000 people (*CHU*) in the firm's county. All else being equal, we expect *ADH* and *CHU* to load positively on CSR (H_3). We collect religiosity data from the Religious Congregations Membership Study (surveys) of the Association of Statisticians of American Religious Bodies. In line with the related literature, we use linear interpolation to fill in missing annual values over our sample period.

The control variables [e.g., firm size (*SIZE*), leverage (*LEVRG*), sales growth (*SGRW*), capital expenditure (*CPEX*), working capital net of cash (*NWCP*), and research and development expenses (*RD*)] and other financial data are collected from *COMPUSTAT*. We exclude financial firms (two-digit SIC codes between 60 and 69), firm-years with real market capitalization (in 1992 dollars) under $10 million, and firm-years that exhibit growth in assets or sales higher than 100 %. We use CDA/Spectrum to collect data on institutional ownership (*ISOW*). We restrict our analysis to firms with total institutional ownership in the [0, 100 %] interval.

The above screens yield an unbalanced panel of 4276 firm-year observations representing 1887 unique firms for our pooled cross-sectional period series. *FIXED* stands for year and industry fixed-effects and ε is the error term. We do not include firm fixed-effects because the cross-sectional variation in CSR demand (e.g., *PHLRES, LOCSEN,* and *RELEG*) is expected to underline the heterogeneity in a firm's CSR across our sample firms. Indeed, as suggested by Zhou (2001) and Lemmon et al. (2008), firm fixed-effects remove all cross-sectional variation from the data.[8]

Panel A lists summary statistics for the key regression variables. Our dependent variable (*CSRS*) has a mean of

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[7] Becker et al.'s (2011) analysis of the local dividend clientele is based on a sample of pooled cross-sections for 1980, 1990, and 2000.

[8] Our research question (i.e., the impact of the firm's local stakeholder demand on CSR) is unlikely to suffer from endogeneity because firms do not choose their headquarters locations in order to engage in CSR initiatives.

−0.145 and a median of zero. The mean, median, and standard deviation of our key variables underline the heterogeneity of our sample firms across different firm-specific characteristics. In Panel B of Table 1, we report results of univariate analysis. We split our sample into subsamples based on our key variables (i.e. *PHLRES, LOCSEN, ADH,* and *CHU*). A casual examination of the mean comparison tests and their related *t* stats indicates that firms headquartered in areas where local residents donate more (i.e. PHLRES > sample median) have higher CSRS than firms located in other areas (i.e. PHLRES <= sample median). Similarly, firms headquartered in areas with more senior residents (i.e., LOCSEN > sample median) have higher CSRS than firms located in other areas (i.e., LOCSEN <= sample median). However, firms located in areas with more religiosity (e.g., ADH or CHU above median) appear to be associated with fewer CSR initiatives. These findings provide preliminary support to two of our main hypotheses (e.g., H_1 and H_2). However, they do not control for a multitude of other variables that could affect firms' CSR initiatives. We tackle this issue using multivariate analysis in the next section.

In Table 2, we report the correlations between our regression variables. They suggest low pairwise correlation coefficients, mitigating concerns that multicollinearity could be affecting our multivariate regression results. This is confirmed by the (unreported) Variance Inflation Factor (Belsley et al. 1980).

Regression Results

The Impact of Stakeholder Demand on CSR: Baseline Results

OLS estimates from Eq. (1), along with their heteroscedasticity-consistent *t* statistics, are presented in Table 3. In model 1, we examine the impact of philanthropic stakeholders (*PHLRES*). In line with our first hypothesis, the estimated coefficient is positive and significant at the level of 5 %, suggesting that firms headquartered in states with more pronounced philanthropic stakeholders engage in more CSR initiatives.

Turning to the effects of the control variables, we document a positive and significant coefficient on firm size (*SIZE*), which indicates that large firms, all else being equal, tend to invest more in CSR, perhaps because they are more politically visible (Dowling and Pfeffer 1975) and tend to be subject to more public pressure (Watts and Zimmerman 1986). The coefficient on firm leverage (*LEVRG*) is negative and significant. We also note that the firm's operating performance loads positively and significantly on CSRS, as is evident in the positive and significant

Table 1 Summary statistics

	N	Mean	Median	SD
Panel A: Distribution of key regression variables				
CSRS	4276	−0.145	0.000	2.100
SIZE	4276	6.985	6.819	1.567
LEVRG	4276	0.178	0.153	0.170
SGRW	4276	1.064	0.110	56.608
CPEX	4276	0.054	0.036	0.059
NWCP	4276	0.066	0.059	0.141
RD	4276	0.046	0.013	0.078
FAGE	4276	19.090	12.000	18.353
DIVD	4276	0.397	0.000	0.489
CSFL	4276	0.079	0.094	0.145
ROA	4276	0.127	0.133	0.127
ISOW	4276	0.696	0.729	0.192
PHLRES	4276	0.585	0.583	0.150
LOCSEN	4276	−2.202	−2.190	0.242
ADH	4276	6.504	6.537	0.258
CHU	4276	−0.548	−0.630	0.361

	Average CSRS for firm with		*t* stat
	High (>median)	Low (≤median)	
Panel B: Univariate tests			
PHLRES	−0.003	−0.289	<.0001
LOCSEN	−0.073	−0.218	0.024
ADH	−0.315	0.026	<.0001
CHU	−0.202	−0.089	0.080

Panel A provides the mean, median, first quartile, and third quartile of the CSR score (CSRS) by year. In Panel B, we report the descriptive statistics for our key regression variables: firm size (*SIZE*), leverage (*LEVRG*), sales growth (*SGRW*), capital expenditure (*CPEX*), working capital net of cash (*NWCP*), research and development expenses (*RD*), firm age (*FAGE*), dividend payout (*DIVD*), firm's cash flow (*CSFL*), operating performance (*ROA*), philanthropic stakeholders (*GRSTAKE*) measured by the fraction of residents that makes charitable donations in the state in which a company is headquartered, the (log of) fraction of residents that is 60 years or older in the state in which a company is headquartered (*LOCSEN*), the (log of) male-to-female ratio (*MALE*), the (log of) percentage of minorities (*MINOR*) in the county in which a company is headquartered, the (log of) number of churches per 1000 people (*CHU*), the (log of) number of adherents affiliated with a church per capita (*ADH*), the investment horizon of institutional investors measured by the churn rate (*CHRN*), and institutional ownership (*IOWS*). The sample comprises 4276 firm-year observations representing 1887 unique U.S. firms of pooled cross-sections for 2001, 2003, 2005, and 2007. Table 7 outlines definitions and data sources for the variables

estimated coefficient of sales growth (*SGR*) and return on assets (*ROA*). Net working capital (*NWCP*), a proxy for liquidity (i.e., a substitute for cash), is negatively linked to CSRS. The fraction of shares held by institutional investors (*ISOW*) does not seem to have a significant impact on CSRS.

