Bound by the Community Norms: Local Social Capital as an Informal Constraint on Acquisitions*

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Abstract

We examine how local social capital (LSC)—shared norms, trust, and networks within communities—shapes firms' acquisition decisions. Using county-level LSC measured at headquarters, we find that firms in high-LSC regions acquire less. Exploiting the 2017 Tax Cuts and Jobs Act, we provide causal evidence. Acquirers in high-LSC regions avoid geographically or industry-proximate targets that may trigger antitrust scrutiny, match with socially responsible targets, and rely less on stock payments when overvalued. Our findings highlight how community preferences operate as informal constraints on corporate decisions, contributing to the broader debate over corporate objectives and stakeholder orientation.

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1 Introduction

"What is the appropriate objective function for a firm?" Building on Friedman (1970)'s classic view, Hart and Zingales (2017) contend that firms should maximize shareholder welfare rather than market value when (i) many shareholders hold prosocial preferences beyond financial returns and (ii) externalities (e.g., damage-generating activities of companies) are inseparable from production choices or cannot be fully internalized by government through laws and regulations. Consistent with managers' weaker focus on shareholder returns exclusively, executive surveys document that managers increasingly prioritize stakeholders other than shareholders (Graham, 2022).

We represent these considerations with local social capital (LSC)—broadly defined as shared norms, trust, and networks (Bourdieu, 1986, Coleman, 1988, Putnam, 2000)—which reflects the preferences of community stakeholders. Mergers and acquisitions (M&A) provide a natural setting to study how such preferences shape corporate decisions ex ante.[1] They are highly consequential for a wide range of local stakeholders whose preferences may conflict with shareholder value maximization, and yield clear, observable ex-ante margins (deal initiation, target selection, and payment method) at which firms' responses to stakeholder preferences can be measured. While the industrial organization literature primarily evaluates the ex-post stakeholder-welfare consequences of M&A, we take a complementary, underexplored approach by asking whether firms ex ante internalize stakeholder preferences in their acquisition decisions.[2]

We view LSC as an external, informal constraint that narrows firms' feasible choice sets by raising the social costs of transactions that deviate from prevailing norms. LSC operates through external channels, including community sanctions, customer and supplier responses, peer pressure, and heightened regulatory attention. Beyond its independent trust-building role, it complements legal and market discipline in fostering cooperative behavior (Dupont and Karpoff, 2020, 2025). In particular, LSC mobilizes enforcement by prompting locally initiated complaints and enabling coordinated action by local and federal authorities, thereby heightening scrutiny of potentially anticompetitive behavior. Dense networks also accelerate the diffusion of reputational information about deals perceived as exploitative (e.g., overvalued stock payments). Accordingly,

[1] An illustrative example is the Advocate Aurora Health and Beaumont Health merger, which was called off due to opposition from Beaumont's staff and concerns about local priorities. (https://www.healthcaredive.com/news/advocate-aurora-beaumont-call-off-merger-following-covid-19-doctor-pushba/586322/)

[2] Earlier work documents how M&As affect local stakeholder welfare, including the quality and price of goods (Sheen, 2014, Ashenfelter et al., 2015, Miller and Weinberg, 2017), health-insurance premiums (Dafny et al., 2012), and labor outcomes (Brown and Medoff, 1987, Siegel and Simons, 2010).

we hypothesize that normative frictions imposed by LSC reduce acquirer acquisitiveness.[3]

To test our hypothesis, we measure county-level local social capital following Rupasingha et al. (2006). Using principal component analysis, we construct a single index from variables capturing association density, civic participation, and community engagement, as widely used in the literature (e.g., Hasan et al., 2017b,a, Hoi et al., 2019). We link firms to this index via their headquarters county, where local stakeholders are most directly affected by firms' actions and whose norms and preferences are most likely to shape corporate behavior.[4] The resulting measure, *LSC*, proxies the extent to which corporate decisions are constrained by reciprocity, prevailing social norms, and shared stakeholder preferences within a community.

