Political Views and Corporate Decision-Making: The Case of Corporate Social Responsibility

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Abstract

This paper conducts an empirical analysis of the relationship between corporate social responsibility (CSR) and political beliefs in the United States. By analyzing the 2004 presidential election results of communities in which corporate headquarters are located, we establish a correlation between the political beliefs of corporate stakeholders and the CSR rating of their firms. Companies with a high CSR rating tend to be located in Democratic, or "blue" states and counties, while companies with a low CSR rating tend to be located in Republican, or "red" states and counties.

Key words Decision-Making, Politics, CSR, Elections, Headquarter

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1 Introduction

One of the most important business trends in the last decade has been the growing desire of investors to place their money in socially responsible companies that go above and beyond what is legally required to serve their communities and protect the environment. As a result, a Corporate Social Responsibility (CSR) rating is now being applied to firms to help people make their investment decisions. At the same time, there is some evidence that political beliefs in the United States have become more and more polarized. Stories appear in the media almost daily regarding culture wars and the chasm between Republican, or "red" states and Democratic, or "blue" states.[1] In this battle of ideas, the values inherent in socially responsible investing appear to be more closely aligned with the Democratic Party than with the Republican Party. In fact, Democratic leaders have incorporated many socially responsible issues into their party platform.

It is reasonable to assume that CSR policy, an inherently political phenomenon, is affected by the political beliefs of a firm's stakeholders. To determine the validity of this assumption, this paper analyzes the relationship between the CSR ratings of American firms and political beliefs within the United States. We hypothesize that a firm's CSR rating is lower when the firm's headquarters is located in a county or state where the election results favor Republican candidates and higher in counties and states where election results favor Democratic candidates. In particular, we focus our analysis on the relationship between CSR and the 2004 presidential election. Similar to the electorate, John Kerry, a liberal, and George Bush, a conservative, possess starkly different views regarding the role of government and corporations. Therefore, the results from this election should provide especially relevant data with which to analyze whether or not a correlation exists between the political views of individual communities and the CSR ratings of firms located within those communities.

We believe a relationship exists for several reasons. First, there is evidence that distance between investors and firms' headquarter are important for trading and portfolio decisions.

[1] See for example, Washington Post, "Faithful Standing More Firm, Poll Says", January 23, 2005.

Coval and Moskowitz (1999, 2001), Grinblatt and Keloharju (2000) and Feng and Seasholes (2004) find that investors who live near a firm's headquarters are biased in their portfolio holdings towards the local company. This bias suggests that one can proxy for shareholders' political views by headquarter location election results. Second, corporate executives tend to reside near a firm's headquarters; therefore, election results can also serve as reasonable proxies for the political beliefs of the typical corporate executive. Third, due to the clustering of other stakeholders such as employees, customers, and suppliers around a firm's headquarter location (Porter 1998, 2000), we hypothesize that election results reflect the political views of other company stakeholders. It seems logical that corporate decision-makers would align their policies with the views of their stakeholders in order to reduce conflict and create value for the firm. Finally, even if most stakeholders do not reside near a firm's headquarters—and election results do not prove to be good proxies for stakeholders' political views—we hypothesize that the community where corporate executives reside will still exert an influence on their political values. If we assume that some degree of social interaction occurs between corporate executives and the people living in the state and county in which the company is headquartered, election results should matter. This assumption is supported by Akerlof and Kranton (2000) and Murphy and Shleifer (2004), who show that identity and social networks tend to feed on each other.

For the purposes of our study, we conduct an empirical analysis to see whether or not firms located in counties and states with Republican majorities have lower CSR ratings than do firms located in counties and states with Democratic majorities. Throughout the analysis, we are mindful of the relationship that may exist between CSR rating and industry classification. Since it is conceivable that firms located in states with Republican majorities belong to industries that are less socially responsible, such as energy, we pay special attention to industry classifications in order to verify that our results are not driven by such factors. Controlling for industry and other firm specific variables, we find that firms with high CSR ratings do tend to be located in states with Democratic majorities, while firms with low CSR ratings tend to be located in states with Republican majorities. The results of county

elections are similar in nature but tend to be somewhat less significant.

To conduct this study, we perform several robustness checks. For example, we analyze a variety of sub-samples and different types of elections results. We also use an instrumental variable (IV) approach to rule out possible problems with the endogeneity of political preference and CSR. While we do find that other elections that place people on the liberal-conservative scale tend to be related to CSR rating, we find that the Bush-Kerry election results are more significant in their ability to explain CSR ratings.

We wish to note that our paper is somewhat related to two strands of literatures. The first strand are those studies that show that election results lead to economic outcomes.[2] The main difference in our study is that we do not infer causality between election results and economic outcome, but rather use election results as proxies for political preferences, which in turn affect corporate decision-making. The second strand of literature are those studies that show that state demographics are related to issues that concern the public, such as federal corruption (Glaeser and Saks, 2005) and citizenship (Milligan, Moretti and Oreopoulos, 2004). The unique attribute of CSR which is different from these latter aspects is in the disagreement about its benefits to society.[3] As such, it lends itself as a natural case study to learn whether political preferences influence decisions of non-governmental enterprises, such as public firms.

The remainder of this paper proceeds as follows. In Section II we present our hypothesis. In Section III we describe the data and the different variables that we use in our empirical analysis. In section IV we conduct the empirical analysis. Finally, in Section V we summarize our findings.

2 Political Preference and CSR

The World Business Council for Sustainable Development defines CSR as "the continuing commitment by business to behave ethically and contribute to economic development while

[2] e.g., Herbst and Slinkman (1984), Huang (1985), Hensel and Ziemba (1995), Siegel (1998), Chittenden, Jensen, and Johnson (1999), and Santa-Clara and Valkanov (2003)

[3] See for example, "Survey: The good company," The Economist, 2005.

improving the quality of life of the workforce and their families as well as of the local community and society at large."[4] The concept includes such issues as capacity building for sustainable livelihoods, respect for cultural differences, social care for employees, and giving back to the community. While different firms and organizations have defined the term in different ways, considerable common ground exists between them.