Table 2 Correlation table

	CSRS	SIZE	LEVRG	SGRW	CPEX	NWCP	RD	FAGE	DIVD	CSFL	ROA	ISOW	PHLRES	LOCSEN	CHU
CSRS	1														
SIZE	0.1	1													
LEVRG	-0.07	0.36	1												
SGRW	0	0.01	0.03	1											
CPEX	-0.05	0.04	0.08	0.04	1										
NWCP	-0.08	-0.13	-0.07	-0.01	-0.11	1									
RD	0.09	-0.29	-0.21	-0.01	-0.18	-0.25	1								
FAGE	0.05	0.5	0.13	-0.01	-0.05	0.07	-0.18	1							
DIVD	0.02	0.39	0.13	-0.01	-0.01	0.13	-0.28	0.5	1						
CSFL	0.03	0.13	-0.07	-0.01	0.18	0.16	-0.5	0.13	0.2	1					
ROA	0.06	0.19	-0.02	-0.01	0.24	0.19	-0.55	0.16	0.26	0.78	1				
ISOW	-0.02	0.19	0.09	0	-0.03	0.03	-0.1	0.06	-0.01	0.11	0.1	1			
PHLRES	0.1	-0.09	-0.07	0	-0.18	0.02	0.11	0	-0.02	-0.05	-0.07	-0.01	1		
LOCSEN	0.03	0.01	0.04	0	-0.1	0.07	-0.02	0.1	0.08	0	-0.01	-0.03	0.39	1	
CHU	-0.04	-0.01	0.06	-0.02	0.12	0.1	-0.15	0.06	0.17	0.07	0.1	-0.08	0.04	0.3	1
ADH	-0.07	0.1	0.07	-0.02	0	0.04	-0.15	0.17	0.16	0.07	0.08	0.04	0.1	0.14	0

This table presents pairwise correlation coefficients between the regression variables. The sample comprises 4276 firm-year observations representing 1887 unique U.S. firms of pooled cross-sections for 2001, 2003, 2005, and 2007. Table 7 outlines definitions and data sources for the variables

Table 3 Impact of prosocial attitudes of local residents on firm's CSR

	1	2	3	4	5	6	7	8
Intercept	−3.082***	−2.520***	0.284	−2.813***	−2.691***	−2.992***	0.727***	−0.795***
	(−8.890)	(−5.880)	(0.320)	(−8.360)	(−8.170)	(−9.100)	(0.740)	(−0.790)
SIZE	0.254***	0.251***	0.247***	0.247***	0.246***	0.258	0.248	0.248***
	(7.130)	(7.060)	(6.980)	(6.950)	(6.960)	(7.270)	(7.010)	(7.070)
LEVRG	−0.796***	−0.808	−0.778	−0.795	−0.761	−0.824	−0.765	−0.757***
	(−4.070)	(−4.140)	(−3.990)	(−4.070)	(−3.930)	(−4.210)	(−3.940)	(−3.920)
SGRW	0.000***	0.000***	0.000***	0.000***	0.000***	0.000***	0.000***	0.000***
	(2.850)	(2.810)	(2.520)	(2.460)	(2.240)	(3.170)	(2.280)	(2.010)
CPEX	3.677***	3.694***	3.606***	3.765***	3.638***	3.519***	3.685***	3.587
	(5.720)	(5.750)	(5.620)	(5.850)	(5.660)	(5.510)	(5.720)	(5.600)
NWCP	−0.939***	−0.964***	−0.965***	−0.957***	−0.937***	−1.001***	−0.935***	−0.956
	(−3.740)	(−3.850)	(−3.860)	(−3.830)	(−3.750)	(−3.990)	(−3.730)	(−3.800)
RD	2.407***	2.410***	2.215***	2.342***	2.235***	2.534***	2.134***	2.149
	(4.560)	(4.560)	(4.230)	(4.430)	(4.260)	(4.790)	(4.080)	(4.110)
FAGE	−0.002	−0.002	−0.001	−0.002	−0.001	−0.002	−0.001	−0.001
	(−0.690)	(−0.700)	(−0.310)	(−0.630)	(−0.310)	(−0.680)	(−0.360)	(−0.250)
DIVD	0.065	0.065	0.076	0.076	0.069	0.055	0.090	0.090
	(0.820)	(0.810)	(0.960)	(0.930)	(0.870)	(0.690)	(1.120)	(1.130)
CSFL	−0.266	−0.267	−0.285	−0.271	−0.266	−0.250	−0.296	−0.276
	(−1.020)	(−1.020)	(−1.160)	(−1.040)	(−1.060)	(−0.950)	(−1.210)	(−1.130)
ROA	2.152***	2.151***	2.158***	2.149***	2.120***	2.151***	2.179***	2.159***
	(5.850)	(5.860)	(6.010)	(5.880)	(5.850)	(5.830)	(6.080)	(6.010)
ISOW	−0.229	−0.221	−0.237	−0.238	−0.228	−0.212	−0.260	−0.255
	(−1.390)	(−1.340)	(−1.440)	(−1.450)	(−1.380)	(−1.280)	(−1.590)	(−1.560)
PHLRES	0.524**						0.628**	0.445*
	(2.500)						(2.800)	(1.900)
LOCSEN		0.116					0.132	0.292*
		(1.040)					(1.060)	(1.930)
ADH			−0.465***				−0.553***	−0.285**
			(−3.850)				(−4.530)	(−2.150)
CHU				−0.103			−0.170*	−0.350***
				(−1.180)			(−1.900)	(−3.470)
MALE					2.263***			2.684**
					(3.020)			(2.630)
MINOR						−0.168***		−0.203***
						(−3.420)		(−3.290)
Industry FE	YES	YES	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES	YES	YES
N	4276	4276	4276	4276	4276	4276	4276	4276
Adj. R^2	0.163	0.162	0.165	0.162	0.164	0.165	0.167	0.170

This table reports the OLS estimates of the effects of stakeholders' demand on CSRS. The sample comprises 4276 firm-year observations representing 1887 unique U.S. firms of pooled cross-sections for 2001, 2003, 2005, and 2007. Variables definition is presented in Table 7. Heteroscedasticity-consistent t stats are in parentheses