We begin our analyses by examining the relation between LSC and acquisition activity (likelihood and intensity) after controlling for firm- and regional-level determinants. We find that firms headquartered in high-LSC regions are significantly less likely to acquire than those in low-LSC counties, consistent with LSC constraining acquisition decisions. A one-standard-deviation increase in *LSC* corresponds to a 5.2% decline in the number of completed deals relative to its sample mean. Further analyses reveal that this lower intensity is not attributable to potentially stronger internal governance, fewer local investment opportunities, or tighter financing constraints in high-LSC regions.

One particular concern is that the negative association between LSC and acquisitions may reflect unobserved firm-level heterogeneity correlated with location-specific characteristics. Since most variation in *LSC* is cross-sectional, introducing firm or regional fixed effects risks absorbing much of the relevant variation in the standard panel settings. To overcome this challenge, we exploit within-firm variation generated by headquarters relocations, thereby controlling for firm or regional fixed effects. Firms relocating to higher-LSC counties exhibit significantly lower post-relocation acquisition intensity than those moving to lower-LSC counties.

To bolster causal interpretation, we exploit the 2017 Tax Cuts and Jobs Act (TCJA), which induced plausibly exogenous variation in LSC by reducing charitable-giving incentives for high-income households. The TCJA nearly doubled the standard deduction, capped state and local tax

[3]LSC, as external friction, should not be conflated with internal firm attributes such as corporate social responsibility (CSR) orientation or managerial ethics. Although conceptually distinct, we assess whether a potential link between them drives our findings: the findings are unchanged when we control for CSR.

[4]One might argue that stakeholders in the state of incorporation matter. However, because incorporation is legal rather than operational, LSC at the headquarters is more relevant to corporate conduct than LSC at the place of incorporation, as our analyses confirm. Alternatively, because some firms operate across multiple locations and may be influenced by communities at those sites, our headquarters-based measure could be biased. Our results are robust to excluding firms with dispersed operations.

deductions, and expanded the estate tax exemption, leading to a sharp decline in itemized charitable deductions and reducing the federal tax subsidy for giving by more than 30%. Consequently, these reforms constrained resources for in-state communal associations, religious groups, and nonprofits—the core components of our *LSC* measure. Our shock-based approach has another advantage: it avoids relying on LSC measures commonly used in prior work, which may be susceptible to measurement issues.

We construct state-level treatment intensity measures using the pre-TCJA fraction of taxpayers with adjusted gross income (AGI) above $100,000, based on the number of taxpayers and the aggregate AGI amount. Our treatment intensity measure relies on the assumption that charitable donations are locally biased, so tax-induced changes in giving behavior disproportionately affect in-state organizations that sustain LSC. This assumption is consistent with behavioral evidence (Touré-Tillery and Fishbach, 2017, Grimson et al., 2020), state-level solicitation frictions, and donor-locality patterns documented by Fidelity Charitable.[5]

With these treatment intensities, we estimate a difference-in-differences specification around the implementation of the TCJA (2013–2020). Our results show that firms headquartered in states with greater exposure to the TCJA—that experienced a larger decline in charitable giving incentives, and thus a larger decline in LSC—tend to increase their acquisition intensity after the reform, relative to those in less affected states. The effects are economically meaningful and emerge only in the post-TCJA period, with no evidence of pre-trends. These findings remain robust when we include industry-by-year fixed effects and when we account for pre-shock differences in regional demographics and economic conditions. They also do not appear to be driven by concurrent corporate tax reforms, which are unlikely to have differentially affected states along our treatment intensity or to have altered after-tax firm profitability. Taken together, this difference-in-differences design provides consistent evidence for causal interpretation that LSC constrains firms' acquisition activity, strengthening the credibility of our central conclusion.

