Social Capital, Opportunism, and Corporate Acquisition *

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Abstract

We examine the real effect of local social capital on corporate investments focusing on acquisition. Firms in high-social-capital counties are associated with a lower acquisition intensity at the extensive, but not intensive, margin. Moreover, social capital reduces (i) the likelihood of acquisitions in the same region or industry and facing antitrust challenges and (ii) payment with overvalued stocks. This constraining effect is further manifested in the forms of extensive due diligence, preference for targets from high-social-capital regions, and avoidance of sin-industry targets. Our findings suggest that social capital leads to discreet decisions on acquisitions in both quantitative and qualitative manners.

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1 Introduction

In recent years, local social capital has gained significant attention from policymakers, practitioners, and academic researchers. Viewed from a societal perspective, social capital plays a pivotal role in promoting social norms and influencing individual practices. For example, studies in sociology and medicine have revealed that individuals in high-social-capital neighborhoods have lower rates of COVID-19 infections and deaths. This outcome can be attributed to their adherence to hygienic practices and social distancing, which stem from a concern for the well-being of others and a sense of responsibility towards social norms (Barrios, Benmelech, Hochberg, Sapienza, Zingales, 2021). From an economic standpoint, social capital has been recognized as a positive determinant of economic outcomes due to its discouragement of self-serving or norm-deviant behaviors (Arrow, 1972, Putnam, 1993, Knack and Keefer, 1997).

Recent studies in financial economics emphasize the significance of local social capital in shaping firm practices and policies. These studies highlight the benefits of social capital through three primary mechanisms. Firstly, it acts as a deterrent against norm-deviant or opportunistic behaviors among local agents (Hasan et al., 2017b, Hoi et al., 2019, Gupta et al., 2020). Secondly, it fosters trust within the local community (Jha and Chen, 2015, Hasan et al., 2021, Xie et al., 2021). Lastly, it facilitates the dissemination of shared information within the social network (Dudley, 2021, Maksimovic et al., 2022). However, despite some anecdotal evidence suggesting that firms take the local societal context into account and are influenced by it during the acquisition process, there remains a dearth of empirical evidence regarding the potential effects of the local social capital on investments, including acquisitions.[1, 2] Considering the socio-regional context is essential for firms engaged in acquisitions, given that acquisitions represent a significant and prominent form of corporate investment. These transactions face scrutiny and necessitate formal or informal approval not only from shareholders but also from various stakeholders,

[1] An illustrative example of local opposition impacting merger decisions can be seen in the case of Advocate Aurora Health and Beaumont Health. The merger discussions between these hospital systems were called off due to challenges posed by reported opposition from Beaumont's staff and Beaumont's expressed intention to focus on its local market priorities, as stated by John Fox, CEO of Beaumont. (https://www.healthcaredive.com/news/advocate-aurora-beaumont-call-off-merger-following-covid-19-doctor-pushba/586322/)

[2] The previous literature has mostly focused on the personal social network of executives or directors and its impact on investment decisions (e.g., Ishii and Xuan, 2014, Fracassi, 2017).

encompassing governmental bodies, employees, and local residents. Our study contributes to a better understanding of this landscape by examining the constraining role of social capital in opportunistic acquisition behaviors, aligning with the aforementioned first mechanism.[3]

Building upon this view, we propose that social capital acts as off-balance-sheet liabilities in a way that mitigates the opportunistic and self-serving deals by acquirers (referred to as the "opportunism" hypothesis). Considering the liabilities, firms in high-social-capital neighborhoods, as compared to their counterparts in low-social-capital regions, would perceive fewer firms as attractive targets, holding the condition of the takeover market (i.e., acquisition opportunities) fixed. Besides, their acquisition strategies would be more selective and discreet to avoid opportunistic practices.

However, social capital might play a role in facilitating acquisitions by inspiring trust from stakeholders. The stakeholders' prior belief that firms in high-social-capital regions are trustworthy and would engage in responsible acquisition practices can stimulate their (unconditional) trust and support, leading to smoother acquisition processes and increased investment in acquisitions (referred to as the "trust" hypothesis). Alternatively, social capital may enhance the level of trust from financiers, resulting in easier access to regional external financing (Hasan et al., 2017a, Dudley, 2021). This improved access to financing might enable firms to pursue proactive investment strategies in acquisitions.

In addition, the social network aspect of social capital can act as a countervailing force, diminishing information asymmetry and adverse selection, thereby promoting more efficient contracting. This aspect enhances the local information advantage and facilitates the flow of information (referred to as the "information" hypothesis). As a result, firms located in high-social-capital regions are likely to have access to a larger pool of potential targets, particularly within the local market, and can navigate the merger process with less friction and greater confidence, leading to higher acquisition rates. Ultimately, understanding the impact of social capital on

[3]Suchard et al. (2021) and Chen et al. (2022) investigate the relationship between social capital and acquisition performance, with a specific emphasis on the cumulative abnormal returns (CAR) of public acquirers. In contrast to these papers, our study goes beyond the scope of value implications and acquisition outcomes. Instead, we delve into more intricate aspects of deals, which encompass acquisition intensity, target selection, and payment methods, drawing from a broader sample.

acquisition decisions poses an intriguing empirical question that merits further investigation.

To address this question, our analysis begins by examining the association between social capital and acquisition intensity after controlling for other potential firm- or regional-level determinants of acquisition decisions. We find that firms headquartered in high-social-capital counties are less likely to engage in acquisitions compared to their counterpart in low-social-capital counties.[4] From an economic point of view, a one-standard-deviation increase in social capital decreases the odds ratio of a firm making an acquisition by 4.7%. However, we find that this negative relationship between social capital and acquisition intensity primarily exists at the extensive, but not intensive, margin. In other words, firms in high-social-capital counties exhibit lower acquisition rates overall, but there is no evidence to suggest that they pursue smaller transactions. Importantly, we further show that the low acquisition rates among firms in high-social-capital neighborhoods are not attributable to generic underinvestment resulting from agency problems, lack of acquisition opportunities, or financial frictions.

Focusing on the sample of completed deals, we investigate the disciplinary effects of social capital on the opportunistic selection of targets, particularly examining the likelihood of anticompetitive deals. Anticompetitive acquisitions represent visibly and legally opportunistic conduct against the public interest. The anticompetitive components of such acquisitions impose external costs on various stakeholders, including local customers, upstream supplier industries, market participants, and governments, that opportunistic acquirers in low-social-capital regions may seek to capitalize. Meanwhile, acquiring targets within the same region or industry is arguably more anticompetitive *ex ante*, compared to acquiring targets in distant regions or industries, all else equal.[5] Our results indicate that social capital is associated with a greater geographic distance to a target and a lower likelihood of acquiring a target in the same county (or even state). Additionally, firms in high-social-capital neighborhoods display a lower tendency to acquire firms in the same

[4]Consistent with prior studies, we identify a firm's location as the site of its headquarters (e.g., Almazan et al., 2010, John et al., 2011). Given that acquisitions are major and strategic corporate decisions, our identification is based on the assumption that acquisition decisions are made at the headquarters rather than within divisions or branches. Section 6.3 provides a falsification test using the location where a firm is incorporated. In addition, Section 6.4 provides a robustness test by excluding firms with multiple operating locations.

[5]The U.S. Department of Justice (DOJ) and the Federal Trade Commission (FTC) outline their heightened scrutiny on potentially elevating concentration in a *geographic* or *product* market in their Horizontal Merger Guidelines (https://www.justice.gov/atr/horizontal-merger-guidelines-0#11.).

industry (i.e., fewer horizontal acquisitions). Notably, those firms instead acquire targets in similar or related industries rather than completely unrelated industries, implying that the avoidance of same-industry firms is unlikely to be driven by diversification or risk aversion motives. Yet, because not all acquisitions of firms within the same region or industry are anticompetitive *ex post*, we directly assess the *ex-post* likelihood of being actually challenged by federal antitrust agencies, and discover its inverse association with social capital. Collectively, the results support that firms in high-social-capital regions adopt a proactive approach to avoid opportunistic and anticompetitive deals, demonstrating a preference for a more discreet acquisition practice.

We proceed to explore opportunistic acquisition behaviors in relation to the methods of payments. It is well-documented that stock payments made by overvalued acquirers, relative to targets, can be opportunistic (see for example, Shleifer and Vishny, 2003, Rhodes-Kropf and Viswanathan, 2004), leading to a wealth transfer from the target's shareholders to the acquirer's shareholders and distorting the efficiency of the entire takeover market (Li et al., 2018). In order to mitigate potential damages to the target's shareholders (i.e., prospective stakeholders following deal consummations) and the overall corporate takeover market, firms located in high-social-capital counties are expected to use stock payments less frequently for a given level of overvaluation. Utilizing the proxies for unexplained valuation introduced in Pastor and Veronesi (2003) and Rhodes-Kropf et al. (2005), we show that while unexplained valuation tends to be associated with a higher prevalence of stock payments on average, the presence of a high level of social capital attenuates this effect. Thus, our results provide compelling evidence of diminished opportunistic payments among firms located in high-social-capital neighborhoods.

Importantly, it is crucial to consider the endogenous nature of headquarters location choice, as it could potentially drive our results. For example, firms that are less inclined towards acquisitions may strategically choose to locate in high-social-capital counties to leverage internal resources supported by the communities. To mitigate this concern, we replicate our analysis using a subset of firms whose location choices are least likely endogenous; more specifically, the subsample consists of firms that have established or relocated their headquarters a long time ago or those that have not been located within industry clusters. Still, it is plausible that omitted variables,

such as regional fiscal growth, may influence both social capital and acquisition-related outcomes, potentially confounding our results. To address this concern, we employ an instrumental variable (IV) approach. Specifically, we use ethnic diversity and distance to the Canadian border as instruments for social capital following Hasan et al. (2017a,b) and Gupta et al. (2020). The IV estimation results consistently support our findings after correcting for the potential endogeneity bias.[6]

Having established the quantitative impact of social capital on opportunistic M&As, we examine the qualitative aspects of transactions: due diligence and characteristics of targets. According to the "opportunism" hypothesis, acquirers in high-social-capital communities would undertake extensive due diligence to mitigate deal risks and the possibility of harming the welfare of stakeholders. Conversely, the "information" hypothesis posits that firms located in high-social-capital regions may have better information about acquisition opportunities and targets, reducing the need for a thorough due diligence process. Additionally, if acquirers enjoy a high level of trust and support from stakeholders ("trust" hypothesis), the duration of deal completion could be shorter. Our results support the "opportunism" hypothesis the most; particularly, we find that firms in high-social-capital counties (i) hire more (legal) advisors, (ii) receive more fairness opinions from these advisors, and (iii) experience a longer duration of deal completion. Furthermore, we find a positive relationship between the acquirer's social capital and the target's social capital and accounting quality, as well as a negative association with the likelihood of acquiring targets in "sin" industries (Hong and Kacperczyk, 2009), suggesting that firms in high-social-capital neighborhoods seek targets that minimize negative externalities on the local community post-acquisition.

Next, we assess whether social capital ultimately contributes to or diminishes shareholder value in acquisitions. To the extent that social capital limits opportunism in undertaking and structuring deals, acquirers in high-social-capital regions may anticipate fewer local challenges, stronger stakeholder support, and a higher likelihood of deal completion. These factors collectively

[6]While we recognize that this approach might not provide definitive causal evidence, we take steps to address the endogeneity concern by utilizing sources of variation in geographical and demographic factors that have been widely acknowledged in the accounting and finance literature. In Section 4.4, we present both rationale and evidence demonstrating that ethnic diversity and distance to the Canadian border can serve as valid instruments.

contribute to higher CARs for high-social-capital acquirers compared to their counterparts with low social capital. However, their limited choice of targets to avoid opportunism may also lead to suboptimal acquisitions that do not maximize value. This trade-off would be particularly evident in the context of the most value-enhancing deals, where the acquirers are capable of prioritizing the interests of other stakeholders, even at some expense of the shareholder value. Our results from logistic, linear, and quantile regression models suggest that acquisitions carried out by firms in high-social-capital regions yield higher announcement returns, while the trade-off effect is more pronounced in the most value-enhancing deals.

Finally, to provide a more comprehensive picture, we examine how social capital affects other forms of corporate investments: R&D, capital expenditures (CAPX), employment, and divestitures (i.e., sale of assets). On the one hand, firms in high-social-capital communities may allocate resources to these alternative investments to maintain competitiveness in the absence of extensive acquisitions. On the other hand, if these other types of investments have the potential to undermine the public interest (e.g., environmental damage), they may also face local pressures. In such cases, social capital would lead to a reduction in these investments, similar to its effect on acquisitions. Our findings reveal that divestitures decrease with social capital, suggesting that firms in high-social-capital regions are less likely to divest their assets to the extent that they have acquired them in a selective and discreet manner. However, we do not find a systematic correlation between social capital and the other types of investments.

Our paper contributes to several strands of existing literature. First, this study is related to the recent literature on the relationship between social capital and corporate (or managerial) policies and practices, such as financing costs and policies (Javakhadze et al., 2016, Ferris et al., 2017, Hasan et al., 2017a, Huang and Shang, 2019, Dudley, 2021, Maksimovic et al., 2022), corporate tax avoidance (Hasan et al., 2017b), innovation (Gupta et al., 2020, Xie et al., 2021), and managerial compensation (Hoi et al., 2019). Our study concentrates on investment policies, specifically focusing on acquisition decisions, and finds that local social capital exerts pressures on the resident firms to bypass opportunistic acquisition investments. This evidence adds to the vast literature on the financial implications of geographic attributes, for example, religiosity (Hilary

and Hui, 2009, Adhikari and Agrawal, 2016), political connection (Guo et al., 2022), population age (Becker et al., 2011), ethnic makeup (Cohen et al., 2012), happiness (Chuluun and Graham, 2016), and the risk tolerance (Chen et al., 2014) of local communities.

This paper also contributes to the literature on determinants of acquisition investment (e.g., Harford, 1999, Almazan et al., 2010, Uysal, 2011). Our paper is also related to the studies that concentrate on specific aspects of M&A deal structuring. As an illustration, our findings show the opportunistic stock payments of overvalued acquirers, as documented in Shleifer and Vishny (2003), Rhodes-Kropf et al. (2005), Dong et al. (2006), and Ang and Cheng (2006), and find that the propensity is significantly attenuated by social capital. Further, our results add to the extensive literature of anticompetition (e.g., Eckbo, 1983, Fee and Thomas, 2004, Sapienza, 2002) by suggesting that environmental factors (e.g., social capital) can affect the incidence of anticompetitive acquisitions.

Lastly, this paper adds to the literature on stakeholder theory. For example, Gupta et al. (2020) and Xie et al. (2021) demonstrate that social capital alleviates the holdup of employees (inventors) by firms and thus promotes innovation. Dai et al. (2022) document that social capital decreases customer opportunism and thereby increases supplier profitability. According to Lins et al. (2017), social capital raises trust between firms and various stakeholders, especially in low-trust periods such as a financial crisis. We find evidence that firms in high-social-capital neighborhoods make and structure acquisitions that minimize the negative externalities on stakeholders, which is also in line with the CFO survey results from Graham (2022) that a substantial number (20%) of the firms consider the local community and the environment important.

The remainder of the paper is organized as follows. Section 2 presents prior evidence and hypothesis development. In Section 3, we provide data description and sample statistics. Section 4 discusses empirical analyses along with the main results. In Sections 5 and 6, we document the results for additional tests and robustness checks, respectively. Section 7 concludes the paper.

2 Hypothesis Development

The notion of "social capital" dates as far back as 1916 when Hanifan (1916) first introduced it, and prior studies in management, sociology, and political science define social capital as an environmental factor characterized by secular norms and social networks, present in a society (e.g., Putnam, 1993). Earlier studies in accounting, economics, and finance focus on examining the impact of social capital within a corporate context, following the suggestion of Guiso et al. (2011) to adopt a definition of social capital that emphasizes cooperation and trust among economic agents. We propose interconnected hypotheses that align with previous literature but generate distinct empirical predictions in the context of M&A.

Opportunism Hypothesis. Recent research sheds light on the role of social capital in deterring opportunistic behaviors that are detrimental to the public interest or local stakeholders. For instance, social capital has been found to have a positive correlation with accounting transparency (Afzali et al., 2021) and corporate innovation by mitigating potential hold-up issues between firms and employees (Gupta et al., 2020). On the other hand, social capital has been shown to have a negative association with customer opportunism (Dai et al., 2017), corporate tax avoidance (Hasan et al., 2017b), and managerial rent extraction through compensation practices (Hoi et al., 2019). Hasan et al. (2017a) additionally demonstrate that this environmental characteristic contributes to a reduced cost of debt financing.

The impact of social capital in curbing opportunistic behavior extends to corporate M&As, which involve local stakeholders as well as shareholders. Local stakeholders are directly and indirectly affected by M&As, raising concerns about potential negative consequences. We provide anecdotal evidence of involvement and conflicts of stakeholders related to M&As in Appendix Table A2. One notable concern relates to the local labor force, which may face salary reductions or job losses due to post-acquisition divestitures and restructuring efforts. Maksimovic et al. (2011) provide evidence of closures of both acquirer's existing plants and acquired plants post-merger, which can be accompanied by labor restructurings. Moreover, cost-cutting measures during restructuring can render existing technologies, reliant on local labor and infrastructure, obsolete.

Even without significant workforce changes, cultural integration challenges among employees can arise.

The local business environment can also experience repercussions. Reduced industry competition resulting from M&As may raise barriers to entry for local businesses, adversely impacting consumers through increased product prices, reduced product quality, and worse customer service. Additionally, acquirers may become less reliant on local suppliers, customers, and resources as they gain expanded access to the resources of the target company.

Likewise, the local community can be affected by M&As. The integration of new individuals and businesses can lead to cultural conflicts and environmental concerns among current residents. Furthermore, acquirers may divert attention and resources away from their local community to focus on integrating the target company, resulting in a reduced provision of civil services and resources to the community. For instance, if the acquirer relocates its operations to the target company's region, it would lead to diminished communal contributions and tax revenue for the local government, resulting in budget cuts for essential infrastructures such as schools, parks, and public services.

In order to voice these concerns, local stakeholders have various avenues to challenge proposed M&A. They can engage in protests, boycotts, and labor or consumer strikes to make their voices heard. Additionally, they may employ public campaigns and utilize social media platforms to raise awareness among the general public. Several regional press outlets and organizations also assess potential M&A activities in the local area and provide periodic reports, which can significantly influence public sentiment toward such activities. Local residents may also resort to legal approaches, such as submitting petitions to government bodies (e.g., the Citizen Complaint Center in the DOJ) or initiating class-action lawsuits. In some cases, local politicians or governments actively intervene when M&As potentially disrupt local communities. As a result, acquirers bear both direct and indirect costs arising from local challenges and resistance. These costs include deal delays, legal proceedings, settlements, public relations and media management to restore damaged reputation, security measures (ensuring the safety of employees and property), and disruptions in operations due to halted production. Managers may also face reputational pressures

from social peers, such as neighbors and members of social clubs when their firms engage in opportunistic acquisitions.

In this framework, we hypothesize that firms in high-social-capital regions, being more cognizant of these concerns and the associated costs, will conduct more thorough evaluations of their M&A projects and potential outcomes to avoid imposing opportunistic externalities on local stakeholders.[7] Thus, firms in regions with high social capital may even refrain from pursuing acquisitions altogether, all else being equal. This extra caution would be evident throughout the entire process, starting from the initiation of a deal to its structuring, payment, or due diligence, especially when the deal has the potential to disrupt local stakeholders, such as when acquiring firms are located in the same geographic area or industry.

Trust Hypothesis. Social capital can play a crucial role in fostering trust within local communities. Trust is a fundamental aspect of social capital, and its presence contributes to an overall increase in trust levels among community members. Empirical evidence by Hasan et al. (2021) demonstrates the influence of social capital on borrowers' trustworthiness, reducing moral hazard, and enhancing lenders' generalized trust in peer-to-peer lending. Similarly, Jha and Chen (2015) find that firms located in high social capital counties benefit from lower audit fees, as auditors place greater trust in these firms compared to those in low social capital counties. Trust is also shown to have a positive impact on collaboration, failure tolerance, and, ultimately, innovation (Xie et al., 2021).

Given their reputation for trustworthiness, firms operating in regions with high social capital may implicitly commit to engaging in deals that yield fair outcomes and do not harm the local community. Consequently, they inspire unconditional trust and support from trusting stakeholders, resulting in fewer challenges and opposition during the acquisition process and facilitating smoother transactions. This, in turn, leads to a higher volume of acquisitions. Additionally, the trust hypothesis suggests that increased trust and reduced opposition from credulous stakeholders result in faster acquisition processes, which differs from the opportunism hypothesis that predicts longer processes due to extensive due diligence.

[7]While we primarily focus on outlining negative externalities, it is important to acknowledge that positive externalities from an acquisition are also possible, such as boosting the local economy eventually. Even so, firms would still exercise caution in selecting deals that can maximize positive externalities.

