Social capital, corporate reporting culture, and accounting conservatism

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Abstract

Social capital, as measured by the strength of civic norms and density of social networks in a community, is positively associated with accounting conservatism. We find that social capital surrounding corporate headquarters positively influences corporate reporting culture, and the firms in such areas prefer hiring managers with proven records of accounting conservatism. Consequently, the managerial tendency to hide bad news, use ambiguous reporting language, and write-off assets decreases. This social capital-induced accounting conservatism and corporate reporting culture ultimately improves firms' information environment: stock liquidity is higher, opaqueness and idiosyncratic volatility are lower, and price delay is smaller.

1. Introduction

Social capital, which is a combination of civic norms and social network density that leads to cooperation in a community (Guiso et al. 2011), can reduce norm-deviant behavior among managers of local firms. We study whether the level of social capital surrounding firms' headquarters influences firm-level corporate reporting culture and accounting conservatism. Social capital can affect culture and conservatism directly by increasing managerial conformism and indirectly by encouraging boards to hire honest managers. We find empirical evidence supporting these conjectures and show that firms in counties with high social capital are less likely to hide bad news, which ultimately improves the information environment for their stocks.

Accounting conservatism is one of the most influential principles of valuation in accounting (Sterling 1979). It reflects various managerial approaches toward accounting and corporate polices. For instance, accounting conservatism improves investment efficiency (Lara et al., 2016) and decreases managerial risk-taking (Kravet, 2014), but it is also associated with more profitable acquisitions (Francis and Martin, 2010). Furthermore, Watts (2003) contends that accounting conservatism is an efficient mechanism between different contracting parties and that the absence of conservatism can change managerial behavior and induce significant costs for investors. Consistent with this claim, Ahmed et al. (2002) report that accounting conservatism helps mitigate bondholder-shareholder conflicts over dividend policy and reduces the cost of debt. Similarly, Kim and Zhang (2016) show that accounting conservatism reduces stock price crash risk and improves the informativeness of stock prices.

Previous research in economics and sociology claim that social capital influences social and economic behavior (Buonanno et al. 2009; Fukuyama 1995; Guiso et al. 2004; Knack and Keefer 1997; R. Putnam 2001). In addition, social capital surrounding the headquarters of a firm reportedly reduces norm-deviant behavior among managers regarding tax avoidance

(Hasan et al. 2017), major financial fraud (Jha 2019), and other managerial agency issues (Hoi et al. 2019). Such firms pay lower audit fees (Jha and Chen 2015), demonstrate more corporate social responsibility (Hoi et al. 2018; Jha and Cox 2015), and use resources more efficiently (Gao et al. 2019). We extend this literature by studying how social capital affects reporting culture and accounting conservatism in local firms.

According to the upper-echelon theory (Hambrick and Mason 1984), an organization's outcomes tend to reflect the values and cognitive biases of its leaders. Furthermore, the behavior of senior managers primarily affects corporate culture, which encompasses accounting conservatism (Biggerstaff et al. 2015; Davidson et al. 2015; Graham et al. 2017). We therefore conjecture that if an executive board wants to establish a conservative accounting culture within a firm, it can do so by hiring conservative managers. Thus, we expect firms in areas with high social capital to hire managers with established conservative accounting principles. The norm-consistent behavior is likely to propagate throughout the organization, and we therefore expect to see accounting conservatism rise after hiring conservative managers. Put differently, local social capital norms may affect firm-CEO matches.

We test our conjectures about the relationship between social capital and accounting conservatism by applying four different specifications of accounting conservatism. In our first two specifications, we use the accrual measure of accounting conservatism developed by Givoly and Hayn (2000). It argues that conservative accounting speeds up the recognition of losses over gains, consequently resulting in persistently negative accruals.

We multiply the sum of the last three years of total accruals by -1 and regress the product on county-level social capital and other control variables. Alternatively, we use nonoperating accruals instead of total accruals. A positive sign on the social capital variable indicates that firms in counties with high social capital have persistently more negative accruals. For our second specification, we use the market-to-book ratio. Ryan (1995) and Beaver and Ryan

(2000) argue that market-to-book ratio captures both conservatism and timely recognition. For our fourth specification, we use the asymmetric timeliness model in Basu (1997). It captures the tendency of firms to recognize losses sooner than they recognize gains.

To capture social capital, we follow the previous literature and use county-level social capital based on data from Northeast Regional Center for Rural Development (NRCRD) at Pennsylvania State University. The data includes a construct of social capital using civic norms and the density of social networks in U.S. counties, where civic norms are nonreligious social norms that emphasize socially responsible behavior. The measure includes membership in associations, participation in elections, nonprofit activities, and surveys. Because other factors such as population, religiosity, income, etc. likely influence the social capital measure, we use several county-level demographics in our empirical models to isolate the effect of social capital on accounting conservatism. We also control for several firm attributes that may influence accounting conservatism. Additionally, we include industry-year fixed effects to control for time-varying industry heterogeneity.

Using a sample of over 50,000 firm-year observations over 1997-2017, we find positive relationships between social capital and the four measures of accounting conservatism. The estimated relationship is both statically and economically significant. For instance, a one-standard-deviation increase in social capital leads to a 26.4% ($2.2 \times 0.805 \div 0.067$) increase in our total accrual measure of accounting conservatism. The results are robust to the inclusion of county-level religiosity and several other demographics.

To improve causal identification, we use instrumental variable (IV) regression and proxy for social capital using two instruments: life expectancy and suicide rate. Sociologists, starting with Emile Durkheim in the late 1880s, have long argued that the disruptions in social cohesion caused by modern life are positively correlated with mortality rates, including self-destructive behaviors and suicide. Relatively recent studies in public health and sociology confirm these findings. For instance, Kawachi et al. (1997) show that social capital positively influences health and improves life expectancy. Similarly, Helliwell (2007) shows that countries with high social capital have lower suicide rates. We therefore expect a positive (negative) relationship between life expectancy (suicide rate) and county-level social capital. Arguably, these instruments also satisfy the exclusivity assumption because, *a priori*, there is no reason for firms in counties with higher life expectancies or lower suicide rates to also have higher accounting conservatism. With these regressions, we again find a positive relationship between the predicted measure of social capital and accounting conservatism.

Prior research in accounting indicates that managers accelerate the release of good news and withhold bad news (information withholding) until some threshold is reached, at which point the bad news is released (Kothari et al. 2009). In extreme cases, this results in large, nonrecurring charges known as "big baths" (Haggard et al. 2015).[1] Due to the aforementioned effects of social capital on accounting conservatism, we therefore expect to see fewer incidences of information withholding among firms in counties with high social capital. We therefore also investigate whether social capital reduces the probability of sudden information release ("big baths") by regressing large negative asset write-offs on social capital and other firm- and county-level control variables. We find that firms headquartered in counties with high social capital have significantly lower asset write-offs. This implies that information withholding is not a major issue in these firms. We also use headquarters relocation as a potential exogenous variation in social capital and find that firms relocating to counties with high social capital have significantly lower asset write-offs than firms relocating to counties with low social capital.

[1] The term "big bath" usually refers to major asset write-downs or other nonrecurring charges. Elliott and Hanna (1996) and Francis, Hanna, and Vincent (1996) analyze the earnings-related motives behind major asset write-offs. Moore (1973) claims that "taking a bath" alters the firm's profitability benchmarks (e.g., shrinks assets) and increases future earnings by removing future losses from future income statements. Thus, it is a drastic measure for managers. It involves opportunistic timing (of the asset write-offs) and sudden information releases that come with such actions.

Loughran and McDonald (2014) show that readability and other textual properties of financial reports provide the market with value-relevant information. The authors show that financial report readability has a strong link to poor corporate information environments. For instance, Loughran and McDonald (2011) show that the use of words that convey uncertainty (e.g., *approximate, contingency, uncertain,* and *indefinite*) and weakness (e.g., *might, possible, approximate,* and *contingent*) in 10-K reports leads to higher stock price volatility the following year. Similarly, Loughran and McDonald (2013) document a negative relation between the use of ambiguous language in S-1 initial public offering (IPO) filings and key IPO performance indicators. More recently, Ertugrul et al. (2017) show that readability and tone ambiguity in corporate disclosures is related to managerial information hoarding, ultimately leading to higher costs of external capital and stricter loan contract terms.

We therefore test whether corporate reporting culture is different for firms headquartered in counties with high social capital. We find that firms in regions with high social capital have a lower tendency to use ambiguous language in their 10-K reports. This finding supports the notion that social capital positively influence corporate reporting culture.

We next pinpoint the channels (the mechanisms) through which a county's social capital affects a firm's conservatism. We focus on managerial hiring decisions for executive boards (firm-manager matches). We first calculate the level of accounting conservatism for each firm. We then analyze each CEO or CFO turnover event during our sampling period and determine whether the new manager was previously a top executive at another firm. We find 328 such cases for CEOs and 346 cases for CFOs with nonmissing data. We then follow the methodology in Bouwman (2011) and randomly assign 999 executives to each of these cases as potential candidates who were not hired. Controlling for several other determinants of the hiring decision, we find that the probability of employing a conservative CEO/CFO increases with the level of social capital surrounding the headquarters of the hiring firm. Thus, we find that firms in counties with high social capital prefer to hire managers who were exposed to accounting conservatism in their previous jobs. Alternatively, we also show that firms in counties with high social capital tend to hire executives who are born or raised in regions with high social capital.

A better information environment around a firm, and the associated conservative accounting, eventually yield some positive outcomes for the firm's stock. Indeed, we report that firms in counties with high social capital have lower stock volatility, lower idiosyncratic volatility, and less opaqueness (i.e., higher synchronicity with the market; Roll 1988). All of these results suggest that social capital reduces information asymmetry between firms and markets. We also find that reduction in risk and improvements in the information environment raise stock price liquidity, narrow bid-ask spreads, and shrink price delays in the stock. Overall, we show that these positive outcomes are a result of social capital first influencing accounting conservatism, which then creates a better information environment for the firm.

We make several distinct contributions to the literature. First, we extend the accounting conservatism literature and empirically show that civic norms and the density of social networks surrounding a firm's headquarters negatively influence the managerial tendency to hide bad news. This is consistent with previous corporate finance literature on social capital's mitigation of norm-deviant behavior. We also show that social capital-induced accounting conservatism leads to several previously undocumented positive externalities. Further, we provide evidence on how social capital influences corporate boards in their decisions to hire conservative managers. Accordingly, we establish a mechanism through which social capital changes a firm's accounting conservatism. Although many studies in this field conjecture that social capital affects managerial behavior, we provide evidence of a concrete channel of impact through which social capital influences the board's choice of top managers, which consequently reduces norm-deviant behavior in the firm.

