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Heterogeneity in Institutional Context and Its Impact on Initial Public Offerings and Corporate Social Responsibility

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ABSTRACT

This dissertation investigates the impact of institutional *heterogeneity*, which arises due to variations in institutional *context*, on a market and a non-market transaction. It draws from institutional theory and organizational institutionalism, and contributes to organization theory, corporate social responsibility, gender, and initial public offering literatures. In the two chapters that make up this dissertation, I theorize and empirically show that the institutional *context* varies not only between countries or groups of countries, but also domestically; and this variation has a statistically significant and economically meaningful impact on organizations. In the first chapter of this dissertation I focus on a market transaction, initial public offerings (IPO), and show that a change in institutional context leads to a lower IPO performance due to high financial uncertainty; in the second chapter, the focus is on a non-market transaction, corporate social responsibility (CSR) practices. This chapter theorizes and empirically shows that women in high executive roles as well as states that are governed by the Democratic Party lead to higher CSR activities, and state's 'color' moderates the relationship between gender and CSR.

HETEROGENEITY IN INSTITUTIONAL CONTEXT AND ITS IMPACT ON INITIAL PUBLIC OFFERINGS AND CORPORATE SOCIAL RESPONSIBILITY

by

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[1] Dad, for pushing me (and my bicycle) always in the right direction.
[2] Mom, for your unyielding support.

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INTRODUCTION

This dissertation investigates the impact of institutional *heterogeneity*, which arises due to variations in institutional *context*, on a market (initial public offerings) and non-market (corporate social responsibility) transaction. It draws from institutional theory, and contributes to organization theory, corporate social responsibility, gender, and initial public offering literature. In the two chapters that make up this dissertation, I theorize and empirically show that the institutional *context* varies not only between countries or groups of countries, but also domestically; and this variation has a statistically significant and economically meaningful impact on organizations.

Current Literature and Contribution

Management literature has already focused on how the alterations in institutional *context* impacts organizations, but current research mostly focuses international variations. There is considerable amount of research activity on the relationship between institutional *context* and business activity. By building on institutional theory (North 1989, 1990; Scott, 2014), a variety of studies have established the relationship between the institutional *context* and firm performance or behavior, such as strategic decision making (Papadakis et al, 1998), disclosure strategies (Reid and Toffel, 2009), corporate sustainable development (Bansal, 2005), adopting environmental management systems (Darnall and Edwards, 2006), responses to environmental demands (Delmas and Tofel, 2008), and multinational enterprises (Rosenzweig and Singh, 1991; Westney, 1993; Zaheer, 1995; Kostova and Zaheer, 1999; Henisz, 2000; Miller and Eden, 2006).

In this dissertation, I argue that there is a lack of research in management literature that investigates the variations in institutional *context* on a domestic scale, and how this institutional

heterogeneity impacts organizations and business practices in the focal country. In the first chapter, I focus on a market transaction, initial public offerings (IPO); in the second chapter, the focus is on a non-market transaction, corporate social responsibility (CSR) practices. I argue and empirically show that the institutional *heterogeneity* will directly or indirectly impact IPO success and CSR decisions.

Theoretical Background and Institutional Theory

Scott (2014) conceptualizes institutions as clusters built of "regulative, normative, and cultural-cognitive elements that, together with associated activities and resources, provide stability and meaning to social life". This dissertation builds on the regulative elements of institutions. Basis of order of the institutional norms is the regulative rules, and the empirical indicators of the regulatory institutions are laws, rules, regulations, and sanctions (Scott, 2014). Coercion, on the other hand, is the primary control mechanism (DiMaggio & Powell, 1983). When rules support and constrain coercive power, the existing mechanism is called authority (Scott, 2014). Legitimacy of the institutions (Suchman, 1995; Parsons, 1956; Pfeffer & Salancik, 1978; DiMaggio & Powell, 1983), on the other hand, is based on legal sanctions. Finally, Meyer and Rowan (1977) argue that organizations adapt themselves to different institutional pressures by employing appropriate structures and rules.

Accordingly, we expect that the organizations operating under a particular institutional *context* to comply with the written or unwritten rules and laws of the institution, and adopt themselves to the different institutional pressures by employing appropriate structures. These arguments, which are based on the regulative core of institutional theory, also imply that if there are changes in institutional *context*, then the organizations will be expected to comply with the

new rules and norms of the institution, otherwise they may face legal sanctions. In other words, even though the institutions are relatively stable and resist changes (Jepperson, 1991), organizations operating under the regulations of institutions tend to be more flexible to comply with the rules of the institutional *context* (Scott, 2014).

Using the assumption of the regulative institutional elements, I claim that the geographic location, whose social and political elements will affect the institutional *context* and therefore will have an impact on firm's IPO success and CSR practices, is the state, where a specifically designated Assembly and Senate propose and pass the bills, and the Governor signs those bills into law (or vetoes them). This legislative structure, provided with a legislative power that can potentially reshape the business environment in a particular state, belongs to the regulative institutional element. Therefore, we expect a state's political governance to impact the institutional *context* in a statistically significant and economically meaningful way for the businesses located in that state.

In order to determine the fluctuations in institutional *context*, I use election results as a proxy, and the United States as the focal country. United States has 50 states that are governed by either the Democratic Party or the Republican Party. There are distinct ideological differences between these two parties (Levendusky, 2009; McCarthy et al, 2006; Sinclair, 2006; Theriault, 2008), and a third governing party does not exist. Moreover, there are distinct differences between these two political parties, and the party winning the elections can make an important difference (Schaffner, 2012). Also, it is almost impossible to control any major political office without being nominated by a party (Schaffner, 2012). Since research confirms that institutional *context* varies substantially across the red and blue states (Gelman et al, 2008), we analyze state and federal-level election results in order to determine how the institutional

context of a particular state may be affected by the political ideologies of its governing party. Accordingly, we use the statewide and federal-level election results as a proxy for the institutional *context*, which, in turn, affect IPO success and CSR practices.

Summary of the Dissertation

This dissertation argues and empirically investigates the following:

Institutional *context* varies not only internationally, but also domestically. This variation in *context*, called institutional *heterogeneity*, is expected to impact organizations according to the regulative pillar of institutional theory. Using the United States as the focal country, it is possible to detect the changes in institutional *context* since the country consists of 50 distinct states, with each state having a separate legal governance mechanism. Due to the ideological differences between the two parties that govern all states of the U.S., election results of each state can be used as a proxy for the institutional *context* of the state. Labeling states that are governed by the Democratic Party 'blue', and those governed by the Republican Party 'red', I focus on one type of market and one type of non-market transaction, IPO and CSR, respectively, and empirically show that domestic institutional *heterogeneity* between red and blue states has a significant impact of both types of transactions.

In the first chapter of this dissertation, I use the state-wide variation in institutional context as a source of heterogeneity. Using the generally accepted financial arguments that "markets do not like uncertainty," I theorize and empirically show that when states change color, signaling a change in institutional context, the uncertainty in financial markets will increase, leading to a worse IPO performance. In line with these arguments, I also show that states that are either strongly red or strongly blue have lesser chances to shift colors following an election,

signaling relatively stable institutional context. Stability in institutional context, expectedly, leads to higher IPO performance.

In the second chapter of this dissertation, I investigate the direct and indirect effect of institutional context to business practices: this time a non-market strategy, corporate social responsibility. There is some research in management literature that established the relationship between gender and CSR, specifically, such research generally finds that female representation on corporate boards lead to higher CSR activities. Building on this stream of research, I created a set of independent and dependent variables to have a fine-grained gender-CSR analysis. Moreover, I theorized and investigated the direct relationship of state's color and CSR, finding that corporations headquartered in blue states spend significantly more resources in CSR practices. Finally, I used institutional context as a moderator for the relationship between gender and CSR, and empirically proved that women in high executive roles increase their firms' CSR practices even further if the firm is headquartered in a blue state.

CHAPTER 1

INSTITUTIONAL CONTEXT, UNCERTAINTY, AND INITIAL PUBLIC OFFERING

SUCCESS

with

Kira K. Reed

Donald E. Harter

ABSTRACT

This paper contributes to our understanding of the predictors of initial public offering (IPO) success using institutional theory to explore the performance impact of uncertainty measured by geographic-based political heterogeneity. IPOs are seen as a legitimizing process and a means of executing growth strategies. Uncertainty in the financial markets at the state-level may either enhance or hinder a firm's intent to go public and its success. Building on institutional theory, we propose using state level variations in institutional context as a proxy of uncertainty, measuring institutional context by state's political affiliation. Analyzing 2,986 US IPOs between 1990 and 2010 reveals performance is impacted negatively when a state shifts from Republican governance to Democratic (or vice versa), signaling that a change in state government is associated with higher uncertainty that leads to a loss of IPO performance. Moreover, we find that as a party's entrenchment in state's politics become stronger, IPO performance increases due to lower risk of a political change. This article contributes to our understanding of predictors of IPO success, presents the relationship between politics and context, and shows that variations in local institutional context can be used as a measure of uncertainty.

KEY WORDS

Institutional heterogeneity, uncertainty, initial public offerings, institutional theory, and political governance

INTRODUCTION

A firm's decision to file for, and complete an initial public offering (IPO) is a critical one in its life cycle (Shane and Stuart, 2002; Yang, Zimmerman, and Jiang, 2011). The decision indicates the firm intends to grow (Chang, 2004; Yang, Zimmerman, and Jiang, 2011), but it does not require the founding investors to remain. In fact, Mantecon and Thistle (2011) suggested an IPO may be part of founding investors' two-stage exit strategy. Investors in private firms wishing to divest their holdings have the option of selling their firm all at once through a private transaction or selling part of the firm through an IPO and the remainder after the IPO. The motivation for choosing one option over the other may be the expected returns.

Mantecon and Thistle (2011) found firms that could go public received higher buyout offers in private transactions than firms that were not seen as strong enough to successfully complete an IPO (as evidenced by a withdrawn IPO filing). Firms that actually completed an IPO only to be acquired shortly thereafter received the highest buyout offers. Mantecon and Thistle (2011) attribute this disparity in acquisition prices to a varying degree of founding investors' bargaining power to negotiate a sale. Investors of publicly traded firms were estimated to have the most bargaining power, followed by investors of firms that have the potential to go public but haven't yet, with firm investors that cannot successfully access the public market having the least. Bayar and Chemmanur (2009, 2011) similarly found firms with stronger business models preferred to go public rather than be acquired through a private transaction. The difference in the strength of these firms' business models appears to affect their bargaining power and hence their choice to go public or not. We agree bargaining power differs between private and public firms in negotiating acquisitions, but we believe this bargaining power is an outcome of firm legitimacy. Specifically, firms going through an IPO are signaling

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their legitimacy and growth potential. It is this view of IPOs as a legitimizing process we find to

be an important context to study and contribute to the literature on the institutional context.

Researchers have noted there is more uncertainty surrounding private firms due to lack of

financial disclosure (Diamond, 1985; Diamond and Verrecchia, 1991). IPOs may reduce this

uncertainty to an extent (Mantecon and Thistle, 2011; Reuer and Shen, 2004; Shen and Reuer,

2005). While the IPO process takes time and its success is unpredictable (Daily, Certo, Dalton,

and Roengpitya, 2003), it is nonetheless a signal of a firm's quality (Ellingsen and Rydqvist,

1998), we suggest even its legitimacy. The IPO process can be viewed as a means of

establishing both cognitive and sociopolitical legitimacy as distinguished by Aldrich and Fiol

(1994) and described by Deephouse and Suchman (2008).

Uncertainty, on the other hand, has been a hot topic in entrepreneurship literature since

Knight's seminal book (1921). Measurement of uncertainty, however, is not a topic that scholars

have agreed on yet. One of the most common methods to measure uncertainty is using the

variance in past outcome. This method of measurement, in our view, is backward looking, thus

may not be a successful predictor of future performance. In this study, we suggest the variation

in institutional context, 'institutional heterogeneity' as it is commonly used in management

literature, as a predictor of uncertainty, and use institutional heterogeneity to assess the

relationship between uncertainty and IPO success.

Prior studies addressed some of the ways the institutional context may affect strategic

decision-making (Papadakis, Lioukas, and Chambers, 1998) and firm performance (North, 1990;

Pe'er and Gottschalg, 2011; Scott, 1995). However, management literature generally ignores

how the differences in within-country political contexts affect the institutional contexts faced by businesses that operate in these different geographic regions.

IPOs are one type of growth-level strategy in which firms are seeking legitimacy within their institutional environment in order to garner more capital and a better return to shareholders. These firms are in the beginning stages of their public life cycle. In this legitimization process, firms signal information to stakeholders but are simultaneously impacted by the existing formal and informal institutional contexts (which can be captured holistically using state-specific political data). In this study, we will theoretically explain why institutional heterogeneity can be used as a predictor of uncertainty, and how it is related to IPO success.

In this study, we argue a change in state governance could have a negative impact on IPO success since the change will create a relatively more uncertain business environment. Additionally, we suspect that the intensity of the political governance that varies by state provides an even more nuanced heterogeneous institutional context as it allows politicians to have more degrees of freedom to implement legislation that is better aligned to their philosophical beliefs. Therefore, we develop two sets of hypotheses: 1) change in state governance creates uncertainty that negatively affects IPO success; and 2) an increase strength of red and blue decreases uncertainty, which positively affects IPO success.

This paper seeks to contribute to the literatures on institutional theory, uncertainty, and the predictors of IPO success. Approaching the issue from an institutional perspective, we argue that the variation in institutional context will lead to a higher level of uncertainty, thus decreasing IPO for those organizations that are headquartered in such environments. We use politics as a proxy of institutional context. We hypothesize that when a state shifts from Republican ('red')

governance to Democratic ('blue') governance, or vice versa, from Democratic ('blue') governance to Republican ('red') governance due to the possible introduction of new legislative and regulatory agenda as well as potential disruption of the status quo, the state will experience a higher level of uncertainty, thus negatively affecting IPO success. Using a final sample of 2,986 U.S. IPOs between 1990 and 2010, we investigate the following research questions: *Is there a systematic difference in IPO success if a firm is headquartered in a state that shifts colors (from red to blue or from blue to red) following an election? Does the degree of IPO success vary by the depth of a party's entrenchment in the state in which the firm is headquartered?* These questions attempt to assess the nuanced impact of heterogeneity across both static and dynamic institutional contexts. Consistent with the tenets of institutional theory, we find IPO success is greater when the state does not shift from one party's control to the other's control. Specifically, there was a negative relationship between IPO performance and a change in state color in either direction 'red' to 'blue' or 'blue' to 'red' suggesting investors view a changing business environment negatively for firms regardless of which party won the election (at the state level). Moreover, when the level of intensity of state governance is considered, IPO success is equivalently found in intensely 'red' or 'blue' states suggesting dominance of a party is important as it may provide a more predictable, stable environment in which IPOs can succeed.

Empirically, we contribute to institutional theory by expanding the depth of the 'red' and 'blue' constructs to also capture the intensity of 'redness' and 'blueness' as well as the performance impact of a change in state color. Moreover, we also provide a theoretically grounded new approach to assess the level of uncertainty as well as how varying levels of uncertainty will lead to future performance results. We will end this paper with a discussion of

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the theoretical and practical implications of our findings as well as the limitations of our research.

LITERATURE REVIEW

Initial Public Offerings

Taking a privately held company public is such a momentous occasion that its success is important not only to underwriters and investors, but also founders, owners, and other firm stakeholders. Success can be measured in economic terms but there are non-economic benefits, such as legitimacy in being seen as a publicly traded firm that may be important to firm growth. Prior research has considered the factors affecting the decision to go public (Chemmanur and Fulghieri, 1999; Choe, Masulis, and Nanda, 1993; Lucas and McDonald, 1990; Maksimovic and Pichler, 2001; Schultz and Zaman, 2001; Zingales; 1995); the pricing of the IPO (Ibbotson, 1975; Rock, 1986; Stoll and Curley, 1970; Tinic, 1988; Welch, 1992); as well as the long-run stock performance post IPO (Brav, 2000; Miller, 1977; Schultz, 2003; Teoh, Welch, and Wong, 1998). However, there is a gap in the literature pertaining to the impact of the heterogeneity of the institutional context on IPO success.

There are many factors that determine the financial success of an IPO. Some of the firm-level factors that have been found to be meaningful include: specific characteristics of the top management team including knowledge (Bach, Judge, and Dean, 2008; Carpenter, Pollock and Lear, 2003; Cohen and Dean, 2005; Lester, Certo, Dalton, Dalton, and Cannella, 2006; Zimmerman, 2008); board characteristics (Certo, 2003); presence of venture capitalists (Jain and Kini, 2000); and firm competencies (Deeds, DeCarolis, and Coombs, 1997). Gulati and Higgins (2003) used a network perspective to consider the relevance of inter-organizational partnerships

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on IPO success while Florin, Lubatkin, and Schulze (2003) used a broader conceptualization of social capital in assessing high-growth ventures. Yang, Zimmerman, and Jiang (2011) found the size of a CEO's network as well as his/her prior executive experience is useful in helping firm's transition from private to public ownership. Their research inferred the CEO's individual legitimacy initially is more important in getting a firm to the IPO stage than firm legitimacy. However, once there, the firm needs to be seen as a legitimate, stand-alone entity apart from the CEO/founder in order to attract new investors. Underwriters' staging of the IPO helps to build this independent, legitimate image.

