# Social Capital and CSR Focus

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*With the dramatic rise in interest in corporate social responsibility (CSR) activities among academicians, top executives, policymakers, and changing societal circumstances, there is an increased pressure on corporations today to include CSR in the company's core mission. We investigate whether the levels of social capital in U.S. counties, as captured by trust, civic norms, and the density of social networks, are related to the CSR focus of corporations. Specifically, we find that firms headquartered in U.S. counties with higher levels of social capital place more emphasis on internally oriented CSR activities than on externally oriented CSR activities. The finding is robust when using an alternate proxy of social capital i.e., organ donation, and in different periods, including the financial crisis of 2007- 09.*

*Keywords: corporate social responsibility, corporate culture, social capital*

## INTRODUCTION

The notion that corporations exist to serve its' shareholders is not true anymore (Tirole, 2001). For ages, every business decision, ranging from how executives are paid to how an employee is hired has implications for maximizing the shareholders' wealth. Is it only the shareholders that matter? This question has often been debated and has come under scrutiny recently. With changing societal circumstances, there is an increased pressure for corporate social responsibility (hereafter, CSR) to become core to a company's mission. In a recent Business Roundtable group, a "statement of corporate purpose" was signed by the executives of more than 180 US firms, which is against the view that corporations exist to serve its' shareholders. These managers accepted the widening wealth gap in the US and concluded that prioritizing all stakeholders would lead to a healthy economy. The CEO of JP Morgan, Jamie Damon, said that companies are now investing in their employees and communities as it is the only way to be successful in the long run (McGregor, 2019). With this new focus on CSR, companies across the globe are re-evaluating their organization's impact on society and their roles in building healthy and sustainable communities.

While there have been a plethora of studies exploring corporate social responsibility (CSR), only a handful of papers study the disaggregation of CSR. Primarily, studies on CSR have focused on aggregate CSR activities, including both internal CSR activities such as employee relations and diversity, and external

CSR activities, such as community relations, human rights, and environment (Jha and Cox (2015); Chin et al. (2013); Li et al. (2020)). However, an overall CSR score does not provide a true picture of a firm's involvement in CSR activities (Aguinis and Glavas (2012)). Disaggregating CSR activities in terms of stakeholders would make it easier to figure out the dynamics of the internal and external CSR activities, and academicians will be better able to explain the tradeoffs of social performance (Al-Shammari et al. (2019)). Furthermore, there is a growing need to focus on a particular aspect of CSR activities (Wang et al. (2016)). This paper attempts to enrich the literature on CSR by disaggregating aggregate CSR measures into internal CSR measures and external CSR measures. In particular, we study whether the levels of social capital in U.S. counties, as captured by trust, civic norms, and the density of social networks, are related to the CSR focus of corporations located in the counties. We find that firms headquartered in U.S. counties with higher levels of social capital place more emphasis on internally oriented CSR activities than on externally oriented CSR activities.

CSR is an effective management tool to strengthen firms' performance through a better image in stakeholders' minds (Saeed and Arshad (2012)). Ample research has shown that CSR activities are one of the ways firms employ to earn a positive reputation from outsiders (Fombrun and Shanley (1990); Nan and Heo (2007); Polonsky and Speed (2001)). CSR activities have been recognized as an important marketing activity for maintaining good customer relationships (Balmer and Greyser (2006)). CSR entails a wide range of activities, with target stakeholders varying from one activity to another. Some researchers suggest that pressures from external factors such as legal mandates, political pressures, and institutional pressures determine firms' CSR activities. Others suggest that internal factors such as CEO/board political ideologies (Chin et al. (2013)), CEO personality traits (Al- Shammari et al. (2019)), and management team commitment to ethics drive CSR initiatives. We attempt to explore the drivers of CSR from Akerlof's (2007) view that a person's ideals and values affect their decisions. One of the components that determine the values and norms of a firm is its social capital, which is defined as a set of informal norms and values that all group members share, and that play a key role in deciding how well a firm performs (Adler and Kwon (2002)).

We contribute to the literature by complementing the existing research on CSR by disaggregating CSR focus (internal versus external) and investigating the impact of the social capital of the region where a firm is headquartered on the firms' CSR focus. Studies suggest that social capital plays an important role in developing workplaces that encourage employee growth and retention (Leana III and Van Buren (1999); Coleman (1988); Dess and Shaw (2001)), affects career development, influences career success and executive compensation (Podolny and Baron (1997); Belliveau, O'Reilly III, and Wade (1996); Burt (1997)), supports board gender diversity (Oyotode-Adebile and Ujah (2020)), reduces turnover rates (Krachardt (1993)), and reduces unethical behaviors like corruption (La Porta et al. (1997)). Overall, firms located in regions with high social capital are naturally focused on ethical employment practices as compared to low social capital firms (Pastoriza et al. (2008)). Given that high social capital firms practice ethical treatments within the organization, which are some of the major components of internal CSR, and CSR activities are one of the means firms use to earn a positive reputation (Fombrun and Shanley (1990); Nan and Heo (2007); Polonsky and Speed (2001)), it seems logical to expect that firms high in social capital tend to place greater emphasis on internally oriented CSR activities when compared to externally oriented CSR activities.

The rest of the paper proceeds as follows. Section 2 provides a theoretical framework. Section 3 develops our hypotheses. Section 4 describes the sample and data sources. Section 5 presents the main empirical setting and results. Section 6 provides additional robustness tests. Section 7 concludes our study. We provide some theoretical and managerial implications in section 8.

## THEORETICAL FRAMEWORK

### Social Capital Theory

Studies have applied social capital theory across various disciplines such as information technology, management, finance, and marketing (Chang and Hsu (2016); Hitt and Duane (2002); Jha (2019); Huang (2016)). Scholars have defined social capital as the resources in organizations, including trust among the members of relationship networks (Putnam (1995); Nahapiet and Ghoshal (1998)). The social capital theory posits that social capital facilitates cooperation and coordination for mutual benefit (Putnam (1995)). Leana III and Van Buren (1999) define social capital as a resource that reflects the nature of the firm's social relationships. They believe that social capital is realized when members of an organization have shared interests and a high degree of trust.

Based on this viewpoint, we focus on internal relationships between a firm and its employees (instead of external relationships) (Hitt and Duane (2002)). One of the reasons for the widespread interest in social capital theory is that it positively impacts both individual and firm performance. Seibert, Kraimer, and Liden (2001) reported that employees with more connections at higher organizational levels have greater access to organizational knowledge and job sponsorship, leading to benefits such as increased salary and promotion. Social capital also encourages employees in a firm to share their knowledge with co-workers (Chung et al. (2016), and helps employees achieve career success (Seibert et al. (2001). In this study, we borrow the concept of social capital from Coleman (1988) and Str¨omgren et al. (2017) and view relational ties between a manager and the employees as critical resources to enhance the firm's reputation. Therefore, one of the reputation-enhancing tools our study investigates is concerned with a manager's relationship with the employees (i.e., taking care of employees' concerns, encouraging diverse workplace).