After establishing the constraining effect of LSC, we next examine how it shapes acquisition decisions by limiting the set of viable targets and payment methods. First, we begin with an anticompetitive perspective, as such transactions are widely regarded as norm-deviating and impose broad externalities on local stakeholders. Firms embedded in high-LSC communities face

[5]Donor-advised fund data from Fidelity Charitable show that across the top 30 giving cities in 2022, four out of five donors recommended at least one grant to a nonprofit in their home metro. See *Geography of Giving 2023*, Fidelity Charitable, available at https://www.fidelitycharitable.org/content/dam/fc-public/docs/insights/2023-geography-of-giving.pdf.

stronger normative pressures and more credible collective action, which elevates the likelihood and intensity of antitrust scrutiny. Consistent with this mechanism, we find that high-LSC acquirers disproportionately pursue geographically or sectorally distant targets rather than those in the same state, county, or industry. These patterns suggest that firms strategically avoid proximate or horizontal deals that could provoke local opposition and regulatory intervention.[6] Supporting this interpretation, acquisitions by high-LSC firms are indeed less likely to be challenged by antitrust authorities, and such firms retain more legal advisors during due diligence to mitigate potential regulatory or reputational risks.

Second, beyond constraining anticompetitive conduct, LSC also guides firms toward acquisitions consistent with broader social expectations. We find evidence of assortative matching, as acquirers in high-LSC regions tend to select targets headquartered in similarly high-LSC areas, while avoiding those in sin industries. In addition, high-LSC acquirers favor targets with stronger accounting transparency and disclosure quality, thereby reducing reputational risks and reinforcing market trust. Together, these results suggest that local norms not only deter norm-violating transactions but also channel firms toward targets that enhance legitimacy and reflect socially responsible corporate behavior.

Third, another mechanism through which LSC constrains acquisitions is by limiting the choice of payment method in deal structuring. In communities with dense social networks, reputational information diffuses rapidly, amplifying the social costs of norm-deviating actions. Stock payments by overvalued acquirers are often perceived as norm-deviating because they transfer wealth from target to acquirer shareholders (Shleifer and Vishny, 2003) and undermine market efficiency (Li et al., 2018). Consistent with this view, we find that while overvaluation generally increases the likelihood of stock payments, this effect is significantly muted in high-LSC regions. These results indicate that reputational pressures in socially connected communities discourage the use of value-transferring stock payment as currency when acquirers are overvalued. In this way, LSC not only shapes the scope of target selection but also disciplines payment choices, aligning deal structuring more closely with stakeholder fairness and curbing socially undesirable behaviors.

Finally, we examine the shareholder value implications of these socially imposed frictions. While additional constraints may appear value-reducing, the theory of second best (Viner, 1950, Lipsey and Lancaster, 1956) suggests they can improve efficiency by offsetting existing distortions,

[6]These effects are not explained by diversification motives or managerial preferences: the results hold after accounting for firm and managerial characteristics associated with diversification, indicating that LSC primarily discourages norm-violating acquisitions rather than promoting unrelated diversification.

such as overinvestment driven by agency problems or managerial overconfidence. Consistent with this view, we find that the positive association between LSC and announcement returns is concentrated in deals with lower cumulative abnormal returns—those more likely to reflect value-destroying overinvestment. By contrast, no significant effect emerges in transactions associated with underinvestment. These results suggest that community norms can act as a corrective force, curbing inefficient acquisitions and enhancing shareholder value precisely where managerial biases are most detrimental.

Our study contributes to the growing literature on the relation between LSC and corporate policies, which has thus far focused primarily on financing (Hasan et al., 2017b, Maksimovic et al., 2023), innovation (Gupta et al., 2020, Xie et al., 2021), and executive compensation (Hoi et al., 2019). In the investment domain, evidence remains sparse, with only a few recent exceptions (Chowdhury et al., 2024, Suchard et al., 2024). Moving beyond the literature's emphasis on *ex-post* announcement returns, we open the "black box" of deal formation by documenting underlying mechanisms through which community norms limit feasible transactions—avoiding antitrust-sensitive targets, screening out irresponsible partners, and curbing exploitative/value-transferring stock payments. These dimensions constitute more direct, first-order margins through which LSC operates, as social norms constrain the set of feasible targets and payment methods at the decision stage, well before any observable value effects emerge. In doing so, we shed light on how local stakeholder preferences circumscribe corporate behavior, directly addressing the call for evidence in Graham (2022).