Grewal and Dharwadkar (2002) concluded after a review of advances in organization theory literature that organizations seek to achieve both economic fitness as well as social fitness, which involves the perceptions held by societal stakeholders. The IPO event is a manifestation of these dual objectives in that: 1) the firm seeks to gain needed capital to grow its business and make economic gains; as well as 2) enhance its prestige in the societal context by joining the club of publicly traded firms. Suchman (1995) conceptualized social fitness as a socially constructed, perception that a firm's actions are desirable. There may be normative influences as well to ensure firms know what actions are desirable. The Securities and Exchange Commission, the certifying bodies that give credibility to the underwriters that facilitate IPOs, as well as the underwriters themselves all act as normative institutions that specify the procedural legitimacy (Selznick, 1984) a new firm must attain in order to file for an IPO. In fact the IPO filing process is one of the mimetic processes which may yield homogeneous firms (DiMaggio and Powell, 1983) to the extent they fit with what investors have come to expect of publicly traded firms. Therefore, a successful IPO confirms a firm has at least temporarily demonstrated both economic and social fitness.

An alternate argument is due to the liability of newness (Stinchcombe, 1965), a firm successfully completing an IPO cannot be seen as legitimate for some time. However, Aldrich and Fiol (1994) distinguished between levels of legitimacy, such that firms can be seen as legitimate, neutral, or illegitimate. Using this distinction, firms successfully completing an IPO would at the very least be seen as having neutral legitimacy because the IPO process would weed out those that are wholly illegitimate.

Brown "tested the idea of legitimacy in the context of young firms in a turbulent environment (2012:424)." Based on the work of Driffield, Du, and Girma (2008), one of Brown's (2012) hypotheses was firms may diversify geographically either domestically or internationally as a signal of legitimacy and worth to external stakeholders. However, he found while it may be a positive signal of legitimacy, it may also strain resources of a young firm and threaten its survival. Ruland (2013) found within-industry firm profitability varied depending on the size of the city in which the firm was headquartered. Specifically, he found a negative relationship between within-industry firm profitability and size of the metropolitan area encompassing the corporate headquarters. There was an exception in the very largest metropolitan areas, wherein profitability rose with population density. These studies suggest there is risk affiliated with the geographic location of firms' headquarters. Therefore, the geographic location of the headquarters of a firm engaging in an IPO may be a signal to potential investors regarding the firm's legitimacy and earning potential. In fact, the location of the headquarters may influence investors' decision to invest as well as impact the level of net proceeds earned in the IPO (Ragupathi, 2011). This increases the importance and relevance of founders'/owners' initial choice of where to place the firm's headquarters. The geographic

placement of firm headquarters also determines the primary institutional context that will impact the firm.

Political Platforms as Proxies for Institutional Context: Blue States vs. Red States

Management literature has long seen the political context as one of many environmental factors firms must consider when developing effective strategies (e.g., North, 1990; Porter, 1980, 1991). However, as noted in Reed (2009) the earlier fundamental debate in the political economy literature focused around the role of government in the economy and in regulation (Alt and Chrystal, 1983; Smith, 1937; Stigler, 1971). McCaffrey (1982) noted the literature evolved beyond examining government as an actor to examining effects regulation had on stakeholders. He suspected there may be within-industry heterogeneity resulting from the regulatory environment because "one corporation's problem is another's opportunity, since regulations affect organizations in different ways (1982: 402)." Of course, the political environment encompasses more than legislation or the regulating bodies that may be created as a result of regulation. It also encompasses, and perhaps is even founded upon, the actual political philosophies of the parties politicians represent. These philosophies ultimately influence whether legislation is framed as "business-friendly" or not in terms of its impact on performance.

The existing research on the performance impact of the political environment is mixed and complex. For instance, in considering the impact of national politics on the stock market, particularly the Standard & Poor's 500 index, results are mixed depending on what is predicted (e.g., daily returns, day of the week effects, annual). While a political party effect has been found in the stock market's reaction to an election (Niederhoffer, Gibbs & Bullock, 1970; and Riley & Luksetich, 1980), it can be argued that the occurrence of an election itself had a larger

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impact on the S&P 500 than the party that won the election. Keef and Roush (2004) found that the political party represented by the President may be too broad of an indicator to consistently predict changes in the stock market and found that the dominant party controlling congress may be a more fine-grained predictor of returns of the Dow Jones International Average (DJIA).

We agree with prior research that it is likely firm stakeholders will cluster in the same geographic area (Porter, 1998, 2000) and that the most relevant and immediate political environment affecting firms' performance and resource allocations is at the state level. For the purposes of our study, this clustered area is the State, where politicians have the right and the power to influence and impact the institutional context by regulating businesses, thus affecting firms' IPO success. However, politicians with different ideologies are likely to enact different kinds of regulations in the states they govern, thereby contributing to institutional heterogeneity.

The United States has 50 states (excluding District of Columbia and territories), which are governed by either the Democratic Party or the Republican Party. There are distinct ideological differences between these parties (Levendusky, 2009; McCarthy, Poole, and Rosenthal, 2006; Sinclair, 2006; Theriault, 2008). The party winning elections can make a difference in the way a state is governed (Schaffner, 2012) and it is nearly impossible to have a state controlled by someone that wasn't nominated by one of these two parties (Schaffner, 2012).

While there are numerous similarities between parties, there are some business-related differences that are the focus of this study. Among the two mainstream political entities in the United States, the Democratic Party is known to be the more economically liberal (Levendusky, 2009) as it expresses support for workers' unions, increases in the minimum wage, extending unemployment benefits, and other programs favoring economic welfare such as job re-training

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(Democratic National Committee, 2012; Pe'er and Gottschalg, 2011). Therefore, the Democratic Party platform is more aligned with new-Keynesian economic approaches to solving societal challenges. The Republican Party, on the other hand, is perceived as being more economically conservative (Levendusky, 2009). It has closer ties to large financial institutions, favors right to work policies more so than workers' unions, advocates for more privatized options in social welfare programs in an effort to reduce the deficit, and opposes wealth transfer via taxation (Republican National Committee, 2008, 2012). Therefore, the Republican Party Platform is more aligned with Austrian/monetarist economic approaches.

The institutional context that is arguably most relevant to a firm engaging in an IPO is the one that exists in the state in which the firm is headquartered, suggesting there is heterogeneity across states. It is at the state-level where a State Assembly and State Senate propose and pass bills, and the Governor signs or vetoes those bills. Using the regulative tenet of the institutional theory (Scott, 1995; DiMaggio & Powell, 1983), we argue that this state-level legislative structure, provided with authority as measured by the dominance of a particular political party, can potentially reshape the business environment. Therefore, we claim that institutional context is dependent on the political governance. Political parties shape the legislative agenda, pass new business rules and regulations, thus altering the institutional context. As such, we argue that politics can be used as a proxy of institutional context. The variation in institutional context, in our view, will lead to higher uncertainty in the financial markets since it is destructive to the status quo.

HYPOTHESIS DEVELOPMENT

The impact of a change in institutional context

There are five broad areas of philosophical differences between the Republican and Democratic Party platforms that we find to be particularly relevant to the institutional context for firms. We describe these simplistically based on their national platforms for the purpose of this study with the understanding that the distinctions are more nuanced and complex than can be fully explained here. We also realize that portions of these platforms resonate differently across politicians even within the same party creating within-party heterogeneity, which is beyond the scope of this paper.

First, both platforms mention 'taxes' frequently (82 times in the Democratic Party Platform and 99 times in the Republican Party Platform) (Democratic National Committee, 2012; Republican National Committee, 2012). Both parties express an interest in lowering taxes, however, there is disagreement on who should benefit: businesses and higher income individuals versus a progressive taxation system that favors lower to middle income individuals. Second, both platforms directly address 'business' and explain how their respective parties can help improve US firms' domestic and international competitiveness. The Republican Party favors less government involvement, including fewer regulations they believe will allow businesses to operate more effectively in a free market. Third, government regulatory intervention is considered a hindrance to the growth of small businesses and places non-market driven constraints on firms. The Democratic Party Platform calls for cooperation between public and private enterprises to invest in education, energy and infrastructure as a means of improving the quality of the labor pool (thought to currently be a hindrance to market adaptability) and creating

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new, untapped markets. Fourth, similar to the debate over the role of government and the optimal amount of regulation, the two parties differ on the optimal minimum wage workers should be paid. The Republican Party favors market-driven wages while the Democratic Party fears workers will be exploited and will find it hard to live above the poverty level without increases in the minimum wage. Fifth, coupled with the discussion of wages is a debate between the party platforms over the relevance of unions, which have been known to drive the discussion on wages.

Over time, it is possible a state will 'change color' after an election resulting in 'blue' states turning 'red' or 'red' states turning 'blue' (Gimpel and Kaufmann, 2007). The institutional context will be amended after such an event according to the ideological differences of the political parties and the potential of new legislation shaping the business environment in the state. We hypothesize the event itself will create uncertainty in the institutional context, suggesting a negative relationship between a change in color and IPO performance, regardless of whether the change was from 'red' to 'blue' or 'blue' to 'red'. In other words, investors may not be able to predict the direction of business-oriented legislative policies due to the change in state governance and decide not to invest, or invest less, until the period of uncertainty or the political direction of the state is better understood.

Our hypothesis that the event of turning 'blue' may signal a change in institutional context, thus increasing the uncertainty in the financial markets. As such, if a state turns 'red' after an election, ceteris paribus, we expect a similar change resulting in a relatively higher uncertainty in markets. Our view is that the direction of the change does not matter, as any kind of shift in the political governance will signal a change in institutional context, thus leading to a

higher uncertainty in the markets and thus lower IPO performance. Therefore, we offer the following hypotheses:

Hypothesis 1a. There will be a negative impact on IPO success of firms headquartered in a state that shifts colors following an election.

Hypothesis 1b. There will be a positive impact on IPO success of firms headquartered in a state that shifts from red to blue following an election.

Hypothesis 1c. There will be a negative impact on IPO success of firms headquartered in a state that shifts from blue to red following an election.

The impact of the intensity of a party's entrenchment

It is important to note that not all states have the same level of 'redness' or 'blueness' (Hetherington and Larson, 2010). Some red states may be classified as very conservative, while others may be classified as moderate. Similarly, not all 'blue' states are equivalent in intensity influencing state-level politicians' potential in embracing the party's political platform. The level of 'redness' or 'blueness' of a state represents the intensity or dominance by one particular party across the various state level offices as well as the residents' views regarding the national stage (by incorporating national election results).This distinction is significant to understanding the institutional context of firms engaging in an IPO. For instance, the greater the extent of dominance by one particular party, the lesser the risk of political rivalry and the greater degrees of freedom one party has to propose and enact legislation aligned with party philosophy. However, in a moderate "red" or "blue" state, the political rivalry may be more acute which may introduce a higher risk of a shift in state color following an election. Accordingly, we argue that

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the relatively redder and bluer states have a lower chance to shift colors, thus they are expected to keep the status quo without increasing the uncertainty in the financial markets.

We find the intensity or relative dominance by a political party relevant to assessing heterogeneity in institutional contexts confronting firms completing an IPO because it suggests an additional layer of heterogeneity across states dominated by the same party. We have not found this degree of intensity measured in prior studies and seek to contribute by capturing its importance as a predictor in IPO success. We hypothesize, *ceteris paribus*, IPOs in redder states will be more successful than IPOs in moderately red states while IPOs in bluer states will be more successful than IPOs in moderately blue states since the chances for an intensely red and intensely blue state to change colors following an election are relatively lower than weakly red and weakly blue states. We argue that there will be lower uncertainty in the financial markets due to the lesser risk of a change in institutional context in strongly red and strongly blue states.

> *Hypothesis 2a: There will be a positive relationship between the level of redness of the state where the firm is headquartered and IPO success.[1]*

> *Hypothesis 2b: There will be a positive relationship between the level of blueness of the state where the firm is headquartered and IPO success.*

Our final predictive model encompasses the following equation:

$(IPO\_success)_{s,t} = \alpha_{s,t} + \beta_1(color\_change) + \beta_2(turn\_red) + \beta_3(turn\_blue) + \beta_4(red\_score) + \beta_5(blue\_score) + \gamma_1(firm\_controls) + \gamma_2(state\_controls) + \gamma_3(market\_controls) + industry\ F.E. + \varepsilon_{s,t}$, where s=state, t=year (1990-2010)

DATA AND RESEARCH DESIGN

Data sources

Data was gathered primarily from five different sources in an effort to capture comprehensive IPO, firm, political and state data. First, we obtained the list of firms that had their IPOs between 1990 and 2010 from Kenney-Patton IPO database (Kenney and Patton, 2013). This extensive timeframe was critical to being able to investigate whether states changed color following an election, and the impact this may have had on IPO success. This database provided us with the company names, state of headquarters, date of the IPO, as well as the founding date of the firm. Second, we used the Center for Research in Security Prices (CRSP) database to gather stock price information for the companies listed in the Kenney-Patton (2013) IPO database. Third, we used Compustat to collect further company data such as income and balance sheet items as well as number of employees. Fourth, we collected election results from a variety of sources such as Federal Elections Commission website, house.gov, and ballotpedia.org. For state-level election results, on the other hand, we turned to each state's Secretary of State's web sites where the election results for state legislature are listed. In order to double check our data for reliability and fill in missing state-level election results, we relied on Dubin's state assembly and state senate history collection (Dubin, 2007). Fifth, U.S. Census Bureau and Bureau of Labor Statistics were used for state-level data (such as income and population).

A total of 558 companies having their main operations outside the United States and those with missing data (e.g. CIK number) were eliminated leaving 3,381 firms. Once we cleared companies with insufficient Compustat or CRSP data, there was a final sample of 2,986 companies, which completed IPOs in 48 states. Wyoming and Alaska did not have IPO activity

between 1990 and 2010. Washington, DC and other U.S. territories such as Puerto Rico and Guam were not included in the analyses due to the uniqueness of their election systems. States with the highest number of IPOs were California, Texas, New York, Florida, and Massachusetts. Since these states also have the largest populations, we intuitively expect more business activity in these states. We address this concern in two ways: first, we controlled for state population (rather than create state dummy variables) in each of our hypotheses-testing models; and second, we performed a robustness test by testing our hypotheses using just the five largest states by themselves as a sample to see if our results hold.

Dependent variable

IPO success can be viewed two ways: from the firm's perspective, by defining the success as cash flow created for the company (Ritter and Welch, 2002; Stuart, Hoang, and Hybels, 1999); and from the investor's perspective, by defining success as the change in firm's market valuation after the stock starts trading in the exchange (Gulati and Higgins, 2003).

In keeping with established practice in the management literature, the IPO success dependent variable is defined as change in company stock price in the first 30 days after the IPO. We calculated the percentage increase or decrease in stock price, and considered the IPO successful if change was positive, and unsuccessful if the change was negative. Accordingly, our dependent variable was an interval variable (Stevens, 1946), ranging from -84.4% to 364.7%.

Independent variables

In order to test for the effect of a state's color change (turning red or turning blue), we first created an independent variable using the state governor, state assembly, and the state house. A state is considered red, if the Republican Party holds at least two out of these three state offices

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(having a value of 1), and blue if the Democratic Party holds at least two out of these three state offices (having a value of 0). Each of the three state-level institutions is given the same weight, since it is only then possible to enact a law when at least two of these institutions approve a proposed bill. We did not include federal election results in order to determine whether a state is red or blue, since the President and the U.S. Congress are legally not allowed to interfere with an individual state's laws, rules, and regulations regarding its businesses. They may have an influence on the states, most certainly, but the states themselves are autonomous entities, passing their own laws and rules, thereby regulating their own business environment (e.g. institutional context). Since the federal government is not a source of institutional heterogeneity within the United States (but contributes to the homogeneity), we excluded federal election results when deciding on the color of the state. The state color variable is calculated for each year for the period 1991-2010. We used red and blue variables to calculate our main independent dummy variables (Stevens, 1946): turn red, turn blue, and change color. Change color variable was coded 1 if the state shifted from being categorized as a blue state to a red state following an election cycle or vice versa. This variable was coded 0 if there was no change in state color. The turn blue variable was coded 1 if the state shifted from being categorized as red state to a blue following an election cycle and 0 if the state either remained the same color or shifted from being blue to red. Alternatively, the turned red variable was coded as 1 if the state shifted from being categorized as a blue state to a red state and 0 if the state either remained the same color or shifted from red to blue after an election cycle.

In order to measure the effect of the level of redness and the level of blueness, we created two additional independent variables, redness score, and blueness score. It should be noted that our concept of blueness and redness applies only to states that have already been categorized as

blue or red, respectively. In other words, we are not hypothesizing on each state's blueness or redness as these would also ultimately be dichotomous in interpretation. We included federal election results in the level variables. Federal election results such as President and seats in U.S. Congress give clues to state officials on the political inclination of the state's constituents. Since a state-level politician may find courage to act more politically partisan and push legislature than can be considered as 'radical' by the opposing party if the state unilaterally votes for a single party in all the state- and federal-level elections, we decided to include the votes for President and U.S. Congress to determine the magnitude of the state's color. Accordingly, color level variables are calculated by including state governor, lieutenant governor, majority party in the state assembly and state senate, President, two U.S. Senators, and the majority party for state's seats in U.S. House of Representatives. Therefore, for any red or blue state, level variables ranged from 2 to 8: 2 meaning a moderately red or blue state, 8 meaning a radically red or "blue" state. Because the color level variables are created in order to compare moderate red states with strongly red states and blue states with strongly blue states, we only calculated a redness score for red states and a blueness score for blue states.