Information Hypothesis. Social capital also fosters the flow of shared information in social networks. These networks help mitigate information asymmetries, thereby reducing moral hazard and adverse selection issues (e.g., Knack and Keefer, 1997, Carlin et al., 2009), and serve as a form of social collateral (e.g., Karlan et al., 2009, Ambrus et al., 2014). Recent studies indicate that social capital facilitates entrepreneurs' access to financing (Dudley, 2021) and increases the uptake of financing opportunities among small businesses (Maksimovic et al., 2022).

As a result, the information advantage and flow facilitated by social capital have the potential to assist firms in identifying potential acquisition targets. The improved information environment also reduces obstacles and instills greater confidence in acquirers during the acquisition process. Consequently, according to the information hypothesis, firms with high social capital are more likely to make investments in acquisitions, which sets them apart from the opportunism hypothesis. Furthermore, it predicts that firms with high social capital will be more actively involved in acquiring targets operating within the same region or industry, leveraging their superior information resources.[8]

3 Data and Summary Statistics

3.1 Measure of Social Capital

Putnam's seminar papers have had a profound impact on the field of social capital research. In his seminal work Putnam (1993), social capital is defined as "features of social organization such as networks, norms, and social trust that facilitate coordination and cooperation for mutual benefit." Throughout our paper, we rely on this well-established definition to capture the essence of social capital, and to do so, we utilize data from the Northeast Regional Center for Rural Development.[9] The most recent data comprise the estimated stock of social capital in each U.S. county for the years 1990, 1997, 2005, 2009, and 2014. To create a county-level index of social

[8]However, if the enhanced information environment aids in the screening process for potential targets, one would anticipate a minimal or even negative effect of social capital on acquisition investments. Regardless of whether the effect is positive or negative, the information hypothesis postulates a *monotonically* positive or negative relationship between social capital and the (geographic or sectoral) distance between the acquirer and target. This is because the information advantage derived from local social capital is expected to be more pronounced when the acquirer and target are in close proximity. Section 4.2 discusses this in further detail.

[9]The data are accessible at: https://aese.psu.edu/nercrd/community/social-capital-resources.

capital for each of these five years, following existing literature (e.g., Hasan et al., 2017a,b, Hoi et al., 2019, Rupasingha et al., 2006), a principal component analysis is conducted based on four key variables: (1) the number of various communal associations per 10,000 population (*assn*), encompassing religious groups, political organizations, hobby clubs, sports groups, and others, (2) the number of non-profit organizations per 10,000 population (*nccs*), (3) Census response rate (*respn*), and (4) voter turnout (*pvote*).

The first two variables aim to capture social interactions through participation in various organizations, which are known to generate the beneficial effects of social capital (Putnam, 1995a,b). In particular, Putnam et al. (1992) emphasizes that active engagement in community organizations and political activities serves as a determinant of social capital production, fostering cooperation, solidarity, and public-spiritedness within the community. Additionally, the Census response rate can be considered as a proxy for social capital, as it reflects a sense of civil responsibility, further related to socially cooperative attitude and reciprocity within the community (Knack, 2002). Lastly, voter turnout is also a reasonable proxy for social capital as high turnout often signifies a strong sense of common interest within a community. Social capital can be utilized to remind individuals of the communal benefits of voting and to enforce cooperation through peer pressure or the influence of social norms (Alesina and La Ferrara, 2000, Atkinson and Fowler, 2014).

We perform principal component analysis to integrate the above multifaceted proxies for social capital, and importantly, filter out possible idiosyncratic noise latent in each proxy (e.g., local economic environment in *nccs* or political stability in *pvote*). First, to ensure consistency across years, minor modifications are made to the calculation of *assn* and *pvote*.[10] Having adjusted the variables *assn* and *pvote* and retained the raw data of *respn* and *nccs*, the first principal component is defined as the measure of *Social Capital*. For certain years where data is missing, the measure is backfilled using the most recent available value. Throughout our main analyses, we utilize this county-level *Social Capital* metric based on the county where a firm is headquartered.

[10]For each year, we define *assn* as the number of establishments of ten organizations per 100,000 population. The ten social organizations include Religious organizations (NAICS 813110), Civic and social associations (NAICS 813410), Business associations (NAICS 813910), Political organizations (NAICS 813940), Professional organizations (NAICS 813920), Labor organizations (NAICS 813930), Bowling centers (NAICS 713950), Fitness and recreational sports centers (NAICS 713940), Golf course and country clubs (NAICS 713910), and Sports teams and clubs (NAICS 711211). For *pvote* in 1990, we use the average vote cast for president in 1988 and 1992.

3.2 Other Data

To construct the baseline sample, we consider the universe of firm-year observations from the CRSP/Compustat Merged Database (CCM) from the fiscal years 1990 to 2020, except for financial (SIC code 6000-6999) or utility (SIC code 4900-4999) firms. We require all firm-years to have 10-K filings on EDGAR to collect the historical ZIP code information of a firm's headquarters.[11] We also exclude firm years with missing key accounting variables needed to construct our main control variables.[12] Our baseline sample contains 12,958 unique firms spanning 110,937 firm-years.

We obtain information on domestic mergers and acquisitions for each firm-year observation from the Securities Data Corporation (SDC) database. Specifically, we extract completed deals that are categorized as mergers, acquisitions of a majority interest, asset acquisitions, or acquisitions of certain assets. From there, we consider deals with the first two categories as firm acquisition (*Firm Acq.*) and the latter two categories as asset acquisition (*Asst. Acq.*). Further, we require a deal to have transaction values greater than $1 million to be included in the sample. Out of 12,958 firms in our baseline sample, we identify 6,188 unique acquirers with 21,892 completed deals during our sample period. The 21,892 acquisitions consist of 59% asset acquisitions and 41% firm acquisitions.

To identify whether a M&A deal has ever been investigated by the U.S. FTC or DOJ, we hand-collect the data on merger enforcement actions during our sample period from their websites. The websites provide information on antitrust challenges for proposed merger deals and how they are resolved. The Horizontal Merger Guidelines from the FTC and DOJ in 2010 describe that mergers in industries with HHI over 1500 should be subject to scrutiny. Based on the description, we focus on the firms whose deals likely fall under the scrutiny of antitrust authorities using two conditions from the previous literature (e.g., Fathollahi et al., 2022): (i) the industry Herfindahl Index (HHI) is greater than 1500, and (ii) the target is public. We define any acquisition that satisfies the two conditions and has ever been under investigation by the antitrust enforcement

[11]The ZIP code of a firm headquarter is generally specified in the header of its 10-K. Occasionally, firms change their headquarters locations. Meanwhile, Compustat only provides the current headquarter location but not historical location information.

[12]The main control variables include *Size*, *Cash*, *MTB*, *EBITDA*, *Sales*, *Tangible Assets*, *Leverage*, *Population Growth*, *Education*, *Net Job Creation Rate*, and Δ *Hoursing Price*. The detailed definitions of these variables are described in Appendix Table A1.

agencies as a challenged deal (*Challenged*). The sample of acquisitions meeting the conditions contains 1,817 deals. Slightly more than 3% of them are identified as being challenged.

3.3 Summary Statistics

Insert Table 1 here.

Table 1 reports the summary statistics of the 110,937 observations used as the baseline sample. Panel A shows the summary statistics for *Social Capital* and control variables used in the analyses. The row for *Social Capital* shows the mean as -0.571, the standard deviation as 0.849, and the interquartile range between -1.217 and -0.03, which are all comparable to other past studies. The mean size and sales of the sample firms are 238 ($mil) and 179 ($mil), respectively. The average market leverage ratio is around 22%, while the average cash-to-asset ratio is around 20%. To limit the effect of outliers, all variables (except *Social Capital*) are winsorized at the top and bottom 1% levels.

Panel B reports the mean of acquisition-related variables, which are our main dependent variables, by acquirer *Social Capital* quintiles. *Acq.*, *Asst. Acq.*, and *Firm Acq.* show the unconditional probabilities of making an acquisition, asset acquisition, and firm acquisition, respectively. Overall, 14.8% of our sample firm-years exhibit participating in acquisitions. Even though there is no monotonic trend across *Social Capital* quintiles, the difference in the first (Q1) and fifth (Q5) *Social Capital* quintiles indicates that on average, firms in high *Social Capital* counties tend to acquire less than firms in low *Social Capital* regions. This tendency is more prevalent in asset acquisitions than in firm acquisitions.

The mean of #*Acq* is 0.20, implying that an average firm makes an acquisition approximately every five years. Consistently, the average number of a firm's acquisitions in a given year is lower for the fifth *Social Capital* quintile group than for the first *Social Capital* quintile group. Conditional on making an acquisition, the stock payment decreases monotonically from 26.0% to 22.8% across the quintiles. The average geographical distance between an acquirer and target (*Distance*) is greater in the highest *Social Capital* counties than in the lowest *Social Capital* counties. The mean values of *Same Ind.* show that more acquirer and target pairs are in the same industry in the lowest *Social Capital* regions compared to the highest *Social Capital* regions.

Insert Figure 1 here.

Figure 1 visualizes the spatial distribution of the level of social capital and acquirer at the U.S. country level. For graphical purposes, the deciles of *Social Capital* are classified based on the most recent values, ranging from 'Low' to 'High'. *Social Capital* is on average higher in Midwestern or Northern regions than in Southeastern or Southwestern regions. Some counties exhibit noticeably high or low *Social Capital* as compared to their surrounding counties or state level, showing that the spatial distribution of *Social Capital* is not entirely dominated by the mere geographic distribution of counties. The red circle represents the total number of acquirers per county over the sample period, and the size of which is proportional to the number. The circles are displayed only if at least one acquisition is made in each county during the sample period. Acquisitions are pervasive throughout the U.S. territory and not confined to counties that have a very high or low level of *Social Capital*. For instance, east coast regions show active acquisitions of firms while having intermediate levels of *Social Capital*. Overall, the distribution of acquisitions, as well as that of *Social Capital*, is not monotonically confined to some specific regions.

Insert Figure 2 here.

Figure 2 Panel A plots the frequency of acquisitions (i.e., the number of completed deals) over time for each quintile of *Social Capital*.[13] The number of deals declines with *Social Capital* quintiles and is especially low in the high quintiles, implying that acquisition activities are lower for firms in high *Social Capital* counties. Figure 2 Panel B presents the volume of acquisitions (i.e., the transaction size per deal). There is no such decreasing trend in volume across the quintiles. Rather, the period of 2014-2020 shows higher volume among high *Social Capital* counties, which, together with the low frequency in Panel A, indicates that high *Social Capital* firms make acquisitions in a selective way (i.e., low in frequency, but high in relative volume). With this motivational evidence, Section 4 investigates the relationship between social capital and acquisition behaviors, accounting for several factors that can impact acquisition decisions.

[13] As *Social Capital* is measured in years 1990, 1997, 2005, 2009, and 2014, we use time periods of 1990-1996, 1997-2004, 2005-2008, 2009-2013, and 2014-2020 to aggregate the number and volume of deals in Figure 2.

4 Empirical Analysis

4.1 Acquisition Intensity

We commence our analysis by exploring how the social capital of a county where a firm is headquartered is related to the firm's acquisition intensity in multivariate settings. To test our predictions, we use logistic and linear regression models that account for size (*Size*), liquidity (*Cash*), valuation (*MTB*), profitability (*EBITDA* and *Sales*), asset structure (*Tangible Assets*), and capital structure (*Leverage*), which likely affect the acquisition decisions. Importantly, *Social Capital*, by construction, may also be capturing other socio-regional features (as well as the actual level of social capital) that correlate with the acquisition activities. To account for time-varying regional characteristics, such as demographic attributes, labor market conditions, and regional economic growth, we incorporate variables including the growth in population (*Population Growth*), the education level (*Education*), the net job creation rate (*Net Job Creation Rate*), and the change in housing price (Δ *Housing Price*). Appendix Table A1 describes the detailed definition of these variables. Additionally, any time trends (e.g., M&A waves) are captured by year fixed effect in all specifications. We further consider industry fixed effect to control for time-invariant cross-sectional heterogeneity in industry.

Insert Table 2 here.

Table 2 Column (1) shows the logistic regression coefficient on *Social Capital* as -0.057. This negative association between *Social Capital* and the likelihood of making an acquisition (*Acq.*) is significantly different from zero at the 1% significance level, even after controlling for various covariates. From an economic perspective, a one-standard-deviation increase in *Social Capital* (=0.8494) is associated with a decrease in the odds ratio of a firm making an acquisition by 4.7%. In Columns (2) and (3), we also use logistic analyses to estimate the likelihood of making an asset and firm acquisition, respectively. The results show that *Social Capital* decreases both the likelihood of being an asset- and firm-acquirer, implying that the negative effect of *Social Capital* on the acquisition likelihood is not driven by asymmetric avoidance of either asset or firm acquisitions.

We also use linear regressions to estimate how *Social Capital* affects the number of deals

completed. The results in Columns (4), (5), and (6) are qualitatively consistent with the logistic regression results. The coefficient on *Social Capital* in Column (4), -0.012, suggests that a one standard deviation increase in *Social Capital* is associated with a 5.2% decrease in the number of completed deals. In unreported tests, we find qualitatively similar results when Poisson regressions are used instead to model the count data.

In Columns (7), (8), and (9), the dependent variable is replaced with the transaction size (relative to the total assets of acquirers).[14] The coefficients of *Social Capital* are negative but not statistically significant, indicating that acquisitions of firms in high-social-capital neighborhoods are less frequent but are not smaller in size. Altogether, the results of Table 2 demonstrate that social capital decreases acquisition activities at the extensive, but not intensive, margin. The results are also inconsistent with the information or trust channel that predicts a positive relation between social capital and acquisition intensity.

Insert Table 3 here.

To examine whether alternative channels can explain the negative relationship between social capital and acquisition likelihood, we consider other factors that can affect the acquisition rates. First, it is plausible that the negative association between social capital and acquisition rates reflects the agency problem. In other words, firms in low-social-capital counties could display empire building behaviors due to their weak governance structure. This channel relates to the previous literature (Hoi et al., 2019) that claims that social capital mitigates agency problems.[15] To isolate our paper's hypothesis from the agency channel, we directly control for firm-level governance-related measures, *G-index, institutional ownership*, and *executive ownership*, used in the past literature (e.g., Gompers et al., 2003, Hoi et al., 2019, Fu et al., 2013). The negative sensitivity of *#Acq.* to *Social Capital* remains significant in Columns (1) through (3), even after controlling for

[14]The transaction size variable is not measured conditional on acquisition. That is, the variable equals zero if a firm does not make any acquisition in a given year. The coefficients of *Social Capital* are insignificant as well when only acquirers are included in the sample.

[15]However, it is worth noting that our paper is not mutually exclusive to this previous literature, particularly because we also hypothesize and explore the constraining effect of social capital. Our focus is more on the constraints of opportunism against overall stakeholders both *within* and *outside* firms, who are involved in corporate acquisitions. Thus, we share a similar focus and direction as another stream of social capital literature, for instance, Hasan et al. (2017b) that shows social capital deters corporate tax avoidance practices.

the governance metrics.

We next evaluate whether the observed relationship arises from the potential disparity of acquisition opportunities across regions. For example, distressed firms in high-social-capital neighborhoods may be able to receive more regional support from governments or even their employees, which in turn protects the firms from being targeted by potential bidders in the same region. If so, bidders located in high-social-capital regions would lack acquisition opportunities, as compared with counterparts in low-social-capital neighborhoods. Because acquisition opportunities are ex-ante unobservable in the data, we rely on the theoretical prediction from Almazan et al. (2010) that firms located within a geographic industry cluster have more acquisition opportunities. Empirically, we construct *Ratio of Firms* and *Cluster-Firm* based on the definitions in Almazan et al. (2010).[16] Also, we employ *Industry M&A Liquidity* following Schlingemann et al. (2002) and Uysal (2011) to control for the liquidity of the takeover markets. Columns (4) through (6) in Table 3 show that the negative relation between *Social Capital* and *#Acq.* continues to hold, even after controlling for various proxies for acquisition opportunities.

Lastly, we explore whether the low acquisition rate of firms located in high-social-capital counties is a result of an underinvestment problem faced by financially constrained firms.[17] Our empirical tests build on the theoretical literature that shows that insufficient financial slack can limit the ability to finance new investment opportunities (e.g., Myers, 1977, Myers and Majluf, 1984, Jensen, 1986, Hart and Moore, 1994). On this ground, we examine whether the low acquisition rates are attenuated as financial status improves. First, we employ the cash flow sensitivity of investment, following the notion that financially constrained firms can invest more when they have incremental cash flows (Fazzari et al., 1988). This measure, meanwhile, is controversial for the possibility that cash flow contains information about investment opportunities.[18] Thus, we also consider alternative measures for the test; cash holdings, as stockpiled free cash flow, can increase investments and are thus valuable, especially for financially constrained firms (Denis and

[16] *Ratio of Firms* and *Cluster-Firm* are constructed at the MSA level following Almazan et al. (2010), but the results are invariant when they are defined at the county level.

[17] Even if prior studies find that social capital lowers financing costs (e.g., Javakhadze et al., 2016, Ferris et al., 2017, Dudley, 2021), we, in a conservative manner, do not exclude the possibility that the observed effects of social capital are from underinvestments due to the financial constraints.

[18] See e.g., Kaplan and Zingales (1997), Erickson and Whited (2000), Alti (2003) for detailed critiques.

Sibilkov, 2010).[19] In the meantime, Almeida and Campello (2007) provide evidence that firms with high asset tangibility face lower financial constraints (more debt capacity) because of their ability to pledge more of their assets as collateral. With their high collateral values, they can undertake more investment projects (Gan, 2007). Lastly, we use leverage as a proxy for debt capacity.[20] Collectively, if the underinvestment problem were in play, then we should observe that the low acquisition propensity of firms in high-social-capital counties is alleviated with increases in cash flow, cash, and asset tangibility and decreases in leverage. However, Table 3 Columns (7), (9), and (10) instead show the coefficients of the interactions between *Social Capital* and the proxies that are opposite to what is expected under the underinvestment explanation. Besides, the coefficient of the interaction between *Social Capital* and *Cash* is insignificant in Column (8).

In the meantime, since *Social Capital* hardly varies over time and the backfilled values are repeated for many years, most of the variation in this measure is cross-sectional; thus, introducing firm or regional fixed effects would reduce the power of any panel data estimator and be biased towards finding no relationship (see, e.g., Zhou, 2001). To alleviate concerns related to potential limitations of the main models, which could be restricted to capturing only cross-sectional effects arising from variations in *Social Capital*, we additionally exploit within-firm time-series variations that arise from firm relocations. By focusing on firms relocating their headquarters to a different county characterized by distinct levels of *Social Capital*, we examine how over-time changes in acquisition rates are explained by the within-firm variations in *Social Capital*. To identify significant variations in *Social Capital*, we define a firm's relocation as *Social-Capital-Increasing (Decreasing)* relocation when the increment (decrement) in *Social Capital* is 1, 2, or 3 times greater than the median increment (decrement) observed across all relocation events throughout the sample period. We require a firm to have a minimum of three years of observations both prior to and subsequent to the relocation event. The results, presented in Appendix Table A3, are noteworthy. While the interaction term (*Social-Capital-Increasing* $\times$ *After Relocation*) coefficient in Column 1 may not yield significant results, Columns 2 and 3, focusing on more substantial changes, show

[19] Almeida et al. (2004) show that firms with financial constraints have the propensity to reserve cash from their cash flows. On the other hand, Harford (1999) and Von Beschwitz (2018) investigate the relationship between excess cash and investment, especially focusing on acquisition behaviors.

[20] Uysal (2011) finds that overleveraged firms make fewer acquisitions.

consistently negative and statistically significant coefficients. These coefficients suggest that firms undergoing *Social-Capital-Increasing* relocations experience a reduced post-relocation acquisition rate in comparison to those executing *Social-Capital-Decreasing* relocations.[21]

As the auxiliary analysis, we also present sector-by-sector regression estimates in Appendix Table A4. Consistent with reasonable priors, firms operating in the sectors closely associated with the local community and infrastructure (Construction; Transportation; Services) exhibit more pronounced effects of *Social Capital* in contrast to those operating in sectors such as Agriculture, Forestry, Fishing, & Mining, Manufacturing or Trade.

4.2 Target Selection

This section examines whether social capital's disciplining effect extends to firms' target selection. If firms in high-social-capital neighborhoods are characterized by less opportunism, they would ex ante choose targets that are distant in their geographical or industry space due to antitrust concerns, in that the antitrust authorities investigate mergers and acquisitions that can elevate concentration in the geographic market or product market. Using the target's headquarters location and industry information, we test whether firms in high-social-capital counties acquire fewer firms from the same region or industry, conditional on making an acquisition.

Insert Table 4 here.