The remainder of the paper is organized as follows. Section 2 describes the data and gives sample statistics. Section 3 discusses our results. Section 4 provides additional analyses. Section 5 concludes our findings.

2. Data, sample selection, and methodology

This section defines key variables, illustrates empirical models that test our hypotheses, and discusses the sample statistics.

2.1. Measures of accounting conservatism

To test our first hypothesis, we compare the levels of accounting conservatism among firms in areas with low and high social capital. We use four different specifications for this. Our first two are based on the magnitude of accruals over time as Givoly and Hayn (2000) propose. They argue that a conservative firm chooses accounting practices that recognize expenses more swiftly than revenues and that value assets lower than liabilities, thereby minimizing cumulative reported earnings. Because negative accruals reflect more conservative accounting, we use accruals (net income before extraordinary items plus depreciation and minus cash flow from operations) scaled by lagged total assets over the current and previous two fiscal years, multiplied by -1 as our first measure of accounting conservatism. For our second measure, we use the cumulative sum of nonoperating accruals multiplied by -1.[2]

Our third measure is market-to-book ratio. Ryan (1995) and Ryan and Beaver (2000) argue that the market-to-book ratio captures conservatism, as well as the timely recognition of bad news and delayed recognition of good news. The measure is widely used to capture the level of accounting conservatism in a firm (see for instance, Ahmed et al. 2002; Ahmed and Duellman 2007; B. Francis et al. 2015; Hui et al. 2009). Following Hui et al. (2009), we also

[2] Nonoperating accruals are operating accruals – Δ accounts receivable – Δ inventories – Δ prepaid expenses – Δ accounts payable + Δ taxes payable, where operating accruals = net income + depreciation – cash flow from operations.

include the lag value of the market-to-book ratio to reduce the effect of transitory or temporary economic factors.

Following previous literature, we use firm size, age, market-to-book ratio, leverage ratio, idiosyncratic volatility, return, litigation risk, and tangibility as control variables. We define firm size (*SIZE*) as the natural logarithm of market of value of equity; firm age (*AGE*) as the natural logarithm of number of years the firm is listed on CRSP; market-to-book ratio (*MTB*) as the market value of equity divided by the book value of equity; leverage ratio (*LEV*) as the sum of short- and long-term debt divided by total assets; volatility (*SDRET*) as the standard deviation of market-adjusted returns over the 36 months ending three months after the fiscal year end; return (*RETURN*) as the market-adjusted return over the 12 months ending three months after the fiscal year end; litigation risk (*LITIGATION*) as an indicator variable equal to 1 if the firm is in a high litigation industry (SIC codes: 2833-2836, 3570-3577, 3600-3674, 5200-5961, and 7370-7374), and zero otherwise; and property, plant, and equipment ratio (*TANG*) as the ratio of net property, plant, and equipment to total assets.

Our fourth specification of accounting conservatism is based on the Basu's (1997) asymmetric timeliness model. Despite some criticism (Dietrich et al. 2007; Givoly et al. 2007; Patatoukas and Thomas 2011), the asymmetric timeliness model captures accounting conservatism when it is present (Ball et al. 2013; Ettredge et al. 2012). The Basu (1997) model is presented in equation (1).

$$ETP = \alpha + \beta_1 NEG + +\beta_2 RETURN + \beta_3 NEG \times RETURN + \varepsilon \tag{1}$$

Where *ETP* is a firm's net income scaled by the lagged market value of equity. *RETURN* is the monthly return over the past 12 months ending three months after the fiscal year end. *NEG* is equal to 1 if *RETURN* is negative, and zero otherwise. The Basu coefficient (i.e., β_3) accounts for the incremental timeliness of earnings in recognizing bad news relative to good news. A higher Basu coefficient indicates a higher degree of conditional conservatism. Following LaFond and Watts (2008) and Khan and Watts (2009), we include deciles of *SIZE*, *AGE*, *MTB*, *LEV*, *SDRET*, and *TANG*, as well as the indicator variable *LITIGATION*. We interact all these control variables with *NEG* and *RETURN* in our model.[3]

2.2. Measure of social capital

To capture social capital, denoted as *SCAPITAL*, we follow the previous literature in corporate finance and use county-level social capital based on data from the Northeast Regional Center for Rural Development (NRCRD) at Pennsylvania State University. The data includes a construct of social capital using civic norms and density of social networks in U.S. counties, where civic norms are nonreligious social norms that emphasize socially responsible behavior. The measure includes membership in associations, as well as participation in elections, nonprofit activities, and surveys. More specifically, we use the first principal component from a factor analysis based on voter turnout in presidential elections (*PVOTE*), response rates to U.S. Census surveys (*RESPN*), the total number of nonprofit organizations (*NCCS*), and the total number of 10 types of social organizations for all U.S. counties (*ASSN*). Because the NRCRD data is for 1997, 2005, 2009, and 2014, we follow Hasan et al. (2017), among others, and back-fill data using estimates in the preceding year in which the data is available. For instance, we fill missing data for *SCAPITAL* from 2006 to 2008 using the *SCAPITAL* estimate in 2005. Alternatively, as a robustness check, we also use linearly interpolated values of *SCAPITAL* for missing years.[4]

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[3] We exclude county-level demographics from this estimation to avoid potential econometric issues involving interactions of several correlated variables.
[4] See Rupasingha et al. (2006) and Hasan et al. (2017) for a more detailed description of the measure.

2.3. Empirical models

Using our first three measures of accounting conservatism, we estimate the regression model as illustrated in equation (2).

$$CONSERV = \alpha + \beta_1 SCAPITAL + +\beta_p FIRM\ CONTROLS + \beta_q COUNTY\ CONTROLS + INDYEAR\ FIXED\ EFFECTS + \varepsilon \quad (2)$$

Where *CONSERV* is one of the three measures of conservatism defined in section 3.1. *SCAPITAL* is the county-level social capital measure defined in section 3.2. *FIRM CONTROLS* are a set of control variables defined in section 3.1. In addition, we include several county-level demographics *COUNTY CONTROLS*, which are correlated with social capital (Alesina and La Ferrara 2000; R. D. Putnam 1995; Rupasingha et al. 2006). Specifically, we include the natural logarithm of county-level total population, population growth, education, religiosity, median income, and income inequality. We include industry-year fixed effects to control for time-varying industry heterogeneity. We cluster the standard errors at the firm level. Consistent with our hypothesis, we expect *SCAPITAL* to be positive and statistically significant.

To estimate the asymmetric timeliness model, we follow the modified Basu (1997) model as indicated in equation (3). All variables are as defined in section 3.1. Consistent with our hypothesis, we expect β_7 to be positive and statistically different from zero.

$$ETP = \alpha + \beta_1 NEG + +\beta_2 RETURN + \beta_3 NEG \times RETURN + \beta_4 SCAPITAL + \beta_5 NEG \times SCAPITAL + \beta_6 RETURN \times SCAPITAL + \beta_7 NEG \times RETURN \times SCAPITAL + \beta_p CONTROLS + \beta_q NEG \times CONTROLS + \beta_r RETURN \times CONTROLS + \beta_s NEG \times RETURN \times CONTROLS + INDYEAR\ FIXED\ EFFECTS + \varepsilon \quad (3)$$

2.4. Asset write-offs

To examine more severe cases of the absence of asymmetric timeliness in news reporting, we test whether firms headquartered in counties with high social capital are less likely to record large, nonrecurring charges otherwise known as “baths.” Haggard et al. (2015), among others, maintain that baths occur because of persistent managerial tendencies to hide bad news. Moore (1973) claims that “taking a bath” changes a firm’s profitability benchmarks by reducing future losses. It is a drastic measure managers tend to use to act opportunistically and release sudden information. Consistent with this view, Tan (2013) argues that asset write-offs are direct manifestations of conservatism.

Therefore, we expect that firms in counties with high social capital are less likely to write-off assets. We follow Haggard et al. (2015) and define an asset write-off as a negative special item. When the ratio of its absolute value to total assets at the beginning of the year exceeds 1%, the variable takes the value of the ratio, otherwise the variable equals zero. We introduce several other controls to mitigate the effects of omitted correlated variables.

To test the readability of financial disclosures, we obtain textual data from Loughran and McDonald’s website for each firm in our sample over the period 1997-2017. We use a methodology similar to Ertugrul et al. (2017) and we focus on the use of uncertain, modal weak, litigious, and negation language in 10-K reports. For comparability, we divide these words by the total number of words in the report and multiply the result by 1,000. We use the same set of control variables as before. We expect firms in counties with high social capital to use less ambiguous language in their 10-K reports.

Accounting conservatism leads to several positives for firms (see for instance, Ahmed et al. 2002; J. R. Francis and Martin 2010; Hui et al. 2009; Kim and Zhang 2016; Kravet 2014; Lara et al. 2016). Following this line of literature, we hypothesize that social capital-induced accounting conservatism positively influences a company’s stock.

2.5. Stock volatility and idiosyncratic risk

Because we conjecture that firms headquartered in counties with high social capital have more conservative accounting policies, we expect a negative relation between stock price volatility and social capital. We measure stock price volatility as the standard deviation of weekly market-adjusted returns over the next 36 months, with at least 12 months of nonmissing values, starting three months after the fiscal year end.

Alternatively, we calculate two other measures of idiosyncratic risk. For our first measure, we use the Fama-French-Carhart four-factor model (Carhart 1997; Fama and French 1993). The four-factor model is:

$$RET\_RF_{i,t} = \alpha_i + \beta_{1,i} MKT\_RF_{m,t} + \beta_{2,i} SMB_{m,t} + \beta_{3,i} HML_{m,t} + \beta_{4,i} UMD_{m,t} + \varepsilon \qquad (4)$$

Where *RET_RF* is firm-specific monthly return minus the risk-free rate. *MKT_RF* is the monthly return on CRSP value-weighted index minus the risk-free rate. *SMB* is the difference in returns of value-weighted portfolios of small stocks and big stocks. *HML* is the difference in returns for value-weighted portfolios of high book-to-market stocks and low book-to-market stocks. *UMD* is the difference in returns of value-weighted portfolios for firms with high and low prior momentum. We take all of these variables contemporaneously during a given month. We obtain monthly abnormal returns (residuals) by estimating this model for five years (60 months, with at least 24 months of nonmissing observations). We then calculate idiosyncratic risk as the rolling standard deviation of residual returns over the next 36 months starting three months after the fiscal year end (Ang et al. 2009).