***, ** and * denote statistical significance at the 1, 5, and 10 % levels, respectively

In column 2 of Table 3, we report results related to our second hypothesis. The estimated coefficient on local seniors (LOCSEN) is positive, yet not significant. In column 3 of Table 3, we examine the impact of the religiosity of local stakeholders. The estimated coefficient of ADH is negative and significant. This evidence seems at

odds with the findings of Ramasamy et al. (2010) who show that self-proclaimed religious people in Hong Kong and Singapore are more supportive of socially responsible activities. Interestingly, our findings are in accord with those of McGuire et al. (2012) who show that firms headquartered in areas with a strong religious presence receive lower ratings for CSR. One plausible explanation for this evidence can be found in the argument that self-reported generosity reflects stronger reputational concerns rather than prosocial behavior of religious people (see Norenzayan and Shariff 2008 and references therein). Arguably, the evidence by Saslow et al. (2013) that non-religious people are more generous than religious people seems to lend some support to our findings. When we replace *ADH* with *CHU*, its estimated coefficient becomes non-significant.

In columns 5 and 6, we control for other local demographics: the male-to-female ratio (*MALE*), and the percentage of minorities (*MINOR*) in the county. We document a positive and significant effect of *MALE* on CSRS rating. This result suggests that firms headquartered in geographic areas with a greater proportion of males relative to females are likely to be associated with more CSR initiatives (and thus CSR rating). At first glance, this result could be surprising as one might expect females to display more prosocial behavior, and thus expect that firms located in areas with a higher ratio of females would be more CSR responsive. For instance, Kruger (2009) shows that firms with more women on the board of directors engage in more CSR initiatives. Marquis and Lee (2013) find that companies with more women executives tend to engage in more corporate philanthropic contributions. Yet, the positive and significant effect of *MALE* on *CSRS* is to some extent in accord with the findings of Diamantopoulos et al. (2003) that males are more knowledgeable about environmental issues. In column 6, we document a negative and significant coefficient of *MINOR*. This result suggests that firms headquartered in areas with more minority groups tend to engage in fewer CSR initiatives and thus receive lower ratings for CSR.

It should be noted that our core findings remain largely unchanged when we run a full model (column 7 of Table 3) in which we include our key variables concurrently in the same model. Of particular note, the estimated coefficient on *LOCSEN* becomes significant, indicating that firms headquartered in areas in which seniors constitute a large fraction of the population are more likely to be socially responsible.

Potential Omitted Variables

In order to ascertain the stability of our findings, we control for additional variables that might be correlated with our

key predictors and thus may affect *CSRS*. In column 1 of Table 4, we control for the investment horizon of the firm's institutional investors (*CHRN*).[9] We control for *CHRN* because an expanding line of research stresses the role of the heterogeneity of institutional investors, evident in their different investment horizons, in altering the corporate outcome and behavior (e.g., Attig et al. 2013; Yan and Zhang 2009; Gaspar et al. 2005, among others). Since a higher churn rate indicates a shorter investment horizon, the negative and significant (at the 1 % level) estimated coefficient on churn rate (*CHRN*) indicates that the presence of institutional investors with long-term investment horizons is associated with higher CSRS. This result is in accord with the findings of Neubaum and Zahra (2006) and Kecskes et al. (2013).In column 2 of Table 4, we augment our main model with the fraction of the firm's shares held by public pension plans that are members of the Council of Institutional Investors (*PPCII*), a variable that usually reflects institutional activism. While the coefficient *PPCII* is not significant, the effects of our key variables (i.e. *PHLRES*, *LOCSEN*, *ADH*, as well as *MALE*, *MINOR*, and *CHU*) remain largely unchanged.

In column 3, we control for the firm's geographic location (*METRO*) to account for potential urban/rural effects (Loughran and Schultz 2005). Namely, *METRO* takes the value of 1 if the firm is located in one of the ten largest metropolitan areas according to the 2000 Census (New York, Los Angeles, Chicago, Washington–Baltimore, San Francisco, Philadelphia, Boston, Detroit, Dallas, and Houston), and 0 otherwise. The estimated coefficient on *METRO* is positive and significant, suggesting that firms located in urban areas tend to be more socially responsible. This is in accord with the findings of Husted et al. (2014) that firms located in remote areas exhibit lower CSR engagement than firms located close to financial centers. Of more relevance to the focus of our study are the unchanged effects on CSRS from the proxies for local residents' prosocial attitudes.

We then examine the extent to which the industry unionization of a firm shapes its CSR. We use the percentage of employed workers covered by unions in collective bargaining with employers, in the state in which the

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[9] *CHRN* is measured by the value-weighted average of the fraction of institutional investors' portfolios that are invested in the firm's industry. *CHRN* is equivalent to Gaspar et al.'s (2005) proxy of institutional investors' churn rate: $CHRN_{k,t} = \frac{\sum_{i=1}^{N_{k,t}} \left| S_{k,i,t}P_{i,t} - S_{k,i,t-1}P_{i,t-1} - S_{k,i,t-1}\Delta P_{i,t} \right|}{\sum_{i=1}^{N_{k,t}} \frac{S_{k,i,t}P_{i,t} - S_{k,i,t-1}P_{i,t-1}}{2}}$, where $N_{k,t}$ is the number of firms included in institutional investor k's portfolio in quarter t; S is the number of firm I's shares held by institutional investor k in quarter t; and $P_{i,t}$ is firm i's share price in quarter t. A higher churn rate indicates a shorter investment horizon. We use the *CDA/Spectrum* database, which compiles the 13F filings, to compute investment horizon of institutional investors.