### Signaling Theory

Signaling theory describes how two parties (individuals or organizations) behave when they have access to various types of information. In most cases, the sender must determine whether and how to communicate (or signal) the information, while the receiver, in most cases, must decide how to interpret the signal. Signals are company actions that indicate its intentions, goals, or motives directly or indirectly (Porter (1980)).

The belief that firms signal their ethical practices by implementing CSR initiatives goes back to the early 1990s when scholars posited that external CSR activities such as donating to charities and societal foundations could signal that a firm is operating in a socially responsible manner, hence enhancing firms' reputation (Fombrun and Shanley (1990)). Other scholars have also discussed CSR as a signaling mechanism utilized by firms to signal their social responsiveness, which helps create a good reputation (Shapira (2011); Galbreath (2010); Basdeo et al. (2006)). CSR activities have also been called a "substantive signaling action" to show that the company is fulfilling its responsibility (Galbreath (2010), p.417). Moreover, CSR is conceptualized as a set of cues that firms use as cognitive shortcuts to recognize ethical businesses and differentiate them from unethical ones (Rao and Monroe (1989)).

## HYPOTHESES DEVELOPMENT

### Social Capital and CSR

Putnam (1995) defined social capital as the "features of social life-networks, norms, and trust - that enable participants to act together more effectively to pursue shared interests". It is manifested through the levels of information sharing, shared trust, and collective action orientation (Leana and Pil (2006)). Prior research points out that strong networks over long periods can promote cooperative norms (Fukuyama (1997); Portes (1998)), and individuals internalize these norms over years and are less likely to behave opportunistically. Prior studies have shown that managers of firms headquartered in regions with high social capital have higher social capital (Vroom (1966)). Furthermore, it is also shown that firms recruit and retain employees who share their values (Tom (1971)). According to Jha (2019), the social capital of the firm where CEOs relocate is the same as the social capital of the firm where they moved from.

People in high social capital regions are relatively less self-centered and more altruistic (Jha and Cox (2015)). This asserts that higher social capital encourages norms such as altruism, which is defined as "a willingness to act in consideration of the interests of other people, without the need of ulterior motives" (Nagel (1978), p.79.); researchers have argued that social capital promotes community cohesion (Kwon et al. (2013)) and facilitates civic-minded, socially cooperative actions and constrains behavior that conflicts with the prescribed civic norms (Hoi et al. (2018)). The research on social capital also demonstrates that social capital is associated with lower corruption (La Porta et al. (1997)), greater support systems for immigrants (Janjuha-Jivraj (2003)), and lower crime (Buonanno et al. (2009)).

Extant literature substantiates the empirical relationship between social capital and CSR activities, as evident from the work of a few scholars (e.g., Jha and Cox (2015); Hoi et al. (2018)). This discussion leads to our first hypothesis that:

***Hypothesis 1****: Firms headquartered in high social capital counties exhibit a higher degree of CSR activities*.

**Social Capital and CSR Focus**

Maximizing shareholders' wealth has been the main mantra of business leaders for years; however, adding shareholders to a broad list of stakeholders that includes suppliers, consumers, government, and the public will make it difficult for the firm to focus on maximizing one dimension. By classifying CSR in terms of their stakeholders, firms can focus on one dimension versus the other i.e., whether to focus on increasing community relations or shareholders' value. Literature shows that firms participate in some CSR activities (i.e., external) more than other (i.e., internal) (Gosselt et al. (2019). We attempt to uncover this difference by exploring the social capital of the firm's location to see whether the social capital will have the same or differential impact on the two major focuses of CSR, namely, activities directed toward internal stakeholders and activities directed toward external stakeholders.

We argue that firms in the region with higher social capital will exhibit less external CSR activities because they are already doing things right and do not need to signal to others what they are doing for society or garner attention from a larger audience. In contrast, they exhibit naturally more internally oriented activities.

**Social Capital and Internal CSR**

Internal CSR activities focus on internal stakeholders, aiming to achieve change within the organization (Hawn and Ioannou (2016)). One of the most prominent groups of internal stakeholders includes firm employees. The internal CSR activities include addressing employee concerns, commitment to diversity, family-friendly policies, job security, equal treatment of minorities and women in all aspects, such as pay, hiring, promotions, and training (Al-Shammari et al. (2019); Farooq et al. (2014)). Putnam (2007) provides evidence that residents of high social capital areas are more likely to have a pro-racial/ethnic equity attitude. They are more open to diverse work environments. Firms with high social capital are characterized by high associability, which is the desire and ability to engage in collective action, and high trust (Leana III and Van Buren (1999)).

A strong social capital also supports high work performance and includes investment in job training, job security, and collaborative learning and working (Ichniowski et al. (1996)). These practices built relational contracts between employees and employers (Rousseau (1998)). Since managers of the firms headquartered in a high social capital county have a long-term orientation in employment relationships, they are more likely to seek feedback and information from their employees. They are relatively group-oriented and give importance to the overall well-being of their employees and hence, show high responsiveness to the problems and concerns of others Leana III and Van Buren (1999). They will also spend resources on the overall well-being of their employees.

Further, Leana III and Van Buren (1999) find that social capital provides a rationale for deferring individuals' interests in favor of the longer-term group and organizational goals. Together, these factors contribute a set of essential elements exhibiting the internal CSR activities of a firm. Therefore, we hypothesize that,

***Hypothesis 2****: Firms headquartered in high social capital counties exhibit higher internally oriented CSR activities.*

**Social Capital and External CSR**

Several studies examine the impact of CSR activities on firm value and the results are mixed. CSR activities are value-enhancing as customers want to buy from socially responsible firms and the employees who work for these firms are more productive (Barko et al., 2018). On the other hand, CSR is regarded as a cost and viewed as an agency problem that reduces the overall financial performance of an organization (Friedman, 1970). Lee and Faff (2009) show that a portfolio of leading corporate sustainability firms lag in performance compared to the market portfolio or the performance of their counterparts. Further, in support of the agency cost theory, Brown et al. (2006) argue that managers may use the firm's resources in the name of CSR for their own benefits. Barnea and Rubin (2010) found that managers incur agency costs by overinvesting in CSR activities to enhance their personal reputation. In another study, Al-Shammari et al. (2019) show that self-centered CEOs emphasize externally oriented CSR activities more than internally oriented CSR activities as these CEOs are concerned about gaining fame and popularity.