Our second measure is based on Roll's R^2 (Roll 1988). We follow Morck et al. (2000) and Hutton et al. (2009), and we estimate the R^2 from the expanded index model regression. The expanded index model involves regressing weekly returns on current, lead, and lagged market and industry weekly returns.[5]

$$RET_{i,t} = \alpha_i + \beta_{1,i}RET_{m,t-1} + \beta_{2,i}RET_{j,t-1} + \beta_{3,i}RET_{m,t} + \beta_{4,i}RET_{j,t} + \beta_{5,i}RET_{m,t+1} + \beta_{6,i}RET_{j,t+1} + \varepsilon \tag{5}$$

$$SYNC = \ln\left(\frac{1-R^2}{R^2}\right) \tag{6}$$

Where RET is the weekly return and subscripts i, *m*, and *j* denote firm, market, and industry-specific returns, respectively. We use the return on the CRSP value-weighted index and Fama and French value-weighted industry return to proxy for market and industry returns, respectively. After estimating this regression for 52 weeks (at least 26 weeks of nonmissing values), we calculate our second measure of idiosyncratic risk as the logistic transformation of R^2, illustrated in equation (6). Because opaque firms are more likely to hide bad news (Hutton et al. 2009), we expect a higher R^2 for firms in counties with high social capital.

2.6. Stock liquidity and information asymmetry

The disclosure literature shows that firms when firms disclose information, they reduce their information asymmetry through increased liquidity of their securities (Diamond and Verrecchia 1991; Welker 1995). The improvement in liquidity leads to higher market valuations due to decreases in the discount rate (Amihud 2002; Amihud and Mendelson 1986, 1989; Brennan and Subrahmanyam 1996). We therefore hypothesize that firms in counties with high social capital have lower information asymmetry and higher liquidity, primarily due to higher accounting conservatism.

[5] In all our specifications involving weekly returns, we follow Hou and Moskowitz (2005), among others, and compute weekly returns between adjacent Wednesdays. This is because Chordia and Swaminathan (2000), among others, document high autocorrelations using Friday-to-Friday prices and low autocorrelations using Monday-to-Monday prices.

For liquidity, we calculate Amihud's (2002) illiquidity measure. Following Balakrishnan et al. (2014), we use the logistic transformation of the Amihud measure as illustrated in equation (8).

$$AIM = \frac{10{,}000{,}000 \times |RET|}{PRC \times VOLUME} \tag{7}$$

$$ILLIQUIDITY = \ln(1 + \overline{AIM}) \tag{8}$$

Where *AIM* denotes the Amihud illiquidity measure. *RET* is the daily return. *PRC* is the daily price. *VOLUME* is the daily volume. $\overline{AIM}$ is the average *AIM* over the next 252 trading days (with at least 125 trading days of nonmissing values) starting three months after the fiscal year end.

To measure information asymmetry, we use average bid-ask spread. The bid-ask spread is one of the most widely used measures of information asymmetry. We follow Balakrishnan et al. (2014) and calculate the daily spread using bid and ask prices from CRSP. The measure is illustrated in equation (8), where *DSPREAD* indicates the daily spread, and *ASK* and *BID* are the closing ask and bid prices from CRSP. We calculate our information asymmetry measure (*SPREAD*) by averaging the daily spread over the next 252 trading days (with at least 125 trading days of non-missing values) starting three months after the fiscal year end.

$$DSPREAD = \frac{100 \times (ASK - BID)}{\frac{(ASK - BID)}{2}} \tag{9}$$

Alternatively, following Hou and Moskowitz (2005) and Brogaard et al. (2017) we also calculate *PDELAY*, which is a measure of price efficiency. To do this, we first run two separate regressions using weekly firm-specific returns as a dependent variable. In the first regression, we use the contemporaneous and four weeks of lagged returns on the market portfolio as the explanatory variables as shown in equation (10). In the second regression, we use the contemporaneous weekly return on the market portfolio as the independent variable and set $\delta_i^{(-n)} = 0$.

$$RET_{i,t} = \alpha_i + \beta_i RET_{m,t} + \sum_{n=1}^{4} \delta_i^{(-n)} RET_{m,t-n} + \varepsilon \tag{10}$$

$$PDELAY = 1 - \frac{R^2_{\delta_i^{(-n)}=0, \forall n \in [1,4]}}{R^2} \tag{11}$$

Where *RET* is the weekly return, and subscripts *i* and *m* denote firm-specific return and the return on the CRSP value-weighted market index, respectively. If the stock responds immediately to the market news, then β_i will be significantly different than zero, but none of the $\delta_i^{(-n)}$ values will be different from zero. On the other hand, if the stock response is delayed, then some $\delta_i^{(-n)}$ values will be different from zero. We estimate these regressions over 52 weeks (with at least 26 weeks of non-missing values) starting three months after the fiscal year end and obtain R^2 for both models. We define our measure of price delay as 1 minus the ratio of R^2 from the restricted model to R^2 from the unrestricted model.

2.7. Sample selection and summary statistics

After removing missing values for the firm and county-level variables, our final sample for baseline analyses contains over 50,000 firm-year observations from 1997 to 2017. Following previous accounting literature, we exclude financial (SIC codes 6000-6999) and utility (SIC codes 4900-4999) firms. We obtain information about company headquarters from Compustat. Because Compustat provides the most recent headquarters locations, we obtain historical headquarters addresses through annual report filings with the Securities and Exchange Commission (SEC). We use state and county names to obtain county-level unique Federal Information Processing Standards (FIPS) codes. We then match social capital data from NRCRD and other county-level demographic data from the Bureau of Economic Analysis, U.S.

Census Bureau, Centers for Disease Control and Prevention (CDC), Institute of Health Metrics and Evaluations (IHME), and Association of Religion Data Archives (ARDA) using the county FIPS codes. We obtain data for all other firm-level variables from Compustat and Center for Research in Security Prices (CRSP).

Table 1 provides summary statistics for all the variables in the baseline regression and additional analyses. The means for accrual measures of accounting conservatism, *CONS_TACC* and *CONS_NACC*, are 0.103 and 0.191. The median value is positive, which indicates that less than 50% of firms engage in positive accruals. The mean (median) one-year-ahead market-to-book ratio for the sample firms is 2.82 (1.96). A smaller fraction of the sample firms engage in significant asset write-offs, as indicated by the 75th percentile. The mean (median) firm size is \$2.75 (\$0.34) billion, indicating significant skewness in distribution. The mean (median) firm is listed for approximately 18 (13) years. The sample contains more growth firms than value firms as indicated by the mean (median) market-to-book ratio of 2.92 (2.02). The median annual stock return and return on assets (*ROA*) for the sample firms is around 3%. The weekly standard deviation is around 7.2% (6.1%).

Panel E provides summary statistics for county-level demographics. The mean and standard deviation of *SCAPITAL* is similar to those in Hasan et al. (2017), among others, which demonstrates that the variable has meaningful variation both cross-sectionally and across time. The firms are in counties with an average (median) population of 1.61 (0.98) million residents. The average change in population is around 2.5% (0.8%) over the entire sample period, indicating relatively steady growth. The average median household income is around 58.77 (55.28) thousand dollars. The income inequality variable indicates that in some counties the average household income is as much as 10 times that of the median income. Approximately 58% (59%) of county residents adhere to an organized religion. The 25th and 75th percentile show considerable variations in life expectancy and suicide rates in the U.S. counties.

[Table 1 around here]

3. Results

3.1. Univariate results

To test our hypotheses, we conduct some univariate analyses. The results are in table 2. To define firms in high and low social capital groups, we first create annual quintiles of the social capital variable.[6] We then define firms in areas with high (low) social capital as firms in the top (bottom) quintile in each year. The tests indicate that firms in counties with high social capital have a higher mean *CONS_TACC*. The mean difference is statistically significant at the 5% level.

The table also shows that firms in counties with high social capital have higher future market-to-book ratios (*CONS_MTB*) and lower asset write-offs. We find that firms in counties with high social capital are not statistically different in terms of firm size, return, and standard deviation of returns from those in counties with low social capital. However, firms in counties with high social capital are older, have less debt, and are less likely to be in high-litigation industries. Furthermore, firms headquartered in counties with high social capital have lower idiosyncratic volatility, bid-ask spread, and price delay, and they have higher liquidity and price synchronicity (transparency).

[Table 2 around here]

Counties with high social capital are less populated and have relatively lower population growth. They also have lower income inequality and higher median income, education, and life expectancy. The suicide rate is also considerably lower in such counties. All these differences

[6] To reduce the influence of other county-level demographics that are correlated with social capital, we use the orthogonal value of social capital based on a regression of *SCAPITAL* on all county-level variables and no constant term.

justify the necessity of controlling for these firm-specific characteristics and county-level demographics in our multiple regression models.

3.2. Baseline results

Because other factors can drive our univariate results, we turn to multivariate analyses. The results for our baseline models illustrated in equation (2) are in table 3. Table 3 reports the results for our first three measures of accounting conservatism. The coefficient on our main explanatory variable, *SCAPITAL*, is positive and statistically significant in all our specifications. The results indicates that firms in counties with high social capital have significantly higher accumulated negative totals and nonoperating accruals, as well as higher market-to-book ratios. These results are evidence that social norms and dense social networks induce accounting conservatism in the counties of firm headquarters. The results are also economically significant. For instance, based on column (1), a one-standard-deviation increase in social capital leads to an approximate 26.4% ($2.2 \times 0.805 \div 0.067$) increase in our total accrual measure of accounting conservatism. The results also remain significant when we use alternative measures of social capital.

[Table 3 around here]

Among other control variables, firm size is positive and statistically significant. This is consistent with the notion that smaller firms have poor accrual quality (Dechow and Dichev 2002). The coefficients on market-to-book ratio are positive and statistically significant. Khan and Watts (2009) argue that firms with higher market-to-book ratio have volatile stock returns, which can result in large losses, triggering lawsuits. This leads to a higher litigation demand for conservatism. On the other hand, the coefficient on firm age is negative because young firms have more growth opportunities relative to assets-in-place. Firms with higher returns volatility and those in high-litigation industries demonstrate more accounting conservatism due to higher external demand for conservatism.

3.3. Instrumental variable regression results

Our baseline models include common determinants of accounting conservatism and industry-year fixed effects. However, a potential problem is that time-variant omitted variables correlated with social capital and accounting conservatism could affect these models. To address these endogeneity issues and partially mitigate them, we turn to two-stage least squares (2SLS) instrumental variable (IV) regression.

We identify two instrumental variables for social capital. Sociologists, starting with Emile Durkheim in the late 1880s, have long argued that modern life's disruptions in social cohesion are positively correlated with mortality events including self-destructive behaviors and suicide. Relatively recent studies in public health and sociology confirm these findings. For instance, Kawachi et al. (1997) show that social capital positively influences health and improves life expectancy. Similarly, Helliwell (2007) shows that countries with high social capital have lower suicide rates.