Beyond this reorientation, we advance a distinct and broader framework. Prior work emphasizes that LSC disciplines opportunistic managerial behavior, mitigating shareholder-manager agency conflicts and curbing value-destroying actions. We instead focus on shareholder-stakeholder conflicts and demonstrate that even managers whose interests are otherwise aligned with shareholders' face socially imposed frictions that constrain strategic flexibility. This distinct framework underscores that LSC not only limits value-destroying behavior arising from agency problems but also restricts value-maximizing investment, thereby exerting a more pervasive influence on corporate decision-making than previously recognized. Consequently, our framework offers a more nuanced view of value implications by highlighting the importance of considering heterogeneity when assessing value consequences: while previous studies stress the shareholder benefits of LSC, we document that socially imposed frictions may deter potentially value-enhancing acquisitions.

Finally, we contribute to the M&A deal structuring literature by documenting LSC curbs

overvalued acquirers' reliance on value-transferring stock payments (Shleifer and Vishny, 2003, Rhodes-Kropf et al., 2005, Dong et al., 2006) by imposing social costs of using a norm-deviating payment method. Furthermore, our results add to the extensive literature on anticompetition; more specifically, prior work emphasizes political economy and lobbying (Coate et al., 1990, Mehta et al., 2020), enforcement thresholds (Bhattacharya et al., 2023), product similarity (Fathollahi et al., 2022), and firm-level characteristics (Qiu and Yang, 2025) as key determinants of antitrust enforcement or exposure. Our research highlights that informal social institutions operate as a complement to legal enforcement by showing that the deals initiated by acquirers in high-LSC regions are less likely to be challenged by antitrust authorities.

The remainder of the paper is organized as follows. Section 2 discusses a conceptual framework, drawing on theories of socially imposed frictions and their interaction with the legal system and market discipline. Section 3 describes the data and the construction of the LSC measure. Section 4 presents baseline results and three complementary identification strategies. Section 5 examines the mechanisms through the target scope and deal structure. Section 6 provides robustness checks and additional analyses. Section 7 investigates the shareholder value implications of constraints imposed by LSC. Section 8 concludes.

2 Conceptual Framework: LSC as an Informal Constraint

Local social capital—broadly defined as the shared norms, trust, and networks that facilitate cooperative behavior within a community—can function as an informal normative mechanism that constrains firms' decision-making by limiting their feasible choice set. These frictions do not arise from formal rules or internal firm preferences, but rather from the social or normative costs of violating locally accepted standards. More concretely, social norms, understood as "general social agreement that some actions are more or less socially appropriate" (Krupka and Weber, 2013), vary across communities, producing heterogeneity in moral beliefs, behavioral expectations, and responses (Butler et al., 2016). Firms embedded in high-LSC regions therefore face stronger informal sanctions, such as shame, guilt, or social disapproval, for deviating from local norms (Charness and Dufwenberg, 2006, Dupont and Karpoff, 2025). Anticipating these costs, firms optimize to preserve relationships and honor explicit and implicit commitments to stakeholders, such as maintaining employment and sustaining local services.

These external frictions should not be conflated with *internal* firm attributes such as corporate social responsibility (CSR) orientation or managerial ethics. Rather, in high-LSC regions,

constraints are imposed through *external* channels, including stricter regulatory enforcement, customer and supplier sanctions, competitor disapproval (peer pressure), or social norms of reciprocity (Bourdieu, 1986, Putnam, 2000). In this way, LSC introduces socially embedded and binding frictions that influence corporate behavior beyond the firm's own values.

The "Trust Triangle" framework proposed by Dupont and Karpoff (2020) highlights how social, legal, and market-based forces jointly help enforce widely accepted standards—such as deterring collusion or monopolistic practices—by imposing constraints and ex-post penalties on violators. Building on this framework, Dupont and Karpoff (2025) develop a theoretical model showing that social capital alone can fulfill this trust-building function absent legal enforcement or repeated interactions, and that it complements legal and market-based mechanisms. Empirical evidence supports this complementarity: Greif (1993) finds that communities with strong cultural taboos against fraud develop stronger legal institutions; Knack and Keefer (1997) show that civic cooperation correlates with stronger contract protection; and La Porta et al. (1997) document that low interpersonal trust corresponds to weaker judiciaries and higher corruption. Together, this evidence suggests that in high-LSC regions, social norms serve as an informal yet binding constraint on firm behavior, reinforcing formal institutions in deterring noncompliant behavior.