One principle underlying the CSR movement is that blind pursuit of profit is likely to prove socially harmful.[5] According to the Republican platform, the role of government is to provide only those critical functions that cannot be performed by individuals or private organizations.[6] Republicans disagree with Democrats over the ideal size of governement, and believe that good government is based on a system of limited taxes and limited spending (e.g., Tavares, 2004). The view of low tax rates can be regarded as analogous to the corporate view that profits should be distributed to shareholders and not spent on social causes. Therefore, it would appear that the principles of CSR are not in alignment with the values of most Republicans. On the other hand, Democratic Party policies include many of the precepts embraced by the CSR movement. For example, the Democratic Party's platform contains a commitment to support American workers and consumers by creating internationally recognized labor and environmental standards; it also supports the advancement of minorities and the right of workers to organize a union.[7]

Thus we hypothesize that corporate policies regarding social responsibility are related to political preference. In addition, we hypothesize that companies located in communities with a Republican majority will earn lower CSR ratings than will companies located in Democratic communities. In particular, we expect to see a relationship between a firm's CSR rating and the political preferences of the community where the firm's headquarters are located. We focus on the location of a firm's headquarters because this is where corporate decision-making takes place, and corporate executives and other stakeholders tend to reside

[4] "Making Good Business Sense" report of the World Business Council for Sustainable Development.
[5] The Economist, "A Skeptical Look at Corporate Social Responsibility", January 22, 2005.
[6] Taken from the "Republican Oath" at the Republican National Committee website.
[7] Taken from the 2004 Democratic Party Platform.

in the area.

2.1 Political Views of Shareholders

Brennan and Cao (1997) show that capital flow depends on asymetry of information between foreign and domestic investors. Kang and Stulz (1997) show that foreign investors hold disproportionately more shares of firms in manufacturing industries, large firms, and firms with good accounting performance, low unsystematic risk, and low leverage. Coval and Moskowitz (1999, 2001) and others identify a geographic bias toward home. For example, they find that shareholders who reside near a firm's headquarters tend to have a relatively larger share of ownership compared to shareholders who live far away. In fact, there is some evidence to support that firms hold their annual meetings away from their headquarters when they wish to deter a large portion of shareholders from attending. For example, Disney moved its annual meeting from Burbank, California, to Hartford, Connecticut, after a tumultuous 1997 meeting. Similarly, GM shifted its meetings from Detroit, Michigan, to Wilmington, Delaware, after an annual meeting that was unfriendly to management.[8]

2.2 Political Views in the Community

Since executives tend to reside near their firm's headquarters, the political views of their community would appear to make a relatively good proxy for their political beliefs. Even if executives hold somewhat different political views from those held by individuals within their community, it seems reasonable that social interactions between the firm and the community would influence executive decisions to some extent. This assumption is supported by Akerlof and Kranton (2000), who argue that social identity affects people's behavior and that individuals tend to conform to their respective social groups.

Murphy and Shleifer (2004) show that conformity also plays a role in the attitudes of people towards political issues. Indeed, Hong, Kubik and Stein (2004) demonstrate that social interaction of individuals affects portfolio decisions. This would mean that executives'

[8] Business Week, Jan 7, 2002, page 14.

beliefs and values should be influenced by their personal social network consisting of families, friends and colleagues; the media to which they are exposed; and the local civic, educational, charity and artistic institutions with which they associate. It is highly unlikely that corporate executives would simply disregard the influence of their community and act in a way that does not at least to some extent conform to it.

2.3 Political Views of Customers, Workers and Suppliers

The initial corporate decision regarding where to site company headquarters tends to be based on the need to attract and retain workers with the right combination of skills for the company's line of business. Companies also strive to be near their customers and suppliers. As a result, they move their headquarters infrequently; when such moves do occur, the impetus is often the desire to be closer to the company's stakeholders.

Literature on real estate provides a theoretical basis for firms' tendency to cluster around customers and a large pool of potential employees. Porter (1998, 2000) and Glasmeier (1998) show that proximity to consumers is particularly beneficial to firms that depend upon a rapid differentiation of product to meet consumer demand because it enables them to beat the competition with new products and a faster reaction time to the market. Such firms also benefit by being close to a well-educated labor market that understands new technology. All of this suggests that the location of corporate headquarters correlates with a concentration of stakeholders. It also explains why companies would exhibit particular sensitivity to the political preferences of their communities.

3 Data Sources

In this section, we describe the variables used in our study. For clarity of exposition, we categorize the data into CSR ratings, political variables, and control variables. We obtained the information on corporate social responsibility from Kinder, Lydenberg and Domini Research & Analytics, Inc. (KLD), a leading research firm that rates corporate social performance for investors. The KLD database screens close to 3,000 firms and categorizes them as either

socially responsible (SR) or socially irresponsible (SI).[9] The firms in our sample account for 98 percent of the total market value of U.S. public equities. We gathered most of the political variables from either USA Today or CNN. To provide control variables, we used the 13F Schedule from institutional investors' holdings, proxy statements, CRSP, and Compustat. Our database is cross-sectional and consists of the most up-to-date information available at the time of the 2004 national election (Q3 2003). Table I provides a description of the main political and control variables used in the study.

[Insert Table I about here]

3.1 The CSR Measure

In 2001 KLD launched the Broad Market Social Index (BMSI), a subset of close to 3,000 firms that compose the Russell 3000 index. To generate this index, KLD submits each firm to a two-stage screening process that results in three categories: 1) SR, 2) SI due to exclusionary reasons, and 3) SI due to qualitative reasons. Only SR firms are included in the BMSI. In the first stage of the screening process, KLD analyzes each company's sources of revenue. Any company whose revenues come from alcohol, tobacco, or gambling—or that derives more than 2 percent of gross revenue from the production of military weapons—receives an SI rating. Electric utilities that own interests in nuclear power plants or that derive electricity from nuclear power plants in which they have an interest also receive an SI rating. It is important to note that the exclusionary screening that KLD applies is a per-se criterion. Firms that fail in this screening stage will never receive an SR rating unless they shut down the "unethical" side of their business. For example, as long as Philip Morris continues to manufacture cigarettes, it will receive an SI rating. Out of the 2,837 firms that KLD has considered to date, 187 have received the SI rating for exclusionary reasons.

In the second stage of the process, KLD screens the remaining firms for quality of life issues such as community relationships, workforce diversity, employee relationships, envi-

[9] Aggarwal and Nanda (2004) use this data to study the impact of the size of a firm's boards on managerial incentives. Barnea and Rubin (2005) use the same data to study whether or not CSR policy is subject to a conflict between shareholders

ronment, non-US operations, and product safety and use. Its goal is to determine a firm's strengths and weaknesses in each of these areas. It may find, for example, that a company has paid a penalty for violating an environmental law. Conversely, it may also find that a company is strong in employee relationships because its policies are particularly beneficial to the family. Where possible, KLD uses quantitative criteria to determine the rating (e.g., dollar amounts paid in fines or the percentage of employees receiving certain kinds of benefits). Some subjective judgments are necessary, of course, when determining the cutoff point for a negative rating or deciding how to handle borderline cases. In our sample, 2,278 firms passed the qualitative social screening and received an SR rating, while 372 firms failed the qualitative screening and received an SI rating.