We therefore use county-level life expectancy and suicide rate as instruments for social capital. We expect a positive (negative) relationship between life expectancy (suicide rate) and county-level social capital. We get the county-level age-adjusted total life expectancy data from the Institute of Health Metrics and Evaluations (IHME). The data frequency is every five years from 1980 to 2014. We back-fill data for missing years by using the estimate in the preceding year for which data is available. The data on suicide rate is from Centers for Disease Control and Prevention (CDC). Starting in 1999, the data from CDC is annual and contains information on the total number of deaths by cause of death at the county level. We divide a county's total number of deaths due to intentional self-harm by the total number of deaths to calculate the percentage of suicides in the county in each year. The instruments are also likely to satisfy the exclusivity assumption because, *a priori*, it is unlikely that firms in counties with higher life expectancies or lower suicide rates demonstrate higher accounting conservatism.

The results of the regressions are in table 4. The first-stage regression shows that the coefficient on life expectancy (*LIFE*) is positive and significant, indicating that counties with high social capital have higher life expectancy. On the other hand, the coefficient on suicide rate is negative and statistically significant. Among other county-level variables, population, population growth, median income, and income inequality are all negative and statistically significant, but religion and education are positive. These relations are similar to those reported in the univariate analyses and in line with economic research by Alesina and La Ferrara (2000) and Rupasingha et al. (2006).

The results for the second-stage regression using our three measures of accounting conservatism are in columns (2)-(4). The coefficient on the predicted measure of social capital is positive and statistically significant for the accrual measures of accounting conservatism and positive but statistically insignificant for the market-to-book ratio. Overall, the results are consistent with our baseline results, indicating that counties with high social capital have more conservative accounting practices.

[Table 4 around here]

3.4. Social capital and asymmetric timeliness

Table 5 provides results for the asymmetric timeliness model. As in Basu (1997), firms with a tendency to report bad news more promptly than good news have a higher *NEG* × *RETURN* coefficient. Consistent with Basu (1997) and Khan and Watts (2009), among others, we find that on average firms in our sample are conservative, as indicated by a positive and statistically significant *NEG* × *RETURN* coefficient in column (1). The main coefficient of interest in our specification is *SCAPITAL* × *RETURN* × *NEG*. The first column presents results without other firm controls, but all other models include control variables and their interactions. We find that firms in counties with high social capital have a higher tendency to recognize bad news before good news. The coefficient of interest is positive and statistically significant in all our models. The results are identical when we use linearly interpolated measures of social capital.[7]

[Table 5 around here]

The signs on all other control variables correspond to those in Basu (1997), Khan and Watts (2009), and LaFond and Watts (2008), among others. The coefficient on *SIZE* × *RETURN* × *NEG* is negative and statistically significant in all our models, suggesting that asymmetric timeliness decreases when size increases. Similarly, the coefficient on *MTB* × *RETURN* × *NEG* is negative but statistically insignificant, implying less accounting conservatism. This, however, is primarily due to the buffer problem (Roychowdhury and Watts 2007). The buffer problem appears when the relation between conservatism and market-to-book ratio is estimated using short horizons (one year). Over longer horizons (three or more years), market-to-book ratio is positively correlated with accounting conservatism. The positive coefficient on *LEV* × *RETURN* × *NEG* indicates a lower tendency among levered firms to hide bad news; this is due to a higher contracting demand for accounting conservatism.

The results for the second-stage regression using the asymmetric timeliness model are in column (4) of table 5.[8] The coefficient on *SCAPTIAL* × *RETURN* × *NEG* is positive and significant at the 5% level.

[7] Our baseline results are also robust to the inclusion of state fixed effects as well as two-way firm-year clustering.
[8] To estimate the regression for the asymmetric timeliness model, we estimate a two-stage residual inclusion (2SRI) model (Hausman 1978; Terza et al. 2008). The model first runs a regression with social capital as the dependent variable and includes all county-level demographics and the two instruments as explanatory variables. It then includes the generalized residuals from the first stage in the model. We interact the first-stage residuals with *RETURN* and *NEG*. We adjust standard errors using both clustering and bootstrapping.

3.5. *Asset write-offs*

To test whether firms headquartered in counties with high social capital have a lower probability of asset write-offs, we estimate a similar model as in equation (2). The dependent variable is *WRITEOFF*, which is our measure of asset write-off. The results for this regression are in table 6. Our main variable capturing county-level social capital, *SCAPITAL*, is negative and statistically significant. The results remain unchanged when we add county-level demographics or use the linearly interpolated measure of social capital. The negative coefficient reflects a lower probability of asset write-offs for firms in counties with high social capital. These findings are consistent with our predictions and our baseline results.

We next test whether headquarters relocations influence asset write-offs. To do this we follow Hasan et al. (2017) and focus on firms that relocate their headquarters only once over the sample period. We also require at least four years of non-missing data for these firms both before and after the relocation. These restrictions lead to a final sample of 1,637 firm-year observations. The sample contains 49 (55) firms that relocate to a county with high (low) social capital. We create a dummy variable that equals 1 (zero) if the firm relocates to a county with high (low) social capital. We also create an indicator variable to capture pre- and post-relocation firm-years. Finally, we interact these two dummy variables to estimate a difference-in-differences model. A negative and statistically significant sign on the interaction term will indicate that firms relocating to counties with high social capital have significantly lower asset write-offs than firms relocating to counties with low social capital. We find evidence consistent with this expectation, suggesting that firms relocating to counties with high levels of social capital are less likely to withhold information.[9]

[9] Jha (2019) provides similar evidence using an accruals measure for financial reporting quality. In our specification, we replicate these results with a coefficient that is statistically significant at the 10% levels. These results are available upon request.

[Table 6 around here]

3.6. Corporate reporting culture

Loughran and McDonald (2014) show that readability and other textual properties of financial reports provide the market with value-relevant information. Additionally, the authors show that financial report readability has a strong link with poor corporate information environment. For instance, Loughran and McDonald (2011) show that the use of words conveying uncertainty (e.g., *approximate, contingency, uncertain,* and *indefinite*) and weak modal words (e.g., *might, possible, approximate,* and *contingent*) in 10-K reports leads to higher stock price volatility in the following year. Similarly, Loughran and McDonald (2013) document a negative relation between the ambiguous language in S-1 initial public offering (IPO) filings and key IPO performance indicators. More recently, Ertugrul et al. (2017) show that the readability and tone ambiguity in corporate disclosures is related to managerial information hoarding, ultimately leading to higher costs of external capital and stricter loan contract terms. We therefore test whether corporate reporting culture is different in firms headquartered in counties with high social capital.

To test the readability of financial disclosures, we obtain textual data from Loughran and McDonald's website for each firm in our sample over the period 1997-2017. We use a methodology similar to Ertugrul et al. (2017) and focus on the use of uncertain, modal weak, litigious, and negation language in 10-K reports. For comparability, we divide these words by the total number of words in the report and multiply it by 1,000. The results are in table 7. The coefficient on our main variable of interest is negative and statistically significant in all our specifications. This confirms our conjecture that firms headquartered in counties with high social capital use less ambiguous language and have lower tendencies to withhold information.

[Table 7 around here]

4. Social capital and firms' preference for hiring financially conservative CEOs

In order to establish the channel through which social capital can influence accounting conservatism, we look at how social capital influences firms' managerial hiring decisions. We examine these decisions because senior management primarily determines corporate culture (Biggerstaff et al. 2015; Davidson et al. 2015; Graham et al. 2017). We conjecture that firms in counties with high social capital carefully choose their managers, which consequently influences firm behavior.

To show this channel, we follow Bouwman (2011) and design the following test. Using hand-collected data on turnover, we first isolate the turnover that involves hiring an executive from another firm. We require nonmissing data for all our previous variables, as well as for executive characteristics such as age and gender. This yields 328 cases for CEOs and 346 cases for CFOs. We then randomly assign 999 executives to each of these cases from a large list of all available executives one year prior to the turnover. This yields a sample of 328,000 (346,000) potential CEOs (CFOs) for a given firm.

Following Bouwman (2011), we include several determinants of the hiring decision. We expect firms to hire executives as CEOs/CFOs if the firms are large and profitable, belong to the same industry, and are in the same geographic area. Therefore, we control for all these determinants. We also control for whether the executive's previous job was CEO or CFO, as well as for the executive's age and whether the executive is a female.

We estimate a logit model with the dependent variable equal to 1 if the firm picks the executive, and zero otherwise. Our main interest is whether boards consider the level of accounting conservatism in the executive's previous firm when hiring a CEO/CFO. We include the level of accounting conservatism in the executive's previous firm to capture this effect. The results for this specification are in panel A of table 8. The interaction term between the firm's level of social capital and the level of accounting conservatism in the executive's previous firm is positive for both CEOs and CFOs. This implies that when social capital increases near the firm, boards consider the level of accounting conservatism in their hiring decisions for CEOs and CFOs. Among other variables, the coefficient on previous firm size is positive (negative) for CEOs (CFOs). This means that firms tend to hire CEOs if they have worked in large firms; the same is not true for CFOs. In addition, executives who previously served as CEOs (CFOs) are more likely to be hired for that position. Executives of firms in the same state and/or the same industry are also more likely to be hired. As expected, older or female executives are less likely to be considered for managerial positions. Overall, the results indicate that firms in counties with high social capital pay more attention to executives' bias than firms in counties with low social capital. [10]

[Table 8 around here]

In panel B, we test whether firms in counties with high social capital prefer to hire executives who are born or raised in regions of the United States with high social capital. To do this, we obtain information on executives' origins as in Yonker (2017) and estimate the probability of a preference given the level of social capital in the executives' origin states.[11] The results in panel B show that firms headquartered in counties with high social capital are more likely to hire executives born or raised in states with high social capital. Because Yonker (2017), among others, finds a significant home bias toward managerial hiring, in column (2) we exclude all same-state hires and focus only on out-of-state hires. We continue to document the same effect even after removing same-state hires. This finding further supports the notion

[10] In an alternative test, we posit that if social capital induces norm-adherent behavior, then managers exposed to high (low) social capital regions should carry forward their norm-adherent (norm-deviant) behavior when hired by other firms. To test this, we first manually verify all CEO turnovers from 1997-2016 in the Execucomp database. We next determine whether the newly hired CEO previously served as a top executive in another firm. We then require at least three years of information before and after the CEO turnover. To test the level of accounting conservatism in the firm hiring the CEO, we use our accruals measure of accounting conservatism. We find that executives coming from regions with high social capital enhance accounting conservatism more than those coming from counties with low social capital.

[11] We are thankful to Scott Yonker for sharing the data on executive origins with us.

that firms headquartered in counties with high social capital tend to hire managers who are born or raised in states with high social capital.