Table 4 Impact of prosocial attitudes of local residents on firm's CSR (potential omitted variables)

	1	2	3	4	5	6
Other controls	YES	YES		YES	YES	YES
PHLRES	0.411*	0.405*	0.448*	0.436*	0.465**	0.452*
	(1.76)	(1.73)	(1.91)	(1.85)	(1.97)	(1.92)
LOCSEN	0.303**	0.300**	0.308**	0.301**	0.303**	0.300**
	(2.01)	(1.99)	(2.06)	(2.00)	(2.03)	(2.00)
MALE	2.754***	2.740***	2.730***	2.959***	2.908***	2.872***
	(2.73)	(2.71)	(2.71)	(2.89)	(2.84)	(2.81)
MINOR	−0.197***	−0.197***	−0.203***	−0.183***	−0.190***	−0.197***
	(−3.20)	(−3.20)	(−3.31)	(−2.87)	(−2.99)	(−3.10)
CHU	−0.361***	−0.362***	−0.228**	−0.350***	−0.216**	−0.219**
	(−3.59)	(−3.60)	(−2.08)	(−3.47)	(−1.97)	(−1.98)
ADH	−0.292**	−0.288**	−0.383***	−0.289**	−0.377***	−0.361***
	(−2.21)	(−2.17)	(−2.85)	(−2.18)	(−2.81)	(−2.68)
ISOW	−0.254	−0.313*	−0.258	−0.249	−0.325*	−0.268
	(−1.55)	(−1.82)	(−1.57)	(−1.52)	(−1.88)	(−1.55)
CHRN	−4.554***	−4.458***	−4.612***	−4.545***	−4.486***	
	(−5.24)	(−5.09)	(−5.30)	(−5.23)	(−5.12)	
PPCII		2.027			2.496	2.786
		(1.13)			(1.38)	(1.55)
METRO			0.201***		0.206***	0.197***
			(3.06)		(3.12)	(2.99)
SUNION				0.469	0.448	0.429
				(1.01)	(0.96)	(0.92)
LTO > STO						0.331***
						(5.14)
Industry and year	YES	YES	YES	YES	YES	YES
N	4276	4276	4276	4276	4276	4276
Adj. R^2	0.175	0.174	0.176	0.175	0.176	0.176

This table reports the OLS estimates of the effects of prosocial attitudes of local residents on CSRS. We augment the full model of Table 3 (i.e., model 8) with additional controls: institutional investors' investment horizon, measured by the churn rate (CHRN), the fraction of the firm's shares held by public pension plans that are members of the Council of Institutional Investors (*PPCII*), a dummy equal to 1 if the firm is located in one of the ten largest metropolitan areas (New York, Los Angeles, Chicago, Washington-Baltimore, San Francisco, Philadelphia, Boston, Detroit, Dallas, and Houston) as identified by the 2000 Census, and 0 otherwise (*METRO*), covered by unions in collective bargaining with employers, and the percentage of employed workers in the state of the firm's headquarters (*SUNION*). For sake of space, we do not report the estimated coefficient of the control variables (i.e. *SIZE, LEVRG, SGRW, CPEX, NWCP, RD, FAGE, DIVD, CSFL,* and *ROA*). We also use a dummy variable (*LTO > STO*) that takes the value 1 when institutional ownership by long-term investors is higher than that by short-term investors, instead of *CHRN*. The sample comprises 4276 firm-year observations representing 1887 unique U.S. firms of pooled cross-sections for 2001, 2003, 2005, and 2007. Variables definition is presented in Table 7. Heteroscedasticity-consistent *t* stats are in parentheses

***, ** and * denote statistical significance at the 1, 5, and 10 % levels, respectively

firm is headquartered (*SUNION*). The estimated coefficient of *SUNION* is not significant. Of more relevance to the focus of this study is that the effects on CSRS of *PHLRES* and *LOCSEN* (and *ADH*) remain positive (negative) and significant. Interestingly, our (untabulated) findings remain unaltered if we use the percentage of employed workers, in a firm's primary Census Industry Classification, covered by

unions in collective bargaining with employers (*IUNION*).[10]

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[10] We collect data on industry unionization data from the Union Membership and Coverage Database (www.unionstats.com). This database was constructed by Hirsch and Macpherson (2003) and has been used by Klasa et al. (2009) and Hilary (2006), among others.

Our findings remain valid when we (i) run the full model (column 5), (ii) use a dummy variable (LTO > STO) that takes the value 1 if the shareholding of long-term institutional investors is larger than that of short-term institutional investors, and 0 otherwise, instead of *CHRN* (column 6), and (iii) exclude states with fewer than 30 interviewed families (untabulated results). In addition, our results remain valid when we use different estimation methods to control for cross-sectional and serial dependence. Namely, our core evidence remains stable when we use Fama–MacBeth with Newey–West adjustment for standard errors and when we use two-way clustering by firm and year.

The Impact of Local Residents' Prosocial Attitudes on CSR Components

Given that CSR is a multidimensional construct (Carroll 1979), using the aggregate CSR score (i.e. *CSRS*) may mask the relevance of the different dimensions of CSR (e.g., Griffin and Mahon 1997; Galema et al. 2008; Bénabou and Tirole 2010). Following this line of reasoning, we examine the impact of prosocial attitudes of local residents on the individual dimensions of CSR. Namely, in Table 5, we run our main regression model (i.e., Eq. 1) using, separately, each of the individual components of CSR as the dependent variable: community relations (*COMM*), diversity (*DIVR*), employee relations (*EMPY*), environmental performance (*ENVM*), human rights (*HUMN*), and product characteristics (*PROD*). We focus the analysis on our key variables: *PHLRES, LOCSEN,* and *ADH*.

PHLRES appears to have positive and significant effect on one individual dimension of CSR: diversity (*DIVR*). This result stresses the need for firms located in areas with philanthropic stakeholders to create an inclusive workplace that accepts individual differences (i.e., gender, sexual orientation, physical abilities, ethnicity, and religion, among other aspects).

LOCSEN loads positively and significantly only on the product characteristics (*PROD*) dimension of CSR. This finding suggests that firms headquartered in areas with more senior people need to pay close attention to their product safety quality and other product characteristics.

ADH and (*CHU*) display a negative and significant effect on *DIVR* and PROD. To some extent, these findings lend support to our previous findings with the aggregate CSR score. The positive and significant effect on the CSR dimensions of human rights (*HUMN*) suggests that the only CSR dimension that seems to matter for more religious people is the one that relates to human rights.

To further ascertain the impact of stakeholder demand on *CSR*, we reproduce our regression analysis using CSR strengths and CSR concerns as dependent variables. We use this disaggregation because summing strengths and

concerns may overlook the cross-sectional variation in CSR behavior (Chatterji et al. 2009). Of particular relevance to the focus of this study is the impact of our proxies for prosocial attitudes of local residents on CSR strengths (*CSRS_STRH*), since our premise pertains to CSR engagement that reflects a firm's initiatives to conform to prevailing social norms and the system of values.