The dependent variable throughout our analysis is the CSR rating of each firm. This binary variable equals "one" if a firm passes the screening conducted by KLD and "zero" if it fails. Our underlying assumption is that corporate executives and other stakeholders have an effect on the CSR policy of the firm. This means that we have not included SI due to exclusionary screening firms in our analysis because they cannot change their CSR rating no matter what policies they may adapt. After eliminating these firms from our sample, 2650 firms remain.

3.2 Political Variables

We derive our major explanatory variables from the 2004 presidential election. We focus on this election in particular because it is the first one to be held since the launch of the BMSI. In addition, it is particularly suitable for our study because it represents two dichotomous viewpoints. President George W. Bush is a conservative Republican, while John Kerry is a liberal Democrat. In fact, *The National Journal*, a politically neutral magazine focusing on policymakers in Washington, ranked Kerry the most liberal senator in 2003. Thus, this election provided a clearer choice for American voters than did preceding political races when the differences between candidates' values were less obvious.

For the purposes of this paper, we focus on the variables that quantify the percentage

of votes that Bush received in the state or county where a firm's headquarters is located. To check whether or not our results are valid only with this particular election, we also use other measures as proxies for the political preferences of voters. In particular, we use political variables that have been calculated over longer periods of time, including one that sums up the number of national presidential elections won by a Republican candidate in the state during the years 1972-2004 and one that captures the degree of "Republican strength" in the state according to the Brookings Institute. We also use state senators, state representatives, and state governors election results to check the importance of using national election results rather than state-officials election results.

3.3 Control Variables

We include several variables in our analysis to control for industry and firm characteristics. To capture industry effects, we include sixty-four dummy variables for each two-digit SIC code. We measure a firm's size using the natural log of the book value of total assets. As a proxy for growth opportunities, we use the market-to-book ratio calculated as the market value of assets divided by the book value of assets. As our proxy for firm risk, we use a stock's 60-month return volatility. To measure a firm's age, we use the number of years its share price has appeared on the CRSP tape. Finally, we define the firm's leverage as long-term debt divided by the total book value of assets.

Barnea and Rubin (2005) show that CSR is related to ownership and capital structure. Similar to what they have done, we focus on two groups of investors: insiders and institutions. We use one measure for ownership by insiders and one measure for ownership by institutional investors. We define insiders' ownership as "the percent of common stock held by all officers and directors of the company plus beneficial owners who own more than 5 percent of the company's stock as disclosed in the most recent proxy statement." For institutional ownership, we use the Herfindahl-Hirschman Index (HHI) of concentration of the top 15 institutional owners gathered from Schedule 13F filings. This is defined as $\sum_{i=1}^{15} h_i^2$, where h_i is the percentage ownership of institution i. Shleifer and Vishney (1986) show

that institutions have a greater influence when they are large shareholders, and Black (1992) shows they have a greater influence because they can form a coalition. Therefore, we use a measure that illustrates the concentration of institutional ownership.

3.4 Summary Statistics

[Insert Table II about here]

Table II summarizes statistics for each state. These include the percentage of the population that voted for Bush, the number of firms that went through KLD's qualitative screening, and the percentage of SI firms.[10] As might be expected, large variations exist among the states—both in election results and in percentage of SI firms. For example, note the low 9.3 percent vote for Bush and the 0 percent of SI firms in the District of Columbia versus the high 68.5 percent vote for Bush and the 33 percent of SI firms in Idaho. The percentage of SI firms is low in most states because they represent only 14 percent of our sample. The only state with a majority of SI firms is Mississippi. The number of Russell 3000 firms in each state also varies widely. California has the most public companies by far, followed by New York and Texas.

Table III Panel A reports the results of a Chi–Square test of independence to check whether or not the observed number of SI firms is independent of whether the location of the firms' headquarter is in either a Bush or a Kerry state. If there were no relationship between red and blue states and the CSR rating of firms (SI vs. SR), we would expect the ratio of SI firms to the total number of firms for both candidates to be similar at around 14 percent. However, the results clearly show that there are comparatively more SI firms in red states (17.16 percent) than in blue states (12.4 percent.)

We must be aware, however, that the type of industry can have a strong effect on our results. For example, it is relatively easy for companies in the high-tech sector to receive an SR rating because they are not involved in polluting activities, and their workforce is composed of white-collar employees. On the other hand, it is much harder for companies

[10] For brevity in description, we consider the District of Columbia as a state.

in the energy and basic material sectors to achieve an SR rating because they deal with activities that almost by definition are somewhat harmful to the environment, and their workforce is composed of blue-collar employees. Therefore, when correlating CSR rating to election results, we must eliminate any effects stemming from type of industry. In Panel B of Table III, we conduct a two-dimensional Chi-Square test in which the expected number of SI firms has been calculated conditional on firms' sector classification code. The results show that we cannot reject the null that voting for Bush is independent of classification to either SI or SR firms. Thus, after taking into account industry effects, it might well be that there is no relationship between the classification of a state as red or blue and the probability that a firm will be designated as SI.

[Insert Table III about here]

It is important to note a few important points regarding these results. First, even though the two-dimensional Chi-Square test does not reject the null, it is still interesting that the classification of a state as either red or blue picks up most of the sector classification effect. A-priori, one might assume there would be no relationship between the distribution of industries in a state and the classification of a state as either red or blue. However, these results show that the types of industry within a state can act as proxies for the Bush-Kerry classification and vice versa.

Second, it seems that in a multivariate analysis, the election variables would explain much of the variation. For example, the four largest industries (i.e., energy, financial, services, technology) represent more than half of our sample. Conditional on being classified to these four industries, companies located in Bush voting states tend to more socially irresponsible than what would be expected by the independence test. The independence test has low power when the sectors are unevenly distributed, so it might not be able to detect this relationship.

Finally, since we have so far only looked at a binary explanatory variable, i.e., Bush states versus Kerry states, it is hard to know the effect of using the continuous variable of

the percentage of votes cast for Bush. This later variable may capture more of the variation because it allows us to differentiate between different Bush and Kerry states.

In Table IV we present a difference of means test for important political variables. Since we know that much of the political difference is related to industry, we also provide an analysis that is mean-adjusted to the industry, where each observation is adjusted to the 2-digit SIC code industry average. The table provides t-statistics and indicates significance at the five percent level. It is clear that political variables at the state level are significant in explaining social responsibility—even after the adjustment for industry average.

The most significant variable is the percentage of people in each state who voted for Bush, which is significant at the 1 percent level. The long-term political variables, that is Republican state and Republican state (Brookings), perform almost as well. However, the county election variables seem to be insignificant once we adjust to industry mean. It seems that since elections at the county level are frequently tend to vary more from election to election, they are less able to capture the CSR ratings of firms, which tend to be very stable over time.