5. Social capital and stock informativeness

In order to assess whether social capital-induced accounting conservatism positively influences a company's stock, we test if firms in counties with high social capital have lower idiosyncratic volatility and information asymmetry. As reported in equations (4) to (11), we use several measures of idiosyncratic volatility and information asymmetry. The results for these specifications are in tables 9 and 10. As hypothesized, firms in counties with high social capital have lower stock volatility and idiosyncratic risk. The coefficients in table 8 are statistically significant at the 1% level. The results are identical for the untransformed measure of social capital and the linearly interpolated measure. The coefficient on *SCAPITAL* is negative and significant in columns (1) to (4). This indicates that firms in counties with high social capital have lower idiosyncratic volatility as measured by the standard deviation of abnormal monthly returns, as well as by the standard deviation of factor-adjusted monthly returns.

Similarly, the coefficient on *SCAPITAL* is positive and significant in columns (5) and (6). This indicates that firms headquartered in counties with high social capital are more transparent, which is why market and industry returns explain a higher portion of their stock returns. Consistent with Hutton et al. (2009), we attribute lower idiosyncratic risk to higher accounting conservatism in counties with high social capital.

[Table 9 around here]

Table 10 presents results for models measuring information asymmetry. The coefficient on *SCAPITAL* is negative and statistically significant at the 1% level across all three measures of information asymmetry. Columns (1) and (2) report results for Amihud's (2002) illiquidity measure. We find that firms headquartered in counties with high social capital have considerably lower average illiquidity. Similarly, these firms also have lower bid-ask spreads and price delays. The results remain unchanged when we replace the untransformed measure of social capital with a linearly interpolated one. These findings are consistent with our hypothesis that social capital induced-accounting conservatism positively influences a company's stock.

[Table 10 around here]

6. Conclusion

In this paper, we study the relationship between county-level social capital and accounting conservatism. Previous evidence in corporate finance and accounting demonstrates that civic norms and the density of social networks surrounding firm headquarters limits opportunistic corporate behavior. We follow the same rationale and hypothesize that firms in counties with high social capital are less likely to hide bad news. This lower tendency leads to higher accounting conservatism. We also argue that firms headquartered in counties with high social capital have a lower probability of asset write-offs, lower idiosyncratic volatility, and lower information asymmetry.

To test these hypotheses, we employ different specifications. For our baseline model involving accounting conservatism, we use two different models. In the first model, we use the accumulated accruals measure of accounting conservatism, which, according to Givoly and Hayn (2000), captures conservatism in accounting practices. For our second model, we use the Basu (1997) asymmetric timeliness model. The asymmetric timeliness model shows firms' tendency to recognize bad news faster than good news. The results for both these specifications indicate that firms headquartered in counties with high social capital have higher accounting conservatism. These results are statistically significant and remain unchanged when we control for several other county-level demographics or use the linearly interpolated measure of social capital. To address endogeneity, we employ regression and use county-level total life expectancy and suicide rate as instruments. Our results remain qualitatively similar when we use these instruments as proxy for social capital.

We also show that firms in counties with high social capital are less likely to have large, nonrecurring asset write-offs. To test whether social capital-induced accounting conservatism influences idiosyncratic risk and information asymmetry, we test six different measures. The results in all our models and across different measures of idiosyncratic volatility and information asymmetry are consistent with our predictions. We find that firms in counties with high social capital have lower idiosyncratic volatility and information asymmetry. We attribute these effects primarily to the higher accounting conservatism of firms in counties with high social capital. Overall, our findings are consistent with previous literature in corporate finance and accounting, which find that social capital reduces norm-deviant corporate behavior.

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Table 1

Summary statistics.

This table contains the summary statistics for the sample. Panel A contains the summary statistics for the main measures of accounting conservatism. *CONS_TACC* is total accruals scaled by lagged total assets, summed over the current and previous two years, and multiplied by -1. *CONS_NACC* is non-operating accruals scaled by lagged total assets, summed over the current and previous two years, and multiplied by -1. *CONS_MTB* is the one-year-ahead market-to-book ratio. *WRITEOFF* is defined as follows: for a negative special item, when the ratio of its absolute value to total assets at the beginning of the year exceeds 1%, then the variable takes the value of the ratio, otherwise the variable equals zero. Panel B contains data on readability of financial reports. *LITIGIOUS* (*UNCERTAIN*, *NEGATION*, *MODALWEAK*) is the number of litigious (uncertain, negation, modal weak) words as defined in Loughran and McDonald (2011) divided by total words in the 10-K report and multiplied by 1,000. Panel C presents firm characteristics. *SIZE* is market value of equity. *AGE* is the number of years the firm is listed on CRSP. *MTB* is market value of equity divided by book value of equity. *LEV* is the sum of short- and long-term debt divided by total assets. *LITIGATION* is an indicator variable equal to 1 if the firm is in a high-litigation industry, and zero otherwise. *RETURN* is the market-adjusted returns over the past 12 months ending three months after the fiscal year end. *SDRET* is the standard deviation of market-adjusted returns over the past 36 months ending three months after the fiscal year end. *ETP* is net income before extraordinary items divided by lagged market value of equity. *CFO* is cash flow from operations divided by total assets. *ROA* is the ratio of income before extraordinary items to lagged total assets. *CAPEX* is capital expenditures divided by lagged sales. *ΔSALES* is the percentage change in total sales. *NOA* is net operating assets, calculated as shareholder's equity minus cash and marketable securities, plus total debt, deflated by sales. *DISACC* is abnormal accruals, estimated as the absolute value of the residual from the Dechow and Dichev (2002) model. Panel D contains summary statistics for variables related to stock price. *IDIOVOL* is the standard deviation of factor-adjusted returns over 36 months ending three months after the fiscal year. *ILLIQUIDITY* is the average daily Amihud (2002) illiquidity measure, calculated over 252 trading days ending three months after the fiscal year end. *SPREAD* is the average daily difference between bid and ask prices, divided by the average of bid and ask prices, calculated over 252 trading days ending three months after the fiscal year end. *PDELAY* is 1 minus the ratio of R^2 obtained from the regression of weekly returns on the current market return to R^2 obtained from the regression of weekly returns on the current and four lags of market return. *SYNC* is the logarithm of (R^2/1- R^2), where R^2 is from the regression of weekly returns on the current, lead, and lagged market and industry returns. *TANG* is net property, plant, and equipment divided by total assets. *VOLUME* is average weekly volume over the previous 52 weeks. *SDRETURN* (*SKRETURN*, *KURETURN*) is the standard deviation (skewness, kurtosis) of weekly returns over the previous 52 weeks ending three months after the fiscal year end. Panel E presents summary statistics related to county-level demographics. *SCAPITAL* is the county-level measure of social capital based on data from Northeast Regional Center for Rural Development (NRCRD) at Pennsylvania State University. *POPULATION* is county-level total population. *ΔPOPULATION* is the percentage change in county-level population. *INCOME* is median household income in the county. *INEQUALITY* is mean household income in the county divided by the median income. *RELIGION* is the fraction of county's population that claims to adhere to an organized religion. *EDUCATION* is the fraction of county's population that has completed at least one year of college. *LIFE* is county-level average life expectancy for both males and females. *SUICIDE* is the county-specific suicides as a percentage of total deaths.

	Observations	Mean	S.D.	P25	Median	P75
Panel A: Measures of conservatism						
CONS_TACC	54,531	0.104	0.690	-0.054	0.033	0.143
CONS_NACC	54,531	0.193	0.744	0.011	0.079	0.197
CONS_MTB	50,932	2.821	7.394	1.104	1.961	3.514
WRITEOFF	48,825	2.156	6.466	0.000	0.000	1.547
Panel B: Measures of readability						
UNCERTAIN	51,314	1.226	0.332	0.971	1.217	1.466
NEGATION	51,314	0.073	0.035	0.050	0.066	0.089
MODALWEAK	51,314	0.510	0.202	0.365	0.489	0.636
FILESIZE	51,314	12.571	0.581	12.203	12.572	12.937
BOGINDEX	51,314	84.069	7.524	79.000	84.000	89.000
Panel C: Firm characteristics						
SIZE (millions of dollars)	54,531	2758.479	7356.334	67.542	337.169	1519.946
AGE (years)	54,531	17.973	15.542	7.000	13.000	24.000
MTB	54,531	2.923	7.605	1.150	2.018	3.602
LEV	54,531	0.224	0.262	0.012	0.173	0.340
LITIGATION	54,531	0.378	0.485	0.000	0.000	1.000
RETURN	54,531	0.022	0.503	-0.259	0.018	0.294
SDRET	54,531	12.250	5.192	8.047	11.567	15.989
ETP	54,501	-0.050	0.338	-0.061	0.032	0.067
CFO	49,331	0.045	0.242	0.012	0.082	0.144
ROA	49,331	-0.034	0.362	-0.046	0.034	0.084
CAPEX	49,331	0.146	0.579	0.018	0.036	0.077
ΔSALES	49,331	0.169	0.765	-0.037	0.067	0.198
NOA	49,331	0.759	2.365	0.284	0.517	0.880
DISACC	44,050	0.051	0.064	0.014	0.032	0.063
Panel D: Stock characteristics						

IDIOVOL	44,050	11.989	5.280	7.753	11.167	15.618
SYNC	44,050	-1.115	0.922	-1.737	-1.085	-0.456
ILLIQUIDITY	44,050	1.011	1.628	0.013	0.130	1.337
SPREAD	44,050	1.445	2.283	0.110	0.447	1.844
PDELAY	44,050	0.412	0.307	0.144	0.329	0.659
VOLUME	44,050	39.635	38.071	13.664	28.514	51.912
SDRETURN	44,050	7.125	4.296	4.130	6.031	8.908
SKRETURN	44,050	0.424	0.990	-0.131	0.351	0.898
KURETURN	44,050	5.592	3.684	3.413	4.401	6.300
Panel E: County characteristics						
SCAPITAL	54,531	-0.594	0.801	-1.217	-0.525	-0.041
SCAPITAL (linearly interpolated)	54,531	-0.572	0.793	-1.177	-0.532	-0.045
POPULATION (millions)	54,531	1.610	1.863	0.589	0.981	1.685
ΔPOPULATION	54,531	0.023	0.213	0.002	0.008	0.014
INCOME (thousands of dollars)	54,531	58.832	15.648	46.761	55.369	69.045
INEQUALITY	54,531	10.832	12.864	3.721	6.731	12.398
RELIGION	54,531	0.580	0.128	0.467	0.589	0.680
EDUCATION	54,531	0.340	0.101	0.269	0.319	0.405
LIFE	54,531	78.790	2.104	77.404	78.812	80.314
SUICIDE	54,531	1.414	0.497	1.055	1.361	1.662

Table 2

Univariate Tests.