In order to better comprehend the scoring, examples for extreme red states and extreme blue states are provided. Utah and Texas, in 2009, were classified as red states in our database since all their statewide offices were affiliated with Republicans. These two states also have a redness score of 8 out of 8, consistent with the general opinion that Utah and Texas were two of the most conservative states at the time. On the other side of the spectrum, we have Massachusetts and New York in 2009, both of which were classified as blue states since all of their statewide offices were affiliated with the Democratic Party. They also had a blueness score of 8 out of 8 as they voted for the Democratic candidate for all the federal elections along with

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the state elections. Massachusetts and New York conform to the general public opinion that they were two of the most liberal states at the time.

Our study distinguishes from past studies in its way of measuring red and blue. For instance, Pe'er and Gottschalg (2011) measured red and blue states based on the previous presidential election. The state was categorized as red if the majority percentage of state votes were for the Republican presidential candidate in the previous election, and blue if the majority percentage of state votes were for the Democratic candidate. The authors called for further research to be conducted using a more fine-grained assessment of their measures. We have answered that request in this paper with our more nuanced red and blue state proxy variables as well with depth of state governance and our dynamic change in state governance variables.

Control variables

We controlled for a variety of variables, as they can be the alternative determinants of IPO success. First, we included the annual change in the Dow Jones Industrial Average, since the overall average of the stock market may influence individual company's stock performance. Second, we included six company-level controls: a) return on assets; b) number of employees; c) capital employed; d) firm age; e) debt ratio; and f) return on revenue. These controls have been found to influence investors' decision to purchase the company's stock after the IPO. Firm age may also signal the firm's legitimacy (DiMaggio and Powell, 1983; Haveman, 1993), making it particularly relevant to IPO success. Since many companies in the dataset start small but then grow exponentially in their number of employees, we used the logarithm, consistent with prior research (e.g. Arthur, 2003). Similarly, we took the logarithm of firm age.

Red and blue states are thought to be proxies for numerous business-oriented policies and pieces of legislation, which may influence IPO success as well as firms in varying life stages. State governance can act as acceptable proxies if some or all of the underlying policies that create heterogeneity across states are related to IPO success. We include three state level variables to control for the state effects beyond what institutional heterogeneity captures. These variables include state per capita income, state per pupil spending on education, and change in state unemployment rate. It is thought that per capita income is indicative of the overall job environment in the state, as well as the purchasing power of the consumers. State per pupil spending on education is expected to affect the average quality of the labor force and increase wages. Per capita/per pupil measures were used as means of controlling for state population. Change in the state's unemployment rate provided context to the state's performance as opposed to the actual unemployment rate.

We report descriptive statistics for the entire set of variables related to the analysis of IPO success Table I. We used Pearson's (1901) method for correlations between interval variables, and point-biserial correlation (Tate, 1954) for correlations between an interval variable and a binary variable. Finally, we applied tetrachoric correlations (Edwards and Edwards, 1984) for correlations between two binary variables.

Insert Table I about here

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Methodology

In order to confirm our suspicion that the number of firm's employees, firm age, and state population move non-linearly and thus may not be fit for a linear regression analysis, we applied the Box-Tidwell test (Box and Tidwell, 1962), and confirmed that the use of logarithmic forms of these variables were appropriate. We also applied two separate tests for multicollinearity: Variance inflation factor test and condition index test (Belsley et al, 1980). Both are applied to all analyses for all hypotheses, and multicollinearity was not found to be an empirical problem for out data. Moreover, when necessary, White's and Breusch-Pagan tests for heteroscedasticity (White, 1980; Breusch and Pagan, 1979) were applied. When heteroscedasticity was found to be a problem by these tests, then we used Huber robust correction to correct for heteroscedasticity (Huber, 1967; White, 1980).

Since we have panel data, we use a fixed effects model with state fixed effects while controlling for industry effects. We prefer the fixed effects model to the random effects model, because fixed effects allow us to produce more robust and accurate results. We also apply the Hausman test to confirm that fixed effects models are a fit for our data. Hausman test results support that we have unbiased and consistent results with a fixed effects model. Our model is conservative, as it controls for time-invariant omitted variables, which may be related to the dependent and independent variables in our specifications. We used dummies for 2-digit SIC codes to control for industry. We ran the fixed effects model twice: once without taking the influential variables into consideration (Cook and Weisberg, 1982), and then a second time by removing the outliers with Cook's distance test (Fox, 1991). Both models produced analyses with the same number of results, concluding that the data did not have any influential variables; therefore we only report our main results in one table.

RESULTS

Effect of change in heterogeneity in institutional context as measured by state's color change on IPO success

Hypothesis 1a involves the effects of a change in state color on IPO success. We predicted that when a state shifts colors, IPOs will be less successful. In other words, a change in color can decrease IPO success due to the disruption of the status quo of the state's political agenda (as predicted by institutional theory), leading to higher uncertainty in financial markets. For a finer grained analysis, we also hypothesized that state color matters such that shifting from red to blue (Hypothesis 1b) and blue to red (Hypothesis 1c) are negatively related to IPO success. The results are strongly in favor of IPOs performing better in unchanging states (β=-8.08, p<0.001), and declined when states changed colors in either direction (Table 2, Models 1 and 2). However, the magnitude of the negative relationship between a change in color and IPO success is most evident when states change from blue to red as indicated in model 2 (β=-11.11, p<0.001). A change in state governance from red to blue was insignificant, though in the predicted direction, as it relates to IPO success suggesting that change alone creates uncertainty that is of greater concern to investors than state political governance alone.

Effect of heterogeneity in institutional context as measured by state's color magnitude on IPO success

Hypothesis 2a and 2b were tested separately in models 3 and 4 (see Table 2). There was no support for Hypothesis 2a as there was no significance in the relationship between the depth of color or dominance of the Republican Party in an already red state and IPO success.[3]

Hypothesis 2b, on the other hand, was strongly supported (β=2.75, p<0.01) indicating that IPO success is greater in relatively as the depth of dominance of the Democratic Party in an already blue state is stronger. This suggest, as expected, that when there is more political control over the policy-making process, and firms can identify these policies more easily, the environment is more predictable, stable and more favorable to financial markets as well as firms engaging in IPOs.

Insert Table II about here

Robustness test using the largest five states

As a robustness test to exclude state population size as the predominant reason for IPO success, we tested each of our hypotheses using just the five largest states as a sample: California, New York, Texas, Florida, and Massachusetts. These states represent a mix of red and blue states, thus it is evident that population alone does not drive state color or state political governance. The representation of red and blue states, as well as states that have shifted color multiple times between 1990 and 2010 (e.g. Florida) create a subsample where we can test our main hypotheses.

Our results are consistent with the results described above in both magnitude of significance and direction (see Table 3). Hypothesis 1a argues that a shift in state's color will negatively affect IPO performance of the firms headquartered in that state. This hypothesis is strongly supported in our robustness check (Table 3, column 1: β=-10.02, p<0.001). We also find strong support for Hypothesis 1b and 1c (Table 3, column 2: turn red, β=-9.43, p<0.01; turn

blue, β=-11.28, p<0.01). These results, along with our main analysis reported on Table 2,
strongly support our hypothesis that a change in state's political structure lead to a decrease in
IPO performance of firms headquartered in that state.

We do not find support for Hypothesis 2a in our robustness check (Table 3, column 3:
β=1.55, p>0.10); however, we are able to support Hypothesis 2b (Table 3, column 4: β=4.08,
p<0.05). These findings are also in agreement with our main analyses.

Insert Table III about here

Additional findings

One of the surprising results of the model was a negative relationship between the firm's age and
performance, meaning younger firms did better than the older, more established firms did. It
may be the case that investors expect more growth from younger firms engaging in an IPO than
older firms. The second surprising result is that the relationship between per pupil spending on
education and IPO performance switches to negative. It may be the case that once political state
governance (state color) is factored in, the impact of being in a "red" state is accentuated by the
lower education spending of these states. As expected, IPO success is higher when there are
positive changes in the Dow Jones Index, higher state per capita income, higher firm ROA, and
higher firm capital employed. The remaining control variables were insignificant.

DISCUSSION AND CONCLUSION

This paper investigates the relationship between environmental uncertainty and IPO success by using institutional context to measure uncertainty, and politics as a proxy of institutional context. An important contribution to both entrepreneurship and strategic management literatures is the result that shifts in state governance do matter in a way that they shape the institutional context, thus have a direct impact on IPO success and potentially on other business outcomes. In this paper we use state political affiliation as a proxy for the multitude of differing policy and legislative measures that arise from the competing philosophical differences that are espoused to exist between the parties. Anecdotal evidence of differences in governance can be found in the campaign rhetoric communicated by incumbent and prospective candidates of each party. However, there is little research that actually tests if a shift in political ideology in state governance have real and meaningful impact on state's businesses. In this paper we theorize that the governing political ideology of a state will determine the institutional context in that state. We also theorize that a shift in institutional context will increase the environmental uncertainty, thus leading to negative financial results. Specifically, we hypothesize and empirically show that a shift in institutional context will decrease IPO success.

Our findings indicate IPO success of firms headquartered in states that do not change color following an election is higher than IPO success of the firms headquartered in states that change color. In our view, it is possible that firms and investors prefer the status quo that is known, rather than change. This is consistent with institutional theory. Therefore, we theorize that and empirically show a change in color signals a higher uncertainty, leading to a lower IPO success.

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However, a more nuanced picture emerges when the depth of state governance is considered. Expectedly, as the entrenchment of political parties increase in the states that they govern (e.g., as states become 'bluer' or 'redder'), IPO success also increases. In other words, a unilaterally Democratic-controlled state or a unilaterally Republican-governed state can positively impact IPO performance. We theorize that, consistent with institutional theory, organizations and investors seek to minimize the uncertainty existing in their environment. Operating in a state completely dominated by one party or another may lessen the uncertainty regarding the types of business-oriented policies that are likely to become laws. Choosing to have firm headquarters in an environment that reducing the political unknown may be more important than choosing firm headquarters based on the governance of one party over the other. Overall, our findings indicate success of a given strategy is linked to the institutional context of the local business environment. Characteristics of the institutional context either facilitate or inhibit the success of the strategy.

A final interesting finding of the present study is that the younger firms do better in IPOs. In four models presented on Table 3, an increase in firm age significantly, negatively affected IPO success. Although we expect that the older and more established firms will have greater legitimacy (DiMaggio and Powell, 1983; Haveman, 1993) that may contribute to IPO success positively, the reverse case was supported by the data. This may be a future research opportunity for scholars to rethink the relationship between firm age and legitimacy. The current social trend appears to favor new start-ups. These firms may imply creativity and growth is more prevalent than what may be possible with established companies.

Our findings are important for entrepreneurship and management research for several reasons. First, our findings indicate that institutional context (specifically, institutional

heterogeneity) can be used to predict future uncertainty in financial markets. This is different than prior research where scholars used variation in past outcome as a measure of uncertainty. In this paper, we use a new measure to predict *future* uncertainty. We show that a change in institutional context leads to high uncertainty, this impacting IPO success negatively.

Second, the study is an attempt to fill the gap in management research by investigating the effect of the local political environment on business outcomes. Even though the relationship between the institutional context and business conduct seems to be a fruitful area of management research, there is a lack of research focusing on how the political policies and ideologies of the two mainstream parties affect particular business strategies. This study contributes to the management and organization theory literature by addressing this gap and attempting to bridge institutional theory with politics. However, more corporate-level strategic choices should be considered since the results exploring success of a growth strategy differed from those exploring a restructuring strategy.

The results have some strong practical implications as well. An IPO is an important transition point in a firm's life by taking a privately owned company to the public stage. The success of the IPO, therefore, is not only important to investors, but also to the entrepreneurs. This study proposed and empirically supported that the location of the firm's headquarters is one of the factors that is involved in IPO success. Investors may consider the state context in which a firm is headquartered.

NOTES

1. It should be noted that our concept of "blueness" and "redness" applies only to states that have already been categorized as "blue" or "red" respectively. In other words, we are not

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hypothesizing on the each state's "blueness" or "redness" as these would also ultimately be dichotomous in interpretation.

2. It should be repeated that states were classified as "red" or "blue" based on two out of three governing bodies in the state: 1) the governor's part affiliation; 2) state house of representatives' collective party affiliation; and 3) the state senate' party affiliation. This resulted in complex data over a 20-year period in which: 1) states may have maintained fairly consistent education spending levels even when they have changed color classifications over time; and 2) states considered to be "blue" for instance due to Presidential election results may actually be "red" based on our two out of three classification. Illinois is an example of the latter in which it has at times had a Republican governor and Republican state houses (one or the other) yet voted Democratic in presidential elections. The significance difference in "red" states spending more on education should be considered in this 20-year context.

3. It should be noted that the sample size for testing hypotheses 3a and 3b decreases significantly from our others because they only capture "red" states in model 3 and "blue" states in model 4.

Table 1. Descriptive statistics

	Variables	Mean	s.d.	min	max	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1	IPO success	5.25	32.15	-84.44	364.70															
2	Level of redness	4.37	1.77	2	8	-0.0250														
3	Level of blueness	6.05	1.42	2	8	0.0218	-0.9690***													
4	Turned red	0.0730	0.2602	0	1	-0.0338* (pbis)	0.0946*** (pbis)	-0.0754*** (pbis)												
5	Turned blue	0.03	0.18	0	1	0.0176 (pbis)	-0.1248*** (pbis)	0.1260*** (pbis)	-1*** (tetracho)											
6	Changed color	0.11	0.31	0	1	-0.0184 (pbis)	0.0077 (pbis)	0.0092 (pbis)	1*** (tetracho)	1*** (tetracho)										
7	Annual change in Dow Jones Industrial Average	14.79	13.03	-33.84	33.45	0.0858***	0.1191***	-0.1268***	0.2719*** (pbis)	0.0829*** (pbis)	0.2779*** (pbis)									
8	Net income	-3.59	50.03	-1055.09	883	0.0112	0.0913***	-0.0903***	0.0192 (pbis)	-0.0368** (pbis)	-0.0051 (pbis)	0.0385**								
9	Return on total assets	-0.05	0.32	-6.38	0.89	0.0798***	0.0885***	-0.0931***	0.0468*** (pbis)	-0.0098 (pbis)	0.0339* (pbis)	0.0692***	0.3284***							
10	Return on revenue	-3.68	37.93	-1642.15	2.11	0.001	0.0200	-0.0213	0.0162 (pbis)	0.0131 (pbis)	0.0213 (pbis)	0.0338*	0.0604***	0.2004***						
11	Capital employed	82.09	272.50	-758.94	12474	0.0206	0.0205	-0.0148	-0.0353** (pbis)	-0.0155 (pbis)	-0.0388** (pbis)	-0.0717***	0.3383***	0.0489***	0.0072					
12	Debt ratio	0.36	0.37	0.008	9.33	-0.0242	0.1489***	-0.1445***	0.0371** (pbis)	-0.0139 (pbis)	0.0233 (pbis)	-0.0063	0.0559***	-0.1540***	0.0221	-0.0026				
13	Log of number of employees	-1.34	1.40	-5.52	4.69	0.0356*	0.1381***	-0.1395***	-0.0379* (pbis)	-0.0209 (pbis)	-0.0399** (pbis)	-0.0837***	0.1274***	0.3714***	0.0855***	0.2935***	0.3019***			
14	Log of firm age	2.06	0.91	0	5.05	-0.0450**	0.0864***	-0.0957***	-0.0090 (pbis)	-0.0134	-0.0183 (pbis)	-0.0477***	0.2214***	0.3006***	0.0437**	0.0511***	0.1682***	0.3489***		
15	Change in state unemployment rate	0.00	0.01	-0.021	0.035	-0.0168	0.1180***	-0.1043***	0.0645*** (pbis)	-0.1003*** (pbis)	-0.0035 (pbis)	-0.1135***	0.0068	0.0013	-0.0164	0.0374**	0.0495***	0.1040***	0.0287	
16	Per pupil education spending	6,752.10	2,091.07	2969	18618	-0.0371**	-0.0885***	0.0875***	-0.1332*** (pbis)	-0.0222 (pbis)	-0.1255*** (pbis)	-0.2282***	-0.0199	-0.0638***	-0.0256	0.1006***	0.0587***	0.0727***	0.0410**	0.1495***

*** p<0.001   pbis: Point-Biserial correlation between a binary variable and an interval variable

** p<0.01   tetracho: Tetrachoric correlation between two binary variables (Edwards & Edwards, 1984)

* p<0.05

Table 2. Regression results

	Variables	(1)	(2)	(3)	(4)
1	Color change	-8.0782***			
		(2.2023)			
2	Turned red		-11.1058***		
			(2.6297)		
3	Turned blue		-2.1381		
			(3.5801)		
4	Level of redness			-0.2021	
				(1.1785)	
5	Level of blueness				2.7466**
					(1.1363)
6	Net income	-0.0086	-0.0079	0.0080	-0.0168
		(0.0144)	(0.0144)	(0.0329)	(0.0177)
7	Per pupil education spending	-0.0018*	-0.0018*	-0.0000	-0.0033*
		(0.0010)	(0.0010)	(0.0020)	(0.0014)
8	Change in Dow Jones Stock Index	0.2505***	0.2577***	0.2268*	0.2615***
		(0.0538)	(0.0539)	(0.1051)	(0.0732)
9	Return on revenue	-0.0180	-0.0179	-0.0625	-0.0160
		(0.0164)	(0.0164)	(0.0544)	(0.0176)
10	Capital employed	0.0100*	0.0103*	0.0200	0.0066
		(0.0044)	(0.0044)	(0.0176)	(0.0055)
11	Debt ratio	3.0673	3.0791	3.7399	3.8658
		(2.8425)	(2.8406)	(4.2329)	(3.8945)
12	Log number of employees	0.9494^	0.9338^	0.6682	1.0357
		(0.6306)	(0.6303)	(1.3003)	(0.8816)
13	Log firm age	-2.3590**	-2.3480**	-2.1142*	-2.7046*
		(0.8229)	(0.8224)	(0.9447)	(1.1743)
14	Change in state unemployment rate	-73.965	-36.100	18.212	-43.901
		(101.12)	(102.6)	(170.06)	(131.85)
15	Return on total assets	14.052***	14.068***	13.402***	16.821***
		(2.7708)	(2.7690)	(3.4613)	(3.7454)
16	State per capita income	0.0003^	0.0003^	0.0002	0.0006*
		(0.0002)	(0.0002)	(0.0006)	(0.0003)
	Number of observations	2,722	2,722	1,072	1,650
	State fixed effects	Yes	Yes	Yes	Yes
	Industry control	Yes	Yes	Yes	Yes
	Adjusted R-squared	0.06	0.06	0.08	0.06

*** $p<0.001$

** $p<0.01$

* $p<0.05$

^ $p<0.10$

Dummy codes controlling for two-digit SIC industry codes are not reported here for brevity.