Managers of companies headquartered in areas with a higher level of social capital refrain from self-serving practices and would make decisions that would benefit all the stakeholders (Hasan et al., 2017). Studies suggest that social networks in communities with high social capital deters opportunistic and unethical behavior (Putnam, 2000). Hoi et al. (2018) show that firms located in areas with high social capital (strong cooperative norms and dense networks) display activities that benefit all the stakeholders and limit the opportunistic behavior of managers, thus reducing the agency cost. Based on these arguments, we posit our third hypothesis as:

***Hypothesis 3:*** *Firms headquartered in high social capital counties exhibit less externally oriented CSR activities.*

Hawn and Ioannou (2016) define external CSR as something "aimed at gaining organizational endorsement by external constituents". Firms undertake external CSR activities in order to project a desired image of the firm to its stakeholders (Tata and Prasad (2015)). They see CSR initiatives as an integral part of their company's branding and want to ensure that their CSR image is correctly conveyed to their target audiences. Company managers consider CSR as a tool to signal the ethical nature of their businesses to stakeholders when it is not easily observable from outside Adams (2008). This especially occurs when the firm is trying to dilute the negative media attention (McDonnell and King (2013)). Further, a firm's philanthropic and community development activities amplify its corporate image and prestige, influencing outsiders to rank it highly (Brammer and Millington (2005); Fombrun and Shanley (1990); Fryxell and Wang (1994)).

Research indicates that companies that contribute significantly to society and the environment through their everyday internal activities do not strategically and sufficiently complement and communicate their contributions through external CSR activities (Hawn and Ioannou (2016)). Agency theorists posit that allocating resources to CSR activities is symptomatic of a governance issue that is internal to the firm (Zerbini (2017)). This view is grounded on the assumption that firms operate with scarce resources and these resources should be used in the best interests of stakeholders. The managers who control the company pursue a personal agenda by focusing on CSR activities to meet their objectives, such as enhancing their visibility and marketability as executives (Friedman (2007); Wright and Ferris (1997)).

CSR initiatives are also being used to gain trust from external parties. Practitioners and academicians have also advanced this view. For example, Niall Fitzgerald, the Chairman of Unilever from 1996 to 2004, in 2003, delivered a speech entitled: 'CSR: Rebuilding Trust in Business' (Fitzgerald (2003)), where he argued that CSR has moved from the periphery of business to the center stage and that firms must build trust by undertaking CSR activities. Social capital encompasses trust and cooperative norms (Scrivens and Smith (2013)). Firms high in social capital are trusted by outsiders (Putnam (1993)), so in this sense, they do not need to focus on external CSR to gain trust from outsiders. The firms headquartered in high social

capital counties have higher credibility in the eyes of their auditors (Jha and Chen (2015)), have better access to credit Guiso et al. (2004), and have better financial reports (Jha (2019)). Because they are well off on these factors, they do not feel the necessity to signal their well-doing to external parties and exhibit relatively less external CSR.

In addition, the firms located in the high social capital region are also relatively well- governed (Cao et al. (2016)). Ferrell et al. (2016) found that well-governed firms exhibit less wasteful CSR, higher firm value, and lower agency costs through their CSR investments. They will invest in external CSR activities only if it is needed, not for impression management and personal benefits. These arguments lead to our third hypothesis.

## DATA SOURCES AND VARIABLE DESCRIPTION

### Overall CSR

CSR scores are obtained from the MSCI ESG STATS database. MSCI (formerly known as KLD) database incorporates S&P 500 companies' scores from 1991. From 2001, MSCI expanded its firms' list to include the largest 1000 US companies by market capitalization. By 2003, MSCI expanded its' coverage to the largest 3000 US companies by market capitalization. Our sample consists of all firms in the MSCI database from 1991 through 2018.

The breakdown of companies in our sample by year is shown in Table 1.

**TABLE 1**
**NUMBER OF COMPANIES COVERED BY YEAR**

| Year | Number of Companies | Percentage | Year | Number of Companies | Percentage |
|---|---|---|---|---|---|
| 1991 | 391 | 0.95 | 2005 | 2,335 | 5.67 |
| 1992 | 398 | 0.97 | 2006 | 2,305 | 5.60 |
| 1993 | 407 | 0.99 | 2007 | 2,262 | 5.50 |
| 1994 | 428 | 1.04 | 2008 | 2,288 | 5.56 |
| 1995 | 463 | 1.12 | 2009 | 2,292 | 5.57 |
| 1996 | 474 | 1.15 | 2010 | 2,374 | 5.77 |
| 1997 | 472 | 1.15 | 2011 | 2,269 | 5.51 |
| 1998 | 497 | 1.21 | 2012 | 2,193 | 5.33 |
| 1999 | 509 | 1.24 | 2013 | 1,912 | 4.65 |
| 2000 | 446 | 1.08 | 2014 | 1,766 | 4.29 |
| 2001 | 890 | 2.16 | 2015 | 2,092 | 5.08 |
| 2002 | 905 | 2.20 | 2016 | 2,035 | 4.94 |
| 2003 | 2,513 | 3.11 | 2017 | 1,844 | 4.48 |
| 2004 | 2,567 | 6.24 | 2018 | 1,833 | 4.45 |

The data from MSCI includes companies' ratings along seven different dimensions of CSR viz. community, corporate governance, diversity, employee relations, environment, human rights, and product. In each of these dimensions, MSCI provides ratings (zero or one) for several strengths (positive CSR policy) and concerns (negative CSR policy). For example, in the diversity area, MSCI assigns one to the strengths if the company's CEO is a woman or a member of a minority group. Similarly, MSCI assigns one to the concerns (in the area of diversity) if the company has now women on its board of directors or among its senior line managers. Following the literature (Al-Shammari et al. (2019); Jha and Cox (2015)), we use five dimensions (environment, community, employee relations, diversity, and corporate governance) to

calculate the overall CSR of the firm. Specifically, a firm's overall CSR score is calculated as the sum of strengths across these dimensions minus the concerns in these dimensions each year.

**Internal CSR**

We selected employee relations, diversity, and governance as the three most important aspects to capture the firm's internal CSR. Top executives today agree that satisfying shareholders alone is no longer good enough for the company. Employees are a powerful channel of communication to people outside the firm. They have the power to either enhance or damage firms' reputations. What employees say to outsiders also has higher credibility than what the company conveys about itself. A large body of literature shows how employee satisfaction and organizational support for employees impact organizations (Al-Shammari et al. (2019)). Also, diversity has become another important issue in today's corporations. Studies have shown that diversity in an organization reflects senior management's commitment towards equity and its commitment to avoid gender, race, and other kinds of biases (Bear et al. (2010)), which help enhance firms' reputation especially in today's environment of consumers' demand for equity in firms. Governance has received widespread attention in both academic research and corporations. Recently, there has been intense debate among regulators, policymakers, and media on the impact of both formal and informal governance mechanisms on both the valuation and corporate decision-making of a firm (Spitzeck and Hansen (2010)). In this study, we compute internal CSR as the summation of strengths minus concerns over the period from 1991 through 2018 (Cruz et al. (2014); Al-Shammari et al. (2019)).