This table contains the univariate tests for the sample. Counties with high (low) social capital are firm-year observations in the top (bottom) quintile of *SCAPITAL*, where *SCAPITAL* is the county-level measure of social capital based on data from Northeast Regional Center for Rural Development (NRCRD) at Pennsylvania State University. All other variables are defined in table 1.

	High Social Capital	Low Social Capital	Difference	*t*-statistic
Panel A: Measures of conservatism				
CONS_TACC	0.088	0.074	0.014*	1.79
CONS_NACC	0.161	0.171	-0.010	-1.18
CONS_MTB	2.832	2.612	0.220**	2.23
WRITEOFF	1.839	2.014	-0.175**	-2.11
Panel B: Measures of readability				
UNCERTAIN	1.188	1.217	-0.029***	-6.25
NEGATION	0.072	0.074	-0.002***	-3.84
MODALWEAK	0.486	0.497	-0.011***	-3.99
FILESIZE	12.527	12.588	-0.061***	-7.51
BOGINDEX	82.719	83.863	-1.144***	-11.02
Panel C: Firm characteristics				
SIZE (millions of dollars)	2824.849	2624.889	199.961**	2.01
AGE (years)	19.929	17.237	2.692***	12.52
MTB	2.819	2.701	0.118	1.21
LEV	0.229	0.247	-0.018***	-5.10
LITIGATION	0.323	0.343	-0.020***	-3.16
RETURN	0.029	0.021	0.009	1.29
SDRET	11.533	12.194	-0.661***	-9.64
ETP	-0.038	-0.043	0.005	1.17
CFO	0.055	0.061	-0.006*	-1.90
ROA	-0.017	-0.012	-0.005	-1.15
CAPEX	0.142	0.119	0.023***	3.02
ΔSALES	0.162	0.156	0.006	0.61
NOA	0.751	0.720	0.031	0.97
DISACC	0.047	0.051	-0.004***	-3.89
Panel D: Stock characteristics				
IDIOVOL	11.374	11.887	-0.513***	-6.62
SYNC	-1.070	-1.132	0.062***	4.41
ILLIQUIDITY	0.941	1.071	-0.129***	-5.22
SPREAD	1.352	1.531	-0.180***	-5.17
PDELAY	0.401	0.419	-0.017***	-3.75
VOLUME	36.781	38.028	-1.247**	-2.30
SDRETURN	6.673	7.020	-0.347***	-5.59
SKRETURN	0.394	0.419	-0.025*	-1.70
KURETURN	5.547	5.624	-0.077	-1.38
Panel E: County characteristics				
SCAPITAL	0.476	-1.614	2.090***	377.23
SCAPITAL (linearly interpolated)	0.501	-1.590	2.091***	373.78
POPULATION (millions)	0.907	3.394	-2.487***	-89.35
ΔPOPULATION	0.016	0.039	-0.023***	-7.55
INCOME (thousands of dollars)	56.246	55.321	0.925***	5.12
INEQUALITY	7.062	22.759	-15.696***	-81.93
RELIGION	0.622	0.544	0.079***	51.85
EDUCATION	0.389	0.291	0.098***	79.96
LIFE	78.787	78.718	0.069***	2.67
SUICIDE	1.394	1.613	-0.219***	-37.29

Table 3

County-level social capital and accounting conservatism: Baseline results.

This table contains results of regressions testing the effects of county-level social capital on accounting conservatism using OLS regressions. *CONS_TACC* is the total accruals scaled by lagged total assets, summed over the current and previous two years, and multiplied by -1. *CONS_NACC* is non-operating accruals scaled by lagged total assets, summed over the current and previous two years, and multiplied by -1. *CONS_MTB* is the one-year-ahead market-to-book ratio. *SCAPITAL* is the county-level measure of social capital based on data from Northeast Regional Center for Rural Development (NRCRD) at Pennsylvania State University. All other variables are defined in table 1. We include industry-year fixed effects but omit the results. The *t*-statistics based on firm cluster robust standard errors are in parentheses. Levels of significance are indicated by *, **, and *** for 10%, 5%, and 1%, respectively.

Dependent variable:	*CONS_TACC*	*CONS_TACC*	*CONS_NACC*	*CONS_NACC*	*CONS_MTB*	*CONS_MTB*
SCAPITAL:	Untransformed	Linearly Interpolated	Untransformed	Linearly Interpolated	Untransformed	Linearly Interpolated
	(1)	(2)	(3)	(4)	(5)	(6)
SCAPITAL	**0.021***** **(3.15)**	**0.022***** **(3.32)**	**0.014**** **(2.01)**	**0.014**** **(2.03)**	**0.211***** **(2.73)**	**0.235***** **(3.01)**
SIZE	0.010*** (3.89)	0.010*** (3.89)	0.021*** (7.86)	0.021*** (7.86)	0.474*** (18.71)	0.474*** (18.72)
AGE	-0.040*** (-4.74)	-0.040*** (-4.77)	-0.095*** (-10.51)	-0.095*** (-10.55)	-0.190*** (-2.80)	-0.191*** (-2.81)
MTB	0.002** (2.29)	0.002** (2.29)	0.003** (2.35)	0.003** (2.35)		
LEV	-0.001 (-0.06)	-0.001 (-0.06)	0.009 (0.47)	0.009 (0.47)	-1.837*** (-7.01)	-1.836*** (-7.01)
SDRET	0.021*** (10.88)	0.021*** (10.85)	0.023*** (11.86)	0.023*** (11.83)	0.072*** (5.69)	0.072*** (5.71)
RETURN	-0.033*** (-3.92)	-0.033*** (-3.92)	-0.058*** (-6.37)	-0.058*** (-6.36)	0.886*** (11.21)	0.886*** (11.21)
LITIGATION	0.082*** (4.26)	0.082*** (4.26)	0.052** (2.40)	0.052** (2.40)	0.559*** (3.29)	0.559*** (3.29)
POPULATION	0.012 (1.35)	0.012 (1.32)	0.012 (1.31)	0.012 (1.27)	0.196** (2.26)	0.199** (2.30)
ΔPOPULATION	0.049** (2.33)	0.049** (2.33)	0.048** (2.14)	0.048** (2.14)	0.100 (0.73)	0.100 (0.73)
INCOME	-0.004 (-0.12)	-0.004 (-0.12)	-0.009 (-0.27)	-0.009 (-0.28)	0.664** (2.07)	0.689** (2.16)
INEQUALITY	-0.000 (-0.54)	-0.000 (-0.51)	-0.000 (-0.37)	-0.000 (-0.36)	-0.011* (-1.84)	-0.011* (-1.79)
RELIGION	-0.085** (-2.33)	-0.087** (-2.36)	-0.063* (-1.66)	-0.064* (-1.67)	-0.407 (-1.09)	-0.444 (-1.18)
EDUCATION	0.085 (0.93)	0.085 (0.94)	0.079 (0.81)	0.081 (0.83)	-1.484 (-1.64)	-1.586* (-1.76)
Intercept	-0.227 (-0.70)	-0.223 (-0.68)	-0.044 (-0.13)	-0.035 (-0.10)	-9.160*** (-2.64)	-9.412*** (-2.74)
Industry-year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Adjusted R^2	0.055	0.055	0.052	0.052	0.035	0.035
Number of observations	54,531	54,531	54,531	54,531	50,932	50,932

Table 4

County-level social capital and accounting conservatism: Instrumental variable (IV) regressions.

This table contains results of regressions testing the effects of county-level social capital on accounting conservatism using instrumental variable regressions. *CONS_TACC* is total accruals scaled by lagged total assets, summed over the current and previous two years, and multiplied by -1. *CONS_NACC* is non-operating accruals scaled by lagged total assets, summed over the current and previous two years, and multiplied by -1. *CONS_MTB* is the one-year-ahead market-to-book ratio. *SCAPITAL* is the county-level measure of social capital based on data from Northeast Regional Center for Rural Development (NRCRD) at Pennsylvania State University. All other variables are defined in table 1. We include industry-year fixed effects but omit the results. The *t*-statistics based on firm cluster robust standard errors are in parentheses. Levels of significance are indicated by *, **, and *** for 10%, 5%, and 1%, respectively.

Dependent variable:	*SCAPITAL*	*CONS_NACC*	*CONS_TACC*	*CONS_MTB*
	IV First Stage	IV Second Stage	IV Second Stage	IV Second Stage
	(1)	(2)	(3)	(4)
SCAPITAL		**0.071****	**0.055***	**0.210**
		(2.40)	**(1.73)**	**(0.67)**
LIFE	0.042***			
	(3.94)			
SUICIDE	-0.308***			
	(-15.96)			
SIZE	-0.006	0.010***	0.021***	0.474***
	(-1.42)	(3.98)	(7.89)	(18.68)
AGE	0.030***	-0.042***	-0.097***	-0.190***
	(3.28)	(-5.02)	(-10.73)	(-2.78)
MTB	0.001**	0.002**	0.003**	
	(2.28)	(2.25)	(2.32)	
LEV	-0.028	0.000	0.011	-1.837***
	(-1.38)	(0.02)	(0.53)	(-7.01)
SDRET	-0.006***	0.021***	0.024***	0.072***
	(-4.40)	(10.85)	(11.76)	(5.61)
RETURN	0.012**	-0.034***	-0.058***	0.886***
	(2.43)	(-3.96)	(-6.38)	(11.21)
LITIGATION	-0.037	0.084***	0.053**	0.559***
	(-1.40)	(4.35)	(2.48)	(3.26)
POPULATION	-0.373***	0.030**	0.026**	0.196
	(-26.66)	(2.33)	(2.00)	(1.48)
ΔPOPULATION	-0.026***	0.051**	0.050**	0.100
	(-2.67)	(2.44)	(2.22)	(0.73)
INCOME	-1.805***	0.069	0.050	0.661
	(-25.67)	(1.30)	(0.90)	(1.20)
INEQUALITY	-0.005***	-0.000	-0.000	-0.011*
	(-6.63)	(-0.13)	(-0.06)	(-1.75)
RELIGION	0.752***	-0.143***	-0.110**	-0.405
	(10.73)	(-2.94)	(-2.13)	(-0.77)
EDUCATION	5.925***	-0.207	-0.158	-1.475
	(48.33)	(-1.20)	(-0.86)	(-0.75)
Industry-year fixed effects	Yes	Yes	Yes	Yes
Adjusted R^2	0.589	0.004	0.013	-0.000
Kleibergen-Paap F-statistic	146.142			
Hansen J-statistic		0.137	0.002	0.022
P-value		0.712	0.961	0.883
Number of observations	54,531	54,531	54,531	50,929

Table 5

County-level social capital and accounting conservatism: Asymmetric timeliness model.