Table 4 Column (1) reports the result of linear regression of log distance between acquirer and target on social capital and firm controls, conditional on making acquisitions. The coefficient on *Social Capital*, 0.102, implies one standard deviation increase in *Social Capital* is associated with a 78 miles increase between acquirers and targets, which accounts for an 8.7% increase relative to the average distance between acquirers and targets in the sample. Table 4 Columns (2) and (3) show the logistic regressions in which the dependent variable is an indicator of the acquirer and target being in the same state and county, respectively.[22] *Social Capital* decreases the likelihood of

[21] It's important to note, however, that this difference-in-differences method does not establish a causal relationship between *Social Capital* and acquisition intensity due to the endogenous nature of relocation decisions. A comprehensive analysis of the endogeneity issue is covered in Section 4.4.

[22] It is plausible that the state-level anti-takeover laws or regulatory environments over acquisitions limit the capacity to acquire geographically proximate firms. Since our sample period starts in 1990, we control for the second-generation

acquiring a target in the same region. Markedly, the results are inconsistent with the information hypothesis, which predicts that firms in high-social-capital communities have an information advantage about geographically proximate targets, leading to more active acquisitions.[23]

In Columns (4) and (5), we analyze the relationship between social capital and the probability of making a horizontal acquisition, conditional on pursuing an acquisition. In Column (4), we define an acquisition as horizontal (*Same Ind.*) if the acquirer and target are in the same four-digit SIC or six-digit NAICS industry. The significantly negative coefficient of *Social Capital* (=-0.080) implies that firms in high-social-capital regions are more likely to acquire targets from different industries. In terms of the economic magnitude, a one standard deviation increase in *Social Capital* is associated with a 6.4% decrease in the odd ratios of making a horizontal acquisition. Because antitrust investigations are not confined only to the standard SIC or NAICS level, we also adopt the fixed industry classification (FIC) developed by Hoberg and Phillips (2010a, 2016) where networks of industries are examined using product description information from SEC 10-K filings.[24] In Column (5), we now define an acquisition as horizontal (*Same Ind.(FIC)*) if the acquirer and target are in the same FIC-50 classifications, and the result continues to show the negative effect of *Social Capital* on the probability of making horizontal acquisitions.

Next, we examine whether the lower involvement in horizontal acquisitions of firms in high-social-capital counties originates from diversification purposes rather than their anticompetition consideration. If this were the case, we would expect that they acquire more firms from unrelated industries than from the same or similar industries. To check this possibility, we implement a multinomial logit model where the possible outcomes are categorized as an acquisition of targets from the same industries, similar industries (i.e., industries sharing the same three digits of SIC or five digits of NAICS, but not sharing the same four digits of SIC or six digits of NAICS), and

state-level anti-takeover laws and rules: Mandatory Staggered Board laws and the Revlon, Unocal, and Blasius takeover standards (see Cain et al., 2017, for the effective dates of the laws). The inclusion of the state-level staggered controls has no bearing on the results in Table 4.

[23] Kang and Kim (2008) and Uysal et al. (2008) analyze the role of information advantage and asymmetry in geographically proximate acquisition decisions in terms of target preference and acquisition performance.

[24] Hoberg and Phillips (2010a, 2016) construct new industry classifications by building firm pairwise similarities, which are based on business descriptions from the 10-K filings. The advantage of the new classification is that it is free from time-fixed restrictions or transitivity restrictions, which are inherent in the SIC and NAICS classifications. We thank Professor Hoberg for sharing data on his website (`http://hobergphillips.tuck.dartmouth.edu`).

unrelated industries (i.e., industries of acquirer and target that are not the same or similar). The acquisition of firms in unrelated industries is defined as the base outcome in the model. Columns (6) and (7) of Table 4 present the results of the multinomial logit regression. Column (6) ((7)) shows that *Social Capital* increases (decreases) the likelihood of acquiring a firm in the similar (same) industry against an unrelated firm. This implies that firms in high-social-capital neighborhoods acquire less from the same industry due to antitrust concerns but plausibly acquire more from a peripheral industry instead to maintain their competitiveness. These results indicate that their avoidance of horizontal acquisitions is not from diversification motives, which stem from empire building (Jensen, 1986), new toy effect (Schoar, 2002), or risk reduction motives (Gormley and Matsa, 2016).[25]

We now focus on the probability of an acquisition being challenged to see whether the selection of distant targets by firms in high-social-capital regions is indeed effective in avoiding opportunism ex-post. In Table 4 Column (8), conditional on making an acquisition, the coefficient on *Social Capital* (=-0.414) shows a significantly negative association with *Challenged*. On balance, the results suggest that the *ex-ante* tendency of firms in high-social-capital counties to avoid targets in the same region or industry also extends to a lower chance of receiving antitrust challenges *ex-post*.

4.3 Payment Method

This section examines how a firm's social capital (or lack thereof) affects opportunistic acquisition behavior in another dimension: M&A currency decisions. Shleifer and Vishny (2003) suggest the presence of acquirer opportunism in takeover activity in their theoretical framework, stock payments of overvalued acquirers to targets. Previous studies also find empirical evidence supporting the theory of acquirer opportunism (e.g., Rhodes-Kropf et al., 2005, Dong et al., 2006, Ang and Cheng, 2006). Further, Li et al. (2018) contend that the most overvalued and opportunistic bidders can crowd out the most efficient bidders and thereby distort the disciplinary effect of the

[25]The findings also contradict the information hypothesis, which posits a *monotonically* positive or negative correlation between social capital and the (spatial or sectoral) distance between the acquirer and target. We obtain similar results when running a multinomial logit regression using geographical distance; specifically, the results reveal that firms in high-social-capital regions engage in fewer acquisitions within close proximity (e.g., less than 100 miles), but exhibit a higher propensity for acquisitions in peripheral regions (e.g., distances exceeding 100 miles but less than 500 miles) compared to remote regions (e.g., distances greater than 500 miles). The results are omitted from Table 4 due to space constraints.

takeover market.

If social capital limits opportunistic behaviors, a firm in a low-social-capital county would pay more in stock to exploit overvaluation, as compared to a firm in a high-social-capital county, holding the level of overvaluation fixed. For this, we first measure unexplained valuation (UV) using industry-adjusted MTB ratio (i.e., *UV (Ind)*), which is the difference between firm MTB and industry-year average value of MTB. High *UV (Ind)*, however, can represent both a sign of overvaluation (from the behavioral theory) and a sign of high growth options (from the investment-based rational theory). As such, we also rely on alternative proxies of UV for sharper tests, which are constructed from Rhodes-Kropf et al. (2005) (RRV, hereafter) and Pastor and Veronesi (2003) (PV, hereafter) that employ residual models to measure the degree of market misvaluation on individual firms, following the prior literature (e.g., Hoberg and Phillips, 2010a, Hertzel and Li, 2010, Fu et al., 2013, Phillips and Zhdanov, 2013). The construction of the measures *UV (RRV)* and *UV (PV)* can be found in Table 5.

We also include *Competed, Hostile*, and *Public Target* as additional variables in the regressions to control for competition in deals (Berkovitch and Narayanan, 1990) and information asymmetry (Hansen, 1987, Eckbo et al., 1990), which are documented to affect the payment method. The dependent variable is the percentage of stock in payment.

Insert Table 5 here.

Table 5 Columns (1), (2), and (3) document that the coefficients of *High UV (Ind)*, *High UV (RRV)*, and *High UV (PV)* are significantly positive, consistent with the prior studies that show that equity overvaluation increases the probability of using stock as the medium of payment (e.g., Rhodes-Kropf et al., 2005, Dong et al., 2006, Ang and Cheng, 2006). In addition, firms pay more with stock when acquiring public targets, which is consistent with prior literature.

Despite the general tendency of overvalued firms to rely more on stock payments, the high level of *Social Capital* serves as a mitigating factor, as evidenced by the significantly negative coefficients of interactions between *High Social Capital* and *High UV* in Columns (1), (2), and (3).[26]

[26]We employ indicators for *High Social Capital* and *High UV* because raw *Social Capital* and *UV* take both positive and negative values, which do not allow us to interpret the coefficients of their interaction variables. In the meantime,

Moreover, the mitigating effect is sizable given that the magnitude of the coefficients of interactions is comparable to that of *High UV*. These findings collectively demonstrate that social capital plays a crucial role in diluting opportunistic behaviors within the domain of firms' payment decisions. [27]

4.4 Endogeneity

One concern in our prior analyses is that firms with less (more) acquisition opportunities choose to locate in the high (low) social capital regions. The issue of non-random location choice is more severe for firms that are young and have chosen locations recently or firms that have relocated recently. As such, we keep only firms that have maintained their headquarters in the same states for at least three years, even after any relocation.[28] After excluding those firms, we are left with 92,748 firm-year observations (84% of the total sample). We conduct the same analyses using this group of firms whose location choices are least likely endogenous. Table 6 Panel A reports the consistent results with Tables 2 through 5.[29]

Insert Table 6 here.

In addition, some industries may have geographic preferences over particular regions; if so, the nature of the business might simultaneously affect the location choice and acquisition policy. For example, oil and gas companies often locate in Texas or the Gulf of Mexico for their proximity to oil wells, whereas Silicon Valley is a well-known region for the clustering of software industries (Almazan et al., 2010). If such industries have particular acquisition policies due to their business

the results are qualitatively similar when the dependent variable is replaced with an indicator variable equal to 1 if a payment is made by 100% stock, and a logistic model is used.

[27] Fu et al. (2013) finds that stock payments of overvalued acquirers can be offset by their overpayments to the targets. Unreported results show insignificant differences in the sensitivity of premium to overvaluation across high- and low-social-capital firms (i.e., the insignificant association between premium and *High UV* × *High Social Capital*), suggesting that low-social-capital firms do benefit more from the overvalued stock payments than high-social-capital firms. Also, it indicates that the difference in tendency to pay overvalued stock between high- and low-social-capital firms is unlikely related to, if any, the difference in negotiation skills or tactics between them.

[28] We identify 2,938 firm-year observations that relocate their headquarters during the sample period. Among these relocations, 778 (733) cases result in increases (decreases) in *Social Capital*, implying that the unconditional probabilities of moving to high- and low-social-capital neighborhoods are comparable to each other. Besides, we do not find significant differences in the frequency and size of acquisitions between the *Social Capital*-increasing firms and *Social Capital*-decreasing firms prior to their relocations. These provide evidence that relocation decisions of firms are plausibly independent of any (dis)advantage of locating in high- or low-social-capital regions when it comes to acquisition investments.

[29] For conciseness, we report results only for a set of key dependent variables from Tables 2 through 5 here.

structure, then the effect of social capital would be contaminated. Owing to this concern, we discard firms located in industry clusters (i.e., *Cluster-Firm* being equal to one) and revisit the baseline tests. Table 6 Panel B documents qualitatively similar effects of *Social Capital* as in the entire sample.

The endogeneity issues (in particular, reverse causality) are also ameliorated, regardless of whether the firms' location choices are endogenous, by the discrepancy between low-frequency social capital changes and high-frequency acquisition-related decisions. Still, the issues may remain in the relationship between social capital and acquisition activities due to omitted factors while it is controlling for various firm- or county-level factors. For example, fiscal growth in the region might induce the local government to build up social capital through more communal establishments and, simultaneously, maintain the firms' competitiveness supported by local consumption even without making acquisitions.[30] To address these endogeneity concerns, we use two IVs, distance to the Canadian border (*Distance to Canadian Border*) and ethnic homogeneity (*Ethnic Homogeneity*), which are also used as instruments for *Social Capital* in the previous literature such as Hasan et al. (2017a,b) and Gupta et al. (2020).

The idea of using the two instruments that potentially satisfy the relevance condition stems from Putnam (2001, 2007). Putnam (2001) provides a social capital map of the U.S. where the level of social capital gets higher as it gets closer to the Canadian border and claims that a distance to the Canadian border is the best predictor of the level of social capital in the U.S. According to the author's interpretation, the slavery system is intended to destroy social capital, so there are historical roots in this pattern. Grounding in this theory, we conjecture that the closer to the Canadian border a county is, the higher the social capital. Figure 1 visually confirms this pattern, ensuring that distance to the Canadian border is a relevant instrument. Also, we consider ethnic homogeneity as our second instrument based on Putnam (2007). In this paper, evidence suggests residents in ethnically diverse neighborhoods tend to reveal a lower level of trust, have fewer friends, and exhibit limited altruism and community cooperation, which indicates a positive

[30]The positive partial correlation between fiscal growth and social capital and the negative partial correlation between fiscal growth and acquisition, if any, would lead to a *downward* bias on the OLS coefficient estimate of *Social Capital*.

relationship between ethnic homogeneity and social capital. In this regard, we predict that the more ethnically homogeneous a county is, the higher the social capital, which supports using ethnic homogeneity as our second instrument.

On the other hand, it is unlikely that the two instruments have direct influences on firm acquisition activities other than through their associations with social capital (i.e., exclusion restriction). First of all, the two instruments are county-level measures that are not directly related to an individual firm's policies. *Ethnic Homogeneity* is sticky within a county over time. Likewise, *Distance to Canadian Border*, which is defined as the closest distance between a county and the Canadian border for each county, is static and exploits only the variation in the latitude, not in the longitude of the county; if it captured any variations in longitude as well, it would characterize specific geographic coordinates and thus could be associated with some geographic factors (other than social capital) that correlates with firm acquisition activities.

One might still argue that unobserved business or industry characteristics, such as labor force participation, can be correlated with both ethnic homogeneity and acquisition activities. To assess this potential channel, Panel B of Appendix Table A5 presents the regressions of business-related labor characteristics on our IVs. Capital-to-labor ratio, labor intensity, and labor leverage are measured as their (firm) values averaged at the county-year level, and we do not find systematic correlations between the IVs and those local labor market characteristics. While this falsification strategy cannot formally test whether or not our identification satisfies the exclusion condition, it bolsters our confidence that the IVs are uncorrelated to acquisition outcomes other than through their correlations with social capital. To further alleviate the concern, such characteristics would be controlled for by industry fixed effects;[31] we, therefore, exploit exogenous variation in the social capital that is plausibly orthogonal to unobserved drivers of both industry characteristics (that are correlated with geographic latitude or ethnic homogeneity) and acquisition behaviors.

In addition, the two instruments are geographic and demographic characteristics that were established well before our sample period started, which are not likely to affect a firm's acquisition activities during our sample period. We further demonstrate in Appendix Figure IA1 that no

[31]The IV regression results are robust to the inclusion of industry-by-year fixed effects, which further isolate the exogenous variation in the social capital within the same industry and year.

monotonic or salient pattern is observed in acquisition activities as the latitude or the level of ethnic homogeneity varies. On balance, our IV estimation seems to violate neither the relevance condition nor the exclusion restriction, so the two instruments help mitigate the endogeneity concerns.[32]

To calculate the distance between the Canadian border and a county, we use the postal codes in the U.S. and consider the closest distance between a county and the Canadian border for each county. *Distance to Canadian Border* is defined as the logarithm of one plus the closest distance. To obtain ethnic diversity information, we use the county-level population data of non-Hispanic White, non-Hispanic Black or African American, non-Hispanic Asian, and Hispanic from the U.S. Census. From there, to construct *Ethnic Homogeneity*, we square the share of each of the four ethnic groups in a county in a given year and then sum the numbers.

The first-stage regression results are provided in Panel A of Appendix Table A5 for brevity. In Columns (1) through (7), the coefficients on *Ethnic Homogeneity* and its interaction with *High UV (PV)* are positive and significant at the 1% level. Similarly, the coefficients on *Distance to Canadian Border* in Columns (1) through (6) and its interaction with *High UV (PV)* in Column (7) are significantly negative. In every column, the *F*-statistic much greater than 10 strongly rejects the null hypothesis of weak instruments. Table 6 Panel C reports the second-stage regression results. *Social Capital* shows qualitatively similar effects as the baseline models, even after addressing endogeneity bias using the fitted *Social Capital* from the first-stage regression.

5 Additional Analyses

5.1 Qualitative Aspects

5.1.1 Due Diligence

This section focuses on due diligence as a qualitative dimension of the acquisition process and analyzes how it is impacted by social capital. Acquirers, if deterred by social capital from

[32]To further mitigate the concern about the violation of the exclusion condition, we directly control for acquisition activities at the county level. Given that the two instruments coherently influence the other firms in the same county, their acquisition activities should be subject to, if any, common forces that are unrelated to social capital. The 2SLS regression results are invariant when the acquisition activities of other firms in the same county, such as the number of acquisitions or stock payments, are additionally controlled.

making opportunistic deals, would undertake extensive due diligence to avoid any deal risks and the possibility of undermining the welfare of stakeholders.

The scope of due diligence ranges from financial risk to legal investigation, such as regulatory compliance, tax consideration, litigations, environmental liabilities, etc. Firms in high-social-capital neighborhoods would hire more (legal) advisors in their due diligence process to minimize the (legal) damage to various stakeholders. Also, their due diligence is likely to be more thorough and consequently take a longer time, which in turn delays the entire deal completion. Further, they may get more fairness opinions to review the risk of unfair acquisition outcomes. On the other hand, due diligence reveals private information about deal participants, of which opportunistic acquirers in low-social-capital neighborhoods might take advantage, especially when the deals are not consummated.[33] In that case, we expect that acquirers in low-social-capital counties would conduct the due diligence process more actively.

Insert Table 7 here.

The significant positive coefficient in Table 7 Column (1) indicates a positive association between *Social Capital* and the number of legal advisors.[34] The results overall indicate that acquirers in high-social-capital counties retain more advisors—in particular, legal advisors—for more thorough due diligence.[35] In the meantime, the results do not support the information hypothesis, in that the involvement and choice of financial advisors can limit the information asymmetry problem regarding targets (Servaes and Zenner, 1996, Officer, 2007, Graham et al., 2017). Column (3) shows that acquirers in high-social-capital counties receive more fairness opinions from their advisors, consistent with their discreet approaches to the deals. Also, Column (4) indicates that it takes a longer time to complete acquisitions by acquirers in high-social-capital regions, implying that they go through a review process with more caution than haste. Therefore,

[33] M&As involve a substantial amount of information being exchanged between the parties (Officer, 2003, Wangerin, 2019). However, the FTC highlights that the parties must be careful not to share competitively sensitive information during due diligence (https://www.ftc.gov/enforcement/competition-matters/2018/03/avoiding-antitrust-pitfalls-during-pre-merger-negotiations-and-due-diligence).

[34] We further include *Competed*, *Public Target*, and *Hostile* in Table 7 to account for deal complexity.

[35] We would have observed a negative relationship between *Social Capital* and the use of, at least, financial advisors if acquirers in low-social-capital counties had done more due diligence to opportunistically exploit the target's financial information.

the results do not support the trust hypothesis, which predicts that the duration would be shorter for acquirers in high-social-capital neighborhoods through faster approvals from credulous stakeholders.

5.1.2 Target Characteristics

This section explores further qualitative aspects by focusing on target's characteristics. First, we estimate the correlation between the social capital levels of acquirers and targets. Earlier studies show that cultural similarities lower integration costs post-acquisition (Chatterjee et al., 1992, Ahern et al., 2015, Bereskin et al., 2018). In the same vein, acquirers would choose targets exposed to a similar level of social capital to decrease integration costs that result from any differences in their business practices, which can be shaped from and subject to local social environments (Lin and Pursiainen, 2023). Consistent with this conjecture, Table 8 Column (1) shows the positive correlation between the *Social Capital*s of acquirers and targets, implying that acquirers in high (low)-social capital counties prefer targets in high (low)-social-capital counties.

Insert Table 8 here.

In the meantime, we expect that firms located in high-social-capital communities would avoid acquisitions of firms in the *sin* industries that potentially harm the local society and thus likely raise objections from the community.[36] Column (2) demonstrates this expectation in that *Social Capital* is negatively associated with the likelihood of acquiring firms operating in the *sin* industries. Finally, we examine whether acquirers located in high-social-capital communities are more likely to acquire targets with higher accounting quality because those acquirers may expect targets to conform to the accounting rules and practices as they do (Afzali et al., 2021).[37] To this end, we define *Target Accounting Quality* as the accrual quality of the target following Marquardt and Zur (2015) where the higher value implies the higher quality of accruals. The coefficient on social capital, 0.015, in Column (3) indicates that firms in high-social-capital neighborhoods acquire

[36] We define industries with SIC codes 2100-2199 (beer and alcohol group), 2080-2085 (smoke and tobacco group), and NAICS codes 71323, 71312, 713210, 71329, 713290, 72112, and 721120 (gaming group) as the *sin* industries following Hong and Kacperczyk (2009).

[37] Acquirers generally undertake the legal responsibilities of targets (as well as financial liabilities), encompassing potential concerns regarding financial reporting and accounting practices.

transparent targets with higher accounting quality. In sum, the results of Tables 7 and 8 indicate the constraining effects of social capital in the qualitative dimensions as well.