Results for the regression of *CSRS_STRH* are reported in column 7 of Table 5. Interestingly, the variable philanthropic local residents (*PHLRES*) displays positive and significant effect on *CSRS_ STRH*. The impact of *PHLRES* on CSR strengths (*CSRS_CONC*), as shown in column 8 of Table 5, is positive yet of smaller magnitude (compared to its impact on *CSRS_STRH*). The relationship between *LOCSEN* and *CSRS_STRH* is not statistically significant. However, *LOCSEN* loads negatively and significantly on *CSRS_CONC*, implying that firms headquartered in geographic areas with more senior residents have few concerns.

Two other results emerge from the regression analysis of *CSRS_CONC* and *CSRS_STRH*. First, *ADH* and *CHU* load negatively and significantly on *CSRS_STRH*. This result corroborates our previous findings that firms headquartered in areas with more religious residents are associated with fewer CSR initiatives. Second, firms located in areas with more religiosity, as indicated by a larger number of churches (*CHU*), appear to have more concerns. While we take caution in interpreting this finding (since the effect of *ADH* on *CSRS_CONC* is not significant), it is in line with our previous findings that firms headquartered in areas with more religious residents are associated with lower CSR scores.

The Role of Stakeholder Demand in Mediating the Link Between CSR and Financial Performance

To validate our fourth hypothesis, we run the following regression:

$$
\begin{aligned}
MTB_{it+1} = {} & \alpha_0 + \alpha_1 SIZE_{it} + \alpha_2 LEVR_{it} + \alpha_3 SGRW_{it} \\
& + \alpha_4 CPEX_{it} + \alpha_5 NWCP_{it} + \alpha_6 RD_{it} \\
& + \alpha_7 AGE_{it} + \alpha_8 DIVD_{it} + \alpha_9 KEYVAR_{it} \\
& + \alpha_{10} CSRS \times KEYVAR_{it} + FIXED + \varepsilon_{it}
\end{aligned}
\tag{2}
$$

where *MTB*, the market-to-book ratio, is our proxy for corporate performance and is measured by the ratio of market value of assets (the market value of equity plus the book value of assets minus the book value of equity) to the book value of assets. In order to reduce the effect of potential endogeneity bias, we measure the dependent variable in year $t + 1$ (MTB_{t+1}) and the control variables in year t, since firm-level characteristics may be jointly determined. *KEYVAR* refers to one of our main proxies of

Table 5 Impact of stakeholders' demand on the different dimensions of CSR

	COMM	DIVR	EMPY	ENVM	HUMN	PROD	STRH	CONC
Intercept	−0.181	−0.582	−1.162***	−0.119	−0.221	1.460***	−1.213	−0.409
	(−0.81)	(−1.02)	(−2.78)	(−0.42)	(−1.54)	(5.98)	(−1.48)	(−0.60)
SIZE	0.052***	0.309***	0.066***	−0.038***	−0.049***	−0.115***	0.683***	0.458***
	(6.22)	(19.04)	(4.89)	(−3.56)	(−10.17)	(−13.18)	(23.22)	(19.35)
LEVRG	−0.043	−0.561***	−0.416***	0.163***	0.086***	0.084	−1.188***	−0.501***
	(−1.07)	(−5.19)	(−4.92)	(2.79)	(3.11)	(1.62)	(−7.63)	(−3.65)
SGRW	0.000	0.000*	0.000***	0.000***	0.000	0.000***	0.000***	0.000***
	(−0.31)	(−1.78)	(4.66)	(−5.12)	(0.09)	(3.55)	(−6.46)	(−6.56)
CPEX	0.426***	0.313	0.813***	1.411***	0.252***	0.345**	1.415***	−2.144***
	(3.32)	(1.04)	(3.04)	(5.50)	(2.80)	(2.15)	(3.03)	(−4.40)
NWCP	−0.221***	−0.906***	0.144	−0.042	0.000	0.014	−1.261***	−0.251
	(−4.08)	(−6.43)	(1.29)	(−0.60)	(0.01)	(0.21)	(−6.27)	(−1.45)
RD	0.375***	0.914***	0.866***	−0.182	−0.169***	0.273*	3.312***	1.233***
	(4.30)	(2.83)	(3.60)	(−1.45)	(−2.89)	(1.83)	(7.78)	(3.67)
FAGE	0.000	0.008***	−0.001	−0.003***	−0.002***	−0.003***	0.016***	0.018***
	(−0.54)	(6.25)	(−1.08)	(−3.63)	(−4.06)	(−3.49)	(7.88)	(9.28)
DIVD	0.006	0.072*	−0.046	−0.009	−0.011	0.018	−0.039	−0.067
	(0.33)	(1.77)	(−1.33)	(−0.39)	(−1.09)	(0.88)	(−0.63)	(−1.31)
CSFL	0.003	−0.292**	0.018	0.005	−0.026	0.006	−0.145	0.141
	(0.09)	(−2.18)	(0.11)	(0.09)	(−0.81)	(0.11)	(−0.75)	(0.87)
ROA	0.488***	0.753***	0.964***	0.013	0.009	−0.075	1.917***	−0.233
	(6.38)	(3.81)	(5.39)	(0.14)	(0.20)	(−0.83)	(6.53)	(−1.02)
PHLRES	0.089	0.382***	−0.014	−0.024	−0.054	0.022	0.678***	0.277*
	(1.42)	(3.19)	(−0.15)	(−0.32)	(−1.58)	(0.38)	(3.52)	(1.79)
LOCSEN	−0.037	0.140	0.036	0.043	0.014	0.105***	0.019	−0.281***
	(−1.06)	(1.55)	(0.54)	(1.03)	(0.67)	(2.75)	(0.15)	(−2.79)
MALE	−0.029	1.583***	0.422	0.503*	0.216	0.033	1.612*	−1.115*
	(−0.13)	(2.89)	(0.97)	(1.67)	(1.68)	(0.14)	(1.94)	(−1.71)
MINOR	−0.051***	−0.046	−0.053**	−0.059***	−0.014	0.021	−0.113**	0.090**
	(−3.22)	(−1.50)	(−2.11)	(−3.27)	(−1.82)	(1.50)	(−2.18)	(2.45)
CHU	−0.029	−0.268***	0.045	−0.081***	0.030**	−0.053**	−0.192***	0.165**
	(−1.38)	(−5.17)	(1.00)	(−2.60)	(2.39)	(−1.98)	(−2.62)	(2.42)
ADH	−0.041	−0.213***	−0.012	0.023	0.072***	−0.110***	−0.374***	−0.093
	(−1.48)	(−2.85)	(−0.22)	(0.58)	(3.41)	(−3.43)	(−3.50)	(−0.97)
ISOW	−0.181***	−0.351***	−0.103	0.163***	0.087***	0.199***	−1.273***	−1.087***
	(−5.44)	(−3.97)	(−1.54)	(3.37)	(4.00)	(4.99)	(−9.85)	(−9.30)
LTO > STO	0.013	0.128***	0.083***	0.088***	0.010	0.019	0.255***	−0.085**
	(0.85)	(3.67)	(2.84)	(4.19)	(1.12)	(1.16)	(4.98)	(−1.97)
Industry and year FE	YES	YES	YES	YES	YES	YES	YES	YES
N	4276	4276	4276	4276	4276	4276	4276	4276
Adj. R^2	0.093	0.311	0.097	0.192	0.217	0.232	0.402	0.394