**External CSR**

The majority of a firm's CSR activities is directed towards external stakeholders in various forms, including community and environment-oriented activities. Following (Cennamo et al. (2012); Cruz et al. (2014)), we measure external CSR as the summation of all scores of the strengths minus the sum of concerns in the areas of community relations and environmental policies from period 1991 to 2018.

**Social Capital**

Social capital considers the presence of social structures in a community and facilitates actions by individuals in that structure (Coleman (1988)). The Northeast Regional Center for Rural Development (NRCRD) at the Pennsylvania State University provides data that capture cooperative norms and networks in all the US counties for the years 1990, 1997, 2005, 2009, and 2014 respectively. We linearly interpolated the data to fill the years 1991-1996, 1998- 2004,2005-2008, and 2010-2003 (Jha and Cox (2015); Hilary and Hui (2009); Rupasingha et al. (2006)). Rupasingha et al. (2006) have described this data in detail. Data is based on information about two components of norms (county-level voter turnout and census response rates) and two components of networks (total number of social organizations and the total number of non-profit organizations). This social capital index is the only comprehensive index that is available for each county in the U.S. Using the location of the headquarters of the firm, we compute the social capital index for a firm for a particular year.

**Control Variables**

We include a range of firm attributes to control for the effects of size, leverage, risk, asset tangibility, and growth opportunities. Additionally, we control for the effects of county characteristics such as income per capita, total population, population growth, and religion. The firm attribute variables are obtained from Compustat, whereas the variables for county-level characteristics are obtained from the U.S. Department of Commerce Bureau of Economic Analysis. The variable definitions are included in Appendix A.

**Descriptive Statistics**

Table 2 (Panel A) reports the summary statistics of the key variables used in this study. A total of 41,160 firm-year observations are included in our study. As reported in the correlation matrix (Panel B), social capital is positively correlated with the overall CSR as well as the internal and external CSR. The economic magnitudes of the correlations are relatively small. We accessed the presence of multicollinearity

in the data and found no issues regarding it since all variables have a VIF of less than 5, and the mean VIF for the three models is less than 2.

**TABLE 2**
**SUMMARY STATISTICS AND CORRELATION MATRIX**

Panel A reports the summary statistics of the data. Panel B reports the correlations. The statistics in bold are significant at 5% level. Detailed variable definitions are provided in the Appendix.

Panel A: Summary Statistics

| *Variables* | *N* | *Mean* | *Median* | *Std Dev* | *Min* | *Max* |
|---|---|---|---|---|---|---|
| *Overall CSR* | 41,160 | 0.164 | 0.000 | 2.214 | -9.000 | 19.000 |
| *Internal CSR* | 41,160 | -0.004 | 0.000 | 1.713 | -7.000 | 11.000 |
| *External CSR* | 41,160 | 0.167 | 0.000 | 0.962 | -6.000 | 8.000 |
| *Social Capital* | 41,160 | -0.479 | -0.469 | 0.851 | -3.925 | 4.500 |
| *Age* | 41,160 | 2.926 | 2.944 | 0.764 | 0.000 | 4.234 |
| *Size* | 41,160 | 7.542 | 7.454 | 1.757 | -0.223 | 14.780 |
| *MTOB* | 41,160 | 3.516 | 2.188 | 54.363 | -4027.243 | 7426.01 |
| *Leverage* | 41,160 | 0.238 | 0.199 | 0.232 | 0.000 | 4.910 |
| *EBITDA* | 41,160 | 0.092 | 0.104 | 0.188 | -12.413 | 1.746 |
| *ROA* | 41,160 | 0.011 | 0.034 | 0.766 | -150.125 | 2.408 |
| *DIV* | 41,160 | 0.014 | 0.000 | 0.042 | 0.000 | 3.396 |
| *Cash* | 41,160 | 0.154 | 0.059 | 0.254 | 0.000 | 10.360 |
| *Advertising* | 41,160 | 0.012 | 0.000 | 0.039 | 0.000 | 2.514 |
| *Capex* | 41,160 | 0.041 | 0.021 | 0.069 | -0.124 | 2.787 |
| *RND* | 41,160 | 0.083 | 0.000 | 0.379 | 0.000 | 10.154 |
| *KZ Score* | 41,160 | 0.738 | 0.627 | 4.715 | -190.282 | 750.879 |
| *Income per Capita* | 41,160 | 3.883 | 3.850 | 0.394 | 2.604 | 5.252 |
| *Population* | 41,160 | 13.743 | 13.758 | 1.146 | 8.111 | 16.129 |
| *Population Growth* | 41,160 | 0.009 | 0.005 | 0.016 | -0.534 | 0.569 |
| *Religion* | 41,160 | 0.576 | 0.586 | 0.127 | 0.058 | 1.348 |