5.2 Announcement Returns

Having established that social capital limits opportunistic decisions in undertaking and structuring acquisition deals, this section assesses the association between announcement returns and social capital. Acquisitions by firms in high-social-capital regions have the potential to deliver greater value to acquirers compared to their low-social-capital counterparts, assuming all other factors are equal. Firstly, these firms are less likely to engage in opportunistic deals, thus minimizing costs associated with local challenges and resistance. Furthermore, their strong commitment to maintaining relationships and honoring contracts (including implicit ones such as ensuring job security for employees and continued service to local communities) enhances support from stakeholders, ultimately benefiting the shareholders post-acquisition. Additionally, acquirers in high-social-capital counties face lower ex-ante risks of deal withdrawal or suspension, given that their acquisitions are less likely to be opportunistic and anticompetitive. Consequently, the announcement returns for these acquirers incorporate the higher probability of deal completion, thereby likely resulting in higher CARs.

However, the limited choice of targets by acquirers in high-social-capital locations, aimed at avoiding opportunistic deals, may result in the pursuit of suboptimal acquisitions from the shareholders' perspective (i.e., deals that do not maximize the shareholder value among the acquisition opportunities at hand). This trade-off would be particularly evident for the most value-enhancing deals (referred to as "good" deals) where the acquirers already deliver substantial value to shareholders through acquisitions. As a result, they can prioritize the interests of other stakeholders, even at some expense of shareholders, by accepting suboptimal deals. In this scenario, it is possible that their CARs decrease with social capital. Nevertheless, the negative relationship between CARs and social capital would be less pronounced for "bad" deals (i.e., the least value-enhancing or value-destroying acquisitions). This is because, in these cases, the acquirers cannot prioritize other stakeholders since their deals barely contribute to firm value, resulting in heightened concern and scrutiny from shareholders. In other words, when deals are

considered "bad," acquirers would refrain from further diminishing shareholders' small pie by pursuing more suboptimal deals.

Insert Table 9 here.

We first examine the relationship between social capital and the likelihood of a deal leading to a positive CAR from one day before to one day after the acquisition announcement.[38] In Panel A and B of Table 9, Column (1) shows that, on average, deals by acquirers in high-social-capital regions are more likely to result in a positive CAR. This result aligns with the findings in Suchard et al. (2021) and Chen et al. (2022), and supports our conjecture that their acquisitions deliver greater value to the firm. On the other hand, when we run linear regression models of CAR on social capital (Column (2) of Panel A and B), the coefficients of *Social Capital* are positive but insignificant, possibly reflecting the suboptimality effect that presents among "good" deals.

To delve into this effect deeper and differentiate it between "good" and "bad" deals, we employ quantile regression. This allows us to estimate the effect of social capital on different percentiles of CARs while controlling for the same explanatory variables as in the linear regression models. In Columns (3) through (6), we model the 20th, 40th, 60th, and 80th percentiles of CARs as a function of social capital and other control variables. The significantly positive coefficients on *Social Capital*, particularly among the lower percentiles (the 20th and the 40th), support that acquisitions undertaken by firms with high social capital lead to better announcement returns, consistent with Column (1).

However, we find less significant (or insignificant) associations between social capital and CAR when moving up the percentiles, consistent with the suboptimality effect. Altogether, we interpret the results as suggesting that the trade-off inherent in "good" deals can neutralize shareholder returns, while social capital contributes to higher announcement returns in general.

5.3 Other Investments

We now assess the impact of social capital on R&D, CAPX, employment, and divestitures (i.e., sale of assets as acquisition targets), as other forms of investments for a more complete picture.

[38]The results are qualitatively similar when analyzed using alternative windows, such as (-1, +3) or (-1, +5).

It could be the case that lower acquisitions of firms in high-social-capital counties result in (or from) spending resources on these other types of investments to stay competitive (i.e., substitution effect). Alternatively, if the other investments have any potential to harm the public interest, local pressure may also constrain the other investments as it does in the case of acquisitions.

Insert Table 10 here.

Table 10 Columns (1) through (3) show that investments in R&D, CAPX, and employments are not significantly associated with *Social Capital*.[39] The results suggest that the effect of *Social Capital* is compromised by the two conflicting forces in investment decisions. On the other hand, we find that the likelihood of divestitures (i.e., being an acquisition target) decreases with *Social Capital* as the significantly negative coefficient on *Social Capital* in Column (4) suggests. The resulting interpretation based on the coefficient in Column (4), -0.090, is that a one-standard-deviation increase in *Social Capital* results in a decrease in the odds ratio of a firm being acquired by 7.4%. Column (5) further indicates that firms in high-social-capital regions are less frequently targeted in the first place. We interpret that firms in high-social-capital regions avoid divestitures of their assets to the extent that they have acquired those assets in a selective and discreet way. It might also highlight a target's resistance against the proposed deal that potentially impacts its local community. Alternatively, it might reflect the avoidance of bidders in the high-social-capital regions to make acquisitions in the same region.

However, the evidence should be interpreted with caution. The dependent variables are only the investment expenditures and the number of employees, and they lack further quantitative and qualitative information about investment behaviors. As a matter of fact, the total expenditures on acquisitions do not show a significant relationship with *Social Capital* in the previous results (i.e., Table 2 Columns (7) through (9)), but more detailed information has enabled us to identify significant effects of *Social Capital* on opportunistic acquisition activities. We believe more meticulous

[39]The result in Column (1) is not mutually exclusive with the previous results in Gupta et al. (2020) and Xie et al. (2021) that show the encouragement effect of social capital on firm innovation. Even though it shows that the amount of R&D investment is not significantly associated with social capital, firms in high-social-capital counties might be able to draw more commitments from inventors and ultimately lead to more innovations, holding R&D investment constant. Moreover, R&D only represents a firm's (monetary) effort toward more innovation, not necessarily the individual inventor's.

analyses of the impact of social capital on the other types of investments vis-à-vis opportunism could be an interesting topic for future research.

6 Robustness Tests

6.1 Outlier Counties

We revisit the main results after excluding outlier counties that have too low or high *Social Capital* values as compared to the neighboring counties. Even though a county's *Social Capital* is constructed in a way that exploits its objective and regional attributes, neighboring counties might share a similar culture beyond their different classifications of administrative regions. If so, *Social Capital* values of the outlier counties could be either over- or under-estimated compared to what is predicted from their adjacent counties. As such, we exclude counties whose *Social Capital* values are one standard deviation higher or lower than the mean of adjacent counties' *Social Capital* values. The standard deviations are computed yearly at the entire U.S. level.

Insert Table IA1 here.

Internet Appendix Table IA1 shows that the effects of *Social Capital* (or its interactions with *UV (PV)*) remain similar to that in the previous tables, indicating that the effects are robust to the exclusion of outlier counties.

6.2 Social Capital without Backfilling

We redo the tests without backfilling the *Social Capital* values in the data. The *Social Capital* values of each county in 1990, 1997, 2005, 2009, and 2014 are used only once for each subperiod of 1990-1996, 1997-2004, 2005-2008, 2009-2013, and 2014-2020. To be in line with this setting, we aggregate acquisition activities in each of the five subperiods. Specifically, *#Acq.* and *Challenged* are summed, and other dependent variables are averaged in each subperiod for a given firm.

Insert Table IA2 here.

In Internet Appendix Table IA2, most baseline results continue to hold even when *Social Capital* is not backfilled, and acquisition activities are aggregated in each subperiod.

6.3 Falsification Test: Social Capital of States of Incorporation

To the extent that the constraining effects of social capital are materialized through potential interventions from local stakeholders, it is not likely to arise in the states of incorporation that firms choose mostly for legal considerations, not for their day-to-day business operations.[40] Even though firms abide by the business laws in their states of incorporation, their local stakeholders in the headquarters are the most susceptible populations to any of their opportunistic behaviors in business operations, for example, acquisitions. Accordingly, the social capital of the state of incorporation is unlikely to exert as much pressure as the social capital in the headquarters region. Thus, we implement a falsification test by replacing the original *Social Capital* with the social capital of the state where a firm is incorporated. To this end, we define the *Social Capital* of the state of incorporation as the average social capital of counties in the state of incorporation based on the historical states of incorporation.

Insert Table IA3 here.

Internet Appendix Table IA3 shows that most of the coefficients of *Social Capital* are insignificant or even inconsistent compared to the results from the previous tables. This falsification test supports the notion that firms are more conscious of their local social capital than the social capital of the place where their legal entities locate. In contrast, the unreported results confirm that the level of social capital, measured at the state level in which the headquarters are located, shows similar effects as the original *Social Capital*, measured at the county level.

6.4 Multiple Location Problem

Although it has been reasonably assumed both in practice and academic research that major corporate decisions, such as acquisitions, are typically made at headquarters (e.g., Almazan et al., 2010, John et al., 2011), firms might also be mindful of and influenced by the local communities in their operational sites, not just their headquarters.[41]

[40] In our sample, 74% of firms are incorporated in a different state than where their headquarters are located. The majority of firms (66%) are incorporated in Delaware.

[41] In practice, the following statement from Canadian Pacific underscores that acquirers may consider the interest of local stakeholders in other operational regions: *"We recognize that we will be increasing the number of trains that operate through some communities and understand the community concerns being expressed... we are talking*

Insert Table IA4 here.

If this is the case, our identification might introduce bias and potentially underestimate the impact of social capital by focusing solely on the headquarter locations. To conduct a more rigorous test, we utilize data on operating locations from Garcia and Norli (2012), who compile information about a firm's geographical dispersion of operations from 10-K filings.[42] We exclude observations where an acquirer or target has multiple operating locations. Internet Appendix Table IA4 shows that the results are robust, even after implementing this restriction.

6.5 All Acquisition Attempts

The sample throughout the paper contains only completed deals. Now for the robustness check, we expand our acquisition sample by including all attempted acquisitions. If the constraining effect of social capital is in play, firms in high-social-capital neighborhoods would be less likely to initiate a deal in the first place. To see this, we consider all the announced acquisitions with the status of "Withdrawn," "Pending," and "Status Unknown," as well as "Completed" from the SDC database over the sample period.

Insert Table IA5 here.

Columns (1) through (3) in Internet Appendix Table IA5 show that *Social Capital*'s effects remain similar in the expanded acquisition sample. In Columns (4), (5), and (6), we examine the ex-post deal completion rates conditional on attempting an acquisition, asset acquisition, and firm acquisition, respectively. The coefficients of *Social Capital* are marginally positive or insignificant, implying that the results in Table 2 are driven not because of the low deal completion rates but because of the unwillingness to attempt acquisitions for firms in high-social-capital neighborhoods.

6.6 Social Capital vs. Corporate Social Responsibility (CSR)

Given the context-specific nature of the term social capital, as discussed in Section 3.1, one might question its relationship with corporate social responsibility (CSR), which has garnered

directly to community leaders and we will work hard to be a good neighbor…"(https://www.freightwaves.com/news/chicago-suburbs-protest-planned-cp-kcs-merger).

[42]We are grateful to Professor Garcia for making the Geographic Dispersion data available on the website (https://leeds-faculty.colorado.edu/garcia/data.html).

significant attention from both field and academic research in recent decades. If there is a connection, our primary findings could be viewed in the context of the impact of CSR on acquisition behaviors. However, it is important to note that in this paper, *Social Capital* refers to the local-level social capital manifested through a community's networks, norms, and social trust, which discourage self-serving behavior and promote mutual benefit. In contrast, CSR is a business practice that incorporates social and environmental concerns into a company's management and operations. CSR is a voluntary or strategic corporate policy increasingly subject to "soft" regulations such as reporting initiatives and compliance programs for labor or environmental issues. Social capital, on the other hand, represents the social environment created by local communities and enforces norms that go beyond legal requirements. As a result, social capital is an external force that a single company cannot control if it remains in the same region.

Previous studies have also explored the relationship between social capital and CSR, highlighting both their differences and connections. For example, Lins et al. (2017) point out that the CSR index may not fully capture all aspects of social capital that a firm faces from its local community. Conversely, Jha and Cox (2015) demonstrate that firms located in high social capital regions tend to engage more in CSR activities. Additionally, Hoi et al. (2018) find that social capital can facilitate positive CSR practices while limiting negative ones. However, because of the close relationship between social capital and CSR, it is possible that social capital may only have a secondary impact on the observed acquisition outcomes. To investigate this empirically, we conduct a comparison between them to determine which factor exerts a stronger influence in terms of protecting stakeholders.

To measure a firm's CSR level, we use the MSCI ESG KLD STATS data set. This data provides ESG ratings based on multiple metrics, with each metric being evaluated based on a set of positive (*strength*) and negative (*concern*) indicators. We focus on seven key metrics: environment, community, human rights, employee relations, diversity, product, and governance. Because the number of positive or negative indicators of a metric can vary from year to year, we first calculate positive and negative scores for each metric by summing all relevant indicators and dividing them by the total number available in a given year. Then, we define *CSR* as the sum of positive scores

minus the sum of negative scores across all seven metrics following Deng et al. (2013).[43]

Insert Table IA6 here.

Most of our main findings remain robust even after controlling for *CSR*, as demonstrated by the results in Internet Appendix Table IA6. The insignificant coefficients on *CSR* in the first five columns imply that CSR does not significantly affect acquisition intensity and target selection, while CSR may have a positive impact on merger performance, as previously documented by Deng et al. (2013).

6.7 Is it Risk Aversion?

Even though the multinomial regression results in Table 4 provide evidence that is seemingly inconsistent with the firm diversification or risk reduction motives, one might argue that *Social Capital*'s negative relationship with acquisition rates (in Table 2) and positive relationship with due diligence (in Table 7) may represent risk aversion behavior. Prior studies also document evidence that firms use diversifying acquisitions to reduce risk (e.g., Amihud and Lev, 1981, Acharya et al., 2011, Gormley and Matsa, 2016).

To assess the possibility, we examine whether the results of Table 4 are robust even after controlling for measures of ex-ante motives of geographic or industrial diversification. To control for firm-level motives of diversification, we use *Firm Age*, *Geographic Dispersion* (the logarithm of the number of states in which a firm operates), and *Sales Concentration* (the Herfindahl-Hirschman Index (HHI) of sales concentration in business segments within a firm) as the proxies.[44] We additionally include *CEO age*, *CEO Tenure*, and *Female CEO* dummy to control for managerial risk aversion or motives of diversification.

Insert Table IA7 here.

All the coefficients on *Social Capital* in Internet Appendix Table IA7 show that the effects of *Social Capital* on geographic or industry selections continue to hold even after holding constant the firm or managerial level motives of diversification or risk aversion.

[43]Since the data set was initiated in 1991, and the most recent update has been made for 2019, our sample period spans from 1991 to 2019 for Internet Appendix Table IA5.

[44]The sales information of business segments is available in Compustat Historical Segment data.

6.8 Robust Standard Errors

For robustness, we take into account arbitrary correlations of the error terms (i) within the same firm over time, (ii) across different firms in a given county, and (iii) across different firms in a given county and/or industry. Serial correlation can be a concern because a county's *Social Capital* varies little over time, and most firms stay in the same county. Also, cross-sectional correlation can be a concern because all firms in a given county (and/or industry) are consistently affected by the same environment, namely, *Social Capital*. In Internet Appendix Table IA8, we consider standard errors that are robust to clustering at different levels, including the firm, county, or (a two-way combination of) county and industry.

Insert Table IA8 here.

7 Conclusion

This paper examines the effects of the social environment on corporate investments, specifically concentrating on local social capital and acquisition choices. Motivated by the consensus of academic and practical areas about the importance of social capital, especially in times of crisis such as the COVID-19 pandemic, this paper evaluates the constraining effects of social capital on opportunistic acquisition decisions in both quantitative and qualitative aspects. The results show that firms in high-social-capital counties have a lower acquisition intensity at the extensive, but not intensive, margin. We also document that social capital reduces the acquisition of firms in the same region or industry and the likelihood of being challenged by federal antitrust agencies. Further, the results highlight that social capital decreases overvalued stock payments. After addressing endogeneity bias, we establish a plausible causality of social capital on such acquisition decisions. In addition, this paper focuses on the qualitative dimensions of acquisition deals and finds that firms in high-social-capital counties engage in more due diligence and acquire more firms from high-social-capital regions and fewer firms from the so-called *sin* industries.

Nonetheless, we acknowledge a limitation within this paper. Specifically, our exploration of the implications of social capital on the welfare of other stakeholders and its impact on the equilibrium outcomes of acquisitions remains limited in scope. For instance, the potential

gains from the acquisitions made in a high-social-capital region could extend to regional growth while maintaining competitive pricing for products and services simultaneously. Furthermore, examining how social capital influences the efficiency of both the takeover market and the local market could be an intriguing topic for future research. Such an exploration could illuminate how social capital potentially curbs opportunistic acquisitions, leading to more optimal matches between acquirers and targets. Additionally, any substitution or complement effects between social capital and financial capital in shaping investment policies present a compelling avenue for future research, particularly given the increasing emphasis on the role of financiers in driving socially responsible investments.

Overall, this paper establishes a new link between social capital and corporate acquisitions, which has not been extensively explored in the existing literature. Our findings contribute to a better understanding of social capital's role in acquisition strategies and support previous studies on its benefits to firm stakeholders. These insights have implications for firms and policymakers navigating the complexities of the M&A landscape.

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Figure 1: Social Capital and Acquirer Distribution

This figure displays the spatial distribution of social capital and acquirer at the U.S. county level. For graphical purposes, the deciles of *Social Capital* are classified based on the most recent values, ranging from 'Low' to 'High. The red circle represents the total number of acquirers per county from 1990 to 2020, the size of which is proportional to the number. Counties with firms that have never acquired a firm or asset during the sample period do not illustrate a red circle.

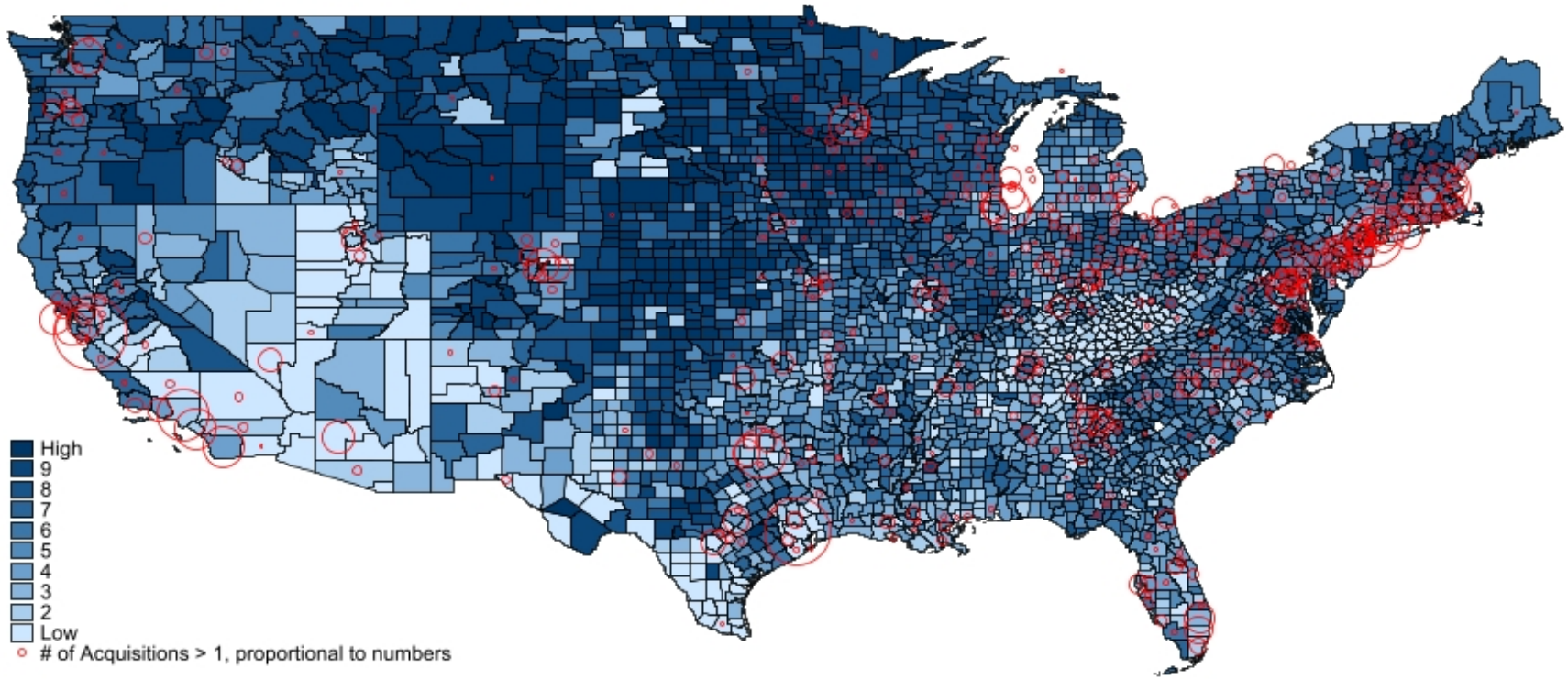
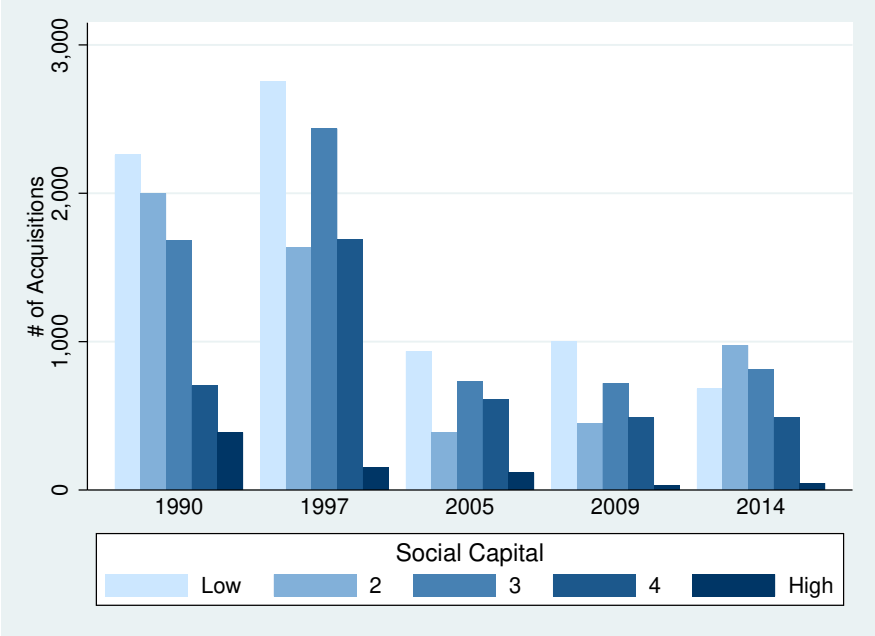


Figure 2: Frequency and Volume of Acquisitions

This figure displays the frequency and volume of acquisitions from 1990 to 2020. Panel A shows the frequency of completed deals for each quintile of *Social Capital*. Panel B shows the transaction size per deal for each quintile of *Social Capital*.