In the context of mergers and acquisitions, one salient norm-deviating behavior is anticompetitive conduct. These actions often provoke social disapprobation, resulting in internal discomfort (e.g., guilt or shame) or external backlash (e.g., community sanctions such as public protests, boycotts, or loss of customer loyalty), especially in high-LSC regions where fairness, trust, and community welfare are highly valued. Such norms elevate the social costs of exploitative behavior, adding informal constraints to firms' strategic choices beyond those imposed by formal regulation.

The complementary interaction between informal norms and formal regulatory mechanisms is particularly evident in U.S. merger enforcement. While federal agencies such as the Department of Justice Antitrust Division and the Federal Trade Commission (FTC) apply uniform guidelines, enforcement is often triggered locally by complaints from customers, competitors, or the public.[7] Local governments in high-LSC regions play a more proactive and coordinated role in merger enforcement by partnering with federal agencies. Through the Multistate Antitrust Task Force led by the National Association of Attorneys General, states often serve as co-plaintiffs in federal merger cases, amplifying enforcement when local interests are at stake.[8] These partnerships

[7] https://www.ftc.gov/advice-guidance/competition-guidance/guide-antitrust-laws/enforcers

[8] The State Antitrust Enforcement Venue Act of 2022 strengthened state attorneys general's autonomy by exempting them from multidistrict litigation consolidation, enhancing state-level enforcement capacity (Jernudd, 2023).

underscore how local communities shape federal scrutiny: high-LSC regions tend to mobilize earlier, more coordinated, and more forceful complaints and petitions, increasing both the likelihood and intensity of federal review. Hence, LSC constrains firm behavior not only through informal social norms but also by shaping the external enforcement environment.

Another complementary mechanism operates through the diffusion of reputational information. Dense local networks accelerate transmission: information about norm violations heightens the salience of *social sanctions* (ostracism, stigmatization) (Coleman, 1988, Uhlaner, 1989, Posner, 2000), whereas information about compliance renders *social rewards* (legitimacy, community support) more salient. Anticipating these consequences, firms operating in high-LSC environments are more likely to cooperate or conform to local expectations ex ante (Maier-Rigaud et al., 2010).

In the M&A setting, a natural laboratory for examining this mechanism is stock payments by overvalued acquirers, which transfer wealth from target to acquirer shareholders and distort market efficiency (Shleifer and Vishny, 2003, Rhodes-Kropf and Viswanathan, 2004, Li et al., 2018). Such actions not only harm target shareholders but also undermine fairness and trust in local deal markets. Because reputational information travels rapidly through professional and community networks among rival bidders, peers, and intermediaries, prospective targets may perceive certain acquirers as exploitative or untrustworthy, eroding cooperation. By heightening the threat of reputational loss, LSC thus acts as an ex-ante friction that deters wealth-transferring stock payments, thereby reinforcing the joint action of social norms and market forces.

Taken together, we hypothesize that potential acquirers headquartered in high-LSC regions face greater normative friction in deal selection, as local communities impose higher social costs for norm-violating transactions. These informal pressures make firms *less acquisitive* by narrowing the set of viable targets and increasing the cost of some transactions. While we argue that LSC constrains M&A activity through heightened social scrutiny and the perceived cost of norm violations, we acknowledge its influence may not be unidirectional. High-LSC regions, characterized by generalized trust and strong community ties, can also alleviate certain transactional frictions. Supportive local stakeholders, such as employees, suppliers, and community leaders, may facilitate smoother negotiations and post-deal integration by assuming good faith and expecting the acquirer to honor implicit commitments (Guiso et al., 2004, Sapienza and Zingales, 2012).[9]

[9]This argument, which is based on a general "trust-based environment," differs from the type of stakeholder support that arises *in return* for a firm's demonstrated commitment to implicit contracts, often reflected in its CSR activities and achievements (Deng et al., 2013). In the former, trust operates at the community level, where individuals broadly expect others to honor obligations as part of a shared social norm, regardless of individual reputations. In contrast, the latter reflects firm-level dynamics, where stakeholder support is contingent on the firm's established

Although high-LSC environments may initially ease deal execution by lowering coordination costs and fostering trust-based goodwill, such benefits are conditional and tend to arise only when transactions align with prevailing social norms. Accordingly, the constraining effect of LSC is expected to dominate on net.