[Insert Table IV about here]

4 Multivariate Analysis

4.1 Multivariate Analysis of CSR and Republican Preference

In this section we investigate the relationship between CSR and political variables. Our measure of the social performance of firms is CSR, a dummy variable that equals "one" if a firm passed the qualitative screening conducted by KLD and "zero" if it failed. The model that we test in this subsection is the following:

$$\begin{aligned} CSR_i &= \gamma_0 + \gamma_1 \, (Degree\ of\ Republican)_i + \gamma_2 \, (Stability)_i \\ &\quad + \gamma_{3-8}(Control\ variables)_i + \gamma_{8-71}(Two-digit\ SIC\ code)_i + \varepsilon_i \end{aligned} \tag{1}$$

On the right-hand side, we interchangeably use different political variables that measure the degree of preference for the Republican Party in the region (state or county) of the firm's

headquarters. The control variables are size, market to book, return volatility, age, leverage, insiders' ownership, and institutional HHI. To control for industry, we also use sixty-four 2-digit SIC code dummy variables.

[Insert Table V about here]

We present the results with robust standard errors in Table V. The most striking result in our analysis is that the coefficients that represent Republican preference are negative and significant in 4 out of 6 specifications. Similar to what was found in the univariate analysis, the county election results are unable to explain either CSR or state-level variables. However, while county election results are noisier, they still confirm our hypothesis at the 10 percent significance level (see specification 4). All other control variables provide similar results to those shown in Barnea and Rubin (2005), which are that SR firms tend to be smaller in size, have a smaller percentage of insider ownership, and tend to have lower leverage.

Our results broadly confirm our hypothesis and show that in areas where Republicans constitute a large portion of the population, firms tend to pursue a less-friendly CSR policy. Also note that out of all the different specifications, the 2004 national election results are the most significant in explaining CSR.

4.2 Incorporating both State and County Results

One of the limitations in Table V is that we do not incorporate state and county results in a single regression. This is because the correlation between the two continuous variables is relatively high (0.56) and results in loss of power due to the increased variance of coefficients. However, from a theoretical point of view, it seems that both variables should have an effect on the firm's decision-making. Firm decision-making should be affected not only by the general preference of voters within a state, but also by the political attitudes of a specific community. To eliminate the semi-multicollinearity problem and still preserve the valuable county preference, we define the following variable:

$$Marginal\ county_i =$$
$$[Bush\ vote\ county\ _i - Bush\ vote\ state\ _i] \frac{Pop.\ Density\ State_i}{Pop.\ Density\ County_i} \quad (2)$$

The variable *Marginal County* captures the extra support for Bush that is present within a county over and above the support found in corresponding election results for the state. *Pop. Density State* represents the average population per square mile in the state, while *Pop. Density County* represents the average population per square mile in the county. According to Vercammen and Murray (1990), rural areas exhibit a stronger communal effect; therefore, we normalize the differences in the Bush vote by the density ratio. This means that the more rural the county, the more influence we would expect it to have on a firm's CSR rating.

[Insert Table VI about here]

Table VI reports regression results for four specifications. In all specifications, the *Marginal County* is negative and significant at the 10 percent level. It appears that these specifications have improved the explanatory power because the R-square is somewhat higher. We conclude that both state and county election results show that the more a community supports the Republican Party, the less likely it is that a firm in that community will receive an SR rating.

4.3 Other Election Results

In the previous subsections, we have concentrated on the results of the 2004 presidential election. We intentionally focused on these elections because they fit our hypothesis well, which suggests a difference in CSR attitude between liberals and conservatives. We also want to see, however, if our results hold when measuring political beliefs in a different way. In other words, we would like to test whether or not our hypothesis holds when the differences between Republican and Democratic perspectives are less apparent. For example, Arnold Schwarzenegger, the Republican governor of California, takes a position normally held by

Democrats when he strongly opposes giving companies permission to drill for oil off the coast of California.[11]

In the following, we investigate how well local (state) political choices correlate with CSR rating. To do so, we use four different variables: 1) the percentage of Republicans in the Senate as of January 2005; 2) the percentage of Republicans in the House as of January 2005; [12] 3) the percentage of the population that voted for the Republican candidate in the last gubernatorial election;[13] and 4) a variable that is a multiplication of the three former variables.

[Insert Table VII about here]

Table VII reports the regression results. In all regressions, the coefficient that is associated with the political variable is negative; however, it is only significant in two out of four specifications. House and Senate variables are more consistent with our hypothesis than are gubernatorial election results. We conclude, therefore, that a relationship does exist between the results of state elections and CSR policy. However, this relationship is less significant than that between CSR policy and the 2004 national election results.

4.4 Endogeneity and Instrumental Variable (IV) Approach

One can argue that our results are driven because of differences in state regularity environment, rather than by corporate decision-making. Thus, it may be that political beliefs of constitutes drive state legislation, which in turn affects firms CSR policy. In other words, if the regulatory environmental and social bar is higher in some states and lower in other states, it may cause CSR levels of firms to be different in the various states. This scenario is not very probable as most of the regulatory bars are set by the federal laws, and there are very few differences across states. Dwyer (1997) claims that federal political power overseas civil

[11] "Schwarzenegger on abortion, gays, environment", August 28, 2003, CNN.com.

[12] For state and House statistics, see http://www.stateside.com/thefiftystates/governors.shtml

[13] This means that the data corresponds to the last election in the state, which could be in any of the years 2001-2004.

rights, worker health and safety, and environmental and natural resource protection. Beginning in 1970, Congress adopted lengthy statutes giving federal agencies detailed instructions about the types of regulatory programs to be adopted, the procedures for rulemaking and enforcement, and the procedures and criteria for state participation in the federal programs. These statutes were a stark departure from previous statutes, which had established a much more modest federal role.

There is however, another type of endogeneity problem to consider. Specifically, it is possible to argue that voters in the county and state do not influence the CSR rating of a firm, but that a firm's CSR rating influences the voters. For example, if the firm engages in harmful environmental activities, it may favor Republican candidates, in order to affect the federal legislation on environmental issues. Because of the influence of the firm on the local community, the residents may be persuaded by the firm to prefer Republican candidates. In general, this would seem like a reasonable occurrence of events and it is important to rule out this type of endogeneity problem (i.e., reverse causality).

Throughout our multivariate analysis, we focus on two types of variables: those that quantify a preference for the Republican Party at the state level and those that quantify a preference for the Republican Party at the Marginal County level. Many studies, such as those by Kahn (2002), demonstrate a strong relationship between demographics and election results. As instruments, we use three variables: 1) GDP growth rate, 2) percentage of elderly population, and 3) percentage of home ownership. Obtaining the demographics for the state is relatively easy; however, demographics at the county level are unavailable. As a result, we cannot produce a predicted variable for *Marginal County*; therefore, we report regression results with and without this variable.