Panel A: Number of Deals



Panel B: Transaction Size per Deal

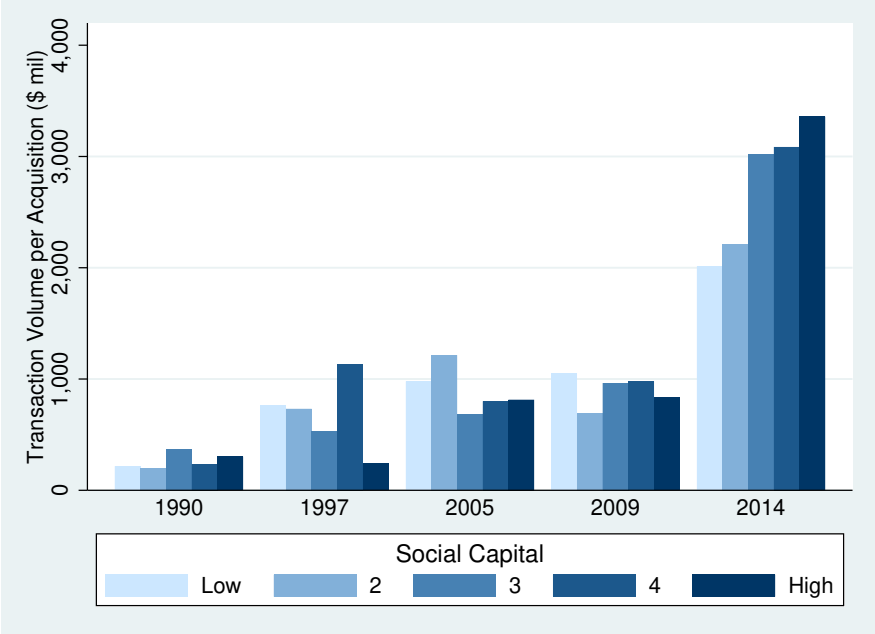


Table 1: Summary Statistics

This table reports summary statistics for key variables in the study. The sample spans from 1990 to 2020. Panel A shows summary statistics for variables in the baseline sample. Panel B shows the mean values of the main dependent variables by *Social Capital* quintile. The detailed definition of variables can be found in Appendix Table A1.

Panel A: Summary statistics for variables in the baseline sample

				Percentile				
Variable	**N**	**Mean**	**Std. Dev.**	**10th**	**25th**	**50th**	**75th**	**90th**
Social Capital	110,937	-0.571	0.849	-1.625	-1.217	-0.58	-0.03	0.447
MTB	110,937	2.107	1.807	0.926	1.084	1.496	2.35	3.954
EBITDA	110,937	0.035	0.248	-0.213	0.017	0.095	0.158	0.222
Tangible Assets	110,937	0.246	0.232	0.022	0.064	0.168	0.361	0.62
Cash	110,937	0.198	0.229	0.01	0.030	0.1	0.289	0.566
Size	110,937	5.472	2.187	2.703	3.854	5.358	6.955	8.394
Sales	110,937	5.185	2.355	2.303	3.602	5.173	6.816	8.215
Leverage	110,937	0.221	0.237	0.000	0.012	0.142	0.357	0.595
Population Growth	110,937	0.386	0.311	0.03	0.234	0.407	0.574	0.731
Education	110,937	0.580	0.104	0.448	0.516	0.589	0.652	0.711
Net Job Creation Rate	110,937	0.014	0.03	-0.025	-0.002	0.017	0.033	0.049
Δ *Housing Price*	110,937	0.040	0.062	-0.030	0.011	0.039	0.071	0.113

Panel B: Mean of the main dependent variables by *Social Capital* quintiles

	***Social Capital* quintiles**					**Difference**
Variable	**Q1**	**Q2**	**Q3**	**Q4**	**Q5**	**Q1 - Q5 (*t*-stat)**
Acq.	0.150	0.154	0.143	0.154	0.139	0.011 (3.39)
Asst. Acq.	0.097	0.097	0.089	0.096	0.086	0.012 (4.30)
Firm Acq.	0.067	0.073	0.068	0.074	0.066	0.001 (0.43)
#Acq.	0.202	0.211	0.186	0.206	0.182	0.021 (3.86)
#Asst. Acq.	0.124	0.124	0.109	0.120	0.106	0.018 (4.63)
#Firm Acq.	0.079	0.087	0.077	0.086	0.076	0.002 (0.79)
Acq.($)	0.073	0.084	0.064	0.068	0.063	0.009 (1.20)
Asst. Acq.($)	0.029	0.025	0.021	0.024	0.023	0.006 (2.39)
Firm Acq.($)	0.044	0.059	0.043	0.044	0.04	0.004 (0.48)
Stock%	26.0	24.5	24.0	23.6	22.8	3.2 (3.97)
Distance	5.626	5.817	5.897	5.838	5.869	-0.243 (-4.24)
Same State	0.433	0.292	0.250	0.219	0.207	0.226 (8.21)
Same County	0.251	0.112	0.118	0.097	0.097	0.154 (6.81)
Same Industry	0.404	0.381	0.357	0.361	0.351	0.053 (5.24)

Table 2: Acquisition Intensity

This table reports the regression results of various acquisition measures on *Social Capital*. The sample spans from 1990 to 2020. Columns (1) - (3) represent logistic regression results, and Columns (4) - (9) represent linear regression results. All models include year and industry fixed effects. The intercept is not tabulated. Robust standard errors are reported in parentheses. ***, **, * indicate significance at the 1%, 5%, and 10% levels, respectively. The detailed definition of variables can be found in Appendix Table A1.

	(1) *Acq.*	(2) *Asset Acq.*	(3) *Firm Acq.*	(4) *#Acq.*	(5) *#Asst. Acq.*	(6) *#Firm Acq.*	(7) *Acq.($)*	(8) *Asst. Acq.($)*	(9) *Firm Acq.($)*
Social Capital	-0.057***	-0.065***	-0.033**	-0.012***	-0.008***	-0.004***	-0.005	-0.001	-0.004
	(0.011)	(0.013)	(0.014)	(0.002)	(0.001)	(0.001)	(0.003)	(0.001)	(0.003)
MTB	-0.036***	-0.058***	-0.010	-0.001	-0.005***	0.005***	0.034***	0.006***	0.028***
	(0.006)	(0.008)	(0.008)	(0.002)	(0.001)	(0.001)	(0.004)	(0.001)	(0.004)
EBITDA	0.900***	1.219***	0.430***	0.084***	0.069***	0.015***	-0.007	0.023***	-0.030
	(0.062)	(0.081)	(0.079)	(0.007)	(0.005)	(0.004)	(0.026)	(0.005)	(0.025)
Tangible Assets	-1.001***	-0.811***	-1.185***	-0.183***	-0.097***	-0.086***	-0.011	-0.023***	0.011
	(0.059)	(0.070)	(0.082)	(0.012)	(0.009)	(0.006)	(0.020)	(0.006)	(0.019)
Cash	-0.550***	-0.705***	-0.360***	-0.126***	-0.099***	-0.026***	-0.044***	-0.025***	-0.019
	(0.058)	(0.071)	(0.079)	(0.011)	(0.008)	(0.006)	(0.017)	(0.006)	(0.015)
Size	0.367***	0.340***	0.404***	0.068***	0.040***	0.028***	0.005	0.001	0.003
	(0.010)	(0.013)	(0.014)	(0.002)	(0.001)	(0.001)	(0.003)	(0.001)	(0.003)
Sales	-0.143***	-0.163***	-0.128***	-0.024***	-0.019***	-0.005***	-0.010***	-0.006***	-0.004
	(0.011)	(0.013)	(0.015)	(0.002)	(0.001)	(0.001)	(0.003)	(0.001)	(0.003)
Leverage	-0.218***	-0.099	-0.267***	0.006	0.006	0.000	-0.007	-0.007**	-0.000
	(0.054)	(0.065)	(0.075)	(0.008)	(0.006)	(0.005)	(0.012)	(0.004)	(0.011)
Population Growth	0.030	0.029	0.007	0.006	0.003	0.003	0.043***	0.004	0.039***
	(0.042)	(0.050)	(0.059)	(0.008)	(0.006)	(0.005)	(0.014)	(0.003)	(0.014)
Education	0.412***	0.594***	0.161	0.086***	0.056***	0.030**	0.042	0.009	0.034
	(0.111)	(0.135)	(0.151)	(0.021)	(0.016)	(0.012)	(0.031)	(0.006)	(0.031)
Net Job Creation Rate	0.806**	0.803*	0.970*	0.147*	0.101*	0.046	-0.131	-0.030	-0.101
	(0.395)	(0.482)	(0.542)	(0.076)	(0.055)	(0.045)	(0.091)	(0.025)	(0.088)
Δ *Housing Price*	0.112	0.150	0.182	0.027	0.002	0.025	0.052	0.002	0.050
	(0.221)	(0.264)	(0.313)	(0.041)	(0.031)	(0.024)	(0.045)	(0.013)	(0.043)
Observations	110,905	110,859	110,815	110,937	110,937	110,937	110,937	110,937	110,937
Adj./Pseudo R^2	0.0717	0.0655	0.0767	0.056	0.037	0.036	0.014	0.011	0.010
Year&Ind. FE	✓	✓	✓	✓	✓	✓	✓	✓	✓

Table 3: Alternative Channels

This table reports the regression results of acquisition intensity on *Social Capital* and other variables to test alternative channels. The sample spans from 1990 to 2020. All columns represent linear regression results and include year and industry fixed effects. Controls include *MTB, EBITDA, Tangible Assets, Cash, Size, Sales, Leverage, Population Growth, Education, Net Job Creation Rate*, and Δ *Housing Price* in all columns and, additionally, *Cash Flow* in Column (7). The intercept is not tabulated. Robust standard errors are reported in parentheses. ***, **, * indicate significance at the 1%, 5%, and 10% levels, respectively. The detailed definition of variables can be found in Appendix Table A1.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
					#*Acq.*					
Social Capital	-0.017***	-0.013***	-0.011***	-0.012***	-0.011***	-0.011***	-0.013***	-0.012***	-0.009***	-0.015***
	(0.006)	(0.002)	(0.004)	(0.002)	(0.002)	(0.002)	(0.002)	(0.003)	(0.003)	(0.003)
Gindex	0.001									
	(0.002)									
Institutional Ownership		0.023***								
		(0.009)								
Executive Ownership			-0.000							
			(0.000)							
Ratio of Firm				-0.015						
				(0.012)						
Cluster-Firm					0.031***					
					(0.007)					
Industry M&A Liquidity						0.552***				
						(0.034)				
Social Capital × *Cash Flow*							-0.009***			
							(0.003)			
Social Capital × *Cash*								-0.003		
								(0.009)		
Social Capital × *Tangible Assets*									-0.014*	
									(0.008)	
Social Capital × *Leverage*										0.013*
										(0.007)
Observations	17,289	62,360	37,640	110,937	110,937	96,946	110,634	110,937	110,937	110,937
Adjusted R^2	0.0697	0.0541	0.0534	0.0551	0.0553	0.0644	0.0551	0.0550	0.0551	0.0551
Controls	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Year&Ind. FE	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

Table 4: Target Selection

This table reports the regression results of various variables related to the choice of targets on *Social Capital*. The sample spans from 1990 to 2020 and focuses on acquirers with completed deals in a given year. Column (1) represents linear regression results, Columns (6) and (7) represent multinomial logistic regression results, and the remaining columns represent logistic regression results. All models include year and industry fixed effects. The intercept is not tabulated. Robust standard errors are reported in parentheses. ***, **, * indicate significance at the 1%, 5%, and 10% levels, respectively. The detailed definition of variables can be found in Appendix Table A1.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
						Multinomial Logit		
	Distance	*Same State*	*Same County*	*Same Ind.*	*Same Ind.(FIC)*	*Similar Ind.*	*Same Ind.*	*Challenged*
Social Capital	0.102***	-0.646***	-0.561***	-0.080***	-0.163**	0.057**	-0.067***	-0.414**
	(0.022)	(0.073)	(0.087)	(0.019)	(0.064)	(0.027)	(0.020)	(0.198)
MTB	0.017	-0.033	-0.007	-0.024**	-0.020	0.012	-0.019*	-0.184
	(0.015)	(0.037)	(0.047)	(0.010)	(0.039)	(0.014)	(0.011)	(0.243)
EBITDA	0.332**	0.073	-0.296	0.390***	0.719*	0.385***	0.484***	2.781
	(0.155)	(0.422)	(0.492)	(0.107)	(0.429)	(0.139)	(0.113)	(3.261)
Tangible Assets	-0.432***	0.192	-0.036	1.079***	1.656***	-0.115	1.061***	0.906
	(0.124)	(0.361)	(0.404)	(0.098)	(0.408)	(0.159)	(0.104)	(1.067)
Cash	-0.355***	0.125	-0.397	0.573***	1.979***	0.458***	0.717***	-5.484*
	(0.125)	(0.355)	(0.473)	(0.096)	(0.393)	(0.134)	(0.104)	(2.913)
Size	0.010	0.049	0.034	0.093***	0.165**	0.069**	0.108***	0.699***
	(0.027)	(0.071)	(0.089)	(0.020)	(0.081)	(0.030)	(0.022)	(0.223)
Sales	0.022	-0.156**	-0.118	-0.104***	-0.255***	-0.073**	-0.119***	-0.262
	(0.028)	(0.072)	(0.090)	(0.021)	(0.082)	(0.031)	(0.022)	(0.218)
Leverage	-0.003	-0.203	0.267	0.459***	0.310	-0.400**	0.413***	3.304**
	(0.125)	(0.369)	(0.434)	(0.103)	(0.426)	(0.159)	(0.109)	(1.313)
Population Growth	-0.182**	0.474**	0.558**	-0.068	-0.136	-0.009	-0.071	0.205
	(0.087)	(0.228)	(0.283)	(0.069)	(0.234)	(0.100)	(0.073)	(0.786)
Education	-0.679***	3.277***	3.619***	0.258	-0.033	-0.131	0.229	1.368
	(0.209)	(0.692)	(0.860)	(0.193)	(0.707)	(0.286)	(0.203)	(2.133)
Net Job Creation Rate	1.572**	-2.664	-5.283*	-0.321	-2.107	-0.324	-0.416	9.611
	(0.767)	(2.273)	(2.854)	(0.674)	(2.375)	(0.995)	(0.708)	(6.910)
Δ *Housing Price*	-1.409***	2.021	-0.395	0.640*	1.500	0.479	0.756*	-4.654
	(0.453)	(1.235)	(1.493)	(0.372)	(1.234)	(0.535)	(0.393)	(4.036)
Observations	12,791	2,628	2,585	21,865	2,419	21,892	21,892	1,094
Adj./Pseudo R^2	0.0737	0.160	0.100	0.0695	0.158	0.0779	0.0779	0.247
Year&Ind. FE	✓	✓	✓	✓	✓	✓	✓	✓

Table 5: Stock Payment

This table illustrates the relationship between the level of *Social Capital* and the tendency of an overvalued firm to use stock as a payment method. The sample spans from 1990 to 2020 and focuses on acquirers with completed deals in a given year. To measure the degree of the firm-level unexplained portion of valuation (UV), we first consider industry-adjusted market-to-book ratio and further apply residual models from Rhodes-Kropf et al. (2005) (RRV) and Pastor and Veronesi (2003) (PV). *UV (Ind)* is the industry-adjusted MTB ratio, which is the difference between firm MTB and the industry-year average value of MTB. RRV assumes that a firm's intrinsic value (unobservable from data) is a function of its book value of equity, net income, and leverage. Also, RRV assumes that the parameters of the function vary over time and industries to capture the industry-year-level variation of investment opportunities. Based on this assumption, we adapt the methodology proposed by Fu et al. (2013) to estimate the following regression for each three-digit SIC industry and each year:

$$\log(M_{it}) = \alpha_0 + \alpha_1 \log(B_{it}) + \alpha_2 \log(|NI_{it}|) + \alpha_3 1(NI_{it} < 0) \cdot \log(|NI_{it}|) + \alpha_4 Lev_{it} + \epsilon_{it}$$

where *M*, *B*, *NI*, and *Lev* represent the firm-year level market value of equity, book value of equity, net income, and market leverage, respectively. We next compute the time-series average of each coefficient (α_0 through α_4) to obtain the industry-level parameters. Using the resulting parameters, we compute the predicted values of $\log(M_{it})$, $\widehat{\log(M_{it})}$, and obtain:

$$UV(RRV) = \log(M_{it}) - \widehat{\log(M_{it})}$$

Next, based on the valuation model from PV, we follow the methodology by Hoberg and Phillips (2010b). To this end, we first run the following regression from year $t-10$ to $t-1$ for all firms in each three-digit SIC industry:

$$log(\frac{M}{B})_{i\tau} = \alpha_0 + \alpha_1 Age_{i\tau} + \alpha_2 1(D_{i\tau} > 0) + \alpha_3 Lev_{i\tau} + \alpha_4 log(Size_{i\tau}) + \alpha_5 VOLP_{i\tau} + \alpha_6 ROE_{i\tau}, \quad \tau = t-10, ..., t-1$$

where *Age*, *D*, *Size*, *VOLP*, and *ROE* represent the firm-year level age (the number of years a firm is listed on Compustat), dividend, total assets, volatility of profitability, and ROE. Specifically, *VOLP* is measured as the variance of the residuals from the regressions of *ROE* on lagged *ROE* for each firm *i*. *VOLP* and *ROE* are winsorized at the top and bottom 1% levels. Using the industry-specific regression coefficients from the rolling regression with 10-year windows, we obtain the predicted log of market-to-book ratio ($\widehat{log(\frac{M}{B})}$) for each firm-year. For each firm *i* at time *t*, we then define $UV(PV)_{Unadjusted}$ as:

$$UV(PV)_{Unadjusted} = \log(\frac{M}{B})_{it} - \widehat{\log(\frac{M}{B})}_{it}$$

$UV(PV)_{Unadjusted}$ is winsorized at the top and bottom 1% levels. From there, we calculate an annual average $UV(PV)_{Unadjusted}$ by each industry, which we call $UV(PV)_{Industry}$. Then,

$$UV(PV) = UV(PV)_{Unadjusted} - UV(PV)_{Industry}$$

The variables *High Social Capital*, *High UV (Ind)*, *High UV (RRV)*, and *High UV (PV)* are assigned a value of 1 when the respective levels of *Social Capital*, *High UV (Ind)*, *High UV (RRV)*, and *High UV (PV)* are within the top quartile, and a value of 0 when they are within the bottom quartile. All columns represent linear regression results and include year and industry fixed effects. The intercept is not tabulated. Robust standard errors are reported in parentheses. ***, **, * indicate significance at the 1%, 5%, and 10% levels, respectively. The detailed definition of other variables can be found in Appendix Table A1.

