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Corporate social responsibility and geographic dispersion☆

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ABSTRACT

Using a sample of U.S. listed firms from 1994 to 2015, we examine how the geographic dispersion of a firm affects corporate social responsibility (CSR). We find that corporate geographic dispersion is negatively associated with CSR scores. We further find that this robust negative relationship is more pronounced for firms located in the small communities, which is consistent with the social interaction explanation. A Heckman test shows that the results hold when we control for endogeneity between geographical dispersion and CSR. Our paper provides evidence that local firms may better protect their stakeholders than geographically dispersed firms.

1. Introduction

In the past decade or so, the relationship between firm value and corporate diversification has become an important issue in economics and finance. Relatively earlier research have paid attention to global diversification and industrial diversification.[1] However, observing that some corporations of the U.S. maintain operations in more states than others, a few recent studies started to stress the significance of geographic diversification and examine how it affects firms in various ways such as stock returns (Garcia and Norli, 2012), corporate decision-making (Landier et al., 2009) and earnings management (Shi et al., 2015). This recent focus, however, has neglected the issue of how geographic diversification affects corporate social responsibility (CSR). This issue is crucial because not only do firms' decisions on geographic expansion influence shareholders' benefits but they also impact stakeholders' benefits. As a result, corporate geographic expansion may exacerbate the inherent conflict between shareholders and stakeholders. Our paper seeks to fill in this gap, by offering empirical evidence on whether geographically dispersed or concentrated firms (also called local firms) have higher CSR scores and thus may provide more benefits to stakeholders.

By computerized parsing and extracting state name counts of the U.S. listed companies from annual Form 10-K reports that are filed with the Securities and Commission,[2] we differ geographically dispersed firms from geographically concentrated firms. Using this data of corporate geographic dispersion, together with the CSR data obtained from the independent social choice investment

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[1] E.g., Denis et al.(2002), Doukas and Pantzalis, (2003), and Jiraporn et al. (2006).

[2] We follow Garcia and Norli (2012) to collect the data of geographic dispersion for the period of 2008–2015. We are very grateful to Diego Garcia for sharing with us the data on geographic dispersion from 1994 to 2007.

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advisory firm Kinder, Lydenberg, Domini (hereafter KLD),[3] we examine the relationship between corporate geographical dispersion of firms and their CSR scores.

Our main results show that the geographically dispersed firms have lower CSR scores than geographically concentrated firms, or local firms. This finding is consistent with the prediction of three different explanations: social interaction, agency cost, and customer and investor recognition. However, our further analysis shows that the significantly negative association between geographic dispersion and CSR scores exists only when firms' headquarters are located in the small communities, which supports the social interaction explanation. In addition, a Heckman's model shows that the results are robust when we control for endogeneity between geographical dispersion and CSR.

Our paper contributes to the literature in the following two ways. First, while there exist many papers that examine the determinants of CSR (McGuire et al., 2012; Herbohn et al., 2014; Monteiro and Aibar-Guzmán, 2010; Lee et al., 2017; Li et al., 2017), our paper argues that there exists another factor, geographic dispersion, that might affect CSR. One related paper is by Landier et al. (2009) who study how corporate geographic dispersion affect corporate decision-making including corporate attitudes to employees and the dismissals of employees.[4] Our paper, however, studies the association between geographic dispersion and CSR which has seven categories, including community, environment, diversity, corporate governance, employee relations, human rights and product. Focusing on employees only, while providing social responsibility information from corporate employment side, might not reflect the overall scope of CSR. Second, our paper also contributes to the literature of geographic dispersion. The literature has documented evidence of the significant role of geographic dispersion on stock returns (Garcia and Norli, 2012), firm value (Gao et al., 2008), earnings management (Shi et al., 2015) and corporate management and finance policy making (Landier et al., 2009). Our paper finds that corporate geographic dispersion also have a significant impact on CSR, and thus provides evidence that local firms may better protect their stakeholders than geographically dispersed firms.