Table 3. Regression results for five states with highest number of IPOs

	Variables	(1)	(2)	(3)	(4)
1	Changed color	-10.029***			
		(2.8585)			
2	Turned red		-9.4316**		
			(3.3704)		
3	Turned blue		-11.279**		
			(4.7011)		
4	Level of redness			1.5515	
				(1.1446)	
5	Level of blueness				4.0838*
					(1.9585)
6	Net income	-0.0009	-0.0013	-0.0258	0.0033
		(0.0194)	(0.0195)	(0.0267)	(0.0248)
7	Per pupil education spending	-0.0020^	-0.0020^	-0.0049	-0.0027^
		(0.0014)	(0.0014)	(0.0032)	(0.0019)
8	Change in Dow Jones Stock Index	0.2640***	0.2611***	0.4741**	0.2526**
		(0.0751)	(0.0756)	(0.0923)	(0.0948)
9	Return on revenue	-0.0193	-0.0193	-0.1477	-0.0196
		(0.0179)	(0.0179)	(0.1984)	(0.0188)
10	Capital employed	0.0069	0.0068	0.0046	0.0063
		(0.0072)	(0.0072)	(0.0155)	(0.0091)
11	Debt ratio	3.7278	3.7461	4.1059	4.5581
		(3.9487)	(3.9503)	(8.1247)	(5.3195)
12	Log number of employees	0.7067	0.7093	1.5378	0.5114
		(0.8813)	(0.8816)	(1.9559)	(0.1959)
13	Log firm age	-3.6947***	-3.6936***	-3.5239*	-4.1131**
		(1.1915)	(1.1918)	(1.4636)	(1.7301)
14	Change in state unemployment rate	-194.6^	-204.7^	-19.532	-52.703
		(134.4)	(137.8)	(154.1)	(176.3)
15	Return on total assets	15.791***	15.818***	15.741*	18.696***
		(3.5189)	(3.5209)	(3.7163)	(4.7508)
16	State per capita income	0.0004	0.0004	0.0025^	0.0004
		(0.0003)	(0.0003)	(0.0015)	(0.0005)
	Number of observations	1,580	1,580	525	1,055
	State fixed effects	Yes	Yes	Yes	Yes
	Industry control	Yes	Yes	Yes	Yes
	Adjusted R-squared	0.07	0.07	0.12	0.06

*** p<0.001
** p<0.01
* p<0.05
^ p<0.10

Dummy codes controlling for two-digit SIC industry codes are not reported here for brevity.

CHAPTER 2

THE IMPACT OF INSTITUTIONAL CONTEXT AND GENDER ON CORPORATE

SOCIAL RESPONSIBILITY

with

Kira K. Reed

ABSTRACT

This paper examines the relationship between gender, politics, and business activity by investigating the influence of women in executive roles and state political environment on positive corporate social responsibility practices. We hypothesize that women in high executive roles, such as chair of the board, CEO, COO, CFO, as well as a higher percentage of women in corporate boards, increase firms' positive corporate social responsibility practices. Building on institutional theory, we propose the institutional context in blue states (governed by the Democratic Party) creates a more favorable environment for positive CSR practices than the context in red states (governed by the Republican Party) . Moreover, we expect this relationship to become more nuanced when the extent of political party dominance and change in party dominance (post-election) is considered. We also consider the moderating effect of the institutional context on the relationship between women in executive roles and positive corporate social responsibility. We find support for our hypotheses using the KLD Universe dataset encompassing nearly 20 years of observations.

KEY WORDS

Institutional Theory, Gender, CSR, Politics

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INTRODUCTION

Corporate social responsibility (CSR) is indeed a hot issue in the management and finance literature with research extending from CSR theories (e.g. Klonoski, 1991) to corporate social performance (CSP) (Wood, 1991), and it draws from a wide range of theories such as shareholder value theory (Friedman and Friedman, 1962), stakeholder theory (Jones, 1980; Clarkson, 1995), and corporate citizenship (Carroll, 1991). The relationship between social responsibility and financial performance is also one of the most widely researched topics in management and finance literature (e.g. Orlitzky, 2008).

The interest in the impact of CSR on firm financial performance is partly because positive CSR practices are generally seen as a discretionary use of corporate resources intended to improve social welfare, not just enhance shareholder value (Barnett, 2007). Since these resources could be used in other strategic ways, researchers and shareholders have been interested in the added value positive CSR practices may have on firm performance or at a minimum firm reputation. Two factors that may influence a firm's management team to invest in positive CSR activities include the role of women in the decision-making process as well as the external political environment which may provide incentives or signals that these practices are expected of firms operating in that environment. In other words, both macro and micro factors impact firms' engagement in positive CSR activities making it more of a strategic allocation of resources rather than a cost-driven or even a solely internal decision driven by firm culture.

Considering the high attention companies give to CSR and the large sums of money spent on social practices, it is important to understand why CSR occurs. Explanations mainly come

from three streams of research. First, strategic CSR scholars argue that CSR may be financially profitable because CSR spending is linked to the firm's corporate strategy, thus having a positive long-term effect on the company's balance sheet (Waddock, 2012). Second, Benabou and Tirole (2010) suggest that CSR may be a form of pro-social behavior, which may provide a direct benefit to firm shareholders even if the CSR activities are costly. Di Giuli and Kostovetsky (2014) measure this direct effect for the first time, to our knowledge, and use corporations' political affiliations as a measure. Third, research on the gender composition of board of directors has found that having women on the board has a positive correlation with corporate reputation and CSR practices (Bear, Rahman, and Post, 2010), particularly since positive CSR practices include hiring and promoting more women and minorities. On the other hand, because corporations devote a lot of time and money to CSR, it is important to know more in-depth how a heterogeneous institutional context, as captured by the state-level political environment, impacts positive CSR practices. This paper contributes to the management and institutional theory literature by investigating the interconnected, multi-level relationship between gender, political contextual heterogeneity, and engagement in positive CSR activities.

We consider an institutional perspective to be an appropriate approach to CSR because we question whether within-country differences in institutional contexts impact social performance. Even though a number of studies focus on the impact of heterogeneous institutional contexts on firm behavior or performance in a variety of situations such as: corporate responses to environmental demands (Delmas and Toffel, 2008), multinational enterprise (Henisz, 2000; Zaheer, 1995), adoption of environmental management systems (Darnall and Edwards, 2006), firm disclosure strategies (Reid and Toffel, 2009), strategic decision making (Papadakis *et al*., 1998), and sustainable development (Bansal, 2005), the

management literature generally ignores how the differences in within-country political context affect the institutional environment faced by businesses that operate in these different areas. In this paper, we pose the following research questions: *(1) Do female board representatives and women in other executive roles, such as CEO, COO, CFO, and chair of the board influence corporations' positive CSR practices? (2) If so, does the institutional context (e.g. state-level political environment) moderate this influence? (3) Does the state-level political environment have a direct impact on corporations' positive CSR practices? (4) If so, what impact does the* intensity *of political governance have on corporations' positive CSR practices? (5) What impact does a* change *in political governance have on corporation's positive CSR practices?*

In line with our research objectives, we test hypotheses on whether positive CSR activities happen more frequently in corporations that have female influence in high corporate ranks, that are located in red states or in blue states, and how these activities change as red states become more conservative and blue states become more liberal, or change color altogether after an election. We use the KLD database (by MSCI ESG Research) in order to identify positive CSR. KLD identifies 7 broad categories of social responsibility, and defines several strengths and concerns for each category. Then, it grades corporations for all these individual strengths and concerns. Positive CSR, defined as strengths by KLD, includes activities such as support for housing, employment of the disabled, pollution prevention, and alternative fuels (and others). We do not include the concerns, or negative CSR in this paper in part because they represent either a failure to invest resources, or penalties and fines assessed (e.g., environmental infractions), rather than a strategic allocation of resources. Additionally, a number of researchers have found strengths and concerns within each social responsibility category to be so distinct as to require separate empirical consideration (Arora and Dharwadkar, 2011; Di Giuli and

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Kostovetsky, 2014; Mattingly and Berman, 2006). Their research suggests that the theoretical foundation contributing to higher scores of either strengths or concerns differ. For the purposes of this paper, only strength scores across the social responsibility categories are theoretically predicted and empirically measured as they require an active allocation of resources and have been found to be distinct from negative scores in each category.

Just as a firm's social responsibility activities are nuanced, a firm's external political environment is equally nuanced in measurement. For instance, in considering the impact of national politics on the stock market, particularly the Standard & Poor's 500 index, results are mixed depending on what is predicted (e.g., daily returns, day of the week effects, annual). While a political party's effect has been found in the stock market's reaction to an election (Niederhoffer, Gibbs, and Bullock, 1970; and Riley and Luksetich, 1980), it can be argued that the occurrence of an election itself had a larger impact on the S&P 500 than the party that won the election. Keef and Roush (2004) found that the political party represented by the President may be too broad of an indicator to consistently predict changes in the stock market, and found that the dominant party controlling congress may be a more fine-grained predictor of returns of the Dow Jones International Average (DJIA). We agree with prior research that it is likely firm stakeholders will cluster in the same geographic area (Porter, 1998, 2000), and that the most relevant and immediate political environment affecting firms' performance and resource allocations is at the state level. At the state level, politicians have the right and the power to influence and impact the institutional context by regulating businesses, thus affecting firms' behavior towards CSR. However, politicians with different ideologies are likely to enact different kinds of regulations in the states they govern, thereby contributing to institutional heterogeneity. Our hypotheses will focus on this institutional heterogeneity and how it

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independently affects firms' CSR positive practices, as well as how it affects these practices when the strength of female board representation is also considered.

To investigate the influence of institutional heterogeneity context on corporations' CSR activities, we explore whether firms are more likely to engage in positive CSR in Democratic (referred to as blue from now on) or Republican states (referred to as red from now on). For the purposes of the present research, the United States drew our attention for several reasons. First, it has a developed market where public corporations must legally disclose much of their CSR practices. KLD has the ability to score corporations, most of which are based in the United States, in 13 categories by using more than 90 different strengths. Second, the United States has 50 states (excluding the District of Columbia and territories), which are governed by either the Democratic Party or the Republican Party. There are distinct ideological differences between these two parties (Levendusky, 2009; McCarthy, Poole, and Rosenthal, 2006; Sinclair, 2006; Theriault, 2008), and there was not a third party governing a state during the period captured in this study. Moreover, the party winning the elections can make an important difference in the way the state is governed (Schaffner, 2012), and it is almost impossible to control any major political office without being nominated by a party (Schaffner, 2012). This two-party system makes it possible to divide the country easily into two, as red and blue, and show the contrast between these two different governance ideologies on businesses. Since research confirms that institutional context varies substantially across the red and blue states (Gelman, Park, Shor, Bafumi, and Cortina, 2008), we use the statewide and federal-level election results as a proxy for the institutional context. Ultimately, we expect firms headquartered in blue states to engage in more positive CSR. Moreover, we also expect firms to increase their positive CSR activities as the state in which they are headquartered becomes more liberal.

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While macro-level forces in the politically influenced institutional context are expected to be of great importance and have been insufficiently researched, macro-factors alone cannot drive management decisions regarding the resource allocations required to invest in positive CSR activities. Therefore, we emphasize the role of women in high executive roles regarding positive CSR activities. Though there have been some research investigating the relationship between gender and CSR, these papers mostly focused on board diversity (Bear et al, 2010), board composition (Rao & Tilt, 2016), and influence of women on corporate philanthropy (Williams, 2003). While these are certainly influential research, we use a much rigorous and fine-grained approach in our paper, and focus at multiple executive roles women can take on to influence CSR practices, such as percentage of women in boards, board chair, CEO, COO, and CFO. To increase the rigor of our results, we also take advantage of the KLD database: instead of looking at a simple measure of CSR, we use all seven CSR dimensions, and investigate how women may impact each of the seven CSR dimensions.

The rest of the article is structured as follows: First, we will introduce CSR and its main tenets along with institutional theory. Then, we will state our hypotheses, followed by a section about data, tests, and results. The article will end with a discussion and conclusion including future research opportunities.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Institutional theory

Scott (2008, 48) conceptualizes institutions as clusters built of "regulative, normative, and cultural-cognitive elements that, together with associated activities and resources, provide stability and meaning to social life." One of the foundations of institutional norms is regulative

rules. These rules have been represented empirically as laws, rules, regulations and sanctions set and enforced by regulatory institutions (Scott, 2008). Coercion, on the other hand, is the primary control mechanism (DiMaggio and Powell, 1983) when norms alone do not invoke compliance. When rules support and constrain coercive power, the existing mechanism is called authority (Scott, 2008). Institutional legitimacy, is derived from both formal legal standing within an institutional environment as well as known adherence to regulative norms and the avoidance of regulative sanctions. Meyer and Rowan (1977) argue that organizations adapt themselves to different institutional pressures by employing appropriate structures and rules to attain higher levels of legitimacy.

Accordingly, we expect organizations operating under a particular institutional context to be expected to comply with the written and/or unwritten rules and laws, and adopt themselves to the different institutional pressures by employing appropriate organizational structures. These arguments, which are based on the regulative pillar of institutional theory, also imply that if there are changes in an institutional context, organizations will then be expected to comply with the new rules and norms of the institution, otherwise they may face legal sanctions. In other words, even though institutions are relatively stable and resist changes (Jepperson, 1991), organizations operating under the regulations of institutions tend to be more flexible to comply with the rules of the institutional context (Scott, 2008).

In addition to formal regulatory institutions, the philosophies of different governing political parties may influence the institutional environment and the norms in practices that firms develop. For instance, Martin and Swank (2008) propose that a dynamic relationship of collaboration and cooperation between national and regional trade associations and political institutions arose towards the end of the 19th century to bring order to the chaos created by a

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heterogeneous political environment combined with the growing industrialization of the U.S. In other words, organizations saw governing political institutions as being capable of either enhancing or hindering their growth, and saw a greater opportunity of influencing political decisions if they acted with a collective voice (e.g. through trade associations) rather as fragmented individual firms. Klier and McPherson (1991) found the duration of a political party's control impacted the type of interstate branch-banking law proposed and enacted, independent of the party affiliation. In other words, the length of time a party (i.e., Republican or Democratic) dominates the governance of the state matters independently of which party is in control on the type of state legislation enacted.

To summarize, firms anticipate the political environment will impact them. They then make strategic decisions on how to counter this both individually, and within collective trade associations. Additionally, state level governance can impact a specific type of legislation that impacts firm growth.

Therefore, the ability of firms to successfully implement new practices depends on the particular institutional context in which they operate; and this context consists of both political and social elements (Hoskisson, Eden, Lau, and Wright, 2000). It is also expected that these elements will be incorporated into the political environment of a given location (LaPorta *et al*., 1997; Bertrant and Mullainathan, 1999; Bansal, 2005; Rubin, 2008). Accordingly, we come to the understanding that firms' ability to successfully implement new practices depends on political and social elements of a particular institutional environment in which the firm operates, and that these elements are reflected in the dominant political view of the focal location, in this case, the state level.