Table VIII presents the results of our instrumental variable regression analysis. Consistent with earlier results, we find that Republican Party preference is significant and negatively related to a firm's CSR rating.

[Insert Table VIII about here]

4.5 Robustness Analysis

In this subsection, we conduct an analysis to verify that our results regarding the relationship between CSR rating and Republican Party preference hold when the sample is partitioned in different ways. As stated above, it is apparent that SR and SI ratings are related to industry. Almost by definition, some industries have a workforce that is well-paid and produce products or services with limited (or no) negative effects on the environment. These two aspects are probably the most important attributes affecting a firm's CSR rating.

Throughout the multivariate analysis, we have so far classified firms according to the 2-digit SIC code, which includes 64 industries. To check the robustness of our results, we run our main regressions with other types of industry classifications. Our classifications are of a different kind and range from the broad Sector classification comprised of 12 sectors to the very fine 4-digit NAICS code for 245 industries.

[Insert Table IX about here]

Table IX provides regression results for different industry classifications. The variables *Bush state vote* and *Marginal County* are negatively correlated with CSR ratings in all 6 specifications. Bush state vote is very significant under all of the specifications. Marginal county is significant in 3 out of 6 specifications. These results confirm that our findings are not related to the type of industry classification applied.

Our analysis shows that the size of a firm and its ownership structure are the most important factors in explaining CSR. These results are similar to those reported by Barnea and Rubin (2005). Table X shows the regression results of the sub-sample regressions. Specification 1 includes only small firms that are not part of the S&P 1500 index. Sub-sample 2 includes only the firms that are part of the S&P 1500 index. While our political variables correlate negatively to CSR rating in both regressions, the results are more significant for the S&P 1500 firms. Similarly, when we partition the sample of firms to those with small insider holdings and those with large insider holdings, we find that the results are more significant

for the small insider holdings. Thus, a political effect is present in all firms, but it is much more significant in large firms.

[Insert Table IX about here]

5 Conclusion

We take advantage of the results of the recent U.S. presidential elections to study whether or not political beliefs play a role in corporate social responsibility. We find that the location of a firm's headquarters is a significant factor in explaining its CSR rating. There is a negative correlation between the percentage of votes that President Bush received in the state or county where a firm's headquarters is located and the firm's CSR ratings. The results hold after controlling for industry, size and other firm characteristics. They also persist under different specifications and robustness checks.

From the perspective of financial economics, we show that political views play a role in corporate decision-making. We cannot discount the possibility that even though political views affect corporate decisions, they represent an important part of the drive to maximize firm value. It may well be that a firm's CSR rating is driven by its stakeholders' political preferences and that incorporating their views into the firm's policies is optimal.

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Table I
Definition and Source of Major Variables

	Description	Source
Election results variables		
Bush state	Dummy variable that equals 1 if the firm's headquarter is located in a state where Bush won.	USA Today
Bush county	Dummy variable that equals 1 if the firm's headquarter is located in a county where Bush won the popular vote.	USA Today
Bush vote state (%)	The percentage of votes that Bush received in the state where the firm's headquarter is located.	USA Today
Bush vote county (%)	The percentage of votes that Bush received in the county where the firm's headquarter is located.	USA Today
Republican state	The number of federal elections won by a Republican candidate, in the state where the firm's headquarter is located, during the years 1972-2004.	US census
Republican state (Brookings)	The degree of "Republican strength" in the state where the firm's headquarter is located according to the Brookings Institute.	Brookings Inst.*
State governor	The percentage of votes that the Republican candidate won in the last gubernatorial election (years 2001-2004) in the state where the firm's headquarter is located.	cnn.com
State senate	The percentage of Republicans in the senate of the state where the firm's headquarter is located. (Jan 2004)	cnn.com
State house	The percentage of Republicans in the house of representatives of the state where the firm's headquarter is located. (Jan 2004)	cnn.com
State Republican	The product of *State governor*, *State senate*, and *State house*.	cnn.com
Control variables		
Size	Natural log of book value of total assets (data item #6)	Compustat
Market to book	The ratio of the market value of assets (book value of assets (data item #6) plus the difference between the market value of equity (data item #24 × data item #25) and the book value of equity (data item #60)) to the book value of assets (data item #6).	Compustat
Return volatility	The standard deviation of share returns during the previous 60 months.	CRSP
Firm's age	The year in which the firm's share price (data item PRC) first appeared on CRSP.	CRSP
Leverage	The book value of long term debt (data item #9) divided by the book value of assets (data item #6)	Compustat
Insiders' ownership	Percent of common stock held by all the officers and directors of the company plus beneficial owners who own more than 5 percent of the subject company's stock as disclosed in the most recent proxy statement.	Proxy statements
Institutional HHI	The Herfindahl-Hirschman Index (HHI) of concentration of the top 15 institutional owners. It is defined as $\sum_{i=1}^{15} h_i^2$, where h_i is the percentage ownership of institution *i*.	13F Schedule

* See http://www.thegreenpapers.com/G04/President-Strength.phtml

Table II
The Distribution of SI (Socially Irresponsible) Firms by State

Percent Bush is the percentage of the population that voted for Bush in the respective state. *Number of Firms* is the number of public firms that go through the qualitative screening of KLD. *Percent of SI Firms* is *SI Firms* divided by the *Number of Firms* in the respective state.

State	Percent Bush	Number of Firms	Percent SI	State	Percent Bush	Number of firms	Percent SI
Alabama	62.5	24	16.67	Montana	59.2	3	0
Alaska	61.9	2	0	Nebraska	66.6	11	18.18
Arizona	55.2	27	14.81	Nevada	50.5	4	0
Arkansas	54.3	14	28.57	New Hampshire	49	9	0
California	44.3	491	8.55	New Jersey	46.5	103	16.50
Colorado	52.4	55	9.09	New Mexico	50.2	3	0
Connecticut	44	63	23.81	New York	40.5	215	14.42
Delaware	45.8	9	33.33	North Carolina	56.1	48	10.42
District of Columbia	9.3	13	0	North Dakota	62.9	3	33.33
Florida	52.2	99	17.17	Ohio	51	99	20.2
Georgia	58.6	79	10.13	Oklahoma	65.6	19	21.05
Hawaii	45.3	6	16.67	Oregon	47.5	31	16.13
Idaho	68.5	6	33.33	Pennsylvania	48.6	145	14.48
Illinois	44.7	121	15.70	Rhode Island	38.9	4	0
Indiana	60.1	40	15.00	South Carolina	58	14	0
Iowa	50.1	14	14.29	South Dakota	59.9	4	25
Kansas	62.2	11	18.18	Tennessee	56.8	47	17.02
Kentucky	59.6	20	25.00	Texas	61.2	213	19.72
Louisiana	56.8	23	8.70	Utah	71	14	21.43
Maine	45	4	25.00	Vermont	38.9	5	0
Maryland	43.2	47	8.51	Virginia	54	56	17.86
Massachusetts	37	130	8.46	Washington	45.7	52	11.54
Michigan	47.8	56	10.71	West Virginia	56.1	3	0
Minnesota	47.6	69	7.25	Wisconsin	49.4	38	18.42
Mississippi	59.7	10	60.00	Wyoming	69	0	-
Missouri	53.4	55	20.00				
Total all states	51.02	2632	14.04				