	(1)	(2)	(3)
		Stock%	
High Social Capital × *High UV (Ind)*	-6.947***		
	(1.943)		
High Social Capital × *High UV (RRV)*		-4.875**	
		(1.897)	
High Social Capital × *High UV (PV)*			-4.945***
			(1.856)
High UV (Ind)	4.071**		
	(1.614)		
High UV (RRV)		5.764***	
		(1.535)	
High UV (PV)			5.399***
			(1.395)
High Social Capital	0.687	-1.067	-0.312
	(1.350)	(1.290)	(1.166)
MTB	3.240***	3.500***	2.968***
	(0.335)	(0.326)	(0.313)
EBITDA	-27.584***	-26.285***	-27.138***
	(3.354)	(3.413)	(3.180)
Tangible Assets	-5.455*	-5.012*	-8.655***
	(3.113)	(2.862)	(2.651)
Cash	3.152	2.320	7.956***
	(3.192)	(3.205)	(3.040)
Size	-0.143	0.444	1.030*
	(0.660)	(0.638)	(0.597)
Sales	-1.102	-1.861***	-1.722***
	(0.672)	(0.655)	(0.607)
Leverage	-7.373**	-2.972	-0.394
	(3.180)	(2.991)	(2.799)
Competed	-4.973	-7.933	-8.159
	(6.303)	(6.172)	(6.165)
Public Target	27.008***	28.056***	28.200***
	(1.486)	(1.505)	(1.451)
Hostile	-23.106	-1.206	-12.115
	(22.060)	(16.486)	(14.857)
Population Growth	2.164	0.483	1.965
	(2.219)	(2.092)	(2.046)
Education	8.784	8.574	4.655
	(6.104)	(6.207)	(5.738)
Net Job Creation Rate	21.152	12.881	13.253
	(22.105)	(22.190)	(20.566)
Δ *Housing Price*	2.719	-4.905	-7.992
	(11.400)	(11.204)	(10.940)
Observations	6,018	6,038	6,897
Adjusted R^2	0.286	0.297	0.276
Year&Ind. FE	✓	✓	✓

Table 6: Endogeneity

This table reports the regression results to address endogeneity concerns. The sample spans from 1990 to 2020. Panel A and B show regression results focusing on firms that have maintained their headquarters in the same states for at least five years and firms that do not locate in industry clusters, respectively. Panel C shows the IV regression results, where the main independent variables are the predicted values from the first-stage of the IV regression. The first-stage regressions are reported in Appendix Table A5. Columns (1), (2), and (6) represent linear regression results, and Columns (3) - (5) represent logistic regression (IV Probit model for Panel C) results. Controls include *MTB, EBITDA, Tangible Assets, Cash, Size, Sales, Leverage, Population Growth, Education, Net Job Creation Rate*, and Δ *Housing Price* in all columns and *Competed, Public Target*, and *Hostile* in Column (6). All models include year and industry fixed effects. The intercept is not tabulated. Robust standard errors are reported in parentheses. ***, **, * indicate significance at the 1%, 5%, and 10% levels, respectively. The detailed definition of variables can be found in Appendix Table A1.

Panel A: Location History	(1) *#Acq.*	(2) *Distance*	(3) *Same State*	(4) *Same Ind.*	(5) *Challenged*	(6) *Stock%*
Social Capital	-0.013***	0.084***	-0.640***	-0.093***	-0.382*	
	(0.002)	(0.025)	(0.079)	(0.021)	(0.199)	
High Social Capital × High UV (PV)						-3.836*
						(2.097)
Observations	92,748	10,347	2,259	17,230	967	4,865
Adj./Pseudo R^2	0.0545	0.0708	0.154	0.0726	0.228	0.272
Controls	✓	✓	✓	✓	✓	✓
Year&Ind. FE	✓	✓	✓	✓	✓	✓
Panel B: Industry Cluster	(1) *#Acq.*	(2) *Distance*	(3) *Same State*	(4) *Same Ind.*	(5) *Challenged*	(6) *Stock%*
Social Capital	-0.009***	-0.012	-0.509***	-0.090***	-0.426**	
	(0.002)	(0.023)	(0.081)	(0.021)	(0.206)	
High Social Capital × High UV (PV)						-4.945***
						(1.856)
Observations	99,576	11,050	2,132	18,901	992	6,897
Adj./Pseudo R^2	0.0515	0.0855	0.181	0.0717	0.268	0.276
Controls	✓	✓	✓	✓	✓	✓
Year&Ind. FE	✓	✓	✓	✓	✓	✓
Panel C: IV Regression	(1) *#Acq.*	(2) *Distance*	(3) *Same State*	(4) *Same Ind.*	(5) *Challenged*	(6) *Stock%*
$\widehat{Social\ Capital}$	-0.019***	0.222***	-0.662***	-0.053**	-0.351**	
	(0.004)	(0.040)	(0.066)	(0.021)	(0.171)	
High $\widehat{Social\ Capital}$ *× High UV (PV)*						-7.335***
						(2.579)
Observations	110,937	12,791	2,628	21,865	1,094	6,897
Controls	✓	✓	✓	✓	✓	✓
Year&Ind. FE	✓	✓	✓	✓	✓	✓

Table 7: Due Diligence

This table reports the regression results of various variables related to due diligence on *Social Capital*. The sample spans from 1990 to 2020 and focuses on acquirers with completed deals in a given year. All columns represent linear regression results and include year and industry fixed effects. The intercept is not tabulated. Robust standard errors are reported in parentheses. ***, **, * indicate significance at the 1%, 5%, and 10% levels, respectively. The detailed definition of variables can be found in Appendix Table A1.

	(1) *Log (# Legal Advisors)*	(2) *Log (# Financial Advisors)*	(3) *# Fairness Opinion*	(4) *Duration*
Social Capital	0.010*	0.003	0.003*	0.034**
	(0.005)	(0.004)	(0.001)	(0.016)
MTB	-0.002	0.000	-0.001	-0.009
	(0.003)	(0.002)	(0.001)	(0.009)
EBITDA	-0.050*	-0.045**	0.003	-0.733***
	(0.027)	(0.022)	(0.007)	(0.093)
Tangible Assets	0.049	-0.014	-0.003	0.331***
	(0.030)	(0.026)	(0.007)	(0.087)
Cash	0.080***	-0.026	0.002	0.090
	(0.025)	(0.021)	(0.007)	(0.084)
Size	0.023***	0.014***	0.006***	0.090***
	(0.006)	(0.005)	(0.001)	(0.018)
Sales	0.022***	0.002	-0.004**	0.055***
	(0.006)	(0.005)	(0.002)	(0.018)
Leverage	0.162***	0.152***	0.020***	0.436***
	(0.029)	(0.024)	(0.007)	(0.088)
Competed	0.166***	0.153***	0.014	0.563***
	(0.045)	(0.032)	(0.024)	(0.077)
Public Target	0.288***	0.056***	0.196***	1.769***
	(0.010)	(0.008)	(0.007)	(0.023)
Hostile	0.419***	-0.058	-0.078	0.193
	(0.099)	(0.057)	(0.051)	(0.230)
Population Growth	0.025	0.017	0.000	0.024
	(0.018)	(0.017)	(0.005)	(0.056)
Education	0.006	0.032	-0.014	0.035
	(0.056)	(0.041)	(0.014)	(0.156)
Net Job Creation Rate	-0.298*	-0.076	0.063	-0.982*
	(0.179)	(0.148)	(0.050)	(0.557)
Δ *Housing Price*	-0.090	-0.087	-0.026	0.475
	(0.093)	(0.084)	(0.033)	(0.306)
Observations	9,318	6,888	21,892	21,892
Adjusted R^2	0.200	0.0931	0.193	0.227
Year&Ind. FE	✓	✓	✓	✓

Table 8: Target Characteristics

This table reports the regression results of various target characteristics on *Social Capital*. The sample spans from 1990 to 2020 and focuses on firms acquiring public targets in a given year. Columns (1) and (3) represent linear regression results and Column (2) represents logistic regression results. All models include year and industry fixed effects. The intercept is not tabulated. Robust standard errors are reported in parentheses. ***, **, * indicate significance at the 1%, 5%, and 10% levels, respectively. The detailed definition of variables can be found in Appendix Table A1.

	(1) *Target Social Capital*	(2) *Sin Target*	(3) *Target Accounting Quality*
Social Capital	0.177***	-0.266*	0.014**
	(0.023)	(0.152)	(0.006)
MTB	0.006	-0.559***	0.001
	(0.011)	(0.169)	(0.004)
EBITDA	-0.028	2.194	-0.095*
	(0.140)	(1.900)	(0.052)
Tangible Assets	-0.031	1.458**	0.009
	(0.117)	(0.648)	(0.029)
Cash	-0.344***	1.272	0.015
	(0.113)	(1.012)	(0.048)
Size	0.004	0.805***	-0.016*
	(0.022)	(0.162)	(0.009)
Sales	-0.014	-0.761***	0.012
	(0.023)	(0.141)	(0.009)
Leverage	0.143	2.995***	-0.058
	(0.117)	(0.804)	(0.039)
Population Growth	0.058	0.349	0.004
	(0.077)	(0.594)	(0.017)
Education	-0.346*	-1.852	0.008
	(0.203)	(1.400)	(0.050)
Net Job Creation Rate	-1.221*	4.912	-0.128
	(0.733)	(5.388)	(0.214)
Δ *Housing Price*	0.064	5.339*	-0.027
	(0.394)	(2.822)	(0.087)
Observations	2,682	5,357	334
Adj./Pseudo R^2	0.0790	0.403	0.139
Year&Ind. FE	✓	✓	✓

Table 9: Announcement Returns

This table reports the regression results of acquirer cumulative abnormal returns (CAR) on *Social Capital*. The sample spans from 1990 to 2020 and focuses on firms acquiring public targets in a given year. Column (1) represents logistic regression results, Column (2) represents linear regression results, and Columns (3) - (6) represent quantile regression results with the 20th, the 40th, the 60th, and the 80th percentiles of CARs. Controls include *MTB, EBITDA, Tangible Assets, Cash, Size, Sales, Leverage, Competed, Public Target, Hostile, Stock %, Population Growth, Education, Net Job Creation Rate*, and Δ *Housing Price*. All columns include year and industry fixed effects. The intercept is not tabulated. Robust standard errors are reported in parentheses. ***, **, * indicate significance at the 1%, 5%, and 10% levels, respectively. The detailed definition of variables can be found in the Appendix Table A1.

Panel A	(1)	(2)	(3)	(4)	(5)	(6)
			Conditional Quantiles of Interest			
			20th	40th	60th	80th
	Positive CAR [-1,+1] (Market)	*CAR [-1,+1] (Market)*	*CAR [-1,+1] (Market)*			
Social Capital	0.046***	0.000	0.001**	0.001**	0.001	0.000
	(0.018)	(0.001)	(0.001)	(0.000)	(0.001)	(0.001)
Observations	21,366	21,373	21,373	21,373	21,373	21,373
Adj./Pseudo R^2	0.0167	0.0341	0.0476	0.0143	0.0191	0.0593
Controls	✓	✓	✓	✓	✓	✓
Year&Ind. FE	✓	✓	✓	✓	✓	✓
Panel B	(1)	(2)	(3)	(4)	(5)	(6)
			Conditional Quantiles of Interest			
			20th	40th	60th	80th
	Positive CAR [-1,+1] (FF3)	*CAR [-1,+1] (FF3)*	*CAR [-1,+1] (FF3)*			
Social Capital	0.038**	0.001	0.002***	0.001**	0.001*	0.000
	(0.018)	(0.001)	(0.001)	(0.000)	(0.001)	(0.001)
Observations	21,366	21,373	21,373	21,373	21,373	21,373
Adj./Pseudo R^2	0.0173	0.0295	0.0477	0.0143	0.0191	0.0592
Controls	✓	✓	✓	✓	✓	✓
Year&Ind. FE	✓	✓	✓	✓	✓	✓

Table 10: Other Investments

This table reports the regression results of other investments on *Social Capital*. The sample spans from 1990 to 2020. Columns (1) through (3) represent linear regression results and Columns (4) and (5) represent logistic regression results. All models include year and industry fixed effects. The intercept is not tabulated. Robust standard errors are reported in parentheses. ***, **, * indicate significance at the 1%, 5%, and 10% levels, respectively. The detailed definition of variables can be found in Appendix Table A1.

	(1) *R&D (t+1)*	(2) *CAPX (t+1)*	(3) *Employee (t+1)*	(4) *Acquired (Completed deals)*	(5) *Targeted (Attempted deals)*
Social Capital	-0.426	-0.000	0.042	-0.090***	-0.088***
	(0.490)	(0.000)	(0.041)	(0.018)	(0.016)
MTB	-1.368*	0.001***	-0.021	-0.075***	-0.086***
	(0.701)	(0.000)	(0.074)	(0.013)	(0.013)
EBITDA	-0.877	0.027***	0.124	0.098	0.049
	(2.861)	(0.001)	(0.479)	(0.082)	(0.075)
Tangible Assets	-1.075	0.053***	0.173	-0.046	-0.088
	(1.123)	(0.003)	(0.295)	(0.087)	(0.082)
Cash	6.609***	0.015***	0.588**	0.415***	0.395***
	(1.628)	(0.002)	(0.256)	(0.087)	(0.082)
Size	4.396**	0.003***	-0.425**	-0.137***	-0.162***
	(1.723)	(0.000)	(0.201)	(0.017)	(0.016)
Sales	-5.011***	-0.003***	0.293*	0.130***	0.146***
	(1.847)	(0.000)	(0.176)	(0.017)	(0.016)
Leverage	11.820***	-0.012***	0.033	0.120	0.095
	(4.133)	(0.001)	(0.816)	(0.076)	(0.071)
R&D	0.401***				
	(0.097)				
CAPX		0.480***			
		(0.015)			
Employee			0.814***		
			(0.053)		
Population Growth	1.536	0.003***	0.259	0.050	0.009
	(1.594)	(0.001)	(0.184)	(0.066)	(0.062)
Education	-5.839	-0.000	-0.275	1.625***	1.514***
	(4.359)	(0.002)	(0.380)	(0.176)	(0.163)
Net Job Creation Rate	-2.071	0.012	0.581	0.151	0.555
	(6.424)	(0.008)	(1.749)	(0.639)	(0.592)
Δ *Housing Price*	5.945	-0.008**	-0.509	0.512	0.480
	(8.319)	(0.004)	(0.472)	(0.357)	(0.333)
Observations	100,949	95,262	96,261	110,818	110,818
Adj./Pseudo R^2	0.143	0.442	0.737	0.0295	0.0296
Year&Ind. FE	✓	✓	✓	✓	✓

Appendix: Additional Tables

Table A1: Variable Definitions

Variable	Definition
Social Capital	The level of county social capital where a firm headquarter locates. The detailed construction of the variable is described in section 3.1.
High Social Capital	An indicator of one if *Social Capital* is within the top quartile, and zero if it is within the bottom quartile.
Acq.	An indicator of one if the firm acquires any other firms or assets of other firms in a given year, and zero otherwise.
Asst. Acq.	An indicator of one if the firm acquires any assets of other firms in a given year, and zero otherwise.
Firm Acq.	An indicator of one if the firm acquires any other firms in a given year, and zero otherwise.
#*Acq.*	The number of *Acq.* in a given year.
#*Asst. Acq.*	The number of *Asst. Acq.* in a given year.
#*Firm Acq.*	The number of *Firm Acq.* in a given year.
Acq.($)	The transaction size of #*Acq.* divided by total assets.
Asst. Acq.($)	The transaction size of #*Asst. Acq.* divided by total assets.
Firm Acq.($)	The transaction size of #*Firm Acq.* divided by total assets.
Distance	The logarithms of one plus the distance between the acquirer and the target based on the headquarters' zip codes.
Same State	An indicator of one if the acquirer and the target are in the same state, and zero otherwise.
Same County	An indicator of one if the acquirer and the target are in the same county, and zero otherwise.
Same Ind.	An indicator of one if the acquirer and the target share the same SIC or NAICS, and zero otherwise.
Same Ind.(FIC)	An indicator of one if the acquirer and the target have the same FIC-50 classifications developed by Hoberg and Phillips (2010a, 2016), and zero otherwise.
Similar Ind.	An indicator of one if the acquirer and the target share the three-digit SIC or five-digit NAICS but are not defined as *Same Ind.*, and zero otherwise.
Challenged	An indicator of one if the deal has ever been under antitrust investigation by the FTC or DOJ, and zero otherwise. Here, we focus on the sample of public targets and acquirers operating in the industry of HHI greater than 1500.
Stock%	Percent of stocks as the means of payment by the acquirer.
UV (Ind)	Industry-adjusted *MTB* which is the difference between firm *MTB* and industry-year average value of *MTB*
UV (RRV)	The degree of unexplained valuation from Rhodes-Kropf et al. (2005). The detailed construction of the variable is described in Table 5.
UV (PV)	The degree of unexplained valuation from Pastor and Veronesi (2003). The detailed construction of the variable is described in Table 5.
High UV (Ind)	An indicator of one if *UV (Ind)* is within the top quartile, and zero if it is within the bottom quartile.
High UV (RRV)	An indicator of one if *UV (RRV)* is within the top quartile, and zero if it is within the bottom quartile.

Table A1 (Continued)

Variable	Definition
High UV (PV)	An indicator of one if *UV (PV)* is within the top quartile, and zero if it is within the bottom quartile.
Log(#Leg. Advisors)	The logarithm of the number of legal advisors hired by the acquirer.
Log(#Fin. Advisors)	The logarithm of the number of financial advisors hired by the acquirer.
#Fairness Opinions	The number of fairness opinions by the advisors.
Duration	The logarithm of one plus the number of days between the announcement date and the effective date.
Sin Target	An indicator of one if the target operates in the sin industries following Hong and Kacperczyk (2009), and zero otherwise.
Target Accounting Quality	The accrual quality of the target following Marquardt and Zur (2015) where the higher value implies the higher quality of accruals.
CAR [-1,+1] (Market)	Acquirer cumulative abnormal returns from one day before to one day after the acquisition announcement. The abnormal stock returns are calculated using the market model.
CAR [-1,+1] (FF3)	Acquirer cumulative abnormal returns from one day before to one day after the acquisition announcement. The abnormal stock returns are calculated using the Fama-French 3-factor model.
Positive CAR [-1,+1] (Market)	An indicator of one if *CAR [-1,+1] (Market)* is positive, and zero otherwise.
Positive CAR [-1,+1] (FF3)	An indicator of one if *CAR [-1,+1] (FF3)* is positive, and zero otherwise.
MTB	(Total assets - Total common shareholders' stocks + Market value of equity (PRCC_F * CSHO)) divided by total assets.
EBITDA	Operating income before depreciation divided by total assets.
Tangible Assets	Property, plant, and equipment divided by total assets.
Cash	Cash and short-term investments divided by total assets.
Size	The logarithms of the market value of equity.
Sales	The logarithms of sales.
Leverage	Total debt divided by the sum of total debt and market value of equity.
Cash Flow	Sum of depreciation and amortization, and income before extraordinary items divided by total assets.
R&D	R&D expense divided by sales and replaced with zero if R&D expense is missing.
CAPX	Capital expenditures divided by total assets.
Employee	The total number of employees divided by total assets.
Acquired (Completed deals)	An indicator of one if the firm is acquired in a given year, and zero otherwise.
Targeted (Attempted deals)	An indicator of one if the firm is targeted in a given year, and zero otherwise.
Ratio of Firm	The number of firms with the same three-digit SIC in an MSA divided by the total number of firms with the same three-digit SIC.
Cluster-Firm	An indicator of one for firm-years in which a firm headquarter is located within an MSA that has i) at least ten firms with the same three-digit SIC and ii) at least 3% of the market value of the industry, and zero otherwise.
Industry M&A Liquidity	Sum of the acquisition transaction value of all firms in the same three-digit SIC for a given year divided by total assets of all firms in the same three-digit SIC in a given year.
Gindex	The governance index created by Gompers et al. (2003) where the higher value implies the higher management power.
Institutional Ownership	Fraction of the firm's shares owned by institutional shareholders.