CSR practices, represent one set of decisions that will be affected by the institutional context of the geographic location where the firm is headquartered. Considering the collective literature on institutional theory, political economics, and CSR, we claim that the geographic location, whose social and political elements will most affect the institutional context and will, therefore, have an impact on firm's CSR practices, is the State. It is at this level where a specifically designated and elected Assembly and Senate propose and pass the bills, and the Governor signs those bills into law (or vetoes them). This legislative structure, provided with legislative authority can potentially reshape the business environment in a particular state, belongs to the regulative institutional element. Therefore, we expect a state's political governance to impact the institutional context in a way that will create either a favorable or an unfavorable environment for positive CSR activities.

Corporate social responsibility

Even though there were some forms of "corporate giving" such as philanthropy in the early to mid-1900s, acceleration of- and academic interest into CSR began in 1950s. The contribution of the Committee for Economic Development (CED) played an undeniably strong role with its 1971 publication, *Social Responsibilities of Business Corporations*. Specifically, CED identified three circles of social responsibility (Carroll, 2012): *inner circle*, which includes the most basic responsibilities of firms, mostly for the economic execution of business: providing services, products and jobs, as well as economic growth. The *intermediate circle* consisted of an awareness of, and sensitivity to, the society's changing social values and priorities, such as employee relations, customer service, as well as environmental conservation, fair treatment, and protection from harm. The *outer circle* expressed the concern about the firms' ambiguous

activities that emerged recently and may affect the broader social environment and problems in society, such as urban blight and poverty.

In 1979, Archie Carroll proposed a conceptual model of CSP and a four-part definition of CSR (Carroll, 1979). He offered that managers should have three basic requirements before engaging in CSP: first, a basic definition of CSR; second, an understanding of the issues that encircle the business and its community (e.g. its stakeholders); and third, a specific formulation of a response strategy to the issues. Carroll suggested that the concept of CSR should embrace a full range of responsibilities to society, including economic, legal, ethical, and discretionary expectations society has of organizations. First, similar to CED's arguments, Carroll argued that business has an *economic* responsibility, that is: society expects it to produce goods and services society desires. Society also expects business to fulfill its economic duties by obeying the law. Therefore, *legal* responsibility is the second part of Carroll's framework. The *ethical* responsibility was claimed to represent the kinds of behaviors and ethical norms the society expected business to follow. Finally, *discretionary* responsibilities involved voluntary roles and practices businesses assumes society desires but for which society does not provide as clear an expectation as in the ethical responsibility. These are left to managers' and corporations' judgment and choice.

One of the most interesting and widely debated issues on CSR has been its relationship with corporate financial performance. On the one hand, instrumental stakeholder theory argues that an organization will be more likely to increase its financial performance if it achieves in satisfying multiple stakeholders' interests in a balanced way (Orlitzky, 2012). On the other hand, some prominent economists such as Milton Friedman (1970), argue that the only social responsibility of a corporation is to maximize the wealth of its shareholders, so CSR practices

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will only harm wealth maximization and firms' market performance. Typically, the empirical evidence is mixed, prohibiting a definitive conclusion (e.g. Ullmann, 1985). In order to resolve the debate about the relationship between CSR and financial performance, Orlitzky, Schmidt, and Reynes (2003) investigated the issue with a meta-analysis that supported the hypothesis of a positive relationship between social and financial performance. Moreover, CSR also seems to reduce business risk as well (Orlitzky and Benjamin, 2001), and improve firms' reputations (Bear, Rahman, and Post, 2010).

The relationship between gender and positive CSR

Positive CSR activities include human resource practices that encourage diversity, which partially explains why prior research on the topic has included some measurement of this. However, positive CSR activities also include (but are not limited to) community engagement, sustainable environmental practices, and employee relations. The macro environment, particularly the political context, can readily influence firms' appetite and propensity to engage in these activities through the laws, policies, and incentives provided at the state and federal level. However, there is also a clear connection between corporate governance and firms' engagement in these activities as the underlying motivation and intent on devoting resources towards these activities is likely to come from the top (i.e., top management or the board of directors). In fact, Sacconi (2006, 2007) argued CSR is in fact an extended model of corporate governance rather than a wholly separate activity and is part of the social contract firms have with society.

Prior studies have considered several micro-level, corporate governance-related variables for this reason including whether the CEO's percentage of ownership (Di Giuli and Kostovetsky,

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2014), whether the CEO is also the Chairman of the board (Bear et. al., 2010), CEO age and experience (Di Giuli and Kostovetsky, 2014) and the role of women has been recently considered in interesting ways. For instance, one study conducted by Henrik Cronqvist and Frank Yu and described in Harvard Business Review (Beard, 2015), found CEOs (whether male or female) with at least one daughter were more likely to engage in positive CSR activities. However, it is more typically the case the gender of the CEO (Di Giuli and Kostovetsky, 2014) and the gender composition of the board of directors (Alshareef and Sandhu, 2015; Bear *et al.*, 2010) is captured to explore the connection between gender diversity and CSR engagement.

The theoretical foundation provided in prior research for asserting that either CEO gender or board of directors' gender composition is relevant to firms' engagement in CSR activities is women are perceived as more socially conscious (Beard, 2015). As noted in Bear, Rahman, and Post (2010: 210), Wang and Coffey (1992) and Williams (2003) found that female board members had higher levels of charitable giving. In fact, gender differences in charitable giving as well as volunteer activities have been found that extend beyond that of female board members (Mesch, Brown, Moore, and Daniel, 2011; Mesch, Rooney, Steinberg, and Denton, 2006). Therefore, Bear, Rahman, and Post (2010) anticipated more women on boards would impact decision making related to CSR activities.

The gender debate regarding the role of women in firms' decision to engage in CSR activities is one of the micro-level factors illustrating that factors internal to the firm equally impact firms' CSR activities as macro-level factors such as the institutional context. Therefore, while we expect a strong relationship between state governance and firms' positive CSR activities, we also test a confirmatory hypothesis that the higher the percentage of women on the board of directors the greater firms' engagement in positive CSR activities. We expect, *ceteris*

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paribus, firms to engage in positive CSR if the chair of the board, chief executive officer, chief operating officer, chief financial officer are women, and if the percentage of women in board of directors is higher.

> *Hypothesis 1: The higher the female representation on firms' executive ranks (e.g. board of directors, chair of the board of directors, CEO, COO, CFO), the greater firms' engagement in positive CSR activities.*

Institutional heterogeneity effect on positive CSR

While the literature on CSR focuses mostly on the theoretical background of CSR and its influence on financial performance, the link between the governing ideology of a state and a firm's CEO on CSR has only recently been investigated (i.e., Di Giuli and Kostovetsky, 2014). Building on this recent research, our aim is to investigate how political ideologies within states affect the CSR practices of corporations headquartered there. However, our research differentiates from earlier studies in two major ways.

First, instead of simply looking at a net measure of CSR by subtracting concerns scores from strengths scores as graded by KLD, we only investigate positive CSR (strengths), since the strengths (e.g. strong retirement benefits, pollution prevention, transparency) and concerns (e.g. hazardous waste, excessive compensation, investment controversies) are not on the same continuum (see Mattingly and Berman, 2006; Arora and Dharwadkar, 2011), and should be treated as being theoretically and empirically distinct. Moreover, strengths represent actual resource allocations making firms' investment in these discretionary resources more financially salient.

Second, we do not only divide the state political environment into two groups (red and blue), but we measure the *level* of redness and blueness and the *change* in color (e.g., from red to blue or from blue to red) following an election. The depth or *level* of color as well as the *change* in color is considered to investigate the effects of the magnitude of state color on the CSR practices of its corporations, as well as change over time in state governance. These are unique and important contributions to institutional theory, political economic, and CSR literature streams. Considering the change in state governance also addresses Klier and McPherson's (1991) proposal that duration of political dominance contributes to the legislative landscape, and therefore, to the institutional context.

It is relevant to use political platforms to measure preferences for social responsibility. The Democratic Party Platform (2012) embraces CSR-related issues such as environmental protection, carbon emissions, affirmative action, employee protection, union support, and anti-discrimination laws. Therefore, Democratic policies align with positive CSR practices as defined by the KLD, such as pollution prevention, recycling, alternative fuels, union relations, employment of the disabled, and minority representation in the executive offices. Moreover, a study conducted in 2007 found that 96 percent of Democrats believe that the U.S. government should take necessary steps to ensure companies address social issues. Support for such a government action among Republicans remained at 65 percent (Fleischman-Hillard, 2007). Finally, Democratic investment managers devote a higher percentage of their holdings to socially responsible companies than do Republican investment managers (Hong and Kostovetsky, 2012). Therefore, we expect Democratic politicians, by enacting business regulations in the states they govern, to enable an institutional context that is more favorable to engaging in positive CSR practices.

Hypothesis 2: The positive CSR practices of firms headquartered in blue states will be higher than the positive CSR practices of firms headquartered in red states.

It is also important to keep in mind that, when considering Republican states, not all of them have the same "level of redness" (Hetherington and Larson, 2010). There are relatively more conservative states, such as Utah and Oklahoma (at the time of this study), whereas states such as North Carolina and Ohio (at the time of this study) tend to be more moderate. Similarly for blue states, states such as Massachusetts and California (at the time of this study) tend to be on the more liberal while states such as Pennsylvania and Maine (at the time of this study), are relatively moderate.

The level of redness and the level of blueness matters for the purposes of the present study, particularly: the state officials, such as the Governor and members of the State Senate and the State Assembly, have more flexibility in "redder" states to propose more conservative laws and regulations, such as stricter anti-union laws and restricted state welfare programs, and more deregulated energy policies such as less restrictions on coal usage and carbon emissions. This may result in a decrease in the incentives for firms to engage in positive CSR and the signaling that the state values firms' investment in positive CSR practices. However, politicians in relatively moderate red states frequently face the threat to be challenged by a moderate rival, and may indeed lose the reelection to one of the politicians of their same party, or in some cases, to the opposing party (e.g. as it frequently happens in "swing-states"). Therefore, politicians in redder states, facing little threat from moderate and opposing politicians, are able to afford to adopt a more conservative view. On the other hand, we argue that politicians in more liberal states face a lesser threat by moderate challengers and opposing party nominees. Therefore, they have higher flexibility in adopting policies such as restricted coal use and carbon emissions, anti-

discrimination and environmental protection laws, etc., and will be more willing to signal the state values positive CSR activities. Accordingly, we expect politicians in bluer states to enable an institutional context that is more favorable for enacting positive CSR activities.

The depth of color, representing the depth of entrenchment of a political party in a state is a distinct measure from that of color which is dichotomous (during the timeframe of this study, states were either red or blue). Depth of color is unique to this study and captures a more nuanced political landscape.[3]

Hypothesis 3a: There will be a positive relationship between the blueness of the state and the positive CSR practices of the firms headquartered in that state.

Similarly, we expect politicians in redder states to enable an institutional context that is unfavorable to engaging in positive CSR activities.

Hypothesis 3b: There will be a negative relationship between the redness of the state and the positive CSR activities of the firms headquartered in that state.

Over time, it is possible that a state will "change color" after an election resulting in either blue states turning red or red states turning blue or state political governance remaining the same (Gimpel and Kaufmann, 2007). Following such an event, the institutional context will be amended. The event itself may create uncertainty in the institutional context, which may alter the relationship between color and positive CSR practices, regardless of whether the change was from 'red' to blue or blue to red. In other words, independent of color, the change itself may be

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[3] It should be noted that our concept of "blueness" and "redness" applies only to states that have already been categorized as "blue" or "red" respectively. In other words, we are not hypothesizing on each state's "blueness" or "redness" as these would also ultimately be dichotomous in interpretation.

impactful to firms' engagement in CSR practices. However, consistent with Hypothesis one, it may be the case that turning blue signals a positive environment to firms engaging in positive CSR practices because it has implications on the future changes to laws or incentives that may reward these activities. As such, if a state turns 'red' after an election, ceteris paribus, we expect the change will signal an unfavorable institutional context to firms engaging in positive CSR practices.

Building upon Klier and McPherson (1991) study that found the duration of political governance control was impactful to the type and implementation of a specific state-based piece of legislation, testing a change in state color (i.e., governance), signals an end to political dominance by one party. Capturing this dynamic is unique to this study and needed to investigate the stability of the relationship between state governance and positive CSR practices. We do not hypothesize on the impact of state governance remaining the same as we anticipate these findings will mirror those of hypothesis one. Therefore, we hypothesize:

> *Hypothesis 4a. There will be a positive relationship between a shift in state governance from 'red' to 'blue' and the positive CSR activities of the firms headquartered in that state.*

> *Hypothesis 4b. There will be a negative relationship between a shift in state governance from 'blue' to 'red' and the positive CSR activities of the firms headquartered in that state.*

As allocating resources to invest in the multitude of CSR activities (across 7 dimensions) is a strategic decision, neither the macro-factors or micro-factors alone will comprehensively predict the level of firms' engagement in positive CSR. It is for this reason that we theorize that

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it is at the intersection of these factors that best explain and predict the extent of firms' CSR involvement. Specifically, we propose an interactive, moderating relationship between political heterogeneity across states which impacts firms' institutional environment and the role of women on boards of directors guiding firms' decisions to invest in positive CSR. The combination of a higher percentage of female representation on boards of directors and firms' headquarters in blue states that may foster engagement in CSR will result in even greater positive CSR activities than considering these factors separately.

> *Hypothesis 5: Firms with higher female board representation in blue states will have greater engagement in positive CSR activities, ceteris paribus.*

DATA AND RESEARCH DESIGN

Data sources

We obtain our data from different resources at three levels for the period 2000-2010. First, we use the Kinder, Lyndenberg, and Domini (KLD) Universe D dataset (by MSGI Research) to collect data on CSR. Universe D consists of 2,400 largest corporations in the world annually, and contains ratings for each corporation in over 90 categories of positive CSR practices along 7 dimensions: community, corporate governance, diversity, employee relations, environment, human rights, and product quality. The richness of the KLD data also permits us to separate positive CSR practices from negative ones. We employ this practice and do not combine positive CSR with negative CSR, since these two types of CSR have been found to be theoretically and empirically distinct (see Arora & Dharwadkar, 2011). Second, we use a variety of databases to gather corporate level data. Headquarters location, assets, liabilities, cash on hand, income/loss, and industry information are obtained through Compustat. CEO gender

information and corporate board structure including female and independent directors, as well as female board chairs are collected through Execucomp and ISS Directors. We also use Execucomp to collect data on CEO compensation and CEO ownership. We use ISS to calculate corporate governance data such as CEO duality. Finally, we collect election results from a variety of sources such as Federal Elections Commission website and house.gov. For the state-level election results, on the other hand, we use to the web sites of each state's Secretary of State, where the election results for state legislature are listed. To double check our data for reliability and fill in the missing state-level election results, we use Dubin's state assembly and state senate history collection (Dubin, 2007).

Our initial KLD Universe D dataset consists of 5,179 unique corporations over 10 years (2000-2010). We lose some observations due to missing Compustat data, having their headquarters out of the United States, and having their headquarters in a U.S. territory, but not in a state. District of Columbia, Puerto Rico, and other U.S. territories are not included in the empirical analyses due to the different nature of their election systems, which made them incomparable to the 50 states. We also lose observations because they do not have adequate corporate board information listed on ISS database. Our final dataset consists of 8,560 firm-year observations for 1,650 unique corporations headquartered in one of the 50 states of the United States.

48 states are represented in the final data. California houses the highest number of headquarters (13.6 percent), followed by Texas (8.8 percent) and New York (8.3 percent). Wyoming and Alaska do not have any headquarters in our dataset. The remaining headquarters are spread across the rest of the states in a way that is consistent with the population of the state.

Dependent variables

We examine several measures of corporate social responsibility to evaluate the effects of gender and institutional context. Following Mattingly and Berman (2006) and Arora and Dharwadkar (2011), we argue that strengths and concerns cannot be considered along the same continuum, and should be treated as being theoretically and empirically distinct. Therefore, instead of simply looking at a net measure of CSR by subtracting concerns scores from strengths scores as graded by KLD, we simply focus on the *positive CSR*.

Overall, KLD Universe D dataset includes 42 different categories of strengths (e.g. pollution prevention, labor rights), which we count towards positive CSR. We take advantage of this rich data, and construct several dependent variables to capture various aspects of positive CSR. First, we create two variables, *technical positive CSR* and *institutional positive CSR*, following (citation). Technical positive CSR consists of product, corporate governance, and employee dimensions; whereas institutional positive CSR consists of environment, community, and diversity. Using only the six KLD dimensions that are captured by technical and institutional CSR, we create an additional variable, *positive6*, which is a combination of all these six dimensions. We construct a fourth variable, *positive7*, to capture all seven dimensions of CSR, including human rights, which is not included neither in technical, nor in institutional CSR.

One concern with our *institutional CSR*, *positive6*, and *positive7* variables is that all these variables include diversity, one of the KLD dimensions. Diversity dimension includes several categories regarding women, such as "female or minority CEO" (KLD item div_str_a), and female members in the board of directors (KLD item div_str_c). Since this study uses female CEOs and board members as independent variables, including these items in our dependent

variables may create a correlation between our IVs and DVs, thus skewing our results. Therefore, we construct two more dependent variables, *positive7lessdiversity* and *positive6lessdiversity*, by simply subtracting the relevant diversity scores from our *positive6* and *positive7* variables.