Panel B: Correlations for all variables in sample

| | Variables | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 20 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **1.** | **Overall CSR** | **1** | | | | | | | | | | | | | | | | | | | |
| **2.** | **Internal CSR** | **0.911** | **1** | | | | | | | | | | | | | | | | | | |
| 3. | **External CSR** | **0.679** | **0.316** | **1** | | | | | | | | | | | | | | | | | |
| 4. | **Social Capital** | **0.093** | **0.084** | **0.064** | **1** | | | | | | | | | | | | | | | | |
| 5. | **Age** | **0.175** | **0.173** | **0.095** | **0.09** | **1** | | | | | | | | | | | | | | | |
| 6. | **Size** | **0.325** | **0.321** | **0.176** | **0.065** | **0.371** | **1** | | | | | | | | | | | | | | |
| 7. | **MTOB** | 0.04 | 0.004 | 0.003 | 0.001 | -0.002 | **-0.016** | **1** | | | | | | | | | | | | | |
| **8.** | **Leverage** | -0.006 | -0.008 | 0.002 | **0.021** | **0.04** | **0.211** | -0.003 | **1** | | | | | | | | | | | | |
| **9.** | **EBITDA** | **0.062** | **0.056** | **0.043** | **0.011** | **0.15** | **0.143** | 0.003 | **-0.021** | **1** | | | | | | | | | | | |
| **10.** | **ROA** | **0.02** | **0.02** | **0.013** | **0.012** | **0.037** | **0.07** | **-0.232** | **-0.016** | **0.221** | **1** | | | | | | | | | | |
| **11.** | **DIV** | **0.065** | **0.055** | **0.052** | **0.041** | **0.11** | **0.018** | **0.02** | **0.088** | **0.131** | **0.027** | **1** | | | | | | | | | |
| **12.** | **Cash** | **-0.014** | **-0.026** | **0.014** | **-0.029** | **-0.139** | **-0.248** | **0.014** | **-0.192** | **-0.133** | **-0.02** | **0.026** | **1** | | | | | | | | |
| **13.** | **Advertising** | **0.064** | **0.048** | **0.061** | **0.032** | **-0.052** | **-0.048** | 0.003 | **-0.012** | **-0.012** | -0.007 | **0.019** | **0.026** | **1** | | | | | | | |
| **14.** | **Capex** | **-0.038** | **-0.027** | **-0.039** | **-0.073** | **0.054** | **-0.017** | 0 | **0.029** | **0.159** | **0.022** | **0.053** | **0.037** | **-0.01** | **1** | | | | | | |
| **15.** | **RND** | **-0.022** | **-0.021** | **-0.013** | -0.003 | **-0.132** | **-0.226** | 0.003 | **-0.051** | **-0.442** | **-0.1** | **-0.052** | **0.314** | **0.06** | **-0.053** | **1** | | | | | |
| **16.** | **KZ Score** | -0.005 | -0.003 | -0.006 | -0.006 | **0.01** | **0.06** | **0.179** | **0.151** | **-0.053** | **-0.772** | **-0.299** | **-0.063** | -0.005 | 0.005 | 0.001 | **1** | | | | |
| **17.** | **Income Per Capita** | **0.102** | **0.073** | **0.105** | **0.209** | **-0.128** | **0.028** | 0.005 | **0.036** | **-0.111** | **-0.019** | **0.011** | **0.187** | **0.056** | **-0.088** | **0.116** | 0.005 | **1** | | | |
| **18.** | **Population** | 0.007 | 0.002 | **0.011** | **-0.425** | **-0.064** | **0.028** | **0.011** | **0.012** | **-0.035** | **-0.016** | **-0.01** | **0.079** | **0.019** | -0.003 | **0.038** | 0.005 | **0.198** | **1** | | |
| **19.** | **Population Growth** | **-0.045** | **-0.048** | **-0.018** | **-0.121** | **0.022** | **-0.013** | -0.006 | 0.006 | **0.011** | -0.002 | -0.004 | **0.012** | **-0.014** | **0.087** | **-0.012** | 0.002 | **-0.021** | **-0.059** | **1** | |
| **20.** | **Religion** | **-0.021** | **-0.012** | **-0.027** | **0.247** | **0.101** | **0.074** | 0.01 | **0.016** | **0.062** | **0.011** | **0.017** | **-0.111** | **-0.017** | **0.021** | **-0.063** | 0.006 | 0.004 | **-0.028** | **-0.116** | **1** |

## EMPIRICAL FINDINGS

First, we examine the relationship between the social capital of a head quarter's county and the overall CSR. To do this, we conduct a regression analysis which is presented in the equation below:

$$OverallCSR = \beta_0 + \beta_1 Social\ Capital + \beta_2 Age + \beta_3 Size + \beta_4 MTOB + \beta_5 Leverage + \beta_6 EBITDA + \beta_7 ROA + \beta_8 DIV + \beta_9 Cash + \beta_{10} Advertising + \beta_{11} Capex + \beta_{12} RND + \beta_{13} KZScore + \beta_{14} IncomeperCapita + \beta_{15} Population + \beta_{16} PopulationGrowth + \beta_{17} Religion + Year\ Dummies + Industry\ Dummies + \epsilon \quad (1)$$

where, Overall CSR is the aggregate CSR score of a firm, Social Capital is the social capital of the county of the firms' headquarter, Age is the natural logarithm of the firm's age, Size is the natural logarithm of the firm's total assets, MTOB is the market to book ratio of the firm, ROA is the return on assets of the firm, DIV is the total dividends paid scaled by total assets, Cash is the ratio of cash to total assets, Advertising is the ratio of advertising expenses to sales, Capex is the ratio of capital expenditure to total assets, RND is the ratio of research and development expenses to sales, KZScore is an index of financial constraint. Similarly, IncomeperCapita is the natural log on the ratio of total income to the total population. Population is the total population of the county, PopulationGrowth is the percentage change in population and religion is the ratio of the number of religious adherents to the total population of the county. We include both year and industry dummies in our regression analyses. Similarly, in the subsequent studies, we study the relationship between the social capital of a headquarters region and the internal as well as external CSR. We apply the same regression model which is:

$$InternalCSR = \beta_0 + \beta_1 Social\ Capital + \beta_2 Age + \beta_3 Size + \beta_4 MTOB + \beta_5 Leverage + \beta_6 EBITDA + \beta_7 ROA + \beta_8 DIV + \beta_9 Cash + \beta_{10} Advertising + \beta_{11} Capex + \beta_{12} RND + \beta_{13} KZScore + \beta_{14} IncomeperCapita + \beta_{15} Population + \beta_{16} PopulationGrowth + \beta_{17} Religion + Year\ Dummies + Industry\ Dummies + \epsilon \quad (2)$$

$$ExternalCSR = \beta_0 + \beta_1 Social\ Capital + \beta_2 Age + \beta_3 Size + \beta_4 MTOB + \beta_5 Leverage + \beta_6 EBITDA + \beta_7 ROA + \beta_8 DIV + \beta_9 Cash + \beta_{10} Advertising + \beta_{11} Capex + \beta_{12} RND + \beta_{13} KZScore + \beta_{14} IncomeperCapita + \beta_{15} Population + \beta_{16} PopulationGrowth + \beta_{17} Religion + Year\ Dummies + Industry\ Dummies + \epsilon \quad (3)$$

**TABLE 3**
**SOCIAL CAPITAL AND OVERALL CSR**

| *Variables* | *Overall CSR* | *Overall CSR* | *Overall CSR* |
|---|---|---|---|
| *Social Capital* | 0.143*** | 0.107*** | 0.115*** |
| | (0.000) | (0.001) | (0.006) |
| *Age* | | 0.105*** | 0.126*** |
| | | (0.002) | (0.000) |
| *Size* | | 0.440*** | 0.431*** |
| | | (0.000) | (0.000) |
| *MTOB* | | 0.001 | 0.001 |
| | | (0.398) | (0.378) |
| *Leverage* | | -0.614*** | -0.607*** |
| | | (0.000) | (0.000) |
| *EBITDA* | | 0.179 | 0.210* |

| | | | |
|---|---|---|---|
| | | (0.112) | (0.065) |
| *Variables* | *Overall CSR* | *Overall CSR* | *Overall CSR* |
| *ROA* | | -0.009 | -0.010 |
| | | (0.663) | (0.623) |
| *DIV* | | 2.831*** | 2.822*** |
| | | (0.000) | (0.000) |
| *Cash* | | 0.189*** | 0.141** |
| | | (0.004) | (0.027) |
| *Advertising* | | 2.621*** | 2.251*** |
| | | (0.000) | (0.000) |
| *Capex* | | -0.119 | -0.052 |
| | | (0.665) | (0.849) |
| *RND* | | 0.132*** | 0.119*** |
| | | (0.002) | (0.005) |
| *KZ Score* | | 0.003 | 0.002 |
| | | (0.491) | (0.532) |
| *Income Per Capita* | | | 0.199** |
| | | | (0.047) |
| *Population* | | | 0.016 |
| | | | (0.538) |
| *Population Growth* | | | -3.271*** |
| | | | (0.002) |
| *Religion* | | | -0.794*** |
| | | | (0.000) |
| *Constant* | -0.416 | -4.087*** | -4.488*** |
| | (0.161) | (0.000) | (0.000) |
| Industry fixed effect | Yes | Yes | Yes |
| Year fixed effect | Yes | Yes | Yes |
| No. of obs. | 41,160 | 41,160 | 41,160 |

This table reports multivariate OLS coefficients. All specifications include year and industry fixed effects. The p-values reported in the parentheses are based on robust standard errors clustered at the county level. *, **, and *** denote statistical significance at the 10%, 5% and 1% levels, respectively. Detailed variable definitions are provided in the Appendix.