This table contains results of regressions testing the effects of county-level social capital on accounting conservatism based on the Basu (1997) model. *ETP* is net income before extraordinary items divided by lagged market value of equity. *SCAPITAL* is the county-level measure of social capital based on the data from Northeast Regional Center for Rural Development (NRCRD) at Pennsylvania State University. *RETURN* is market-adjusted returns over the past 12 months ending three months after the fiscal year end. *NEGATIVE* is an indicator variable equal to 1 if returns are negative, and zero otherwise. All other variables are defined in table 1. We include industry-year fixed effects but omit the results. The *t*-statistics based on firm cluster robust standard errors are in parentheses. Levels of significance are indicated by *, **, and *** for 10%, 5%, and 1%, respectively.

Dependent variable: *ETP*	OLS	OLS	OLS	2SRI Second Stage
SCAPITAL:	Untransformed	Untransformed	Linearly interpolated	Untransformed
	(1)	(2)	(3)	(4)
RETURN	-0.075***	0.230***	0.232***	0.228***
	(-6.56)	(3.87)	(3.90)	(3.81)
NEG	0.001	0.053	0.053	0.056*
	(0.10)	(1.58)	(1.57)	(1.65)
NEG × RETURN	0.401***	0.039	0.036	0.044
	(20.11)	(0.37)	(0.34)	(0.41)
SCAPITAL	0.012***	-0.000	-0.001	-0.003
	(3.05)	(-0.07)	(-0.34)	(-0.58)
SCAPITAL × RETURN	-0.032***	-0.025**	-0.021**	-0.026**
	(-2.94)	(-2.38)	(-2.07)	(-2.05)
SCAPITAL × NEG	-0.002	-0.001	-0.001	0.005
	(-0.37)	(-0.11)	(-0.22)	(0.73)
SCAPITAL × RETURN × NEG	**0.063*****	**0.047*****	**0.040****	**0.053****
	(3.62)	**(2.81)**	**(2.41)**	**(2.49)**
SIZE		0.013***	0.013***	0.013***
		(7.06)	(7.05)	(7.06)
SIZE × RETURN		-0.002	-0.002	-0.002
		(-0.37)	(-0.36)	(-0.36)
SIZE × NEG		0.000	0.000	0.000
		(0.03)	(0.02)	(0.03)
SIZE × RETURN × NEG		-0.044***	-0.044***	-0.044***
		(-5.17)	(-5.19)	(-5.17)
MTB		-0.000	-0.000	-0.000
		(-1.23)	(-1.23)	(-1.23)
MTB × RETURN		0.001	0.001	0.001
		(0.79)	(0.79)	(0.78)
MTB × NEG		0.000	0.000	0.000
		(0.40)	(0.40)	(0.40)
MTB × RETURN × NEG		-0.002	-0.002	-0.002
		(-1.57)	(-1.58)	(-1.57)
LEV		-0.065***	-0.065***	-0.065***
		(-2.94)	(-2.93)	(-2.92)
LEV × RETURN		-0.128***	-0.128***	-0.128***
		(-2.78)	(-2.78)	(-2.77)
LEV × NEG		-0.058	-0.058	-0.058
		(-1.43)	(-1.43)	(-1.44)
LEV × RETURN × NEG		0.303***	0.304***	0.303***
		(3.78)	(3.79)	(3.78)
Other controls and interactions	No	Yes	Yes	Yes
First-stage residuals and interactions	No	No	No	Yes
Industry-year fixed effects	Yes	Yes	Yes	Yes
Adjusted R^2	0.109	0.215	0.215	0.215
Number of observations	54,501	54,501	54,501	54,501

Table 6

County-level social capital and information bundling: Asset write-offs.

This table contains results of regressions testing how county-level social capital affects information bundling as captured by asset write-offs. *WRITEOFF* is defined as follows: for a negative special item, when the ratio of its absolute value to total assets at the beginning of the year exceeds 1%, then the variable takes the value of the ratio, otherwise the variable equals zero. *SCAPITAL* is the county-level measure of social capital based on data from Northeast Regional Center for Rural Development (NRCRD) at Pennsylvania State University. *SIZE* is the natural logarithm of market value of equity. *SC_INCREASE* equals 1 (zero) if the firm relocates its headquarters to a county with higher (lower) social capital. *POST* equals 1 for years after headquarters relocation, and zero otherwise. All other variables are defined in table 1. We include industry-year fixed effects but omit the results. The *t*-statistics based on firm cluster robust standard errors are in parentheses. Levels of significance are indicated by *, **, and *** for 10%, 5%, and 1%, respectively.

	Dependent Variable: *WRITEOFF*			
	Untransformed *SCAPITAL*	Untransformed *SCAPITAL*	Linearly Interpolated *SCAPITAL*	Headquarters Relocation
	(1)	(2)	(3)	(4)
SCAPITAL	**-0.104**** **(-2.24)**	**-0.120**** **(-1.99)**	**-0.133**** **(-2.23)**	
SC_INCREASE				0.224 (1.23)
POST				0.169 (0.84)
SC_INCREASE* × *POST				**-0.543**** **(-2.39)**
SIZE		-0.125*** (-5.86)	-0.125*** (-5.85)	0.092** (2.20)
MTB		0.004 (0.78)	0.005 (0.78)	-0.013 (-1.03)
LEV		0.994*** (3.10)	0.993*** (3.10)	0.768** (2.21)
CFO		-0.756 (-1.36)	-0.755 (-1.36)	4.559*** (5.35)
ROA		-1.873*** (-3.76)	-1.873*** (-3.76)	-5.565*** (-6.80)
CAPEX		-0.229** (-2.25)	-0.229** (-2.25)	-0.551** (-2.06)
ΔSALES		0.175** (2.17)	0.176** (2.17)	0.031 (0.29)
NOA		0.066** (2.37)	0.066** (2.37)	0.002 (0.04)
County-level controls	No	Yes	Yes	Yes
Industry-year fixed effects	Yes	Yes	Yes	Yes
Adjusted/Pseudo R^2	0.025	0.046	0.046	0.114
Number of observations	49331	49331	49331	2,706

Table 7

County-level social capital and information withholding: Use of ambiguous language in 10-K reports.

This table contains results of regressions testing how county-level social capital affects information withholding as captured by the use of ambiguous language in 10-K reports. *LITIGIOUS* (*UNCERTAIN*, *NEGATION*, *MODALWEAK*) is the number of litigious (uncertain, negation, modal weak) words as defined in Loughran and McDonald (2011) divided by total words in the 10-K report and multiplied by 1,000. *SCAPITAL* is the county-level measure of social capital based on data from Northeast Regional Center for Rural Development (NRCRD) at Pennsylvania State University. *SIZE* is the natural logarithm of market value of equity. All other variables are defined in table 1. We include industry-year fixed effects but omit the results. The *t*-statistics based on firm cluster robust standard errors are in parentheses. Levels of significance are indicated by *, **, and *** for 10%, 5%, and 1%, respectively.

Dependent variable:	*UNCERTAIN*	*NEGATION*	*MODALWEAK*	*FILESIZE*	*BOGINDEX*
	(1)	(2)	(3)	(4)	(5)
SCAPITAL	**-0.024***	**-0.002***	**-0.012***	**-0.048***	**-0.796***
	(-4.94)	**(-3.64)**	**(-3.73)**	**(-5.75)**	**(-5.87)**
SIZE	0.001	-0.001***	0.001	0.099***	0.426***
	(0.96)	(-9.50)	(1.37)	(37.10)	(10.22)
MTB	0.000*	0.000*	0.001***	-0.002***	-0.006
	(1.65)	(1.75)	(4.97)	(-4.62)	(-1.21)
LEV	-0.105***	-0.001	-0.057***	0.371***	1.333***
	(-10.29)	(-0.89)	(-9.06)	(14.10)	(4.68)
CFO	-0.027**	0.001	-0.071***	-0.144***	-3.001***
	(-2.40)	(1.11)	(-8.64)	(-5.17)	(-8.15)
ROA	-0.003	-0.000	-0.015**	-0.081***	-0.488**
	(-0.47)	(-0.61)	(-2.39)	(-3.89)	(-2.19)
CAPEX	0.009***	0.000	0.012***	-0.003	0.094
	(2.94)	(1.08)	(5.85)	(-0.53)	(0.89)
ΔSALES	0.006***	0.001***	0.009***	0.009***	0.339***
	(3.26)	(2.86)	(7.16)	(2.63)	(7.20)
NOA	0.000	0.000	-0.001*	0.002	0.028
	(0.24)	(0.64)	(-1.83)	(1.34)	(1.19)
Intercept	0.600***	0.062***	-0.335**	11.824***	61.042***
	(2.94)	(3.26)	(-2.51)	(35.82)	(11.31)
County-level controls	Yes	Yes	Yes	Yes	Yes
Industry-year fixed effects	Yes	Yes	Yes	Yes	Yes
Adjusted R^2	0.387	0.034	0.426	0.305	0.374
Number of observations	51,314	51,314	51,314	51,314	51,314

Table 8

Social capital and managerial hiring decision.

Panel A of this table analyzes whether firms in counties with high social capital tend to hire managers from firms with proven records of accounting conservatism. It presents the results of regressions testing how conditional accounting conservatism affects decisions to hire CEOs/CFOs as described in section 4. By manually analyzing CEO turnover data for our sampled firms, we first determine which ones involve hiring a top executive from another firm. We identify 328 cases for CEOs and 346 cases for CFOs with non-missing observations for our key variable. We then follow Bouwman (2011) and randomly assign 999 executives to each of these hiring cases from a large list of all available executives from the EXECUCOMP database one year prior to the turnover. This yields a sample of 328,000 (346,000) potential CEOs (CFOs) for a given firm. The determinants of the hiring decision are as in Bouwman (2011). *PICKED* equals 1 if the manager is picked as the CEO/CFO, and zero otherwise. *OLD_CONSERV* is the candidate's previous firm's total accruals scaled by lagged total assets, multiplied by -1 and summed over the previous three years. *NEW_SC* is *SCAPITAL* surrounding the headquarters of the hiring firm. *SCAPITAL* is the county-level measure of social capital based on data from Northeast Regional Center for Rural Development (NRCRD) at Pennsylvania State University. *OLD_SIZE* is the size of the candidate's previous firm. *OLD_RETURN* is the candidate's previous firm's return over the previous 12 months. *CEO* equals 1 if the candidate served as the CEO in the previous firm, and zero otherwise. *CFO* equals 1 if the candidate served as the CFO in the previous firm, and zero otherwise. *EXEC_AGE* is the candidate's age in years. *EXEC_FEMALE* equals 1 if the candidate is a female, and zero otherwise. *SAME_INDUSTRY* equals 1 if the candidate comes from the same industry as the firm, and zero otherwise. *SAME_STATE* equals 1 if the candidate comes from the same state as the firm, and zero otherwise. The *t*-statistics based on firm cluster robust standard errors are in parentheses. Panel B presents logit regressions on the likelihood of hiring executives born or raised in states with high social capital by firms headquartered in states with high social capital. *FIRM_SC* is average social capital in the state where the firm is headquartered. *EXEC_SC* is average social capital in the state where the executive was born or raised. We present the exponentiated coefficients (odds ratio), and the *t*-statistics are based on firm cluster robust standard errors and shown in parentheses. Levels of significance are indicated by *, **, and *** for 10%, 5%, and 1%, respectively.