To have a finer grained analysis and to further investigate the impact of gender and institutional context on positive CSR in detail, we construct eight additional dependent variables; one for each of the seven KLD dimensions: environment, community, human rights, employee, diversity, product, and corporate governance. Eighth variable is a second measure of diversity excluding female CEOs (KLD item div_str_a) and female board members (KLD item div_str_c).

Scores for positive CSR range from 0 to 20, with approximately seven percent of the corporations scoring 3 or higher. While 33 percent of the corporations in our sample had no positive CSR practices, IBM, Procter & Gamble, Johnson & Johnson, Hewlett-Packard, and Intel had the highest positive CSR scores (19 or above).

Independent variables

We construct five independent variables to capture the female influence on corporations. First, using data obtained from ISS Directors and ISS Legacy databases, we calculate percentage of female members on corporate boards (*femalepercentage*). The rest of the independent variables are binary: *femaleceo* is 1 if the corporation has a female CEO in each year; *femalecfo* is 1 if the chief financial officer is a woman; *femalecoo* is 1 if the chief operating officer is 1; and *femalechair* is 1 if the board of directors is chaired by a woman.

To test for the effect of a state's color (red vs. blue), we create an independent variable using the previous presidential elections in that state. A state is considered red for the next four

years, if the Republican Party candidate wins most the votes in the presidential elections in the state. Likewise, the state is considered blue, if the Democratic candidate wins most the presidential election votes in the state. The state color variable (*president_d*) is calculated for all states in our database between 2000 and 2010.

One additional independent variable is constructed to test the effect of a change in institutional context on positive CSR: *turn red* is a dichotomous variable coded as 1 if a state, which has voted for the Democratic presidential candidate in the previous election, votes for the Republication presidential candidate in the following election, leading to a change in *president_d* variable. If the state votes for the Democratic candidate or the Republican candidate for two consecutive elections, *turn red* variable is coded as 0.

To measure the effect of the level of redness and the level of blueness, we created two additional independent variables, a *red score* and a *blue score*. It should be noted that our concept of "blueness" and "redness" apply only to states that have already been categorized as "blue" or "red", respectively. In other words, we are not hypothesizing on the each state's "blueness" or "redness" as these would also ultimately be dichotomous in interpretation. Level variables are calculated by including state governor, lieutenant governor, majority party in the state assembly and state senate, President, two U.S. Senators, and the majority party for state's seats in U.S. House of Representatives. Magnitude of the *score* variables increases by a factor of 1 for each office (or majority at any state or federal congress) held by the party. Therefore, for any red or blue state, *level* variables ranged from 1 to 8: 1 meaning a moderately red or blue state, 8 meaning a heavily red or blue state. Because the *level* variables are created in order to compare moderately red states with strongly red states and moderately blue states with strongly blue states, we only calculate a *red score* for red states and a *blue score* for blue states.

To make the conceptualization of the *level* variable easier for the reader and eliminate

any confusion, we provide examples for strongly red states and strongly blue states. Alabama

and Missouri, in 2006, are classified as red states in our database since they voted for the

Republican presidential candidate in 2004 elections. These two states also have a *red score* of 8

out of 8, consistent with the general opinion: Alabama and Missouri are indeed two of the most

conservative states in the Union. Other examples include Utah and Texas as the reddest states.

On the other side of the spectrum we have New Jersey and Washington (State) in 2009, both of

which are classified as blue states since they voted for the Democratic candidate in 2008

presidential elections. They also had a *blue score* of 8 out of 8 – they voted for the Democratic

candidates for all the federal elections along with the state elections. New Jersey and

Washington, as expected and in line with the public opinion, were two of the most liberal states

in our sample. Other examples include Illinois and California as the bluest states.

Finally, we construct our last independent variable to investigate the effect of the

interaction between female board members and institutional context. We simply call this

variable *interaction*, and calculate it as the multiplication of percentage of female directors on

corporate board, *femalepercentage*, and our red state/blue state measure, *president_d.*

Control variables

We employ several firm performance, institutional ownership, CEO ownership, and corporate

governance measures as controls. We also include two variables to control for the state's

economy. We select the control variables that are commonly used in CSR research; we also

considered our controls to theoretically be able to affect our dependent variables.

Firm performance controls

Firm size: Since larger firms attract more pressure and attention to respond to the demands of the stakeholders (Burke *et al.*, 1986), we use firm size as a control variable. It is also theoretically possible that larger firms have the means to invest in CSR practices. We use total assets as our firm size measure. However, since total assets measure is skewed and increase exponentially, we use logarithmic transformation. (Compustat item at).

Book-to-market ratio: Book-to-market ratio is included in our empirical analysis since it may place limitations on managerial discretion and CSR spending. We calculate book-to-market ratio as book value divided by market value (Compustat items: ceq/(prcc_f * csho). We use 'prcc_f' if 'prcc_c' is missing).

Return on assets: Return on assets is another measure that may theoretically limit managerial decisions on discretionary spending, such as CSR. Return on assets is calculated as the division of net income by total assets (Compustat items: ni / at).

Liquidity: Firms experiences cash limitations or shortages may prefer avoiding discretionary spending, thereby limiting CSR practices. We control for liquidity using total assets divided by total liabilities (Compustat items: at / lt).

Leverage: Financial leverage is measured as firm indebtedness, which may suppress the use of discretionary spending and extent of risk taking (Dharwadkar et al, 2008; Yermack, 1995). Leverage is measured as firm's debt divided by assets (Compustat items: (dltt + dlc) / at).

Cash: Firms' decision on discretionary spending may depend on the amount of cash they have. If a firm lacks cash, it may need to liquidize other types of assets, or be required to use

credit. Such actions may limit CSR spending. Because cash increases exponentially in our data, we use natural logarithm (Compustat item: ch).

Ownership and governance controls

Institutional ownership: We suspect aggregate institutional ownership will increase the power of institutional owners on firms' discretionary spending, thereby limiting CSR practices. We control for the total ownership of institutional investors.

CEO ownership: We also suspect that as CEOs own a larger share of the corporation, they may become more conservative in corporate spending. Theoretically, a large CEO ownership may suggest a decrease in CSR and other discretionary spending. Therefore, we control for the total CEO ownership.

CEO compensation: Since CEO compensation is tied to financial performance such as stock price appreciation and accounting performance such as profits in many corporations, we suspect a relationship between CEO compensation and discretionary spending (Execucomp item tdc1). Since CEO compensation increases exponentially in our dataset, we use natural logarithm.

CEO duality: Executives serving simultaneously as the chair of the corporate board may be better able to influence discretionary spending decisions, thus increasing or decreasing CSR practices. Therefore, we include a binary control variable for CEO duality: 1 if the CEO serves as the chair of the board, 0 if otherwise.

State and industry controls

State unemployment and corporate tax rate: State unemployment rate is used to control for economic fluctuations that may impact corporations' use of resources for CSR practices. We

also suspect that a higher corporate tax rate may impact corporations' cash and liquid asset reserves, thereby limiting CSR and other discretionary spending.

Industry: We use two-digit SIC numbers in order to control for differences in industrial munificence.

Empirical model

We employ random effects model (REM) in this study. Random effects model uses generalized least squares (GLS) and therefore preserves more of the information in the data, and tends to increase efficiency. Moreover, unlike fixed effects model (FEM), REM allows us to include time-variant variables, such as industry controls. We include Huber robust standard errors (Huber, 1967; White, 1980) and year controls in our analyses. Our model is conservative, as it controls for time-invariant omitted variables, which may be related to the dependent variables and industry effects. For additional analyses and robustness check, we also run our analyses using the firm fixed effects model, and report these results under the robustness check section.

To avoid any influential outlier effects, we use Cook's distance test. For each analysis, we first run ordinary least squares regression including dependent, independent, and control variables. Then we apply Cook's test to determine any outliers that may potentially influence our results. We do not use such outliers in our analyses if Cook's test found any. In order to have more reliable and accurate results, we winsorize our control variables at 1% level (winsor procedure in Stata; winsorized variables: assets, book-to-market, return on assets, liquidity, leverage, cash, CEO compensation, and CEO ownership).

Overall, we use the following empirical model to test our hypotheses:

$$\text{CSR}_{i,t} \text{ Score} = \alpha + \beta(\text{executives' gender})_{i,t} + \theta(\text{political environment})_{i,t} + \gamma(\text{firm controls})_{i,t}$$

$$+ \delta(\text{governance controls})_{i,t} + \eta(\text{state controls})_{i,t} + \varepsilon, \text{ where } t=2000\text{-}2010.$$

RESULTS

Effect of female board members and executives on positive CSR

Before testing our hypotheses, we ran our empirical model with the control variables only. The results show that all control variables except for liquidity are statistically significant (Table 5, Column 1).

We use six dependent variables and five independent variables to test Hypothesis 1. Percentage of female board members has a strongly significant impact on all six measures of positive CSR, including two measures that exclude female diversity measures (Table 5, Columns 2 and 3). Percentage of female board members' impact on positive CSR is also in the predicted direction for other measures of CSR (Table 5, Columns 4, 5, 6, and 7).

For all positive CSR measures except technical positive CSR, a female CEO has a positive and strongly significant impact, thus supporting Hypothesis 1.

We use the existence of a female CFO to test Hypothesis 1. Coefficients for several CSR measures including institutional positive CSR (Table 5, Columns 4, 5, and 7) are strongly significant and in the predicted direction. However, we do not obtain significant results for other CSR measures (Table 5, Columns 2, 3, 6).

Next, we test for the effects of a female COO. Apart from institutional positive CSR (Table 5, Column 7), which is weakly significant, we fail to obtain support for Hypothesis 1 when female COO is the independent variable. However, it is safe to note that we have

significantly less female chief operating officers in our data than any other executive position: approximately 1.7% of the companies in our dataset have a female COO.

Finally, we test for the effect of a female chair of the board on positive CSR practices. We do not find any statistical significance for our coefficients. Although our coefficients are in the predicted direction for all measure of positive CSR, we fail to prove Hypothesis 1 when female chair is used as independent variable. It is important to note that we have a relatively small sample when female chairs, COOs, and CFOs are used as independent variables, potentially causing insignificant results.

For a more fine-grained analysis, we run eight additional random effects regressions (Table 6). We use all seven dimensions (environment, community, human rights, employee relations, diversity, product, and corporate governance) that are used by KLD to evaluate positive CSR practices as dependent variables, and test the impact of female executives on these individual dimensions. Our eighth dependent variable is an extra measure of diversity that excludes female CEOs and female chairs.

As expected, the relationship between female officers and diversity is positive and strongly significant for all measures of female executives (Table 6, Column 5). Diversity excluding women officers is also significant and in the predicted direction for female percentage of corporate board, female CEOs, and female CFOs (Table 6, Column 8). For the environment dimension, we obtain mixed results: percentage of female board members and female CEOs tends to increase environmental CSR practices, whereas female COOs and chairs tend to decrease it (Table 6, Column 1). For the community dimension, we obtain significant results for percentage of female board members and female CEOs, and these results are in the predicted

direction (Table 6, Column 2). We fail to produce significant results for the human right

dimension, except for female board chairs, who apparently decrease CSR practices in this area

(Table 6, Column 3). Next, we look at the employee relations dimension, and obtain results that

are expected and significant for female board percentage and female board chairs (Table 6,

Column 4). We obtain similar results for the remaining two dimensions: product and corporate

governance: percentage of female board members and female CEOs tend to increase positive

CSR in these dimensions (Table 6, Columns 6, 7).

To sum, we generally find strong support for our hypothesis that female executives and

board members increase positive CSR practices. Our results are strongest for the percentage of

female directors on corporate boards and female CEOs, where arguably the influence of the

executive, regardless executive's gender, is highest. The relationship between gender and

positive CSR seems to be robust to the way CSR is measured, since we have six different CSR

constructs. We also obtain strongly significant results in our fine-grained analysis including

individual CSR dimensions, especially for the female board members and female CEOs

hypotheses.

Effect of institutional context on positive CSR

We use the same econometric method for the reasons explained earlier to test the

hypotheses that investigate the relationship between state's color, magnitude of state's color,

change in state's color, and the CSR practices of the corporations headquartered in that state.

Hypothesis 2 predicts that the institutional context in blue states will create a more

favorable environment for positive CSR practices, thereby increasing positive CSR by the

corporations headquartered in that state. We use the presidential election results as a proxy of

the institutional context. For all measures of positive CSR, with the only exception of technical positive, we obtain statistically significant results in the predicted direction, supporting Hypothesis 2 (Table 5). In the companies that are headquartered in states that have voted for the Republican presidential candidate in the presiding election year, positive CSR practices tend to decrease. For a fine-grained analysis, we use individual CSR dimensions, and obtain significant results in the predicted direction for community, employee relations, and diversity dimensions (Table 6).

To test the effects of the color intensity, we first divide our data into two: one including the companies in red states, and a second one including the companies in blue states (as predicted by the presidential election results). Then, using the scale introduced in the earlier section, we rank the red states by their 'red score', and blue states by their 'blue score'. As blue states become bluer, corporations headquartered in blue states seem to be involving in more positive CSR practices (Table 7). This holds true for all CSR measures except technical positive, providing support for Hypothesis 3a.

Next, we apply the same analytical techniques for the corporations headquartered in red states. As expected, as the red states become redder, corporations decrease their positive CSR practices. All measures of positive CSR, with the lone exception of technical CSR, have a negative and strongly significant 'red score' coefficient, providing support for Hypothesis 3b (Table 8).

In our final main analysis, we test the effect of change in institutional context on positive CSR. We use 'turn red' as the proxy of institutional change in this analysis. 'Turn red' is coded 1 when a state shifted to a Republican majority in the presidential election results, signaling a

potential change in institutional context. As expected and in support of Hypothesis 4, 'turn red' is negative and statistically significant for all measures of positive CSR (Table 9).

We sum the results for our investigation on the relationship between the state's color, the magnitude of that color, and the change or continuity of that color on CSR practices as follows: 1) Firms headquartered in blue states engage in more positive CSR than those headquartered in red states, and these results hold for various measures of positive CSR; 2) As blue states become more liberal, positive CSR activities increase; 3) Moreover, we find that as red states become more conservative, positive CSR activities decrease; and 4) On the other hand, when a blue state turns red, positive CSR practices of the corporations headquartered in that state decrease significantly.

Interaction of gender roles and institutional context on positive CSR

One of the most important results of our study involves the interaction between the percentage of female board members and the institutional context (Hypothesis 5). Table 5 and Table 6 show the interaction variable and its clear impact on positive CSR. For all measures of positive CSR, and for all individual dimensions of CSR (except employee relations), the coefficient of the interaction variable is negative and mostly, strongly significant. We interpret these results as while women tend to increase the positive CSR practices in their corporations, they tend to do so more in blue states, and less in red states. The results are interesting in a way that they signal the interconnected relationship between intra-firm dynamics and environmental factors such as institutional context.

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Robustness tests

We use firm fixed effects model (FEM) as an additional robustness check. Generally, we obtain similar results using FEM, finding support for our hypotheses. The results are strongly significant and in the predicted direction for the variables that we use to investigate the relationship between percentage of women on boards, female CFOs, and positive CSR. We fail to support our hypotheses regarding female corporate chairs and state color using FEM. We report the results of our FEM on Table 10.

One concern that may be raised is the relationship between CSR practices and women in high corporate executive roles, as such corporations that intent to do more CSR may hire women in executive roles in the first place. This is a potential endogeneity problem. We apply a second robustness check, where we target this particular empirical issue. Instead of using a direct measure of female board percentage, female chair, CEO, COO, and CFO, we create *lagged* variables for all these independent variables. Theoretically, for a causal relationship to exist, the cause must happen before the effect. The effect, in this study, is CSR practices. The cause, on the other hand, is women in high executive positions. Therefore, we believe creating lagged variables for women and using such variables to test Hypothesis 1 is an empirically sound approach.

We find similar results for Hypothesis 1 when lagged variables are used. Percentage of women in board of directors is strongly significant and in the predicted direction for all measures CSR. Female CEO and CFO are significant for most measures of CSR, whereas female COO and chair variables do not produce significant results. We report the results on Table 11.

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DISCUSSION AND CONCLUSION

The present paper investigates the effects of gender and institutional heterogeneity on business activity by exploring the influence of the state political context on corporate social responsibility practices. Accordingly, our main goal in this study was to empirically show CSR practices are affected by not only firm-based dynamics such as women in high corporate roles, but also by the institutional context that surrounds the corporate headquarters. Moreover, we targeted to empirically show that such firm-based dynamics and institutional context may not only be investigated in isolation, but they have a moderating relationship. For this purpose, we theorized that the political environment in a state can be used as a proxy of the institutional context, and that this environment will influence the positive CSR practices of the corporations headquartered in that state. By diving the states into two groups as red and blue to assess their political environment and show the contrast in their institutional context, we could show that the positive CSR practices increase in blue states and that they increase further as the state becomes even more liberal. Therefore, the results indicate that the institutional context, as measured by the state's "color" has a direct impact on positive CSR. Moreover, in a fine-grained analysis, we showed that women in board of directors and in some executive offices can significantly influence multiple dimensions of positive CSR practices. Our results also show that institutional context has a moderating effect on the relationship between women and positive CSR, since we observe an even higher positive CSR activity in firms that have a female influence in top offices and that are headquartered in blue states.