The main regression results are presented in Table 3. All regressions include industry and year fixed effects. In column 1, we use Social Capital as the only explanatory variable to examine its impact on Overall CSR. As expected, the coefficient on Social Capital is positive and statistically significant, suggesting that the social capital of the location of a firm's headquarter is positively and significantly associated with the overall CSR activities of a firm.

We include a range of firm attributes as additional control variables in Column 2. The coefficient on Social Capital remains statistically significant. Further, in Column 3, we include county-level variables as control variables and the result is still statistically significant. These baseline results provide strong evidence that the social capital of a firm's headquarters region is significant in determining the overall CSR initiatives of a firm. Therefore, hypothesis 1 is supported. The result is consistent with that of (Jha and Cox (2015)). Our results so far indicate that the firms located in regions with high social capital exhibit high overall CSR. Next, we break down overall CSR into two components viz. internal CSR and external CSR, and examine

its relationship with the firm's social capital. The results are presented in Table 4. The first column examines the relationship between Social Capital and Internal CSR. The coefficient of Social Capital appears to be positive and statistically significant. This result is consistent with our second hypothesis. In general, firms located in counties with higher social capital tend to exhibit high internal CSR. Thus, hypothesis 2 is supported.

Next, we investigate the relationship between social capital and the external CSR of the firm. The results of the regression analysis are reported in the second column of Table 4 where the dependent variable is the External CSR. The coefficient of Social Capital is positive but not significant. Thus, hypothesis 3 is not supported.

**TABLE 4**
**SOCIAL CAPITAL AND INTERNAL AND EXTERNAL CSR**

| *Variables* | *Internal CSR* | *External CSR* |
|---|---|---|
| *Social Capital* | 0.086*** | 0.028 |
| | (0.004) | (0.131) |
| *Age* | 0.109*** | 0.017 |
| | (0.000) | (0.296) |
| *Size* | 0.304*** | 0.127*** |
| | (0.000) | (0.000) |
| *MTOB* | 0.000 | 0.000 |
| | (0.398) | (0.793) |
| *Leverage* | -0.510*** | -0.097** |
| | (0.000) | (0.015) |
| *EBITDA* | 0.165* | 0.045 |
| | (0.063) | (0.238) |
| *ROA* | 0.004 | -0.014* |
| | (0.823) | (0.077) |
| *DIV* | 1.941*** | 0.881*** |
| | (0.000) | (0.000) |
| *Cash* | 0.112** | 0.028 |
| | (0.022) | (0.297) |
| *Advertising* | 1.523*** | 0.984*** |
| | (0.001) | (0.002) |
| *Capex* | -0.092 | 0.039 |
| | (0.633) | (0.763) |
| *RND* | 0.095*** | 0.025 |
| | (0.004) | (0.170) |
| *KZ Score* | 0.003 | -0.001 |
| | (0.407) | (0.918) |
| *Income Per Capita* | 0.097 | 0.102** |
| | (0.180) | (0.020) |
| *Population* | 0.009 | 0.006 |
| | (0.607) | (0.588) |
| *Population Growth* | -2.011** | -1.259*** |

| | | |
|---|---|---|
| | (0.013) | (0.008) |
| *Variables* | *Internal CSR* | *External CSR* |
| *Religion* | -0.622*** | -0.172* |
| | (0.000) | (0.087) |
| *Constant* | -4.488*** | -1.424*** |
| | (0.000) | (0.000) |
| Industry fixed effect | Yes | Yes |
| Year fixed effect | Yes | Yes |
| No. of obs. | 41,160 | 41,160 |

This table reports multivariate OLS coefficients. All specifications include year and industry-fixed effects. The p-values reported in the parentheses are based on robust standard errors clustered at the county level. *, **, and *** denote statistical significance at the 10%, 5% and 1% levels, respectively. Detailed variable definitions are provided in the Appendix.

## ROBUSTNESS CHECKS

### Alternative Measure of Social Capital

In this section, we explore whether our results are robust by using a different measure of social capital. Guiso et al. (2004) and Buonanno et al. (2009) have used organ donation as another proxy for measuring social capital. Following the consensus in these studies, we obtained the organ donation data from the Organ Procurement and Transplantation Network (OPTN) to develop an alternative measure of social capital in the US counties. The data from OPTN includes the total number of organ donors in each state. We construct the variable Organ Donation by calculating the state-level per capita organ donor multiplied by 1000. We estimate our baseline model using Organ Donation as the test variable instead of Social Capital. The results of this model are reported in Table 5. The estimate on Organ Donation is positive and significant only in the case of overall CSR and internal CSR, suggesting that our finding is robust using an alternative measure of social capital. Thus, hypotheses 1 and 2 are supported, and hypothesis 3 is not.

**TABLE 5**
**ROBUSTNESS CHECK**

| *Variables* | *Overall CSR* | *Internal CSR* | *External CSR* |
|---|---|---|---|
| *Organ Donation* | 5.642* | 4.113* | 1.529 |
| | (0.093) | (0.081) | (0.365) |
| *Age* | 0.131*** | 0.114*** | 0.018 |
| | (0.000) | (0.000) | (0.260) |
| *Size* | 0.432*** | 0.304*** | 0.127*** |
| | (0.000) | (0.000) | (0.000) |
| *MTOB* | 0.000 | 0.000 | 0.000 |
| | (0.370) | (0.393) | (0.790) |
| *Leverage* | -0.607*** | -0.509*** | -0.097** |
| | (0.000) | (0.000) | (0.015) |
| *EBITDA* | 0.202* | 0.159* | 0.043 |
| | (0.073) | (0.070) | (0.260) |
| *ROA* | -0.011 | 0.004 | -0.014* |
| | (0.615) | (0.828) | (0.075) |
| *DIV* | 2.827*** | 1.945*** | 0.882*** |
| | (0.000) | (0.000) | (0.000) |