Panel A: Social capital and preference for managers with a proven accounting conservatism record

Dependent variable:	*PICKED*	*PICKED*
	CEO	CFO
	(1)	(2)
OLD_CONSERV	0.363	0.647***
	(1.42)	(3.65)
NEW_SC	0.080**	0.168***
	(2.45)	(5.43)
OLD_CONSERV* × *NEW_SC	**0.580****	**0.397****
	(2.06)	**(2.06)**
OLD_SIZE	0.233***	-0.076**
	(6.45)	(-2.39)
OLD_RETURN	-0.224*	0.101
	(-1.80)	(0.85)
CEO	0.474***	-2.559***
	(3.45)	(-4.36)
CFO	-1.010***	1.472***
	(-4.57)	(13.12)
EXEC_AGE	-0.062***	-0.053***
	(-7.97)	(-7.78)
EXEC_FEMALE	-0.541**	-0.036
	(-2.12)	(-0.20)
SAME_INDUSTRY	2.389***	1.540***
	(18.50)	(11.23)
SAME_STATE	1.445***	2.024***
	(11.04)	(17.66)
Year fixed effects	Yes	Yes
Pseudo R^2	0.118	0.143
Number of observations	328,000	346,000

Panel B: Social capital and preference for managers born or raised in states with high social capital			
Dependent variable:	*FIRM_SC*	*FIRM_SC*	*FIRM_SC*
Hiring decision:	CEO	Executives (Excluding CEO)	Out-of-State
	(1)	(2)	(3)
EXEC_SC	3.617***	4.145***	1.192***
	(18.95)	(36.68)	(4.38)
Year fixed effects	Yes	Yes	Yes
Pseudo R^2	0.073	0.087	0.004
Number of observations	30,428	111,464	94,545

Table 9

County-level social capital and stock volatility, idiosyncratic risk, and stock price synchronicity.

This table contains results of regressions testing how county-level social capital affects stock volatility, idiosyncratic risk, and stock price synchronicity. *SDRET* is the standard deviation of market-adjusted returns over the next 36 months starting three months after the fiscal year end. *IDIOVOL* is the standard deviation of factor-adjusted returns over the next 36 months starting three months after the fiscal year. *SYNC* is the logarithm of (R^2/1- R^2), where R^2 is obtained from the regression of weekly returns on the current, lead, and lagged market and industry returns for the next 52 weeks starting three months after the fiscal year end. *SCAPITAL* is the county-level measure of social capital based on data from Northeast Regional Center for Rural Development (NRCRD) at Pennsylvania State University. All other variables are defined in table 1. We include industry-year fixed effects but omit the results. The *t*-statistics based on firm cluster robust standard errors are in parentheses. Levels of significance are indicated by *, **, and *** for 10%, 5%, and 1%, respectively.

Dependent variable:	*SDRET*	*IDIOVOL*	*SYNC*	*ILLIQUIDITY*	*SPREAD*	*PDELAY*
	(1)	(2)	(3)	(4)	(5)	(6)
SCAPITAL	**-0.155***** **(-2.96)**	**-0.155***** **(-2.96)**	**0.026***** **(2.75)**	**-0.054**** **(-2.33)**	**-0.090***** **(-3.32)**	**-0.006**** **(-1.98)**
SIZE	-0.835*** (-41.15)	-0.835*** (-41.15)	0.226*** (66.78)	-0.504*** (-48.00)	-0.483*** (-42.76)	-0.070*** (-57.62)
AGE	-0.660*** (-15.42)	-0.660*** (-15.42)	0.019** (2.52)	0.192*** (10.93)	0.227*** (11.04)	0.007*** (2.72)
MTB	0.013*** (4.56)	0.013*** (4.56)	-0.001*** (-2.60)	0.002*** (3.19)	0.001 (1.29)	0.000 (1.55)
LEV	1.094*** (7.68)	1.094*** (7.68)	-0.021 (-1.17)	0.181*** (3.82)	0.563*** (7.78)	0.014** (2.21)
DISACC	2.405*** (6.19)	2.405*** (6.19)	-0.265*** (-4.26)	0.469*** (3.84)	0.450** (2.39)	0.103*** (4.53)
ΔSALES	0.140*** (4.69)	0.140*** (4.69)	-0.005 (-0.92)	-0.009 (-1.09)	-0.030** (-2.52)	0.002 (0.92)
CFO	-2.391*** (-12.97)	-2.391*** (-12.97)	-0.002 (-0.10)	0.188*** (4.65)	0.066 (1.21)	-0.023*** (-3.18)
CAPEX	0.141*** (2.95)	0.141*** (2.95)	-0.021*** (-2.98)	-0.027** (-2.34)	-0.029* (-1.77)	0.002 (0.71)
VOLUME	0.006*** (7.19)	0.006*** (7.19)	0.002*** (10.38)	-0.008*** (-21.96)	-0.010*** (-22.48)	-0.001*** (-12.70)
SDRETURN	0.510*** (45.58)	0.510*** (45.58)	-0.000 (-0.02)	0.028*** (7.12)	0.080*** (13.46)	-0.000 (-0.69)
SKRETURN	-0.213*** (-10.47)	-0.213*** (-10.47)	0.016*** (3.80)	0.009 (1.54)	-0.015* (-1.77)	-0.005*** (-3.72)
KURETURN	-0.112*** (-17.61)	-0.112*** (-17.61)	-0.005*** (-4.26)	-0.002 (-0.80)	-0.008*** (-2.95)	0.002*** (4.84)
Intercept	8.577*** (3.92)	8.577*** (3.92)	-2.602*** (-7.05)	4.906*** (4.94)	6.051*** (5.34)	0.935*** (7.53)
County-level controls	Yes	Yes	Yes	Yes	Yes	Yes
Industry-year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Adjusted R^2	0.618	0.618	0.432	0.582	0.549	0.386
Number of observations	44,050	44,050	44,050	44,050	44,050	44,050

Table 10

County-level social capital, liquidity, information asymmetry, and price delay.

This table contains results of regressions testing how county-level social capital affects stock liquidity, information asymmetry, and price delay. *ILLIQUIDITY* is the average daily Amihud (2002) illiquidity measure, calculated over 252 trading days starting three months after the fiscal year end. *SPREAD* is the average daily difference between bid and ask prices divided by average of bid and ask prices, calculated over 252 trading days starting three months after the fiscal year end. *PDELAY* is 1 minus the ratio of R^2 obtained from the regression of weekly returns on the current market return to R^2 obtained from the regression of weekly returns on the current and four lags of market return over the next 52 weeks starting three months after the fiscal year end. *SCAPITAL* is the county-level measure of social capital based on data from Northeast Regional Center for Rural Development (NRCRD) at Pennsylvania State University. All other variables are defined in table 1. We include industry-year fixed effects but omit the results. The *t*-statistics based on firm cluster robust standard errors are shown in parentheses. Levels of significance are indicated by *, **, and *** for 10%, 5%, and 1%, respectively.

Dependent variable:	*ILLIQUIDITY*	*ILLIQUIDITY*	*SPREAD*	*SPREAD*	*PDELAY*	*PDELAY*
SCAPITAL:	Untransformed	Linearly Interpolated	Untransformed	Linearly Interpolated	Untransformed	Linearly Interpolated
	(1)	(2)	(3)	(4)	(5)	(6)
SCAPITAL	**-0.052****	**-0.058****	**-0.090*****	**-0.093*****	**-0.007****	**-0.007****
	(-2.24)	**(-2.57)**	**(-3.33)**	**(-3.51)**	**(-2.24)**	**(-2.27)**
SIZE	-0.505***	-0.505***	-0.482***	-0.482***	-0.070***	-0.070***
	(-48.49)	(-48.49)	(-42.59)	(-42.59)	(-58.69)	(-58.70)
AGE	0.191***	0.191***	0.228***	0.228***	0.007***	0.007***
	(10.92)	(10.94)	(11.01)	(11.02)	(2.83)	(2.83)
MTB	0.003***	0.003***	0.001	0.001	0.000	0.000
	(3.43)	(3.45)	(1.22)	(1.24)	(1.31)	(1.32)
LEV	0.197***	0.196***	0.583***	0.583***	0.017***	0.017***
	(4.15)	(4.15)	(7.97)	(7.96)	(2.67)	(2.67)
DISACC	0.507***	0.505***	0.502***	0.500***	0.108***	0.108***
	(4.25)	(4.23)	(2.69)	(2.68)	(4.92)	(4.92)
ΔSALES	-0.014	-0.013	-0.039***	-0.039***	0.001	0.001
	(-1.64)	(-1.61)	(-3.12)	(-3.09)	(0.62)	(0.63)
CFO	0.230***	0.230***	0.053	0.053	-0.033***	-0.033***
	(5.46)	(5.46)	(0.72)	(0.72)	(-4.95)	(-4.94)
CAPEX	-0.021*	-0.022*	-0.018	-0.019	0.002	0.002
	(-1.78)	(-1.79)	(-1.00)	(-1.01)	(0.90)	(0.90)
VOLUME	-0.008***	-0.008***	-0.010***	-0.010***	-0.001***	-0.001***
	(-22.55)	(-22.56)	(-23.09)	(-23.09)	(-12.78)	(-12.78)
SDRETURN	0.033***	0.032***	0.090***	0.090***	-0.000	-0.000
	(8.20)	(8.19)	(14.89)	(14.89)	(-0.77)	(-0.77)
SKRETURN	0.008	0.008	-0.016*	-0.016*	-0.005***	-0.005***
	(1.35)	(1.35)	(-1.87)	(-1.87)	(-3.65)	(-3.65)
KURETURN	-0.002	-0.002	-0.009***	-0.009***	0.002***	0.002***
	(-1.21)	(-1.21)	(-3.30)	(-3.29)	(4.83)	(4.83)
Intercept	4.404***	4.485***	5.366***	5.376***	0.965***	0.961***
	(4.53)	(4.65)	(4.84)	(4.90)	(8.01)	(8.04)
County-level controls	Yes	Yes	Yes	Yes	Yes	Yes
Industry-year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Adjusted R^2	0.586	0.586	0.549	0.549	0.389	0.389
Number of observations	44,354	44,354	44,354	44,354	45,017	45,017