These results are interesting in a way that they signal the interconnected relationship between intra-firm dynamics and environmental factors such as institutional context. We believe

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this is a fruitful area of management, and we call for further research at the intersection of institutional theory and intra-firm dynamics.

Our findings are important for institutional theory and management literature for several reasons. First, findings indicate that the statewide political inclinations have a significant impact on the CSR practices as the positive CSR practices increase in blue states, and increase even further as the state becomes more liberal. These results also suggest that state politics, by contributing to the heterogeneity in institutional context, have a significant and meaningful effect of corporate strategy, as the CSR activities are generally considered a part of a corporation's core business activity (Waddock, 2012).

Second, the study is an attempt to fill the gap in the management literature by investigating the effect of local political environment on business outcomes. Even though the relationship between the institutional context and business conduct seems to be a fruitful area of management research, there is a lack of research focusing on how the political policies and ideologies of the two mainstream parties affect the business outcomes. Present study, using an institutional approach, contributes to the management and organization theory literature by addressing this gap and attempting to bridge institutional theory with politics.

Since the sources of the CSR policies are not fully understood and clear in the management literature, we believe that the relationship between the institutional context and CSR is important. Previous studies were not able to find a strong relation between CSR practices and financial performance (Orlitzky, 2008), therefore management scholars do not agree whether CSR is practiced to improve corporate financial performance. Our results suggest

that there may be a link between the coercive pressures of the institutional context on the positive social responsibility practices of corporations.

Moreover, this study considers two levels of analysis, macro and micro, to more comprehensively consider the external and internal climate impacting the strategic process of investing in CSR practices. Specifically, the role of women on the board of directors is explored by confirming the established relationship between percentage of female representation on board of directors and positive CSR activities. To capture, the integration of macro and micro level factors, we test the moderating effect of state color on the relationship between female board representation and positive CSR activities and found that board of directors with higher female board representation with headquarters in blue states had even higher engagement in positive CSR activities.

This study is not without limitations, however. Negative CSR, for example, has not been included in our analyses due to a lack of theorizing between negative CSR practices, such as substantial carbon emissions, concerns with business activities or partnerships with firms in particular countries, and political affiliations. We did not find any particular policy areas within party platforms to hypothesize causal relationships between state colors and negative CSR practices, thus decided to leave negative CSR out of our study.

The present study suggests and finds support that the institutional context varies within the U.S. across the state borders, thus contributing to institutional heterogeneity, and that this heterogeneity has a significant and meaningful impact for the corporate social responsibility practices. Accordingly, our results point to several future research opportunities. Fruitful areas of research include the impact of institutional context on other business outcomes and

performance measures. Similarly, investigating how the local political context influences

businesses and their performance measures may likely lead to interesting results that complement

our findings. Also, additional research on the role of institutional context on firm performance is

warranted for research in management.

Table 4. Descriptive statistics

	Variables	Mean	s.d.	min	max	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24
1	Positive CSR score	2.08	2.72	0	23																								
2	Technical CSR score	0.69	1.03	0	8	0.75***																							
3	Institutional CSR score	1.39	2.05	0	15	0.94***	0.49***																						
4	Percentage of Women on Board of Directors	0.10	0.09	0	1	0.32***	0.14***	0.36***																					
5	Female CEO	0.01	0.13	0	1	0.10***	0.01	0.13***	0.21***																				
6	Female CFO	0.03	0.19	0	1	0.06***	-0.003	0.08***	0.06***	0.06***																			
7	Female COO	0.01	0.13	0	1	0.06***	0.01	0.08***	0.16***	0.05***	0.03***																		
8	Female Chair of the Board of Directors	0.05	0.21	0	1	0.18***	0.11***	0.18***	0.22***	0.26***	-0.004	0.02*																	
9	Red State	0.36	0.48	0	1	-0.14***	-0.06***	-0.16***	-0.09***	-0.04***	-0.02**	-0.02**	-0.07***																
10	Red Score	3.42	2.60	0	8	-0.13***	-0.06***	-0.14***	-0.09***	-0.06***	-0.03***	-0.004	-0.07***	0.75***															
11	Blue Score	4.57	2.60	0	8	0.13***	0.06***	0.14***	0.09***	0.06***	0.03***	0.004	0.07***	-0.75***	-1														
12	Turn Red	0.02	0.14	0	1	-0.02**	-0.02**	-0.02*	-0.005	-0.005	-0.008	-0.01	-0.003	0.08***	0.08***	-0.08***													
13	Turn Blue	0.04	0.19	0	1	0.01	0.01	0.009	0.03**	0.006	0.01	0.009	0.008	-0.09***	-0.10***	0.10***	-0.03*												
14	Firm size (log)	8.17	1.64	4.91	12.67	0.51***	0.30***	0.52***	0.25***	-0.04***	-0.01	0.03***	0.14***	0.007	0.01	-0.01	-0.01	0.01											
15	Book-to-market Ratio	0.47	0.31	0.00	1.73	-0.12***	-0.10***	-0.11***	-0.02*	0.02*	0.06***	-0.02*	-0.03***	0.10***	0.06***	-0.06***	-0.01	0.01	0.01										
16	Return on Assets	0.05	0.07	-0.32	0.25	0.07***	0.07***	0.06***	0.02**	-0.009	0.005	0.02**	0.02*	0.003	0.02*	-0.02*	-0.001	0.007	-0.03*	-0.40***								
17	Liquidity	2.30	1.68	1.02	11.03	-0.13***	-0.02**	-0.16***	-0.20***	0.01	0.006	-0.02*	-0.05***	-0.09***	-0.13***	0.13***	-0.008	-0.02*	-0.45***	-0.03***	0.13***								
18	Leverage	0.21	0.16	0.00	0.66	0.05***	0.00	0.07***	0.10***	-0.01	-0.03***	-0.02	0.03***	0.09***	0.11***	-0.11***	0.01	0.01	0.27***	0.05***	-0.21***	-0.51***						
19	Cash	690.66	1,697.29	0.98	12,182	0.54***	0.33***	0.55***	0.16***	0.006	0.006	-0.03***	0.16***	-0.08***	-0.09***	0.09***	-0.01	0.009	0.57***	-0.06***	0.03**	-0.12***	0.01*					
20	Institutional Ownership	0.73	0.16	0.00	0.99	-0.15***	-0.16***	-0.12***	-0.006	0.006	0.07***	-0.04***	-0.05***	0.02**	-0.02*	0.02**	-0.01	0.01	-0.19***	0.03*	0.03***	0.10***	-0.03***	-0.13***				
21	CEO Compensation	8.19	1.01	5.63	10.54	0.36***	0.17***	0.39***	0.21***	-0.01*	0.01	0.02**	0.11***	-0.05---	-0.04***	0.04***	-0.02*	0.005	0.57***	-0.18***	0.10***	-0.23***	0.13***	0.35***	0.09***			
22	CEO Ownership	0.97	3.01	0.00	20.97	-0.09***	-0.07***	-0.09***	-0.06***	0.008	0.07***	-0.01	-0.04***	-0.001	-0.03***	0.03***	-0.01	0.03*	-0.19***	0.04***	0.01	0.11***	-0.10***	-0.05***	0.02**	-0.14***		
23	CEO Duality	0.68	0.46	0	1	0.09***	0.05***	0.09***	-0.003	-0.04***	-0.02**	0.01	0.12***	0.02*	0.06***	-0.06***	0.01	-0.01*	0.15***	-0.01	-0.01	-0.07***	0.09***	0.07***	-0.08***	0.12***	0.04***	
24	State Unemployment Rate	0.06	0.02	0.02	0.14	0.03***	-0.007	0.05***	0.03***	0.04***	0.12***	-0.02*	-0.03***	-0.15***	-0.21***	0.21***	-0.03**	-0.007	-0.07***	0.15***	-0.09***	0.09***	-0.07***	0.03***	0.17***	-0.02**	0.18***	-0.08***
25	State Corporate Tax Rate	0.06	0.02	0.00	0.10	0.03**	-0.01	0.05***	0.06***	0.004***	0.02**	0.01	0.03***	-0.49***	-0.45***	0.45***	0.02*	-0.04***	-0.06***	-0.09***	0.01	0.12***	-0.11***	0.02**	-0.01	0.01	-0.008	-0.008

*State Corporate Tax Rate row, column 24: -0.05****

*** p<0.001   Point-Biserial correlation used for correlations between a binary variable and an interval variable

** p<0.01   Tetrachoric correlation used for correlations between two binary variables (Edwards & Edwards, 1984)

* p<0.05

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Table 5. Random effects regression results

	Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1	Percentage of Women on Board of Directors		3.289***	3.271***	4.995***	4.976***	1.113***	3.863***
2	Female CEO		0.551**	0.547**	1.367***	1.363***	0.064	1.299***
3	Female CFO		0.115	0.099	0.648***	0.633***	-0.032	0.666***
4	Female COO		-0.219	-0.219	0.101	0.101	-0.133	0.233^
5	Female Chair of the Board of Directors		0.075	0.086	0.132	0.143	0.092	0.051
6	Red State		-0.140*	-0.141*	-0.225**	-0.226**	-0.027	-0.199***
7	Color-Gender Interaction		-1.826***	-1.784***	-1.806***	-1.764***	-0.497*	-1.267***
8	Firm size (log)	0.834***	0.688***	0.686***	0.769***	0.767***	0.247***	0.520***
9	Book-to-market Ratio	-0.684***	-0.590***	-0.588***	-0.676***	-0.675***	-0.271***	-0.403***
10	Return on Assets	0.639*	0.811***	0.806**	0.650*	0.645*	0.334*	0.312
11	Liquidity	0.004	0.020^	0.020^	0.030*	0.030*	-0.029***	0.001
12	Leverage	-1.062***	-0.898***	-0.876***	-1.000***	-0.978***	-0.403***	-0.574***
13	Cash	0.0005***	-0.001***	0.001***	0.001***	0.001***	0.001***	0.001***
14	Institutional Ownership	-1.703***	-1.524***	-1.525***	-1.587***	-1.588***	-0.864***	-0.724***
15	CEO Compensation	0.071*	-0.097***	-0.099***	0.089**	-0.091**	-0.093***	0.001
16	CEO Ownership	-0.036***	-0.033***	-0.031***	-0.02***	-0.026***	-0.008**	-0.018***
17	CEO Duality	0.119*	0.137***	0.136**	0.141**	0.141**	0.009	0.131***
18	State Unemployment Rate	7.888*	4.508*	4.556*	5.095*	5.143*	1.861*	3.282*
19	State Corporate Tax Rate	3.423***	-0.862	-0.884	-1.282	-1.303	-1.131*	-0.173
	Number of observations	8560	8560	8560	8560	8560	8560	8560
	State random effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes
	Industry control	Yes	Yes	Yes	Yes	Yes	Yes	Yes
	Adjusted R-squared	0.49	0.50	0.50	0.52	0.52	0.30	0.53

*** p<0.001
** p<0.01
* p<0.05
^ p<0.10

Dummy codes controlling for two-digit SIC industry codes are not reported here for brevity.

Table 6. Random effects regression results, detailing individual CSR dimensions

	Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1	Percentage of Women on Board of Directors	0.593***	0.582***	0.018	0.613***	2.688***	0.336***	0.164**	0.983***
2	Female CEO	0.112^	0.125*	0.003	-0.083	1.062***	0.068*	0.079*	0.246***
3	Female CFO	0.010	0.028	0.015^	0.018	0.627***	-0.041**	-0.009	0.093*
4	Female COO	-0.135**	-0.029	0.001	-0.040	0.398***	-0.029	-0.062	0.077
5	Female Chair of the Board of Directors	-0.103**	0.029	-0.010*	0.091*	0.125^	-0.027	0.028	0.068
6	Red State	0.023	-0.032^	0.006	-0.0421^	-0.189***	0.001	0.014	-0.104***
7	Color-Gender Interaction	-0.535***	-0.223^	-0.042^	0.116	-0.508*	-0.292***	-0.321***	-0.529**
8	Firm size (log)	0.144***	0.074***	0.001	0.161***	0.301***	0.040***	0.045***	0.221***
9	Book-to-market Ratio	-0.074**	-0.050**	-0.001	-0.189***	-0.279***	-0.051***	-0.030*	-0.193***
10	Return on Assets	0.380***	0.198***	0.004	0.123	-0.266^	0.111*	0.099^	-0.106
11	Liquidity	-0.012***	0.003	-0.001	0.011*	0.010^	-0.003	0.021***	0.001
12	Leverage	-0.005	-0.062	-0.022**	-0.319***	-0.507***	-0.010	-0.074*	-0.404***
13	Cash	0.001***	0.001***	0.001***	0.001***	0.001***	0.001**	0.001***	0.001***
14	Institutional Ownership	-0.208***	-0.103**	0.001	-0.473***	-0.413***	-0.168***	-0.223***	-0.350***
15	CEO Compensation	-0.019*	0.023**	0.002	-0.020^	-0.002	-0.010*	0.062***	-0.010
16	CEO Ownership	-0.015***	0.001	-0.001***	-0.001***	-0.003	-0.001*	0.001	-0.008***
17	CEO Duality	0.083***	0.006	0.001	0.001	0.041*	-0.010	0.019*	0.036*
18	State Unemployment Rate	1.740*	-0.609	-0.048	2.172***	2.151*	-0.226	-0.085	1.564*
19	State Corporate Tax Rate	0.541^	0.401	0.022	-1.063***	-1.115*	0.130	-0.198	-0.696*
	Number of observations	8560	8560	8560	8560	8560	8560	8560	8560
	State random effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
	Industry control	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
	Adjusted R-squared	0.32	0.33	0.07	0.26	0.50	0.13	0.14	0.49

*** p<0.001   Dummy codes controlling for two-digit SIC industry codes are not
** p<0.01   reported here for brevity.
* p<0.05
^ p<0.10

Table 7. Regression results for red score

	Variables	(1)	(2)	(3)	(4)	(5)	(6)
1	Percentage of Women on Board of Directors	3.222***	3.238***	5.408***	5.424***	1.025***	4.399***
2	Female CEO	0.338	0.342	1.080***	1.084***	-0.263**	1.346***
3	Female CFO	0.209	0.201	0.754***	0.746***	0.122	0.624***
4	Female COO	-0.317*	-0.325^	-0.085	-0.092	-0.097	0.004
5	Female Chair of the Board of Directors	-0.413*	-0.409*	-0.434*	-0.430*	-0.105	-0.325*
6	Red Score	-0.042*	-0.042*	-0.073***	-0.073***	0.006	-0.079***
7	Firm size (log)	0.635***	0.633***	0.727***	0.726***	0.260***	0.465***
8	Book-to-market Ratio	-0.564***	-0.560***	-0.692***	-0.688***	-0.199***	-0.489***
9	Return on Assets	0.732^	0.720^	0.593	0.581	0.222	0.360
10	Liquidity	0.067***	0.068***	0.084***	0.084***	0.066***	0.018
11	Leverage	-0.807---	-0.0783***	-1.143***	-1.119***	-0.392**	-0.727***
12	Cash	0.001***	0.001***	0.001***	0.001***	0.001***	0.001***
13	Institutional Ownership	-2.004***	-2.007***	-1.972***	-1.974***	-1.025***	-0.949***
14	CEO Compensation	-0.162***	-0.163***	-0.163***	-0.164***	0.152***	-0.012
15	CEO Ownership	-0.021**	-0.021**	-0.025***	-0.024**	-0.001	-0.023***
16	CEO Duality	0.136*	0.138*	0.126*	0.128*	0.029	0.097*
17	State Unemployment Rate	4.582^	4.912^	5.886*	6.216*	1.691	4.525^
18	State Corporate Tax Rate	-2.254*	-2.288*	-3.431**	-3.466**	-1.820***	-0.646^
	Number of observations	3652	3632	3632	3632	3632	3632
	State random effects	Yes	Yes	Yes	Yes	Yes	Yes
	Industry control	Yes	Yes	Yes	Yes	Yes	Yes
	Adjusted R-squared	0.51	0.51	0.52	0.52	0.30	0.53