The remainder of the paper is organized as follows. In Section 2, we discuss the literature and develop our hypotheses. In Section 3, we provide a description of the data sources and the sample selection procedure. In Section 4, we report the main results. In Section 5 we test which of the three different explanations can account for our results. Section Section 6 provides endogeneity test and other robustness check. Concluding remarks are provided in Section Section 7.

2. Literature review and hypotheses development

The literature has extensively studied CSR and documented various factors that would have the impact on CSR. While some papers focus on the differences between countries, which could be further categorized as cultural differences (Scholtens and Dam, 2007) and/or legal distinctions in terms of required versus voluntary disclosures (Ioannou and Serafeim, 2011), a lot more other papers study what kind of firm-specific characteristic variables would influence CSR, including firm size, corporate business or industry, firm performance, gender diversity, corporate sustainability performance, and asset age (Monteiro and Aibar-Guzmán, 2010; Ciocirlan and Pettersson, 2012; Huang, 2013; Herbohn et al., 2014; Lee et al., 2017; Li et al., 2017). Monteiro and Aibar-Guzmán (2010) document that firm size, corporate business, profitability, foreign ownership, quotation on the stock market and environmental certification would explain CSR disclosure. Ciocirlan and Pettersson (2012) find that work force gender diversity affects CSR disclosure, and Huang (2013) finds that CSR disclosure is also affected by either board gender diversity or CEO's gender. Using the Australian data, Herbohn et al. (2014) find that both corporate sustainability performance and asset age are strongly associated with CSR disclosure. Recent attention on religiosity also shows that social norm such as local religiosity can also impact CSR (McGuire et al., 2012). Using a sample of China's listed firms, Lee et al. (2017) find that state subsidies have a material influence on CSR disclosure choice, and this effect is concentrated among the non-state-owned enterprises rather than the state-owned enterprises and especially when subsidies are granted through non-tax based rather than tax-based channels. Studying how the market responds to expected regulatory costs related to haze in China, Li et al. (2017) also show that higher expected haze-related regulatory costs may affect CSR disclosure.

Geographic dispersion has also been proven to be a crucial factor for a number of questions in both economics and finance. Literature has documented that the corporate geographic dispersion affects stock returns, corporate decision-making, earnings management, firm value and et al. (Garcia and Norli, 2012; Landier et al., 2009; Shi et al., 2015; Gao et al., 2008). Using a sample of U.S. listed firms in the period from 1994 to 2008, Garcia and Norli (2012) find that returns on stocks of local firms exceed those of geographically dispersed firms by 70 basis points per month. Landier et al. (2009) find that local firms are more employee hostile and dismissals of divisional employees are more common in divisions located farther away from corporate headquarters. Shi et al. (2015) find that geographically dispersed firms have lower accrual based earnings management but higher real earnings management than geographically concentrated firms. Gao et al. (2008) document that firms with subsidiaries located in different regions of the United States experience a valuation discount of 6.2%. There is one related paper by Boeprasert (2012) who studies how corporate headquarter locations affect CSR. Boeprasert (2012) finds that firms whose headquarters are located further from major metropolitan areas tend to have higher CSR scores. In other words, Boeprasert (2012) looks at corporate headquarters locations, but we focus on corporate geographic dispersion.

[3] Now owned by MSCI ESG Research, KLD is an independent rating agency specializing in assessing corporate social performance for a large sample of publicly traded companies in the US since 1991. It collects information from a variety of sources including company filings and direct communications with the company, governments and other organizations, as well as media, and it rates firms using a proprietary framework of positive and negative indicators.

[4] Unlike Garcia and Norli (2012), Shi et al. (2015) and us, Landier et al. (2009) define geographically dispersed firms as firms below the sample median for the proportion of divisions in the same state as headquarters, while concentrated firms are firms above the median.

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