Table III
Chi-Square Test

Panel A shows the result of a Chi–Square test of independence to check whether the observed number of SI firms in Bush (Kerry) states is independent of the firms' headquarters location. *Expected number of SI firms* is the number of SI firms expected to be observed in Bush (Kerry) winning states given the unconditional probability of a firm to be defined as an SI firm. *Observed SI firms* are the actual number of observed SI firm in Bush (Kerry) winning states. *P-Value* is the significance of rejecting the null of independence. Panel B shows the results of a Chi-Square test when the expected number of SI firms is adjusted to their corresponding sector. *SI Probability* is the probability of a firm to be defined as SI conditional on being part of its respective sector. *Bush* is the number of firms in the sector located in Bush winning states. *Expected SI Bush* is the expected number of SI firms in Bush states given the probability of a firm in the sector to be defined as SI. *SI Bush* is the observed number of SI firms in Bush winning states in the respective sector. *P –Value* is the degree of significance in rejecting the null of independence.

Panel A

	Number of firms	Percentage of total firms	Expected number of SI firms	Observed SI firms (percentage)	Chi-Square	P Value
Bush	1020	0.387	142.66	175 (17.16%)	7.33	0.001
Kerry	1611	0.612	225.33	194 (12.04%)	4.36	

Table III - ***continued***

Panel B

Industry	SI	SR	Total	SI Probability	Bush	Expected SI Bush	SI Bush (percentage)	Chi – Square
Basic Materials	54	88	142	0.38	60	22.82	24 (40.0%)	0.06
Capital Goods	16	110	126	0.13	66	8.38	5 (7.6%)	1.36
Conglomerates	0	9	9	0	3	0.00	0 (33.3%)	0.00
Consumer Cyclical	13	109	122	0.11	37	3.94	2 (5.4%)	0.96
Consumer/Non-Cyclical	27	78	105	0.26	96	24.69	21 (21.9%)	0.55
Energy	68	390	458	0.15	181	26.87	29 (16.0%)	0.17
Financial	43	272	315	0.14	88	12.01	13 (14.8%)	0.08
Healthcare	11	73	84	0.13	36	4.71	7 (19.4%)	1.11
Services	88	534	622	0.14	271	38.34	52 (19.2%)	4.87
Technology	25	506	531	0.05	114	5.37	8 (7.0%)	1.29
Transportation	10	43	53	0.19	38	7.17	7 (18.4%)	0.00
Utilities	13	51	64	0.20	30	6.09	7 (23.3%)	0.13
Total	368	2263			1020			10.53
P Value								0.48

Table IV
Difference of Means Tests

Bush state is a dummy variable that equals 1 if the firm's headquarters are located in a state where Bush won. *Bush County* is a dummy variable that equals 1 if the firm's headquarters are located in a county where Bush won the most votes. *Bush vote state* is the percentage of votes that Bush received in the state of the firm's headquarters. *Bush vote county* is the percentage of votes that Bush received in the county of the firm's headquarters. *Republican state* is the number of federal elections won since 1972 (post Vietnam era) by the Republican candidate in the state where the firm's headquarter is located. *Republican state (Brookings)* is a number that reflects the political view of the state according to the Brookings Institution criteria, where 1 is strongly Democratic and 5 is strongly Republican. The table provides *t*-statistics and indicates significance at the five percent (*) level.

	N	SR Firms	SI Firms	*t* - statistics
Number of firms	2632	2278	372	
Election variables				
Bush state	2632	37.40	47.68	-3.76*
Bush county	2632	36.51	37.87	-0.50
Bush vote state	2632	48.77	50.60	-4.17*
Bush vote county	2628	45.22	46.51	-1.82
Republican state	2632	5.24	5.67	-3.80*
Republican state (Brookings)	2632	2.70	2.97	-3.90*
Election variables mean adjusted to 2 digit SIC code industry average				
Bush state	2632	-0.64	3.96	-1.80
Bush county	2632	0.07	-0.48	0.21
Bush vote state	2632	-0.15	0.95	-2.69*
Bush vote county	2628	-0.13	0.78	-1.32
Republican state	2632	-0.04	0.22	-2.39*
Republican state (Brookings)	2632	-0.02	0.12	-2.08*

Table V
The Relation between CSR and 2004 Federal Election Results - Probit Regressions

The dependent variable is *CSR*, a dummy variable which equals one if a firm passes the screening conducted by KLD and zero if it fails. *Bush state* is a dummy variable that equals 1 if the firm's headquarters are located in a state where Bush won. *Bush County* is a dummy variable that equals 1 if the firm's headquarters are located in a county where Bush won the most votes. *Bush vote state* is the percentage of votes that Bush received in the state of the firm's headquarters. *Bush vote county* is the percentage of votes that Bush received in the county of the firm's headquarters. *Republican state* is the number of federal elections won since 1972 (post Vietnam era) by the republican candidate in the state where the firm's headquarter is located. *Republican state (Brookings)* is a number that reflects the political view of the state according to the Brookings Institution criteria, where 1 is strongly Democratic and 5 is strongly Republican. The *Control variables* are defined in Table I. All specifications include *2-digit SIC code* indicators. The table provides *z*-statistics calculated with robust standard errors.