3 Data and Summary Statistics

3.1 Measure of LSC

Social capital refers to the resources, benefits, and opportunities individuals gain through their social networks, norms of reciprocity, and trust within communities (Bourdieu, 1986, Coleman, 1988, Putnam, 2000). It encompasses both the social ties themselves and the advantages they provide for coordination, cooperation, and access to information. To quantify social capital at the regional level, we use data from the Northeast Regional Center for Rural Development.[10] The most recent data estimate the stock of social capital in each U.S. county for the years 1990, 1997, 2005, 2009, and 2014. Following existing literature (e.g., Hasan et al., 2017b,a, Hoi et al., 2019, Rupasingha et al., 2006), we create a county-level social capital index for each of these five years, using principal component analysis based on four key variables: (1) the number of various communal associations per 100,000 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*).[11]

The first two variables capture social interactions through participation in various organizations. Specifically, Putnam et al. (1992) emphasizes that active engagement in community organizations and political activities is a key determinant of social capital production, fostering cooperation, solidarity, and public-spiritedness within the community. In addition, the Census response rate reflects a sense of civil responsibility that correlates with a socially cooperative attitude and

reputation for honoring implicit contracts.

[10]The data are accessible at: https://aese.psu.edu/nercrd/community/social-capital-resources. We rely on this source because it provides the most comprehensive measure of community-level social capital with both cross-sectional and time-series variation, enabling panel regression analysis. While several alternative indices exist (e.g., Putnam (2000)'s state-level index and the Social Capital Project's county-level composite for the modern period), these measures are limited in either geographic granularity, temporal coverage, or suitability for econometric implementation.

[11]To maintain comparability across years and ensure accurate construction of the index, we adjust the underlying variables and, where necessary, recalculate the components from the raw data. For each year, we define *assn* as the number of establishments across ten types of organizations per 100,000 population. These 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.

reciprocity within the community (Knack, 2002). Finally, voter turnout is shaped primarily by social pressure and internal norms rather than economic incentives (Guiso et al., 2004), reflecting the community's shared interests and sense of civic responsibility.

We perform a principal component analysis to integrate these multifaceted aspects of local social capital and, importantly, to filter out potential idiosyncratic noise within each proxy (e.g., the local economic environment in *nccs* or political stability in *pvote*). We define the first principal component as the measure of *Local Social Capital* (*LSC*). For years with missing data, we backfill the measure using the most recent available value, following the convention in the literature. We then assign this county-level metric to each firm in our sample based on its headquarters location.

3.2 Other Data

Our primary sample includes all firm–year observations from the CRSP/Compustat Merged Database for fiscal years from 1992 to 2020, excluding financial firms (SIC code 6000–6999) and utility firms (SIC code 4900–4999). Historical headquarters locations are identified using ZIP codes from firms' 10-K filings on EDGAR. We require firm–years to have non-missing data for the relevant variables used in our analysis (discussed in Section 4). The resulting baseline sample consists of 13,174 unique firms covering 113,666 firm–years.

We obtain domestic merger and acquisition data for each firm–year observation from the Securities Data Corporation (SDC) database. Specifically, we extract completed deals categorized as mergers, acquisitions of a majority interest, asset acquisitions, or acquisitions of certain assets. We classify the first two categories as firm acquisition (*Firm Acq.*) and the latter two as asset acquisition (*Asset Acq.*). We require deals to have transaction values greater than $1 million to be included in the sample. Among the 13,174 firms in our baseline sample, we identify 6,282 unique acquirers involved in 22,287 completed deals during the sample period. Of these acquisitions, 59% are asset acquisitions and 41% are firm acquisitions.