| *Variables* | *Overall CSR* | *Internal CSR* | *External CSR* |
|---|---|---|---|
| *Cash* | 0.138** | 0.110** | 0.028 |
| | (0.031) | (0.025) | (0.305) |
| *Advertising* | 2.559*** | 1.561*** | 0.997*** |
| | (0.000) | (0.001) | (0.002) |
| *Capex* | -0.047 | -0.087 | 0.041 |
| | (0.865) | (0.649) | (0.755) |
| *RND* | 0.122*** | 0.097*** | 0.026 |
| | (0.004) | (0.003) | (0.156) |
| *KZ Score* | 0.002 | 0.003 | -0.001 |
| | (0.544) | (0.416) | (0.904) |
| *Income Per Capita* | 0.333*** | 0.197*** | 0.136*** |
| | (0.000) | (0.002) | (0.000) |
| *Population* | -0.209 | -0.018 | -0.003 |
| | (0.338) | (0.254) | (0.786) |
| *Population Growth* | -3.642*** | -2.295*** | -1.346*** |
| | (0.001) | (0.005) | (0.005) |
| *Religion* | -0.766*** | -0.599*** | -1.677 |
| | (0.000) | (0.000) | (0.104) |
| *Constant* | -4.597*** | -3.141*** | -1.738*** |
| | (0.000) | (0.000) | (0.000) |
| Industry fixed effect | Yes | Yes | Yes |
| Year fixed effect | Yes | Yes | Yes |
| No. of obs. | 41,160 | 41,160 | 41,160 |

This table reports multivariate OLS coefficients. All specifications include year and industry-fixed effects. The p-values reported in the parentheses are based on robust standard errors clustered at the county level. *, **, and *** denote statistical significance at the 10%, 5% and 1% levels, respectively. Detailed variable definitions are provided in the Appendix.

**Other Robustness Checks**

Although the MSCI data started its coverage in 1991, the most comprehensive coverage started in 2003. To test the additional robustness of our empirical results, we re-ran the analysis using data only after 2003 and our results (Table 6, Panel A) still support hypothesis 1 and hypothesis 2 regarding the relationship between social capital, aggregate CSR, and internal CSR. Further, studies show that firms tend to exhibit an unfavorable view of CSR investments during the financial crisis (Chintrakarn et al. (2021)). Since we posit that CSR initiatives are the natural result of the norms and culture of the region, we re-ran another analysis using the data only during the financial crisis (from the year 2007 to 2009). Our results (Table 6, Panel B) demonstrate that the firms located in high social capital regions exhibit high overall CSR and internally oriented CSR activities even during the time of financial crisis. However, the relationship between social capital and externally oriented CSR activities is insignificant. Thus, hypotheses 1 and 2 are supported and hypothesis 3 is not.

The fact that our results hold true with a small number of observations of 6,842 (Table 6, Panel B) during the financial crisis period provides further credence to our findings that our results were significant, not due to the large sample size.

**TABLE 6**
**ADDITIONAL ROBUSTNESS CHECK**

Panel A: [Sample Period: 2003 to 2018]

| *Variables* | *Overall CSR* | *Internal CSR* | *External CSR* |
|---|---|---|---|
| *Social Capital* | 0.096** | 0.076** | 0.020 |
| | (0.017) | (0.012) | (0.227) |
| *Age* | 0.156*** | 0.122*** | 0.034** |
| | (0.000) | (0.000) | (0.027) |
| *Size* | 0.494*** | 0.339*** | 0.155*** |
| | (0.000) | (0.000) | (0.000) |
| *MTOB* | 0.000 | 0.000 | 0.000 |
| | (0.447) | (0.506) | (0.777) |
| *Leverage* | -0.582*** | -0.098*** | -0.607*** |
| | (0.000) | (0.000) | (0.009) |
| *EBITDA* | 0.081 | 0.081 | 0.001 |
| | (0.425) | (0.308) | (0.996) |
| *ROA* | -0.038 | -0.018 | -0.020** |
| | (0.102) | (0.295) | (0.025) |
| *DIV* | 2.641*** | 1.775*** | 0.867*** |
| | (0.000) | (0.000) | (0.000) |
| *Cash* | 0.145** | 0.131*** | 0.014 |
| | (0.022) | (0.007) | (0.576) |
| *Advertising* | 2.005*** | 1.249*** | 0.756*** |
| | (0.002) | (0.003) | (0.005) |
| *Capex* | -0.501* | -0.382** | -0.119 |
| | (0.063) | (0.050) | (0.295) |
| *RND* | 0.121*** | 0.094*** | 0.026* |
| | (0.003) | (0.003) | (0.084) |
| *KZ Score* | -0.002 | -0.001 | 0.002 |
| | (0.613) | (0.729) | (0.504) |
| *Income Per Capita* | 0.115** | 0.216 | 0.102** |
| | (0.024) | (0.105) | (0.011) |
| *Population* | 0.036 | 0.024 | 0.011 |
| | (0.135) | (0.171) | (0.267) |
| *Population Growth* | -3.008*** | -1.936*** | -1.072*** |
| | (0.001) | (0.009) | (0.008) |
| *Religion* | -0.755*** | -0.542*** | -0.214** |
| | (0.000) | (0.000) | (0.021) |
| *Constant* | -5.406*** | -3.673*** | -1.733*** |
| | (0.000) | (0.000) | (0.000) |
| Industry fixed effect | Yes | Yes | Yes |
| Year fixed effect | Yes | Yes | Yes |
| No. of obs. | 34,880 | 34,880 | 34,880 |

Panel B: [During the financial crisis of 2007-09]

| *Variables* | *Overall CSR* | *Internal CSR* | *External CSR* |
|---|---|---|---|
| *Social Capital* | 0.181*** | 0.148*** | 0.033 |
| | (0.003) | (0.002) | (0.193) |
| *Age* | 0.154** | 0.151*** | 0.03 |
| | (0.011) | (0.002) | (0.913) |
| *Size* | 0.224*** | 0.194*** | 0.031* |
| | (0.000) | (0.000) | (0.081) |
| *MTOB* | 0.001 | 0.001 | 0.000 |
| | (0.202) | (0.279) | (0.521) |
| *Leverage* | -0.516*** | -0.461*** | -0.055 |
| | (0.001) | (0.001) | (0.365) |
| *EBITDA* | 0.217 | 0.300 | -0.084 |
| | (0.285) | (0.101) | (0.206) |
| *ROA* | -0.281 | -0.325** | 0.044 |
| | (0.121) | (0.049) | (0.445) |
| *DIV* | 1.215* | 1.199** | 0.015 |
| | (0.095) | (0.046) | (0.941) |
| *Cash* | 0.226* | 0.165 | 0.061* |
| | (0.068) | (0.143) | (0.081) |
| *Advertising* | 5.606*** | 3.833*** | 1.773*** |
| | (0.000) | (0.000) | (0.002) |
| *Capex* | 0.160 | -0.109 | 0.269 |
| | (0.690) | (0.744) | (0.101) |
| *RND* | 0.117** | 0.049 | 0.068*** |
| | (0.068) | (0.361) | (0.008) |
| *KZ Score* | -0.011 | -0.006 | -0.005 |
| | (0.301) | (0.522) | (0.226) |
| *Income Per Capita* | 0.381** | 0.213 | 0.168** |
| | (0.024) | (0.108) | (0.011) |
| *Population* | 0.073* | 0.059* | 0.014 |
| | (0.080) | (0.082) | (0.402) |
| *Population Growth* | -4.835* | -3.915* | -0.921 |
| | (0.057) | (0.061) | (0.388) |
| *Religion* | -0.976*** | -0.747*** | -0.229 |
| | (0.005) | (0.007) | (0.107) |
| *Constant* | -5.739*** | -4.001*** | -1.738*** |
| | (0.000) | (0.000) | (0.003) |
| Industry fixed effect | Yes | Yes | Yes |
| Year fixed effect | Yes | Yes | Yes |
| No. of obs. | 6,842 | 6,842 | 6,842 |