	(1)	(2)	(3)	(4)	(5)	(6)
Intercept	2.47	2.36	2.66	2.60	2.66	2.61
	(3.31)	(3.16)	(3.29)	(3.41)	(3.51)	(3.44)
Bush state	-0.1535					
	(-1.59)					
Bush county		0.0020				
		(0.03)				
Bush vote state			-0.0128			
			(-2.85)			
Bush vote county				-0.4572		
				(-1.68)		
Republican state					-0.0378	
					(-2.18)	
Republican state (Brookings)						-0.0499
						(-1.82)
Control variables						
Size	-0.2115	-0.2095	-0.2138	-0.2127	-0.2118	-0.2112
	(-8.10)	(-7.99)	(-8.21)	(-8.13)	(-8.13)	(-8.11)
Market to book	0.0500	0.0524	0.0501	0.0531	0.508	0.0511
	(1.29)	(1.35)	(1.31)	(1.38)	(1.32)	(1.33)
Return volatility	0.2210	0.2624	0.2087	0.2327	0.2581	0.2294
	(0.41)	(0.50)	(0.39)	(0.44)	(0.48)	(0.43)
Firm's age	-0.0010	-0.0010	-.0011	-0.0011	-0.0011	-0.0011
	(-0.40)	(-0.41)	(-0.43)	(-0.43)	(-0.46)	(-0.45)
Leverage	-0.5758	-0.5850	-0.5746	-0.5661	-0.5769	-0.5759
	(-3.00)	(-3.05)	(-2.99)	(-2.94)	(-3.00)	(-3.00)
Insiders' ownership	-0.0102	-0.0102	-0.0101	-0.0101	-0.0101	-0.0101
	(-6.04)	(-6.08)	(-6.01)	(-6.00)	(-6.00)	(-6.01)
Institutional HHI	0.0684	0.0906	0.0436	0.0789	0.0629	0.0401
	(0.08)	(0.10)	(0.05)	(0.09)	(0.07)	(0.04)
N	2530	2526	2530	2526	2530	2530
"Pseudo R^2"	0.145	0.145	0.148	0.146	0.146	0.146

Table VI
The Relation between CSR and 2004 Federal Election Results - Joint State and County Regressions

The dependent variable is *CSR*, a dummy variable which equals one if a firm passes the screening conducted by KLD and zero if it fails. *Bush vote state* is the percentage of votes that Bush received in the state of the firm's headquarters. *Republican state* is the number of federal elections won since 1972 (post Vietnam era) by the republican candidate in the state where the firm's headquarter is located. *Republican state (Brookings)* is a number that reflects the political view of the state according to the Brookings Institution criteria, where 1 is strongly Democratic and 5 is strongly Republican. *Marginal county* is the difference (*Bush vote county -Bush vote state*) times the population density of the state divided by the population density of the county. The *Control variables* are defined in Table I. All specifications include *2-digit SIC code* indicators. The table provides *z*-statistics calculated with robust standard errors.

	(1)	(2)	(3)
Intercept	2.64	2.66	
	(3.26)	(3.49)	
Bush vote state	-0.0125		
	(-2.80)		
Republican state		-0.0370	
		(-2.12)	
Republican state (Brookings)			-0.0488
			(-1.78)
Marginal county	-0.0064	-0.0065	-0.0066
	(-1.80)	(-1.84)	(-1.88)
Control variables			
Size	-0.2112	-0.2092	-0.2086
	(-8.09)	(-8.01)	(-7.98)
Market to book	0.0488	0.0495	0.0498
	(1.28)	(1.29)	(1.29)
Return volatility	0.2167	0.2662	0.2376
	(0.41)	(0.50)	(0.45)
Firm's age	-0.0014	-0.0015	-0.0014
	(-0.56)	(-0.59)	(-0.58)
Leverage	-0.5793	-0.5820	-0.5817
	(-3.01)	(-3.02)	(-3.02)
Insiders' ownership	-0.0103	-0.0102	-0.0103
	(-6.08)	(-6.06)	(-6.08)
Institutional HHI	0.0440	0.0634	0.0412
	(0.05)	(0.07)	(0.04)
N	2526	2526	2526
"Pseudo R^2"	0.150	0.148	0.147

Table VII
The Relation between CSR and State Election Results

The dependent variable is *CSR*, a dummy variable which equals one if a firm passes the screening conducted by KLD and zero if it fails. *State governor* is the percentage of votes that the Republican candidate won in the last gubernatorial election (years 2001-2004) in the state where the firm's headquarter is located. *State Senate* is the percentage of Republicans in the Senate of the state where the firm's headquarter is located (Jan 2004). *State House* is the percentage of Republicans in the House of Representatives of the state where the firm's headquarter is located (Jan 2004). *State Republican* is the product of *State governor, State Senate,* and *State House.* The *Control variables* are defined in Table I. All specifications include *2-digit SIC code* indicators. The table provides *z*-statistics calculated with robust standard errors.

	(1)	(2)	(3)	(4)
Intercept	2.11	2.55	2.64	2.13
	(2.49)	(3.42)	(3.51)	(2.71)
State governor	-0.0030			
	(-0.47)			
State Senate		-0.0041		
		(-1.55)		
State House			-0.0051	
			(-1.86)	
State Republican				-0.0106
				(-1.99)
Control variables				
Size	-0.2110	-0.2103	-0.2130	-0.2125
	(-8.07)	(-8.07)	(-8.21)	(-8.16)
Market to book	0.0497	0.0516	0.0504	0.0498
	(1.29)	(1.35)	(1.32)	(1.30)
Return volatility	0.3159	0.2004	0.2107	0.2050
	(0.59)	(0.37)	(0.39)	(0.38)
Firm's age	-0.0010	-0.0010	-0.0010	-0.0010
	(-0.42)	(-0.40)	(-0.41)	(-0.42)
Leverage	-0.5865	-0.5722	-0.5687	-0.5694
	(-3.06)	(-2.98)	(-2.97)	(-2.98)
Insiders' ownership	-0.0102	-0.0103	-0.0104	-0.0104
	(-6.03)	(-6.08)	(-6.16)	(-6.12)
Institutional HHI	0.1484	0.1325	0.1258	0.1600
	(0.16)	(0.14)	(0.14)	(0.18)
N	2517	2506	2506	2506
"Pseudo R^2"	0.145	0.145	0.146	0.146

Table VIII
The Relation between CSR and Election Results – IV Regression

The dependent variable is *CSR*, a dummy variable which equals one if a firm passes the screening conducted by KLD and zero if it fails. Instrumental-variable, two-stage probit regressions of CSR, where GDP growth rate from 1980-2003, percentage of state population with home ownership (2003), and percentage of state population above 55 (2003), are used as instruments for Predicted variables of the election results. *Bush state* is a dummy variable that equals 1 if the firm's headquarters are located in a state where Bush won. *Bush vote state* is the percentage of votes that Bush received in the state of the firm's headquarters. *Marginal county* is the difference (*Bush vote county -Bush vote state*) times the population density of the state divided by the population density of the county. The *Control variables* are defined in Table I. All specifications include *2-digit SIC code* indicators. The table provides *z*-statistics calculated with robust standard errors.