Table A1 (Continued)

Variable	Definition
Executive Ownership	Fraction of the firm's shares owned by the top 5 executives.
Competed	An indicator of one if the number of bidders is greater than one, and zero otherwise.
Public Target	An indicator of one if the target is a publicly-listed firm, and zero otherwise.
Hostile	An indicator of one if the deal is hostile, and zero otherwise.
Target Runup	The target's cumulative stock returns over the period of (-255, -23) before the announcement date.
Population Growth	Percentage growth in county population for a given year from the U.S. Bureau of Economic Analysis (BEA)
Education	Percentage of a county's population with some college, an associate degree, or a bachelor's degree from the U.S. Census
Net Job Creation Rate	The net job creation rate measured at the county level obtained from the U.S. Business Dynamics Statistics (BDS)
Δ *Housing Price*	The change in housing price at the state level using the house price index obtained from the Federal Housing Finance Agency (FHFA)

Table A2: Examples of Alleged Conflicts

Case	Stakeholder	Notes	Media citation
AMR Corp. & Trans World Airlines	Labor union	Concerns about potential conflicts arising from the integration of workforces, particularly in relation to benefits, job protections, and career expectations	"AMR Unions Oppose Merge with TWA." *New York Times* (3/29/2001)
America West Airlines & US Airways	Employees	Conflicts between the firms and the two pilot groups regarding seniority, which has implications for rank, salary, aircraft assignments, routes, and schedules	"Pilot Frustration Mounts over Merger." *Reuters* (7/10/2007)
United Airlines & Continental Airlines	Local residents and service providers	Concerns (of congressmen) revolving around the potential impact on local communities due to the closure of one or more hubs as a result of the proposed merger	"Opposition to a CO-UA Merger Keeps Growing in Congress." *Travel Weekly* (6/1/2010)
Southwest Airlines & AirTran Airways	Employees	Cultural integration issues due to differences in work styles and employee training, regarding the hospitality displayed by employees towards passengers	"Southwest-AirTran Merger: A Challenge of Cultural Exchange." *Aviation Pros* (10/24/2011)
American Airlines & US Airways	Local business owners	Concerned about the potential attrition of clients who are employees of the airlines	"Local Businesses Worry about AA/US Air Merger Ripple Effect." *CBS News Texas* (4/20/2012)
Duke Energy Corp. & Progress Energy, Inc.	Local residents and environmental activist	Opposition of NC WARN (the environmental activist group) on the grounds that the proposed acquisition would strengthen the fossil fuel business model and result in higher electricity costs	"Duke-Progress Merger: A Net Public Soaking?" *Chapelboro* (8/29/2012)
Dow, Inc. & DuPont de Nemours, Inc.	Employees	Apprehensions regarding substantial layoffs from both parties as part of a post-merger restructuring plan	"DuPont Layoffs before Merger a Credit Negative for Delaware: Moody's." Reuters (1/15/2016) "Dow-DuPont Merger Sows Anxiety in 2 Cities." *Wall Street Journal* (12/14/2015)
BB&T Corp. & SunTrust Banks, Inc.	Local depositors and business owners	Concerns over the restricted availability of banking services, particularly for local depositors and small business borrowers in rural areas, due to the closure of local branches in NC, GA, and VA	"Why Giant Bank Mergers like SunTrust and BB&T Matter." *National Community Reinvestment Coalition* (7/24/2019)

Table A3: Headquarter Relocation

This table reports the regression results of acquisition intensity on *Social Capital* by exploiting within-firm time-series variation. *Social-Capital-Increasing* equals one (zero) if an increment (decrement) in *Social Capital* subsequent to a firm's relocation is 1 (Column 1), 2 (Column 2), or 3 (Column 3) times greater than the median increment (decrement) observed across all relocation events spanning from 1990 to 2020. *After Relocation* takes on a value of one (zero) during firm years occurring after (before) the relocation event. All columns represent linear regression results. All models include year and industry fixed effects. Controls include *MTB, EBITDA, Tangible Assets, Cash, Size, Sales, Leverage, Population Growth, Education, Net Job Creation Rate*, and Δ *Housing Price* in all columns. The intercept is not tabulated. Robust standard errors are reported in parentheses. ***, **, * indicate significance at the 1%, 5%, and 10% levels, respectively. *After Relocation* is an indicator of 1 if a firm *Social Capital Increased*. The detailed definition of variables can be found in Appendix Table A1.

	(1) $\lvert\Delta$*Social Capital*$\rvert > \lvert$Median$\rvert$	(2) $\lvert\Delta$*Social Capital*$\rvert > 2\times \lvert$Median$\rvert$	(3) $\lvert\Delta$*Social Capital*$\rvert > 3\times \lvert$Median$\rvert$
		#*Acq.*	
Social-Capital-Increasing × *After Relocation*	-0.039	-0.489***	-0.445***
	(0.044)	(0.082)	(0.123)
After Relocation	0.036	0.037	0.137**
	(0.032)	(0.041)	(0.060)
Social-Capital-Increasing	0.065*	0.356***	0.205**
	(0.034)	(0.064)	(0.081)
Observations	8,028	3,061	1,184
Adjusted R^2	0.157	0.202	0.202
Controls	✓	✓	✓
Year&Ind. FE	✓	✓	✓

Table A4: Sector Analysis

This table reports sector-specific regressions of acquisition intensity on *Social Capital*. The sample spans from 1990 to 2020. All columns represent linear regression results for Agriculture, Forestry, Fishing & Mining (SIC 2-digit code 01-14), Construction (15-17), Manufacturing (20-39), Transportation (40-48), Trade (50-59), and Services (70-89) sectors, respectively. All models include year and industry fixed effects. The intercept is not tabulated. Robust standard errors are reported in parentheses. ***, **, * indicate significance at the 1%, 5%, and 10% levels, respectively. The detailed definition of variables can be found in Appendix Table A1.

	(1) Agriculture, Forestry, Fishing, & Mining	(2) Construction	(3) Manufacturing	(4) Transportation	(5) Trade	(6) Services
			#Acq.			
Social Capital	-0.012	-0.043**	-0.009***	-0.029***	-0.008*	-0.028***
	(0.011)	(0.019)	(0.003)	(0.010)	(0.005)	(0.005)
MTB	-0.022***	0.088**	-0.003	-0.017**	0.001	0.001
	(0.005)	(0.034)	(0.002)	(0.007)	(0.005)	(0.003)
EBITDA	0.020	0.445***	0.044***	0.149***	-0.041	0.094***
	(0.032)	(0.118)	(0.008)	(0.042)	(0.032)	(0.019)
Tangible Assets	0.110**	-0.172	-0.236***	-0.561***	-0.165***	-0.106***
	(0.047)	(0.113)	(0.015)	(0.054)	(0.027)	(0.026)
Cash	-0.122*	0.328**	-0.119***	-0.349***	-0.049	-0.114***
	(0.070)	(0.161)	(0.012)	(0.075)	(0.042)	(0.023)
Size	0.039***	0.024	0.054***	0.103***	0.051***	0.103***
	(0.010)	(0.019)	(0.002)	(0.012)	(0.006)	(0.005)
Sales	-0.004	-0.016	-0.006**	-0.089***	-0.023***	-0.046***
	(0.008)	(0.019)	(0.002)	(0.013)	(0.006)	(0.005)
Leverage	0.016	-0.183**	-0.043***	0.092**	-0.012	0.016
	(0.043)	(0.082)	(0.010)	(0.045)	(0.021)	(0.022)
Population Growth	0.006	0.051	0.005	0.014	0.015	0.010
	(0.031)	(0.069)	(0.011)	(0.033)	(0.022)	(0.021)
Education	-0.029	0.083	0.100***	0.012	-0.017	0.228***
	(0.130)	(0.221)	(0.026)	(0.095)	(0.060)	(0.069)
Net Job Creation Rate	-0.374	1.275*	0.004	0.664*	0.465**	-0.040
	(0.499)	(0.744)	(0.098)	(0.369)	(0.210)	(0.205)
Δ *Housing Price*	-0.235	-0.393	0.016	-0.502***	0.051	0.150
	(0.201)	(0.310)	(0.055)	(0.184)	(0.108)	(0.103)
Observations	5,920	1,430	53,739	6,646	13,223	22,940
Adjusted R^2	0.0291	0.139	0.0574	0.0840	0.0557	0.0655
Year&Ind. FE	✓	✓	✓	✓	✓	✓

Table A5: 1st Stage and Falsification Tests for IV Regressions

This table reports the first-stage and falsification tests of the IV regression results for Table 6 Panel C. The sample spans from 1990 to 2020. In Panel A, all columns represent linear regression results and include year and industry fixed effects. Controls include *MTB, EBITDA, Tangible Assets, Cash, Size, Sales, Leverage, Population Growth, Education, Net Job Creation Rate*, and Δ *Housing Price* in all columns and, additionally, *Competed*, *Public Target*, and *Hostile* in Columns (6) - (7). In Panel B, all columns exhibit county-year level linear regression results and include year fixed effects. *Capital-to-labor* is the ratio of net property plant and equipment over the number of employees. *Labor Intensity* is the ratio of the sum of total staff expense and pension and retirement expense over sales. *Labor Leverage* is the ratio of total staff expense over the sum of operating income before depreciation, change in finished goods inventories, and total staff expense. The dependent variables are averaged at the county-year level. In both Panels, the intercept is not tabulated. Robust standard errors are reported in parentheses. ***, **, * indicate significance at the 1%, 5%, and 10% levels, respectively. The detailed construction of *Distance to Canada* and *Ethnic Homogeneity* is described in section 4.4, and the detailed definition of other variables can be found in Appendix Table A1.

Panel A: 1st stage regressions

2nd stage variable	*#Acq.*	*Distance*	*Same State*	*Same Ind.*	*Challenged*	*Stock%*	
	(1)	(2)	(3) *Social Capital*	(4)	(5)	(6) *High Social Capital*	(7) *High Social Capital × High UV (PV)*
Distance to Canadian Border	-0.221***	-0.239***	-0.252***	-0.240***	-0.209***	-0.208***	0.015***
	(0.002)	(0.008)	(0.018)	(0.006)	(0.022)	(0.008)	(0.002)
Ethnic Homogeneity	1.684***	1.517***	1.391***	1.626***	1.769***	0.759***	0.076***
	(0.016)	(0.048)	(0.106)	(0.037)	(0.153)	(0.036)	(0.010)
Distance to Canadian Border × High UV (PV)						-0.012	-0.263***
						(0.013)	(0.013)
Ethnic Homogeneity × High UV (PV)						0.213***	0.786***
						(0.064)	(0.057)
Observations	110,937	12,791	2,628	21,865	1,094	6,897	6,897
F statistic	22393	2533	439	4372	227	1262	600
Controls	✓	✓	✓	✓	✓	✓	✓
Year&Ind. FE	✓	✓	✓	✓	✓	✓	✓

Panel B: Falsification regressions

	(1) *Capital-to-labor*	(2) *Labor Intensity*	(3) *Labor Leverage*
Distance to Canadian Border	33.597	0.012	0.001
	(107.636)	(0.012)	(0.002)
Ethnic Homogeneity	-1,332.165	-0.094	0.022
	(1,101.092)	(0.090)	(0.031)
Population Growth	-57,049.291	-2.376	-3.248
	(67,276.887)	(10.604)	(2.566)
Education	-3,155.315*	0.091	-0.041
	(1,677.881)	(0.095)	(0.041)
Net Job Creation Rate	250.122	-0.002	-0.001
	(229.887)	(0.005)	(0.001)
Δ *Housing Price*	-8,469.382	-0.439	-0.068
	(5,379.541)	(0.458)	(0.043)
Observations	2,272	2,294	1,474
Adj. R^2	0.00813	0.000704	-0.00328
Year FE	✓	✓	✓

Internet Appendix for "Social Capital, Opportunism, and Corporate Acquisition"

Figure IA1: Ethnic Homogeneity and Acquirer Distribution

This figure displays the spatial distribution of ethnic homogeneity and acquirer at the U.S. county level. The deciles of *Ethnic Homogeneity* (from 'Diverse' to 'Homogeneous') are classified by the average county *Ethnic Homogeneity* over the sample period from 1990 to 2020. The detailed construction of *Ethnic Homogeneity* is described in section 4.4. The red circle represents the total number of acquirers per county from 1990 to 2020, the size of which is proportional to the number. Counties with firms that have never acquired a firm or asset during the sample period do not illustrate a red circle.

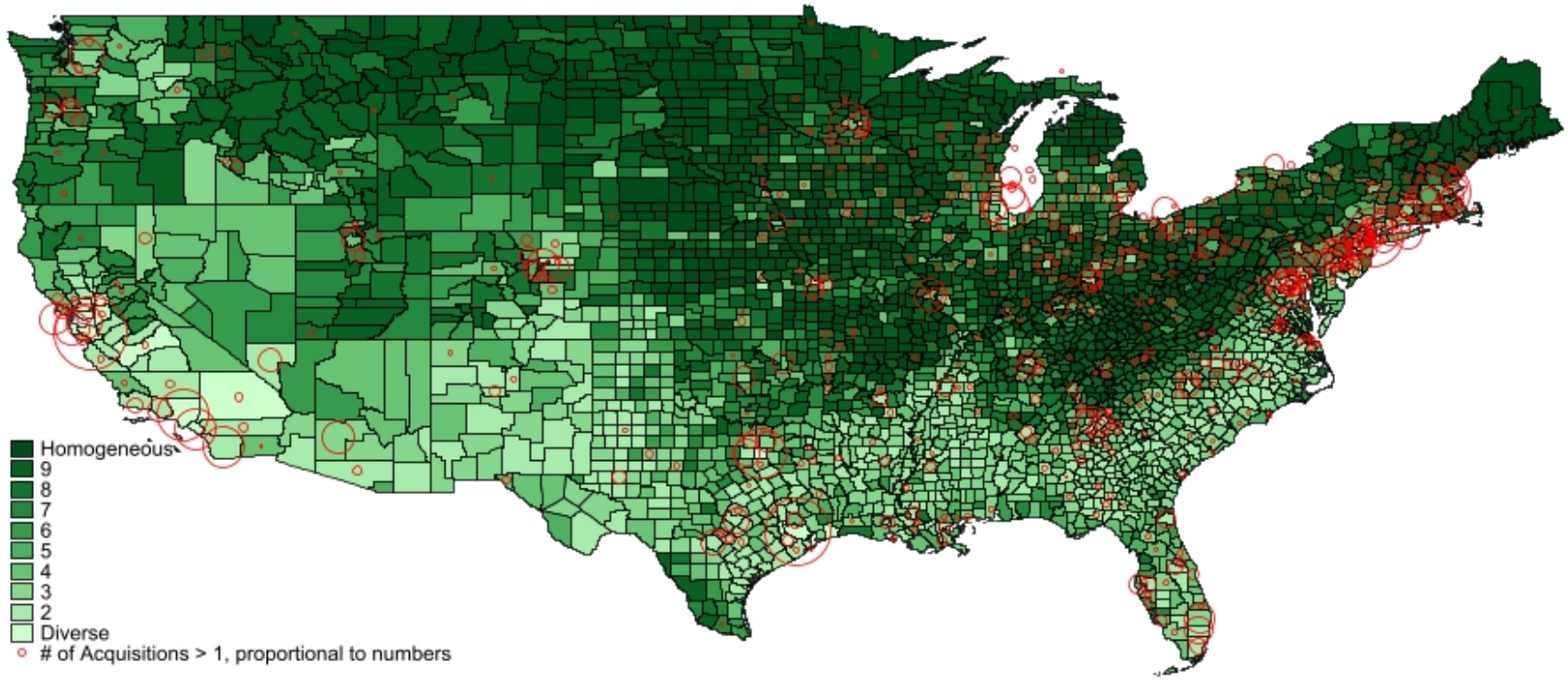


Table IA1: Social Capital without Outliers

This table reports the main regression results based on *Social Capital* after excluding outlier counties that have too low or high *Social Capital* values. The sample spans from 1990 to 2020. Columns (1), (2), and (6) represent linear regression results, and Columns (3) - (5) represent logistic regression results. All models include year and industry fixed effects. The intercept is not tabulated. Robust standard errors are reported in parentheses. ***, **, * indicate significance at the 1%, 5%, and 10% levels, respectively. The detailed definition of variables can be found in Appendix Table A1.

	(1) *#Acq.*	(2) *Distance*	(3) *Same State*	(4) *Same Ind.*	(5) *Challenged*	(6) *Stock%*
Social Capital	-0.009***	0.152***	-0.681***	-0.074***	-0.430*	
	(0.002)	(0.025)	(0.083)	(0.022)	(0.235)	
High Social Capital × *High UV (PV)*						-5.277***
						(1.777)
High UV (PV)						5.679***
						(1.266)
High Social Capital						-0.112
						(1.086)
MTB	-0.001	0.016	-0.032	-0.024**	-0.110	2.984***
	(0.002)	(0.015)	(0.039)	(0.011)	(0.198)	(0.302)
EBITDA	0.091***	0.320**	0.099	0.322***	2.052	-26.821***
	(0.007)	(0.161)	(0.442)	(0.111)	(2.648)	(3.101)
Tangible Assets	-0.184***	-0.469***	0.230	1.134***	1.512	-9.362***
	(0.013)	(0.128)	(0.394)	(0.103)	(1.170)	(2.533)
Cash	-0.124***	-0.385***	0.289	0.547***	-5.801*	6.360**
	(0.011)	(0.128)	(0.367)	(0.100)	(3.069)	(2.910)
Size	0.070***	0.009	0.029	0.096***	0.626***	0.965*
	(0.002)	(0.028)	(0.077)	(0.021)	(0.218)	(0.572)
Sales	-0.026***	0.026	-0.137*	-0.103***	-0.224	-1.736***
	(0.002)	(0.029)	(0.078)	(0.022)	(0.229)	(0.581)
Leverage	0.009	-0.007	-0.187	0.400***	2.915**	-0.573
	(0.008)	(0.128)	(0.397)	(0.108)	(1.354)	(2.691)
Population Growth	0.005	-0.133	0.503**	-0.052	0.200	1.437
	(0.009)	(0.090)	(0.236)	(0.073)	(0.773)	(1.972)
Education	0.098***	-0.627***	3.371***	0.260	0.523	1.859
	(0.022)	(0.214)	(0.728)	(0.199)	(2.351)	(5.220)
Net Job Creation Rate	0.114	1.389*	-2.929	-0.375	11.089	11.727
	(0.078)	(0.789)	(2.348)	(0.700)	(7.424)	(19.476)
Δ *Housing Price*	0.031	-1.342***	1.743	0.610	-4.354	-6.641
	(0.043)	(0.462)	(1.261)	(0.383)	(4.126)	(10.546)
Competed						-9.501*
						(5.771)
Public Target						28.631***
						(1.396)
Hostile						-18.150
						(14.024)
Observations	103,004	11,933	2,405	20,373	959	7,453
Adj./Pseudo R^2	0.0549	0.0809	0.164	0.0704	0.238	0.276
Year&Ind. FE	✓	✓	✓	✓	✓	✓

Table IA2: Social Capital without Backfilling

This table reports the main regression results based on *Social Capital* without backfilling values for the years without data. The sample spans from 1990 to 2020, but the *Social Capital* values of each county in 1990, 1997, 2005, 2009, and 2014 are used only once for each subperiod of 1990-1996, 1997-2004, 2005-2008, 2009-2013, and 2014-2020. #*Acq.* and *Challenged* are summed, and other dependent variables are averaged in each subperiod for a given firm. Columns (1), (2), and (6) represent linear regression results, and Columns (3) - (5) represent logistic regression results. All models include year and industry fixed effects. The intercept is not tabulated. Robust standard errors are reported in parentheses. ***, **, * indicate significance at the 1%, 5%, and 10% levels, respectively. The detailed definition of variables can be found in Appendix Table A1.

	(1) #*Acq.*	(2) *Distance*	(3) *Same State*	(4) *Same Ind.*	(5) *Challenged*	(6) *Stock%*
Social Capital	-0.036***	0.044	-0.619***	-0.065**	-1.217**	
	(0.012)	(0.027)	(0.082)	(0.027)	(0.511)	
High Social Capital × *High UV (PV)*						-0.525
						(2.486)
High UV (PV)						1.024
						(1.820)
High Social Capital						-3.042**
						(1.503)
MTB	0.006	0.029*	-0.012	0.007	-0.585	1.945***
	(0.010)	(0.016)	(0.042)	(0.015)	(0.428)	(0.398)
EBITDA	0.289***	0.294*	-0.259	0.302**	5.805	-22.009***
	(0.043)	(0.177)	(0.421)	(0.132)	(5.435)	(3.809)
Tangible Assets	-0.457***	-0.400***	0.092	0.970***	0.320	-3.215
	(0.075)	(0.154)	(0.420)	(0.148)	(2.976)	(3.514)
Cash	-0.479***	-0.275*	0.414	0.652***	-7.838	11.351***
	(0.060)	(0.147)	(0.404)	(0.134)	(4.864)	(3.724)
Size	0.228***	0.037	0.083	0.077***	0.906	0.914
	(0.011)	(0.032)	(0.082)	(0.029)	(0.568)	(0.783)
Sales	-0.029***	0.047	-0.096	-0.002	-0.333	-2.649***
	(0.011)	(0.033)	(0.081)	(0.029)	(0.596)	(0.796)
Leverage	-0.131**	-0.179	0.181	0.256*	-0.217	0.904
	(0.055)	(0.153)	(0.425)	(0.145)	(1.905)	(3.717)
Population Growth	0.064	-0.178*	0.649**	-0.112	0.779	1.988
	(0.054)	(0.107)	(0.272)	(0.104)	(1.830)	(2.764)
Education	0.281**	-0.100	2.883***	0.457*	-4.174	10.877
	(0.127)	(0.250)	(0.782)	(0.276)	(4.302)	(7.458)
Net Job Creation Rate	-0.279	0.098	-3.055	0.661	7.245	13.615
	(0.472)	(0.928)	(2.652)	(0.992)	(12.331)	(27.635)
Δ *Housing Price*	-0.022	-0.784	1.873	0.395	10.574	-8.421
	(0.192)	(0.551)	(1.469)	(0.530)	(6.995)	(14.339)
Competed						-12.016*
						(6.724)
Public Target						19.136***
						(1.988)
Hostile						-32.111***
						(7.541)
Observations	23,280	7,058	1,838	9,611	225	3,181
Adj./Pseudo R^2	0.105	0.107	0.155	0.0652	0.339	0.241
Year&Ind. FE	✓	✓	✓	✓	✓	✓

Table IA3: Social Capital in State of Incorporation

This table reports the main regression results based on *Social Capital* in the state of incorporation. The sample spans from 1990 to 2020. Columns (1), (2), and (6) represent linear regression results, and Columns (3) - (5) represent logistic regression results. All models include year and industry fixed effects. The intercept is not tabulated. Robust standard errors are reported in parentheses. ***, **, * indicate significance at the 1%, 5%, and 10% levels, respectively. The detailed definition of variables can be found in Appendix Table A1.