This table reports the OLS estimates of the effects of prosocial attitudes of local residents on the individual dimensions of CSR—community relations (*COMM*), diversity (*DIVR*), employee relations (*EMPL*), environmental performance (*ENVI*), human rights (*HUMN*), product characteristics (*PROD*), CSR strengths (*STRH*), and CSR concerns (*CONC*). The sample comprises 4276 firm-year observations representing 1887 unique U.S. firms of pooled cross-sections for 2001, 2003, 2005, and 2007. Variables definition is presented in Table 7. Heteroscedasticity-consistent *t* stats are in parentheses

***, **, and * denote statistical significance at the 1, 5, and 10 % levels, respectively

the prosocial attitudes of local residents (i.e., *PHLRE, LOCSEN, ADH*). We do not control for the main effect of CSR because of its high correlation with our key variable (i.e., *CSRS × KEYVAR*). Indeed, when we include both variables (*CSRS* and *CSRS × KEYVAR*) in Eq. (2), the Variance Inflation Factor (Belsley et al. 1980) significantly exceeds the threshold of ten, suggesting that multi-collinearity may bias our findings. Since our focus is on the role of geographic-varying CSR demand in mediating the effect of CSR on financial performance, we retain only the interaction variable *CSRS × KEYVAR*.

To estimate Eq. (2), we run instrumental variable (IV) regression analysis. Our first instrument is 'localized density' (*DENSITY*), measured using the indicator developed by Sorenson and Audia (2000) and used by Husted et al. (2014), defined as follows:

$$DENSITY_{it} = \sum_j \frac{CSRS_{jt}}{(1 + d_{ij})},$$

where *i* refers to the focal firm at time *t*, *j* refers to all other firms. *CSRS_{jt}* is the *CSR* score for firm *j* at time *t*, and *d* is the distance between firm *i* and firm *j*.[11] This measure takes into account the density of firms with high *CSRS* and reflects the extent to which a firm's CSR initiatives are influenced by peer pressure within the geographic community. Our second instrument is a dummy variable that takes the value 1 if the Democratic candidate wins the election in the state where the firm is headquartered, and zero otherwise. The choice of this instrument is grounded in the argument that moral judgments vary across the political spectrum (Graham et al. 2009) and that the ethical and social values of a firm reflect the core values associated with the political ideology of the firm's political culture or environment (e.g., Hutton et al. 2013).[12]

In the first three columns of Table 6, we report the results from estimating Eq. (2) while controlling for the effects of *PHLRES* and its interaction with CSR (CSRS × *PHLRES*), using OLS and IV regressions (with two-stage least-squares (2SLS) and generalized method of moments (GMM) estimation). While the estimated coefficient on *PHLRES* is negative and insignificant, our key instrumented variable *CSRS × PHLRES* loads positively and significantly on MTB_{t+1}, indicating that CSR initiatives by firms located in areas with a strong presence of 'philanthropic stakeholders' are associated with

improved future corporate performance. It should be noted that the Sargan test statistic is 0.000 ($nR^2 = 3767 \times 0.0000$), suggesting that we can use the extra instrument to identify our model. This is further confirmed by the Basmann statistic-based test of the over-identification constraints, which has a value of 0.15 with a *p* value of 0.703, failing to reject the null hypothesis that our instruments are valid.

In columns 4-6, we examine the role of CSR demand by local seniors (LOCSEN). The estimated coefficient on CSRS × LOCSEN is negative and significant. This result is somewhat surprising given that we report a relatively strong demand for CSR by seniors (e.g., Table 4). All else equal, it suggests that CSR initiatives by firms headquartered in areas with a strong presence of seniors may not lead to higher firm valuations. On closer inspection, however, the negative coefficient on CSRS × LOCSEN is consistent with the related results in Table 5 showing that seniors, while in favor of product-related CSR, do not approve of more general CSR activism on the part of the corporation. That is, seniors want the firm to deliver safe, reliable products; they are less interested in the firm becoming involved in broader, socially oriented CSR activities. Which of these two dimensions of CSR will have the largest effect on firm valuation is an open empirical question. Our Table 5 results suggest that seniors may discount firms with socially active CSR agendas and are more likely to reward firms with CSR-based products and services. Therefore, the overall negative coefficient on CSRS × LOCSEN in Table 6 appears to suggest that seniors perceived our sample firms as having more active socially oriented CSR programs than product-oriented CSR programs.

In the last three columns of Table 6, we examine the impact of the degree of the religiosity of the areas in which the firm is headquartered. The estimated coefficient of CSRS × ADH loads positively and significantly on future corporate performance, suggesting that CSR initiatives by firms headquartered in areas with a strong religious presence seem to create value.

To derive a better understanding of the economic significance of the results reported in Table 6, we calculate the impact of moving from the tenth to the ninetieth percentile (e.g., Barclay and Smith 1995) for our proxies of local residents' prosocial attitude. The estimated coefficient of CSRS × PHLRES (0.025) implies that this move increases the market-to-book ratio by 0.84 %. If CSRS × LOCSEN (−0.008) is used instead, the market-to-book ratio will decrease by 0.50 % when our proxy of local seniors (LOCSEN) moves from the tenth to the ninetieth percentile. The effect on the market-to-book ratio of the same move of the degree of religiosity of the firm's geographic location (ADH) is much smaller

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[11] Data on companies' zip codes are obtained from Compustat North America. The distance between two points is computed using their latitudes and longitudes and the standard great circle distance formula to compute the distance *d* (see Table 7).

[12] Rubin (2008) and Di Giuli and Kostovetsky (2013) find that firms with high (low) CSR ratings tend to be located in states with Democratic (Republican) majorities.