*** $p < 0.001$

** $p < 0.01$

* $p < 0.05$

^ $p < 0.10$

Table 8. Regression results for blue score

	Variables	(1)	(2)	(3)	(4)	(5)	(6)
1	Percentage of Women on Board of Directors	2.227***	2.206***	3.623***	3.603***	0.901***	2.701***
2	Female CEO	0.577*	0.570*	1.431***	1.424***	0.131	1.293***
3	Female CFO	0.038	0.022	0.580***	0.563***	-0.113^	0.676***
4	Female COO	0.165	0.169	0.578*	0.582*	-0.004	0.587**
5	Female Chair of the Board of Directors	0.386*	0.400*	0.506**	0.520**	0.186*	0.333*
6	Blue Score	0.037^	0.037^	0.059**	0.058**	-0.011	0.069***
7	Firm size (log)	0.727***	0.726***	0.801***	0.800***	0.242***	0.558***
8	Book-to-market Ratio	-0.626***	-0.629***	-0.664***	-0.668***	-0.308***	-0.360***
9	Return on Assets	0.722*	0.723*	0.563	0.564	0.323^	0.241
10	Liquidity	0.007	0.007	0.017	0.017	0.016*	0.001
11	Leverage	-0.648*	-0.638*	-0.512^	-0.503^	-0.346**	-0.156
12	Cash	0.001***	0.001***	0.001***	0.001***	0.001***	0.001***
13	Institutional Ownership	-1.259***	-1.254***	-1.396***	-1.391***	-0.727***	-0.664***
14	CEO Compensation	-0.059	-0.061	-0.038	-0.041	-0.051**	0.009
15	CEO Ownership	-0.037***	-0.035***	-0.028**	-0.026**	-0.009*	-0.017*
16	CEO Duality	0.130*	0.126*	0.151*	0.147*	-0.005	0.152**
17	State Unemployment Rate	4.790^	4.704^	5.076^	4.991^	1.606	3.385^
18	State Corporate Tax Rate	0.72	0.631	1.054	0.966	-1.004	1.970^
	Number of observations	4928	4928	4928	4928	4928	4928
	State random effects	Yes	Yes	Yes	Yes	Yes	Yes
	Industry control	Yes	Yes	Yes	Yes	Yes	Yes
	Adjusted R-squared	0.51	0.51	0.53	0.53	0.31	0.54

*** $p<0.001$

** $p<0.01$

* $p<0.05$

^ $p<0.10$

Table 9. Regression results for turn red

	Variables	(1)	(2)	(3)	(4)	(5)	(6)
1	Percentage of Women on Board of Directors	2.789***	2.783***	4.533***	4.528***	0.972***	3.556***
2	Female CEO	0.594**	0.590**	1.410***	1.406***	0.075	1.330***
3	Female CFO	0.123	0.108	0.659***	0.644***	-0.030	0.674***
4	Female COO	-0.18	-0.181	0.144	0.143	-0.123	0.266*
5	Female Chair of the Board of Directors	0.119	0.129	0.183	0.193	0.103^	0.089
6	Turn Red	-0.261*	-0.260*	-0.280*	-0.279*	-0.100+	-0.179*
7	Firm size (log)	0.690***	0.689***	0.772***	0.770***	0.248***	0.522***
8	Book-to-market Ratio	-0.624***	-0.623***	-0.716***	-0.715***	-0.280***	-0.435***
9	Return on Assets	0.770**	0.765**	0.589*	0.584*	0.325*	0.258
10	Liquidity	0.022^	0.024^	0.033**	0.033**	0.030***	0.003
11	Leverage	-0.885***	-0.863***	-0.986***	-0.964***	-0.400***	-0.564***
12	Cash	0.001***	0.001***	0.001***	0.001***	0.001***	0.001***
13	Institutional Ownership	-1.553***	-1.554***	-1.620***	-1.621***	-0.872***	-0.748***
14	CEO Compensation	-0.093***	-0.096***	-0.084**	-0.087**	-0.092***	0.005
15	CEO Ownership	-0.033***	-0.031***	-0.027***	-0.026***	-0.008**	-0.182***
16	CEO Duality	0.127***	0.126**	0.129**	0.129**	0.007	0.121***
17	State Unemployment Rate	6.065**	6.097**	7.214***	7.246***	2.162*	5.804**
18	State Corporate Tax Rate	1.670*	1.620*	1.887*	1.837*	-0.521	2.358***
	Number of observations	8560	8560	8560	8560	8560	8560
	State random effects	Yes	Yes	Yes	Yes	Yes	Yes
	Industry control	Yes	Yes	Yes	Yes	Yes	Yes
	Adjusted R-squared	0.50	0.50	0.52	0.52	0.29	0.53

*** $p<0.001$

** $p<0.01$

* $p<0.05$

^ $p<0.10$

Table 10. Fixed effects regression results

	Variables	(1)	(2)	(3)	(4)	(5)	(6)
1	Percentage of Women on Board of Directors	1.039*	1.023*	2.126***	2.110***	0.596*	1.515***
2	Female CEO	-0.222	-0.198	0.303	0.327	-0.266*	0.593***
3	Female CFO	0.204^	0.181^	0.403***	0.380**	-0.004	0.384***
4	Female COO	-0.131	-0.144	0.066	0.053	-0.061	0.115
5	Female Chair of the Board of Directors	-0.348**	-0.333*	-0.352*	-0.337*	-0.127*	-0.211*
6	Red State	0.301**	0.303*	0.252*	0.254*	0.087	0.167*
7	Color-Gender Interaction	-1.995**	-1.963**	-1.805**	-1.774**	-0.714*	-1.060*
8	Firm size (log)	-0.185**	-0.189**	-0.19*	0.194**	-0.005	-0.189***
9	Book-to-market Ratio	-0.075	-0.069	-0.102	-0.096	-0.064	-0.031
10	Return on Assets	0.459^	0.478*	0.468^	0.487*	0.144	0.343^
11	Liquidity	0.008	0.007	-0.002	-0.002	0.012	-0.015
12	Leverage	0.787**	0.828**	0.725**	0.767**	0.176	0.591**
13	Cash	0.001***	0.001***	0.001***	0.001***	0.001***	0.001***
14	Institutional Ownership	-1.094***	-1.089***	-0.986***	-0.982***	-0.391***	-0.591***
15	CEO Compensation	0.081***	-0.081**	-0.093**	-0.092**	-0.022	-0.070**
16	CEO Ownership	-0.038***	-0.038***	-0.036***	-0.036***	-0.011***	-0.0246***
17	CEO Duality	0.191***	0.195***	0.183***	0.186***	0.071**	0.115***
18	State Unemployment Rate	1.353	0.164	-0.776	-0.486	0.127	-0.613
19	State Corporate Tax Rate	-0.275	-0.309	-1.369	-1.403	-0.501	-0.902
	Number of observations	8560	8560	8560	8560	8560	8560
	State random effects	Yes	Yes	Yes	Yes	Yes	Yes
	Industry control	Yes	Yes	Yes	Yes	Yes	Yes
	Adjusted R-squared	0.78	0.79	0.80	0.80	0.66	0.80

*** $p < 0.001$

** $p < 0.01$

* $p < 0.05$

^ $p < 0.10$

Table 11. Robustness check with lagged variables

	Variables	(1)	(2)	(3)	(4)	(5)	(6)
1	Percentage of Women on Board of Directors (lagged)	3.404***	3.371***	5.081***	5.048***	1.119***	3.928***
2	Female CEO (lagged)	0.689**	0.687***	1.420***	1.417***	0.084	1.333***
3	Female CFO (lagged)	0.054	0.039	0.574***	0.559***	-0.054	0.614***
4	Female COO (lagged)	-0.186	-0.171	0.124	0.139	-0.094	0.234
5	Female Chair of the Board of Directors (lagged)	0.071	0.078	0.112	0.119	0.107^	0.012
6	Red State	-0.257***	-0.259***	-0.407***	-0.409***	-0.059^	-0.349***
7	Color-Gender Interaction	-1.116*	-1.062*	-0.668	-0.615	-0.264	-0.351
8	Firm size (log)	0.741***	0.739***	0.824***	0.822***	0.260***	0.561***
9	Book-to-market Ratio	-0.592***	-0.592***	-0.672***	-0.671***	-0.284***	-0.387***
10	Return on Assets	0.853**	0.844***	0.669^	0.660^	0.331*	0.329
11	Liquidity	0.023^	0.023^	0.034*	0.035*	0.033***	0.001
12	Leverage	-0.955***	-0.928***	-1.069***	-1.043***	-0.442***	-0.601***
13	Cash	0.001***	0.001***	0.001***	0.001***	0.001***	0.001***
14	Institutional Ownership	-1.689***	-1.692***	-1.737***	-1.740***	-0.953***	-0.787***
15	CEO Compensation	-0.104**	-0.107***	-0.095**	-0.098**	-0.098***	-0.001
16	CEO Ownership	-0.037***	-0.036***	-0.034***	-0.033***	-0.010**	-0.022***
17	CEO Duality	0.137**	0.137***	0.146***	0.145**	0.005	0.140***
18	State Unemployment Rate	4.902*	4.951*	5.336*	5.385*	1.987*	3.398*
19	State Corporate Tax Rate	-0.802	-0.831	-1.132	-1.162	-1.270**	0.108
	Number of observations	7431	7431	7431	7431	7431	7431
	State random effects	Yes	Yes	Yes	Yes	Yes	Yes
	Industry control	Yes	Yes	Yes	Yes	Yes	Yes
	Adjusted R-squared	0.51	0.51	0.53	0.53	0.30	0.53

*** $p<0.001$

** $p<0.01$

* $p<0.05$

^ $p<0.10$

APPENDICES

Appendix 1. Headquarters by state

State	Number of Headquarters in 2006	Governing Party in 2006	State	Number of Headquarters in 2006	Governing Party in 2006
Alaska	1	R	Montana	4	D
Alabama	15	D	North Carolina	46	D
Arkansas	16	D	North Dakota	1	R
Arizona	23	R	Nebraska	10	R
California	346	D	New Hampshire	3	R
Colorado	42	D	New Jersey	87	D
Connecticut	49	D	New Mexico	1	D
Delaware	10	D	Nevada	14	R
Florida	73	R	New York	178	R
Georgia	58	R	Ohio	77	R
Hawaii	4	D	Oklahoma	18	D
Iowa	13	D	Oregon	21	D
Idaho	7	R	Pennsylvania	106	R
Illinois	94	D	Rhode Island	5	D
Indiana	29	R	South Carolina	11	R
Kansas	12	R	South Dakota	3	R
Kentucky	12	R	Tennessee	39	D
Louisiana	15	D	Texas	193	R
Massachusetts	105	D	Utah	12	R
Maryland	43	D	Virginia	44	R
Maine	2	D	Vermont	3	D
Michigan	45	R	Washington	35	D
Minnesota	49	R	Wisconsin	33	R
Missouri	45	R	West Virginia	5	D
Mississippi	8	D	Wyoming	0	R

D: Democratic Party
R: Republican Party

Appendix 2. Industry classification

Industry (in 2006)	SIC Code Range	Number of Firms	Percentage
Mining and construction	100-1999	114	5.52%
Food, textiles, and apparel	2000-2390	61	2.95%
Forest products, paper, and publishing	2391-2780	225	10.89%
Chemicals and pharmaceuticals	2871-2890	8	0.38%
Refining, rubber, and plastic	2891-3199	35	1.69%
Containers, steel, and heavy manufacturing	3200-3569	115	5.56%
Computers, autos, and aerospace	3570-3990	349	16.90%
Transporation	3991-4731	47	2.27%
Telephone and utilities	4732-4991	149	7.21%
Wholesale and retail	4992-5990	174	8.43%
Bank and financial services	5991-6700	354	17.14%
Hotel and entertainment	6701-8051	367	17.77%
Hospital and others	8052-9999	67	3.24%

Adopted from Waddock & Graves (1997)

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Zingales, L. 1995. Insider ownership and the decision to go public. *Review of Economic Studies*, 62: 425–448.

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EDUCATION

2012–2017   PhD, Whitman School of Management, Syracuse University (Strategic Management, advisor Kira K. Reed)

2010-2011   MBA, Richards College of Business, University of West Georgia

2004-2009   BSc, Bogazici University, Istanbul, Turkey (Chemistry)

RESEARCH INTERESTS

Institutional theory, organizational institutionalism, institutional context, corporate social responsibility, institutional ownership, corporate governance, gender studies

WORKING PAPERS

Serdar, G., Reed, K.K., & Harter, D.E. Uncertainty, institutional context, and IPO success. Target Journal: Journal of Business Venturing.

Serdar, G, & Reed, K.K. The impact of gender and institutional context on corporate social responsibility. Target Journal: Journal of Business Ethics.

Serdar, G., Brandes, P., & Dharwadkar, R. Firm ownership and corporate social responsibility: "Are all politics local?" Target Journal: Journal of Business Ethics.

Serdar, G., Dharwadkar, R., and Brandes, P. Executive compensation, institutional ownership, and context . Target Journal: Organization Science or Strategic Management Journal.

CONFERENCE PRESENTATIONS

Serdar, G., Brandes, P., & Dharwadkar, R. Firm ownership and corporate social responsibility: "Are all politics local?" Paper accepted for presentation at the Academy of Management Conference, Atlanta, GA, 2017

Serdar, G. and Reed, K.K. The impact of institutional context and gender on corporate social responsibility. Paper presented at the Academy of Management Conference, Anaheim, CA, 2016.

Serdar, G., Reed, K.K., and Harter, D.E. Blue state vs. red state: Heterogeneity in institutional context and its impact on IPO success. Paper presented at the Academy of Management Conference, Vancouver, BC, 2015.

Serdar, G. and Reed, K.K. Institutional heterogeneity and corporate social responsibility: The impact of red and blue. Paper presented at the Academy of Management Conference, Vancouver, BC, 2015.

Serdar, G. and Reed, K.K. Institutional heterogeneity and corporate social responsibility: The impact of red and blue. Paper presented at the Annual Graduate Research Symposium in Syracuse University, Syracuse, NY, 2015.

TEACHING EXPERIENCE

2016-2017   Instructor, Syracuse University, Whitman School of Management, 8/29 – 12/9
              MGT 247: Introduction to Strategic Management, 2 sections
              Student Evaluations: ~4/5, above average

2015-2016   Instructor, Syracuse University, Whitman School of Management, 8/31 - 12/11
              MGT 247: Introduction to Strategic Management
              Student Evaluations: ~4/5, above average

2014-2015   Instructor, Syracuse University, Whitman School of Management, 1/12 - 4/28
              SHR 247: Introduction to Strategic Management
              Student Evaluations: ~4/5, above average

2012-2014   Teaching Assistant, Syracuse University, Whitman School of Management
              SHR 247: Introduction to Strategic Management
              SOM 354: Management in Global Setting

SCHOLARSHIPS, ACADEMIC AWARDS & HONORS

2016   Whitman Research Committee Research Award for "Institutional context,
              ownership, and corporate social responsibility"

2015   Whitman Research Committee Research Award for "Institutional heterogeneity and

corporate social responsibility: the impact of red and blue"

2014	Whitman Research Committee Research Award for "Red state vs blue state: The relationship between institutional context and initial public offerings"
2012-2017	Whitman School of Management, Graduate Teaching Assistantship
2011	Induction to Beta Gamma Sigma Business Honor Society
2010-2011	University of West Georgia, Graduate Research Assistantship

PROFESSIONAL DEVELOPMENT WORKSHOPS

2016	*Doctoral Student Consortium*, sponsored by OMT Division, Academy of Management Meeting in Anaheim, CA
2016	*Pedagogical Training and Teaching Workshop*, sponsored by the Teaching Committee of Whitman School of Management, Syracuse University
2015	*Managing Your Dissertation*, sponsored by the BPS Division, Academy of Management Meeting in Vancouver, BC
2015	*Developing New Research Projects*, sponsored by OMT, RM, and OB Divisions, Academy of Management Meeting in Vancouver, BC
2014	*Pedagogical Strategies*, sponsored by the School of Education and Teaching Committee of Whitman School of Management, Syracuse University
2013	*New Doctoral Student Consortium*, sponsored by NDSC, Academy of Management Meeting in Orlando, FL

SERVICE TO ACADEMY

2017	Peer reviewer for SIM division, Academy of Management Meeting in Atlanta, GA
2016	Session chair for two paper sessions at the Academy of Management Meeting in Anaheim, CA
2016	Peer reviewer for OMT and PNP divisions, Academy of Management Meeting in Anaheim, CA Emergency reviewer for PNP division
2015	Peer reviewer for OMT and PNP divisions, Academy of Management Meeting in Vancouver, BC

2015	Volunteer for OMT Social Media Team, Academy of Management Meeting in Vancouver, BC
2014	Peer reviewer for OMT and BPS divisions, Academy of Management Meeting in Philadelphia, PA
2014	Member of the organization committee of the New Doctoral Student Consortium, Academy of Management Meeting in Philadelphia, PA

PROFESSIONAL EXPERIENCE

2011-2012	Fastenal Supply Chain Associate Atlanta, GA
2010-2011	University of West Georgia Graduate Research Assistant Carrollton, GA
2008-2009	Bayer HealthCare Quality Assurance & Process Technology Intern Leipzig Area, Germany
2008	Lincoln Electric Quality Assurance Intern Istanbul, Turkey
2007	Johnson & Johnson Marketing Intern Istanbul, Turkey

TECHNICAL SKILLS & CERTIFICATIONS

Proficient in Stata

2007	Introduction to Laboratory Accreditation and Quality Techniques Austrian Agency for Health and Food Safety & KSL

SERVICE TO SYRACUSE UNIVERSITY

2016   Committee member for Middle States Accreditation

2016   Meeting job candidates (for two Assistant Professor positions in Management
            Department), submitting feedback to the Department Chair

2014-2015   Meeting job candidates (for an Assistant Professor position in Management Department),
            submitting feedback to the Department Chair

LANGUAGES

English, Turkish, and German