	(1) *#Acq.*	(2) *Distance*	(3) *Same State*	(4) *Same Ind.*	(5) *Challenged*	(6) *Stock%*
Social Capital	-0.015**	-0.017	-0.890	-0.115	-0.250	
	(0.007)	(0.098)	(0.583)	(0.076)	(1.326)	
High Social Capital × High UV (PV)						-12.233***
						(2.364)
High UV (PV)						11.074***
						(1.725)
High Social Capital						3.545*
						(2.125)
MTB	-0.001	0.006	-0.000	-0.034***	-1.026**	3.298***
	(0.002)	(0.017)	(0.037)	(0.012)	(0.473)	(0.453)
EBITDA	0.091***	0.408**	0.315	0.394***	1.207	-19.917***
	(0.009)	(0.176)	(0.409)	(0.122)	(3.341)	(4.388)
Tangible Assets	-0.173***	-0.709***	0.395	0.918***	1.382	-11.392***
	(0.015)	(0.147)	(0.395)	(0.114)	(1.232)	(3.285)
Cash	-0.123***	-0.424***	0.545	0.523***	-3.812	13.020***
	(0.013)	(0.142)	(0.389)	(0.109)	(3.827)	(3.874)
Size	0.069***	0.004	-0.004	0.088***	0.614**	-1.102
	(0.002)	(0.031)	(0.078)	(0.023)	(0.251)	(0.809)
Sales	-0.024***	0.004	-0.056	-0.100***	-0.145	-0.707
	(0.002)	(0.032)	(0.079)	(0.023)	(0.241)	(0.815)
Leverage	-0.013	0.105	-0.265	0.493***	0.714	1.393
	(0.010)	(0.155)	(0.427)	(0.121)	(1.813)	(3.608)
Population Growth	0.001	-0.224**	0.374	-0.077	0.248	-3.365
	(0.010)	(0.104)	(0.253)	(0.079)	(0.892)	(2.838)
Education	0.055**	-0.887***	2.146***	0.295	1.811	5.690
	(0.027)	(0.272)	(0.775)	(0.236)	(2.956)	(7.387)
Net Job Creation Rate	0.236**	2.332**	-1.677	0.799	8.623	52.385**
	(0.102)	(0.967)	(2.526)	(0.804)	(9.654)	(26.613)
Δ Housing Price	-0.019	-1.410***	2.720*	0.472	-11.491**	6.057
	(0.051)	(0.532)	(1.389)	(0.425)	(4.601)	(15.925)
Competed						-3.948
						(8.323)
Public Target						28.863***
						(1.920)
Hostile						-34.746***
						(7.052)
Observations	74,790	9,234	1,904	15,888	595	4,263
Adj./Pseudo R^2	0.0570	0.0413	0.102	0.0710	0.246	0.249
Year&Ind. FE	✓	✓	✓	✓	✓	✓

Table IA4: Excluding Firms with Multiple Locations

This table reports the main regression results after excluding firms with multiple operating locations, as identified from Garcia and Norli (2012). The sample spans from 1991 to 2020. Columns (1), (2), and (6) represent linear regression results, and Columns (3) - (5) represent logistic regression results. All models include year and industry fixed effects. The intercept is not tabulated. Robust standard errors are reported in parentheses. ***, **, * indicate significance at the 1%, 5%, and 10% levels, respectively. The detailed construction of other variables can be found in Appendix Table A1.

	(1) *#Acq.*	(2) *Distance*	(3) *Same State*	(4) *Same Ind.*	(5) *Challenged*	(6) *Stock%*
Social Capital	-0.011***	0.074**	-0.091***	-0.021***	-1.027**	
	(0.003)	(0.033)	(0.019)	(0.006)	(0.515)	
High Social Capital × High UV (PV)						-3.299
						(2.822)
High UV (PV)						4.963**
						(2.094)
High Social Capital						-1.713
						(1.822)
MTB	-0.005***	-0.005	0.008	-0.007*	0.378	2.551***
	(0.002)	(0.024)	(0.016)	(0.004)	(0.417)	(0.587)
EBITDA	0.061***	0.899***	-0.216	0.120***	-4.868	-20.182***
	(0.008)	(0.246)	(0.139)	(0.034)	(3.998)	(5.079)
Tangible Assets	-0.154***	-0.496***	0.042	0.228***	-2.284	-4.092
	(0.013)	(0.172)	(0.104)	(0.031)	(3.287)	(3.944)
Cash	-0.122***	-0.557***	0.221*	0.070**	0.828	13.095***
	(0.013)	(0.182)	(0.131)	(0.032)	(5.765)	(4.757)
Size	0.053***	0.025	0.006	0.031***	0.702	-0.567
	(0.002)	(0.038)	(0.025)	(0.007)	(0.481)	(0.965)
Sales	-0.019***	-0.014	-0.015	-0.037***	0.437	-1.220
	(0.002)	(0.040)	(0.025)	(0.007)	(0.542)	(0.979)
Leverage	0.001	-0.094	0.026	0.144***	9.833**	3.820
	(0.010)	(0.182)	(0.110)	(0.033)	(3.857)	(4.535)
Population Growth	-0.011	-0.254**	0.122*	-0.049**	3.280**	-3.160
	(0.009)	(0.126)	(0.068)	(0.022)	(1.611)	(3.148)
Education	0.051**	-0.077	0.261	0.056	-4.971	-9.029
	(0.026)	(0.302)	(0.193)	(0.061)	(5.625)	(9.288)
Net Job Creation Rate	0.425***	0.257	-0.846	0.022	6.362	6.034
	(0.096)	(1.167)	(0.756)	(0.231)	(18.570)	(34.227)
Δ Housing Price	-0.032	-1.098	0.273	0.248*	-10.844	-25.156
	(0.051)	(0.730)	(0.420)	(0.129)	(13.529)	(18.446)
Competed						-15.737
						(11.098)
Public Target						30.941***
						(2.558)
Hostile						62.865***
						(11.867)
Observations	58,937	6,296	930	9,955	224	2,874
Adj./Pseudo R^2	0.0428	0.0764	0.183	0.0924	0.433	0.248
Year&Ind. FE	✓	✓	✓	✓	✓	✓

Table IA5: All Acquisition Attempts

This table reports the main regression results based on the sample of all acquisition attempts regardless of the deal completion status. The sample spans from 1990 to 2020. All columns represent linear regression results and include year and industry fixed effects. The intercept is not tabulated. Robust standard errors are reported in parentheses. ***, **, * indicate significance at the 1%, 5%, and 10% levels, respectively. *Compl. Rate* is defined as the fraction of completed *Acq.* out of all attempted deals. *Compl. Rate (Asst.)* is defined as the fraction of completed *Asst. Acq.* out of all attempted deals. *Compl. Rate (Firm)* is defined as the fraction of completed *Firm Acq.* out of all attempted deals. The detailed definition of other variables can be found in Appendix Table A1.

	(1) *#Acq.*	(2) *#Asst. Acq.*	(3) *#Firm Acq.*	(4) *Compl. Rate*	(5) *Compl. Rate (Asst.)*	(6) *Compl. Rate (Firm)*
Social Capital	-0.014***	-0.009***	-0.004***	0.003	0.002*	-0.001
	(0.002)	(0.002)	(0.001)	(0.003)	(0.001)	(0.002)
MTB	-0.002	-0.006***	0.004***	0.001	0.002***	0.001
	(0.002)	(0.001)	(0.001)	(0.002)	(0.001)	(0.001)
EBITDA	0.079***	0.075***	0.012**	0.114***	-0.005	0.010
	(0.008)	(0.006)	(0.005)	(0.017)	(0.007)	(0.007)
Tangible Assets	-0.198***	-0.124***	-0.077***	-0.083***	0.004	0.003
	(0.014)	(0.012)	(0.007)	(0.015)	(0.008)	(0.008)
Cash	-0.151***	-0.118***	-0.025***	0.019	0.020***	0.008
	(0.012)	(0.010)	(0.007)	(0.014)	(0.006)	(0.007)
Size	0.076***	0.046***	0.027***	0.003	-0.007***	-0.003**
	(0.002)	(0.002)	(0.001)	(0.003)	(0.002)	(0.002)
Sales	-0.030***	-0.023***	-0.005***	0.004	0.006***	0.002
	(0.002)	(0.002)	(0.001)	(0.003)	(0.002)	(0.002)
Leverage	0.013	0.013*	-0.001	-0.029*	-0.012	-0.010
	(0.009)	(0.007)	(0.005)	(0.016)	(0.007)	(0.008)
Population Growth	0.008	0.001	0.006	-0.003	0.001	-0.003
	(0.009)	(0.007)	(0.005)	(0.010)	(0.005)	(0.005)
Education	0.078***	0.052***	0.029**	0.021	-0.004	-0.002
	(0.023)	(0.020)	(0.014)	(0.027)	(0.013)	(0.015)
Net Job Creation Rate	0.196**	0.198***	-0.024	-0.080	-0.074	-0.003
	(0.081)	(0.065)	(0.052)	(0.093)	(0.046)	(0.050)
Δ *Housing Price*	0.036	0.028	0.011	0.004	-0.025	-0.010
	(0.044)	(0.036)	(0.027)	(0.050)	(0.025)	(0.027)
Observations	110,937	110,937	110,937	17,806	9,673	6,743
Adjusted R^2	0.0547	0.0312	0.0272	0.0301	0.0234	0.00942
Year&Ind. FE	✓	✓	✓	✓	✓	✓

Table IA6: Social Capital vs. Corporate Social Responsibility

This table reports the main regression results based on *Social Capital* after controlling for Corporate Social Responsibility (CSR). The sample spans from 1991 to 2019 and focuses on acquirers with completed deals in a given year. Columns (1), (2), and (6) represent linear regression results, and Columns (3) - (5) represent logistic regression results. All models include year and industry fixed effects. The intercept is not tabulated. Robust standard errors are reported in parentheses. ***, **, * indicate significance at the 1%, 5%, and 10% levels, respectively. The detailed construction of *CSR* and other variables can be found in section 6.6 and Appendix Table A1, respectively.

	(1) *#Acq.*	(2) *Distance*	(3) *Same State*	(4) *Same Ind.*	(5) *Challenged*	(6) *Stock%*
Social Capital	-0.015***	0.102***	-1.074***	-0.151***	-0.543**	
	(0.004)	(0.031)	(0.133)	(0.033)	(0.263)	
High Social Capital × High UV (PV)						-2.917
						(2.710)
High UV (PV)						3.114
						(2.310)
High Social Capital						-2.800
						(1.890)
CSR	-0.004	-0.061	0.052	0.001	-0.376	3.628**
	(0.008)	(0.058)	(0.167)	(0.055)	(0.405)	(1.575)
MTB	-0.007*	0.009	0.049	-0.019	-0.271	4.829***
	(0.004)	(0.027)	(0.063)	(0.022)	(0.361)	(0.626)
EBITDA	0.132***	0.281	0.203	0.417	8.013	-39.409***
	(0.020)	(0.335)	(0.812)	(0.273)	(5.334)	(10.340)
Tangible Assets	-0.254***	-0.480***	0.879	1.303***	2.752*	0.782
	(0.026)	(0.180)	(0.574)	(0.174)	(1.538)	(4.729)
Cash	-0.175***	-0.746***	0.929	0.943***	-2.353	-3.976
	(0.025)	(0.199)	(0.613)	(0.177)	(3.099)	(5.318)
Size	0.071***	-0.041	0.100	0.090**	0.866**	-3.465***
	(0.004)	(0.046)	(0.141)	(0.043)	(0.403)	(1.177)
Sales	-0.024***	0.008	-0.200	-0.175***	-0.284	1.943
	(0.004)	(0.046)	(0.133)	(0.043)	(0.432)	(1.202)
Leverage	-0.034*	-0.055	-0.032	0.777***	4.806***	1.552
	(0.018)	(0.205)	(0.698)	(0.194)	(1.625)	(4.579)
Population Growth	-0.012	-0.048	0.711**	-0.115	1.019	-0.320
	(0.015)	(0.120)	(0.333)	(0.108)	(0.986)	(3.160)
Education	0.086**	-0.860***	4.143***	1.022***	1.390	13.272
	(0.044)	(0.325)	(1.401)	(0.344)	(2.904)	(9.004)
Net Job Creation Rate	0.102	-1.943	-1.741	-1.071	9.998	4.014
	(0.164)	(1.197)	(3.790)	(1.153)	(9.338)	(34.385)
Δ Housing Price	-0.065	-1.530***	4.895***	0.041	-5.847	-9.249
	(0.071)	(0.589)	(1.628)	(0.522)	(4.752)	(14.092)
Competed						2.546
						(8.607)
Public Target						27.588***
						(2.288)
Hostile						-0.491
						(23.367)
Observations	36,390	5,795	1,294	8,624	566	2,015
Adj./Pseudo R^2	0.0508	0.0344	0.189	0.0981	0.273	0.372
Year&Ind. FE	✓	✓	✓	✓	✓	✓

Table IA7: Risk Aversion

This table reports the regression results of target selection on *Social Capital* after controlling for factors related to the firm- or manager-level motives of diversification. The sample spans from 1990 to 2020 and focuses on acquirers with completed deals in a given year. Columns (1) represents linear regression results and Columns (2) - (5) represent logistic regression results. All models include year and industry fixed effects. Robust standard errors are reported in parentheses. ***, **, * indicate significance at the 1%, 5%, and 10% levels, respectively. *Firm Age* is the number of years since the firm appears on the Compustat. *Geographic Dispersion* is the logarithm of the number of states in which a firm operates. *Sales Concentration* is defined as the Herfindahl-Hirschman Index (HHI) of sales concentration in business segments within a firm. *CEO Age* is the age of the firm's CEO in a given year. *CEO Tenure* is the number of years the CEO has been in office. *Female CEO* is an indicator of one if the CEO is female, and zero otherwise. The detailed definition of other variables can be found in Appendix Table A1.

	(1) *Distance*	(2) *Same State*	(3) *Same County*	(4) *Same Ind.*	(5) *Same Ind.(FIC)*
Social Capital	0.128***	-0.649***	-0.549***	-0.112***	-0.398***
	(0.041)	(0.134)	(0.187)	(0.040)	(0.110)
Firm Age	0.008	-0.078**	-0.139***	-0.010	0.020
	(0.011)	(0.032)	(0.040)	(0.010)	(0.033)
Geographic Dispersion	0.127***	-0.321***	-0.030	-0.013	0.290**
	(0.048)	(0.124)	(0.159)	(0.048)	(0.114)
Sales Concentration	0.051	0.138	-0.095	0.084**	0.062
	(0.040)	(0.110)	(0.162)	(0.040)	(0.110)
CEO Age	0.003	0.012	0.000	-0.004	-0.026**
	(0.005)	(0.014)	(0.019)	(0.004)	(0.013)
CEO Tenure	-0.031**	0.032	0.050	0.016	0.062**
	(0.013)	(0.035)	(0.044)	(0.012)	(0.031)
Female CEO	-0.252	-0.336	0.340	-0.217	1.467
	(0.286)	(0.855)	(0.848)	(0.256)	(0.948)
MTB	0.031	-0.080	-0.156*	-0.019	-0.038
	(0.030)	(0.061)	(0.092)	(0.022)	(0.064)
EBITDA	-0.084	-0.046	0.035	0.660*	1.379*
	(0.401)	(0.841)	(0.867)	(0.354)	(0.788)
Tangible Assets	-0.371	1.071	0.868	1.262***	2.148***
	(0.269)	(0.676)	(0.849)	(0.231)	(0.676)
Cash	-0.618**	0.186	-0.535	1.339***	3.192***
	(0.261)	(0.624)	(0.856)	(0.222)	(0.692)
Size	0.029	-0.018	0.024	0.073	0.255
	(0.059)	(0.138)	(0.178)	(0.054)	(0.165)
Sales	-0.079	-0.079	-0.084	-0.141***	-0.331**
	(0.059)	(0.138)	(0.189)	(0.055)	(0.167)
Leverage	0.035	-0.495	-2.813**	0.560**	0.417
	(0.291)	(0.865)	(1.120)	(0.275)	(0.814)
Population Growth	0.115	0.652*	0.925**	0.181	0.108
	(0.165)	(0.371)	(0.437)	(0.136)	(0.383)
Education	-1.978***	7.472***	7.613***	0.347	1.056
	(0.412)	(1.529)	(1.872)	(0.432)	(1.180)
Net Job Creation Rate	1.528	2.570	5.053	0.557	-5.483
	(1.403)	(4.201)	(5.500)	(1.324)	(3.636)
Δ *Housing Price*	-1.730**	4.347**	-0.085	0.893	1.250
	(0.762)	(2.159)	(2.725)	(0.738)	(2.110)
Observations	3,381	997	940	5,735	966
Adj./Pseudo R^2	0.0337	0.158	0.153	0.0959	0.196
Year&Ind. FE	✓	✓	✓	✓	✓

Table IA8: Robust Standard Errors

This table reports the main results with consideration of various standard error specifications. The sample spans from 1990 to 2020. Panel A, B, and C show results using standard errors clustered by firm, county, and a two-way combination of county and industry, respectively. Columns (1), (2), and (6) represent linear regression results, and Columns (3) - (5) represent logistic regression results. Controls include *MTB, EBITDA, Tangible Assets, Cash, Size, Sales, Leverage, Population Growth, Education, Net Job Creation Rate*, and Δ *Housing Price* in all columns and *Competed, Public Target*, and *Hostile* in Column (6). All models include year and industry fixed effects. The intercept is not tabulated. Standard errors are reported in parentheses. ***, **, * indicate significance at the 1%, 5%, and 10% levels, respectively. The detailed definition of variables can be found in Appendix Table A1.

Panel A: By Firm	(1) *#Acq.*	(2) *Distance*	(3) *Same State*	(4) *Same Ind.*	(5) *Challenged*	(6) *Stock%*
Social Capital	-0.012***	0.102***	-0.646***	-0.080***	-0.414**	
	(0.003)	(0.028)	(0.079)	(0.029)	(0.199)	
High Social Capital × High UV (PV)						-5.627**
						(2.406)
Observations	110,937	12,791	2,628	21,865	1,094	6,897
Adj./Pseudo R^2	0.0551	0.0737	0.160	0.0695	0.247	0.224
Controls	✓	✓	✓	✓	✓	✓
Year&Ind. FE	✓	✓	✓	✓	✓	✓
Panel B: By County	(1) *#Acq.*	(2) *Distance*	(3) *Same State*	(4) *Same Ind.*	(5) *Challenged*	(6) *Stock%*
Social Capital	-0.012***	0.102	-0.646***	-0.080***	-0.414**	
	(0.004)	(0.086)	(0.134)	(0.030)	(0.209)	
High Social Capital × High UV (PV)						-5.627**
						(2.583)
Observations	110,937	12,791	2,628	21,865	1,094	6,897
Adj./Pseudo R^2	0.0551	0.0737	0.160	0.0695	0.247	0.224
Controls	✓	✓	✓	✓	✓	✓
Year&Ind. FE	✓	✓	✓	✓	✓	✓
Panel C: By County-Industry	(1) *#Acq.*	(2) *Distance*	(3) *Same State*	(4) *Same Ind.*	(5) *Challenged*	(6) *Stock%*
Social Capital	-0.012***	0.102**	-0.646***	-0.080***	-0.414**	
	(0.003)	(0.049)	(0.089)	(0.030)	(0.195)	
High Social Capital × High UV (PV)						-5.627**
						(2.516)
Observations	110,933	12,787	2,628	21,865	1,094	6,895
Adj./Pseudo R^2	0.0551	0.0740	0.160	0.0695	0.247	0.224
Controls	✓	✓	✓	✓	✓	✓
Year&Ind. FE	✓	✓	✓	✓	✓	✓