	(1)	(2)	(3)	(4)
Intercept	2.54	2.91	2.05	2.87
	(3.36)	(3.57)	(2.62)	(3.51)
Predicted Bush state	-0.1900		-0.1807	
	(-1.87)		(-1.78)	
Predicted Bush vote state		-0.0092	-0.0062	-0.0086
		(-1.68)	(-1.81)	(-1.57)
Marginal county				-0.0062
				(-1.80)
Control variables				
Size	-0.2134	-0.2128	-0.2107	-0.2102
	(-8.20)	(-8.16)	(-8.07)	(-8.03)
Market to book	0.0498	0.0501	0.0488	0.0490
	(1.29)	(1.30)	(1.26)	(1.27)
Return volatility	0.1984	0.2157	0.2091	0.2261
	(0.37)	(0.41)	(0.39)	(0.43)
Firm's age	-0.0009	-0.0009	-0.0012	-0.0012
	(-0.36)	(-0.37)	(-0.48)	(-0.49)
Leverage	-0.5768	-0.5807	-0.5820	-0.5856
	(-3.01)	(-3.02)	(-3.03)	(-3.05)
Insiders' ownership	-0.0102	-0.0102	-0.0104	-0.0104
	(-6.07)	(-6.08)	(-6.13)	(-6.14)
Institutional HHI	0.0519	0.0652	0.0536	0.0665
	(0.06)	(0.07)	(0.06)	(0.07)
N	2530	2530	2526	2526
"Pseudo R^2"	0.146	0.146	0.148	0.147

Table IX
Industry Robustness

The dependent variable is *CSR*, a dummy variable which equals one if a firm passes the screening conducted by KLD and zero if it fails. *Classification type* is the industry classification type. *Number of industries* is the number of industries in the respective classification. *Bush vote state (%)* is the percentage of votes that Bush received in the state of the firm's headquarters. *Marginal county* is the difference (*Bush vote county -Bush vote state*) times the population density of the state divided by the population density of the county. The *Control variables* are defined in Table I. The table provides *z*-statistics calculated with robust standard errors.

	(1)	(2)	(3)	(4)	(5)	(6)
Classification type	Industry Sector	2 digit SIC	3 digit SIC	2 digit NAICS	3 digit NAICS	4 digit NAICS
Number of industries	12	64	240	27	94	245
Intercept	3.55	2.64	2.97	3.43	2.74	2.71
	(8.98)	(3.26)	(3.55)	(4.17)	(2.86)	(2.78)
Bush vote state	-0.0117	-0.0125	-0.0102	-0.0119	-0.0111	-0.0091
	(-2.63)	(-2.80)	(-2.04)	(-2.71)	(-2.40)	(-1.83)
Marginal county	-0.0040	-0.0064	-0.0058	-0.0060	-0.0070	-0.0044
	(-1.05)	(-1.80)	(-1.50)	(-1.65)	(-1.89)	(-1.26)
Control variables						
Size	-0.2123	-0.2112	-0.2520	-0.2051	-0.2110	-0.2227
	(-8.58)	(-8.09)	(-8.46)	(-8.56)	(-7.90)	(-7.55)
Market to book	0.0140	0.0488	0.0102	0.0364	0.0477	-0.0092
	(0.42)	(1.28)	(0.25)	(1.00)	(1.24)	(-0.23)
Return volatility	-0.5107	0.2167	-0.6625	0.1579	0.1399	-0.8769
	(-1.06)	(0.41)	(-1.13)	(0.32)	(0.25)	(-1.43)
Firm's age	-0.0023	-0.0014	0.0012	-0.0028	-0.0010	-0.0006
	(-0.99)	(-0.56)	(0.41)	(-1.15)	(-0.40)	(-0.22)
Leverage	-0.2119	-0.5793	-0.5989	-0.3411	-0.6199	-0.6348
	(-1.14)	(-3.01)	(-2.81)	(-2.02)	(-3.22)	(-3.05)
Insiders' ownership	-0.0099	-0.0103	-0.0107	-0.0010	-0.0111	-0.0114
	(-5.99)	(-6.08)	(-5.67)	(-6.11)	(-6.48)	(-6.12)
Institutional HHI	-0.5333	0.0440	-0.4086	-0.0265	0.0145	0.3163
	(-0.55)	(0.05)	(-0.40)	(-0.03)	(0.02)	(0.32)
N	2555	2526	2104	2553	2485	2063
"Pseudo R^2"	0.119	0.150	0.191	0.119	0.157	0.191

Table X
Sub-sample Regressions

The dependent variable is *CSR*, a dummy variable which equals one if a firm passes the screening conducted by KLD and zero if it fails. *Sub-sample type* is the defining characteristic of the sub-sample. Small (S&P 1500) firms are those firms that are not part of (part of) the S&P 1500 firms, Low (High) holdings are those firms whose insiders' holdings is less (more) than the median firm insiders holdings. *Bush vote state* is the percentage of votes that Bush received in the state of the firm's headquarters. *Marginal county* is the difference (*Bush vote county -Bush vote state*) times the population density of the state divided by the population density of the county. The *Control variables* are defined in Table I. All specifications include *2-digit SIC code* indicators. The table provides *z*-statistics calculated with robust standard errors.

	Size		Insiders	
	(1)	(2)	(3)	(4)
Sub-sample type	Small firms	S&P 1500	Low holdings	High holdings
Intercept	4.20	1.90	1.98	3.6492
	(4.32)	(1.82)	(1.93)	(4.53)
Bush vote state	-0.0244	-0.0101	-0.0115	-0.0158
	(-2.70)	(-1.60)	(-1.77)	(-2.40)
Marginal county	-0.0002	-0.0182	-0.0083	-0.0066
	(-0.05)	(-2.33)	(-1.87)	(-1.03)
Control variables				
Size	-0.3325	-0.1491	-0.2039	-0.2551
	(-6.28)	(-3.79)	(-5.48)	(-6.17)
Market to book	-0.0694	0.1882	0.0343	0.0699
	(-1.79)	(2.33)	(0.50)	(1.37)
Return volatility	-0.3388	2.1631	0.5182	-0.3531
	(-0.54)	(1.84)	(0.61)	(-0.51)
Firm's age	-0.0008	-0.0033	-0.0012	-0.0018
	(0.15)	(-1.05)	(-0.35)	(-0.39)
Leverage	-0.4320	-0.5237	-0.6384	-0.4699
	(-1.77)	(-1.31)	(-2.08)	(-1.89)
Insiders' ownership	-0.0092	-0.0090	-0.0169	-0.0119
	(-4.31)	(-2.35)	(-0.99)	(-4.83)
Institutional HHI	0.1687	2.1669	1.1155	0.3433
	(0.18)	(0.62)	(0.30)	(0.36)
N	1208	1183	1210	1204
"Pseudo R^2"	0.173	0.162	0.163	0.175