This table reports multivariate OLS coefficients. All specifications include year and industry-fixed effects. The p-values reported in the parentheses are based on robust standard errors clustered at the county level. *, **, and *** denote statistical significance at the 10%, 5% and 1% levels, respectively. Detailed variable definitions are provided in the Appendix.

## DISCUSSION AND CONCLUSION

This study attempts to examine the relationship between the social capital of a firm based on the location of the headquarter and the focus on corporate social responsibility (CSR) activities. While extant empirical studies treat corporate social responsibility as one single measure, we disaggregate CSR activities into internal and external activities. This study extends and complements the previous study investigating the relationship between social capital and aggregate CSR (Jha and Cox (2015)). The results show that although the relationship between social capital and overall CSR is significant, there is no consistent social capital relationship with internal and external CSR. This result suggests that firms located in counties with a high social capital focus on their employee relations and diversity (internal CSR). Also, in line with the signaling theory, the result asserts that firms in higher social capital counties are less likely to be showcasing their activities through engagement in external CSR activities to enhance their reputation. Because these firms tend to be more ethical, they do not feel the need to strategically signal their ethicality by engaging in external CSR initiatives.

Several studies have shown that social capital matters in a corporate setting. Managers make corporate decisions and managers are influenced by the social culture around the corporate headquarters (e.g., Hilary and Hui, 2009). Hoi et al. (2018) and Hasan et al. (2017b) show that firms in counties with higher social capital make decisions considering all the stakeholders and do not make decisions that benefit shareholders at the expense of other stakeholders. Hasan et al. (2017a) show that firms located in counties with higher social capital are more ethical when it comes to tax avoidance and earnings management. Our results imply that firms located in counties with higher social capital do not exhibit higher external CSR activities as they do not need to signal their stakeholders about their CSR activities. This also implies that firms that are involved in unethical practices can use CSR as a camouflage tool to signal that they care about all their stakeholders.

## THEORETICAL AND MANAGERIAL IMPLICATIONS

This paper offers several contributions to the literature. First, this study extends prior re- search by providing a deeper view and evidence on the relationship between social capital and CSR focus. The link between social capital and CSR demonstrated in our study is different than the straightforward - aggregate relationship as widely assumed in the previous literature.

Disaggregating CSR focus, using a large sample with different contemporary regression techniques, and employing different robustness tests, we believe our findings are more detailed than those reported in prior studies on the relationship between social capital and overall CSR.

Second, our paper robustly proves no consistent relationship between social capital and two CSR foci (internal vs external). Internal CSR activities were driving the relationship between social capital and CSR in the past studies examining the relationship between social capital and CSR. By disaggregating CSR, we provide better insights into whether the firms' CSR initiatives are makeup CSR efforts for reputation building or a subconscious undertaking of ethical activities incorporating daily functions.

Third, our results show that CSR should be viewed as a multidimensional construct, and studies that use an aggregate metric may be less than adequately capturing the richness and sophistication of the construct. We argue that a firm's focus on various aspects of CSR can be a function of the social capital of firm's location.

Fourth, our findings extend the literature of social capital and CSR by suggesting that the social capital of firms' headquartered county is a significant driver of a firm's CSR. Firms exhibit different CSR focuses not only as a result of financial incentives or out of legal coercion but also organically as a result of the local norms and culture.

Finally, from a managerial perspective, the findings of our study imply that firms located in counties with higher social capital have lower reputational risks that arise from stakeholders' (especially local community) perception of firms' externally oriented CSR activities. Firms' image of being socially responsible results in added expectations among stakeholders which results in higher reputational risks

among firms (King and McDonnell (2012)). In events where firms' activities are not congruent with its' perceived behavior, these reputational risks can be value-destroying for a firm.

## LIMITATIONS AND FUTURE RESEARCH DIRECTIONS

The limitation of our study is that we examine how variations in county-level social capital within the U.S. affect the CSR activities of firms headquartered in the local community. As a result, it is debatable if the results would apply when we look at multiple countries. Social capital varies across nations (Fukuyama (1997)) and such national-level differences could impact CSR activities. With a significant variation of CSR activities across nations, examining the social capital across nations and its' impact on CSR activities is one area that has future research potential. Furthermore, we suggest researchers consider examining the moderating role of CEO/Board characteristics, such as CEO/board members' personal values, and political ideologies, when investigating the relationship between social capital and CSR.

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**APPENDIX**

**TABLE 7**
**VARIABLE DEFINITIONS**

| Test Variables | Description |
|---|---|
| Overall CSR | Overall CSR score of a firm calculated as the sum of strengths minus the concerns based on KLD dimensions. |
| Internal CSR | Sum of strengths minus concerns reported by KLD data concerning employee relations, diversity, and governance. |
| External CSR | Sum of strengths minus concerns reported by KLD data concerning community relations and environmental policies. |
| Social Capital | Social capital of the county where the firm is headquartered. |
| Age | The natural logarithm of the age of the firm. |
| Size | The natural logarithm of the firm's total assets. |
| MTOB | The ratio of market value to the book value of the firm. |
| Leverage | The debt ratio of the firm calculated as the ratio of total debt to assets. |
| EBITDA | EBITDA scaled by total assets. |
| ROA | Return on Assets computed as Net Income/Total Assets. |
| DIV | Total dividends paid scaled by lag of total assets. |
| Cash | The ratio of cash to lag of total assets. |
| Advertising | The ratio of advertising expenses to sales. |
| Capex | The ratio of capital expenditures to lag of total assets. |
| RND | The ratio of research and development expenses to sales. |
| KZ Score | lex of Financial Constraint calculated as: -1.002*(CF/L.at)-39.368*(div/L.at) - 1.315*(Cash/L.at) + 3.139*Lev+0.283*Tobin's Q |
| Income Per Capita | The natural log of the ratio of total income to total population. |
| Population | The natural log of total population of a county. |
| Population Growth | The change in population of a county divided by the beginning population. |
| Religion | The ratio of the number of religious adherents to the total |