To identify whether an M&A deal was investigated by the U.S. Federal Trade Commission (FTC) or Department of Justice (DOJ), we hand-collect data on merger enforcement actions during our sample period. Both agencies' websites provide information on antitrust challenges for proposed merger deals and their resolutions. According to the 2010 Horizontal Merger Guidelines issued by the FTC and DOJ, mergers in industries with a Herfindahl–Hirschman Index (HHI) above 1,500 are subject to heightened scrutiny. Based on this guideline and prior studies (e.g., Fathollahi et al., 2022), we apply two conditions and focus on deals likely to be scrutinized by antitrust authorities: (i) the industry HHI exceeds 1,500, and (ii) the target is public. Among

deals that meet these two criteria, we define challenged deals (*Challenged*) as those investigated by antitrust enforcement agencies.

3.3 Summary Statistics

Table 1 reports the summary statistics for the 113,666 firm–year observations in the baseline sample. Panel A displays the summary statistics for *LSC* and the control variables used in the analyses. The *LSC* variable has a mean of -0.568, a standard deviation of 0.846, and an interquartile range between -1.206 and -0.031, which are consistent with previous studies. To mitigate the effect of outliers, all variables (except *LSC*) are winsorized at the top and bottom 1% levels.

Panel B reports the means of acquisition-related variables, which serve as our main dependent variables, across acquirer *LSC* quintiles. *Acq.*, *Asset Acq.*, and *Firm Acq.* represent the unconditional probabilities of making an acquisition, asset acquisition, and firm acquisition, respectively. Overall, 14.7% of the sample firm–years are involved in acquisitions. Although there is no persistent trend across *LSC* quintiles, the difference between the first (Q1) and fifth (Q5) quintiles suggests that, on average, firms in high *LSC* counties tend to be less acquisitive than those in low *LSC* regions. This pattern is consistent with LSC restricting choice sets of potential acquirers by imposing constraints and ex-post penalties on norm-violating behavior.

The mean value of #*Acq* is 0.196, indicating that, on average, a firm makes an acquisition approximately every five years, and it is lower for firms in the fifth *LSC* quintile compared to those in the first quintile. Conditional on making an acquisition, the use of stock as payment decreases monotonically across quintiles, from 25.9% to 22.7%, consistent with the constraining role of social norms within market mechanisms via the threat of reputational damage. The average geographical distance between the acquirer and target (*Distance*) is greater for firms in the highest *LSC* quintile than for those in the lowest. The mean values of *Same Ind.* indicate that acquirer–target pairs are less likely to be in the same industry in high *LSC* regions compared to low *LSC* regions. These observations suggest that higher LSC imposes greater geographical and industry constraints, prompting firms to seek acquisition targets that are farther away and in less related industries, possibly to avoid antitrust scrutiny in their local markets.

We visualize the spatial distribution of social capital and acquirers across U.S. counties in Internet Appendix Figure IA1. Counties shaded in darker blue indicate higher levels of social capital based on the most recent values. Some counties exhibit significantly higher or lower *LSC* than neighboring counties or state averages, suggesting that its distribution is not driven solely by geographic clustering. Red circles represent the total number of acquirers per county over the

sample period, with circle size proportional to the number of acquirers. Consistent with prior studies (Rupasingha et al., 2006, Chetty et al., 2022), *LSC* is generally higher in the Midwest and North than in the Southeast or Southwest. Darker-shaded counties often have few or no red circles, indicating limited acquisition activity, whereas lighter-shaded counties frequently exhibit intense acquisition activity. This inverse pattern suggests that acquisition activity is less prevalent in regions with relatively higher social capital.

Figure IA2 plots the relationship between LSC and firms' acquisition frequency (i.e., the number of completed deals). Panel A plots the relation between residualized *LSC* and #*Acq* after controlling for the variables in Equation (1), and reveals a clear negative relation. Panel B shows the number of acquisitions across quintiles of *LSC* over time.[12] The number of deals declines across the *LSC* quintiles, with particularly low activity in the highest quintiles, suggesting that firms in high *LSC* counties persistently engage in fewer acquisitions.