Table 6 The mediating effect of local residents' prosocial attitude on the CSR–financial performance relationship

	PHLRES			LOCSEN			ADH		
	OLS	2SLS	GMM	OLS	2SLS	GMM	OLS	2SLS	GMM
Intercept	1.740***	2.739***	2.706***	1.512***	2.275***	2.274***	1.722***	1.797***	1.770***
	(9.86)	(7.30)	(6.84)	(7.02)	(6.62)	(6.17)	(3.880)	(3.500)	(3.130)
SIZE	−0.087***	−0.170***	−0.168***	−0.089***	−0.162***	−0.161***	−0.088***	−0.154***	−0.152***
	(−6.51)	(−5.63)	(−5.05)	(−6.63)	(−5.94)	(−5.24)	(−6.540)	(−6.020)	(−5.310)
LEVRG	−0.646***	−0.483***	−0.489***	−0.639***	−0.494***	−0.495***	−0.646***	−0.513***	−0.519***
	(−6.01)	(−3.48)	(−3.64)	(−5.94)	(−3.68)	(−3.83)	(−6.000)	(−3.920)	(−4.150)
SGRW	0.001**	0.001*	0.001***	0.001**	0.001*	0.001***	0.001**	0.001*	0.001***
	(2.19)	(1.70)	(9.75)	(2.18)	(1.76)	(10.05)	(2.190)	(1.810)	(10.350)
CPEX	−0.803**	−1.880***	−1.854***	−0.838**	−2.006***	−2.000***	−0.815**	−1.812***	−1.768***
	(−2.18)	(−3.39)	(−3.18)	(−2.27)	(−3.58)	(−3.37)	(−2.210)	(−3.460)	(−3.230)
NWCP	−1.140***	−0.938***	−0.944***	−1.136***	−0.926***	−0.927***	−1.137***	−0.931***	−0.937***
	(−8.35)	(−5.33)	(−4.76)	(−8.33)	(−5.36)	(−4.66)	(−8.330)	(−5.480)	(−4.770)
RD	5.241***	4.210***	4.230***	5.201***	4.140***	4.142***	5.231***	4.324***	4.340***
	(14.89)	(7.94)	(6.28)	(14.76)	(7.87)	(6.00)	(14.790)	(8.750)	(6.580)
FAGE	0.000	0.001	0.001	0.000	0.002	0.002	0.000	0.001	0.001
	(0.26)	(0.79)	(0.85)	(0.41)	(1.40)	(1.46)	(0.280)	(0.930)	(0.980)
DIVD	0.017	0.030	0.029	0.019	0.020	0.020	0.017	0.014	0.014
	(0.45)	(0.63)	(0.64)	(0.48)	(0.43)	(0.44)	(0.430)	(0.310)	(0.310)
CSFL	−0.016	0.088	0.082	−0.017	0.055	0.053	−0.017	0.056	0.046
	(−0.10)	(0.44)	(0.49)	(−0.10)	(0.28)	(0.34)	(−0.100)	(0.290)	(0.290)
ROA	5.790***	4.843***	4.875***	5.783***	4.984***	4.989***	5.788***	5.020***	5.064***
	(25.19)	(12.02)	(9.72)	(25.20)	(13.71)	(10.61)	(25.200)	(14.150)	(11.000)
ISOW	−0.480***	−0.362***	−0.360***	−0.487***	−0.422***	−0.422***	−0.482***	−0.418***	−0.412***
	(−5.31)	(−3.15)	(−2.85)	(−5.39)	(−3.91)	(−3.38)	(−5.330)	(−3.940)	(−3.380)
LTO > STO	−0.018	−0.123**	−0.119**	−0.019	−0.125**	−0.124**	−0.019	−0.116	−0.111
	(−0.53)	(−2.35)	(−2.33)	(−0.57)	(−2.44)	(−2.42)	(−0.570)	(−2.360)	(−2.250)
KEYVAR	−0.016	−0.105	−0.100	−0.105*	−0.168**	−0.167**	0.003	0.121	0.119
	(−0.15)	(−0.80)	(−0.69)	(−1.66)	(−2.18)	(−2.45)	(0.040)	(1.490)	(1.340)
CSRS × KEYVAR	0.025**	0.542***	0.526***	−0.008**	−0.136***	−0.136***	0.003**	0.044***	0.042***
	(2.00)	(3.38)	(3.17)	(−2.35)	(−3.47)	(−3.23)	(2.230)	(3.450)	(3.100)
Sargan stat	0.000 (=0.000 × 3767)			0.000 (=0.000 × 3767)			0.377 (=0.0001 × 3767)		
Basmann	0.15			0.00			0.410		
	(0.703)			(0.950)			0.522		
Industry FE	YES	YES	YES	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES	YES	YES	YES
N	3767	3767	3767	3767	3767	3767	3767	3767	3767
Adj. R^2	0.420	0.159	0.175	0.421	0.200	0.202	0.421	0.352	0.245

This table presents results on the valuation effect of CSRS and its interaction with local residents' prosocial attitudes. We use the 'localized density' of CSR and a dummy variable that takes the value 1 if the Democratic candidate wins the election in the state where the firm is headquartered, and zero otherwise. The table also displays results from OLS regression. The dependent variable is the firm's lead market-to-book value. In all regressions, we control for year and industry effects. These regressions use a sample of 3767 firm-year observations. Variables definition is presented in Table 7

***, ** and * denote statistical significance at the 1, 5, and 10 % levels, respectively

(0.19 %). These results suggest that the economic impact of geographic-varying CSR demand—as revealed by our three proxies of local residents' prosocial attitude—is consistently less than 1 % of the firm's market-to-book ratio, with the largest effect coming from philanthropic local residents (PHLRES).

Discussion and Conclusion

Along with its growing acceptance in the corporate world, CSR has generated a lively debate both theoretically and empirically. As suggested by Marquis et al. (2007, p. 925), "the widespread disagreement and conflict findings on social and financial performance in CSR literature suggest that economic explanations cannot account for either the frequency or nature of corporate social action." Along this line of thinking, we posit that CSR activities reflect a firm's initiatives to conform to prevailing social norms and the system of values of which it is a part. Stated differently, we hypothesize that the heterogeneity in the prosocial attitudes of local residents can potentially explain the heterogeneity of CSR practices across firms.

Our empirical analysis reveals some novel insights. First, our main proxy for prosocial attitudes of local residents—the fraction of residents that makes charitable donations in the state in which a company is headquartered—is positively and significantly related to the overall CSR rating of the firm, and to its rating on CSR strengths, CSR concerns, and the CSR dimension of diversity. This evidence indicates that firms headquartered in geographic areas with more philanthropic residents tend to engage in more CSR initiatives. Further, firms headquartered in areas with a higher fraction of residents that is 60 years or older seem to be associated with more CSR initiatives. Interestingly, the presence of senior local residents appears to relate mostly to the product dimension of CSR.

Our proxies for the degree of religiosity of the firm's geographic location are negatively related to the firm's overall CSR score. At first glance, this result seems surprising since one would expect, all else being equal, more religiosity to be associated with more prosocial attitudes. One could potentially argue that more religious people may not delegate corporations to engage in philanthropy on their behalf. Along this line, Brammer et al. (2007) find that religious individuals appear to differentiate between personal and corporate responsibility. Additional tests indicate that the degree of religiosity of the firm's geographic location is negatively related to the CSR dimensions of diversity, environment, and product, and positively related to the CSR dimension of human rights. Further, we show that firms headquartered in geographic areas with more religious residents tend to have fewer CSR strengths, suggesting that these firms engage in fewer CSR initiatives than other firms.

Our results not only contribute to the line of inquiry on CSR antecedents, they also lend considerable weight to Galaskiewicz and Burt's (1991) evidence on the community-based patterns of social action. More broadly, our findings stress the interdependence between corporations, their geographic locations, and local residents' (and more broadly, stakeholders') attitudes and behavior.

Our results reveal additional insights. We find that firms headquartered in geographic areas with a greater proportion of males relative to females are likely to be associated with more CSR initiatives. However, a high presence of minorities does not seem to cause firms to engage in more CSR initiatives. While not central to the focus of our study, we show that the presence of institutional investors with long investment horizons is associated with more CSR initiatives and, in particular, CSR strengths. Institutions with long investment horizons may favor CSR initiatives to safeguard their investments by reducing the firm's perceived risk of litigation and costly sanctions of its socially irresponsible behavior. Long-term institutional investors may also favor CSR initiatives because such 'investments' are inherently long-term (Mahapatra 1984). In sum, this result stresses the importance of heterogeneity in the investment horizon of institutional investors in shaping CSR and contributes to the growing line of research that emphasizes the role of institutional investment horizon in shaping corporate outcomes (e.g., Attig et al. 2013; Yan and Zhang 2009; Gaspar et al. 2005).

Another novel finding of this study is that CSR initiatives create corporate value only if they conform to the prosocial attitudes of local residents. To some extent, this evidence suggests that corporate policies and outcomes are rooted in the communities where firms are located. Interestingly, this evidence, lending credence to Orlitzky et al. (2003), suggests that the mixed results of previous studies on the valuation effects of CSR could be attributed to the omission of such intermediating variables. Two caveats are in order. First, as suggested by Attig et al. (2014), our main proxy for a firm's CSR activities comes from KLD's binary ratings of corporate social activity, which does not distinguish the extent of CSR activity between component areas. Second, our one-dimensional measures of the philanthropy and religiosity of local residents may fail to fully capture the inherent complexity of prosocial attitudes of local residents.

With these caveats in mind, our findings contribute to the strand of scholarly work on (i) the antecedents of CSR, (ii) the relevance of the firm's geographic location and its

constituents, and (iii) the link between CSR and corporate performance. Our main findings are relevant to both practitioners and academics. For practitioners, our findings suggest that managers and executives should recognize that the success of strategic CSR initiatives is related to the extent to which CSR engagements are consistent with prosocial attitudes of local residents. Our findings also suggest that governments might play a role in encouraging CSR activities by providing incentives (e.g., tax credit) and services that enhance the prosocial attitudes of local residents.

For academics, our novel evidence encourages future research to closely consider the role of local residents'/ stakeholders' preferences in explaining cross-sectional differences in other corporate outcomes. A growing line of inquiry examines behavioral consistency that advances the alignment of a firm's actions with the hard-to-evade norms and expectations of local stakeholders. For instance, Cronqvist et al. (2012) show, in context of firm leverage choices, that CEOs' personal behavior can partly explain corporate financial behavior of the firms they manage. Attig and Brockman (2015) document a positive link between households' risk tolerance and corporate risk taking by local firms. This strand of research relaxes the assumption of rational economic explanations of corporate outcomes. Future research in this area is certainly called for.

Appendix

See Table 7.

Table 7 Variables description

SIZE	Firm size: log (data6)
CSFL	Cash flow: (data18 + DATA14)/data6
NWCP	Net working capital: (data179 − data1)/data6
RD	R&D expenses: data46/data6;
MTB	Market-to-book value of assets: (data6 − data60 + (data199 × data25))/data6
LEVG	Total leverage ratio: (data34 + data9)/data6
AGE	Firm age
CPEX	Capital expenditure: CAPEX = DATA128/data6
DIVD	Dummy indicator for dividend payer
ISOW	Fraction of firm's shares held by institutional investors
PPCII	Ownership by public pension funds that are members of the Council of Institutional Investors
CRHN	The value-weighted average of the fraction of institutional investors' portfolios that are invested in the firm's industry
LTO > STO	A dummy variable that takes the value 1 if the ownership of long-term institutional investor is larger than that of short-term institutional investors, and 0 otherwise
METRO	Metropolitan area dummy, equal to 1 if the firm is located in one of the ten largest metropolitan areas (New York, Los Angeles, Chicago, Washington-Baltimore, San Francisco, Philadelphia, Boston, Detroit, Dallas, and Houston) as identified by the 2000 Census, and 0 otherwise
PHLRES	The fraction of residents that makes charitable donations in the state in which a company is headquartered
LOCSEN	The fraction of residents that is 60 years or older in the state in which a company is headquartered
MALE	The male-to-female ratio in the firm's county
MINOR	The percentage of minorities in the firm's county
CHU	The number of churches per 1000 people in the firm's county
DENSITY	A proxy for CSR 'localized density', measured using the indicator developed by Sorenson and Audia (2000): $$DENSITY_{it} = \sum_j \frac{CSRS_{jt}}{(1+d_{ij})}$$
d_{ab}	The distance in kilometers between two points a and b measured using the standard great circle distance formula: arcos[cos(a1)cos(a2)cos(b1)cos(b2) + cos(a1)sin(a2)cos(b1)sin(b2) + sin(a1)sin(b1)] × r, where a1 and b1 (a2 and b2) are the latitudes (longitudes) of the points a and b, respectively, and r is the radius of the earth

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