4 The Effect of LSC on Acquisition Decisions

4.1 Acquisition Likelihood and Intensity

We begin our analysis by examining how the social capital of a county (*LSC*) where a firm is headquartered relates to the firm's acquisition likelihood (*Acq.*) and intensity (#*Acq.*) through the following specification:

$$\begin{aligned} y_{i,t} = \alpha_j + \alpha_t + \beta_1\ LSC_{c,t-1} + \beta_2\ Firm\ Characteristics_{i,t-1} \\ + \beta_3\ County\ Characteristics_{c,t-1} + \beta_4\ State\ Characteristics_{s,t-1} + \epsilon_{i,t}, \end{aligned} \tag{1}$$

where i indexes firms, j indexes industries in which firms operate, c and s denote the county and state of firm headquarters, respectively, and t indexes years. We employ logistic regression models when $y_{i,t}$ is *Acq.*, *Asset Acq.*, or *Firm Acq.*, and linear regression models when $y_{i,t}$ is #*Acq.*, #*Asset Acq.*, or #*Firm Acq.*. Control variables capturing firm characteristics that may influence acquisition decisions include firm size (*Size* and *Sales*), liquidity (*Cash*), valuation (*MTB*), profitability (*EBITDA*), asset structure (*Tangible Assets*), and capital structure (*Leverage*). We also control for time-varying regional characteristics, such as demographics, labor market conditions, and economic growth, since *LSC* may also capture other factors correlated with acquisition activities. Specifically, we include population growth (*Population Growth*), education level (*Education*), net job creation rate (*Net Job Creation Rate*), and changes in housing prices (Δ*Housing Price*). Appendix Table IA1

[12] As *LSC* is measured in 1990, 1997, 2005, 2009, and 2014, we use time periods of 1992–1996, 1997–2004, 2005–2008, 2009–2013, and 2014–2020 to aggregate the number and volume of deals in Panel B of Figure IA2.

provides detailed definitions of these variables. Further, we include year fixed effects to capture time trends (e.g., M&A waves; Golbe and White, 1993, Duchin and Schmidt, 2013) and industry fixed effects to account for time-invariant industry heterogeneity. In Section 4.2.1, we incorporate additional fixed effects to further mitigate endogeneity from unobserved heterogeneity.

Table 2, Column (1), examines the association between *LSC* and the likelihood of making an acquisition (*Acq.*) using a logistic model. The estimated coefficient on *LSC* is −0.057 and statistically significant at the 1% level even after controlling for various covariates. Economically, a one-standard-deviation increase in *LSC* (= 0.8463) corresponds to a 3.9% decrease in the predicted probability of acquisition relative to the sample mean, with predicted values computed while holding all other covariates at their sample means. Columns (2) and (3) separately analyze the likelihood of making asset and firm acquisitions, respectively, using logistic models. The results indicate that LSC is associated with lower acquisitiveness for both types of deals, implying that the negative effect of LSC on acquisition likelihood is not driven by a selective avoidance of either asset or firm deals.

We also employ linear regression models to estimate how LSC influences acquisition intensity measured by the number of completed deals. The results in Columns (4), (5), and (6) are qualitatively consistent with those from the logistic regressions. For example, the coefficient on *LSC* in Column (4), −0.012, suggests that a one-standard-deviation increase in *LSC* is associated with a 5.2% reduction relative to the mean number of completed deals. For a counterfactual diagnostic, firms in Oklahoma County, OK (whose 2014–2020 *LSC* value was near the median) would have made 7.37% fewer acquisitions relative to their mean if they had been located in New York County, NY (around the 90th percentile), or 7.31% more if located in Clark County, NV (around the 10th percentile). In unreported tests, we obtain similar inferences when we estimate Poisson models for the count outcome and when we log-transform the dependent variable.[13]

In our sample, 73% of firms are incorporated in a state different from their headquarters, with Delaware alone accounting for 64%. Incorporation is typically driven by legal considerations rather than day-to-day operations, implying that LSC at the place of incorporation is less relevant, in line with our hypothesis. While firms must comply with the corporate law of their state of incorporation, it is the stakeholders in the headquarters' community who are directly affected by

[13]As a placebo test, we randomly assign firms to pseudo-headquarters counties and reestimate Column (4) of Table 2 1,000 times. The resulting distribution of β_1 (Panel A of Figure IA4) centers near zero, while the original estimate (−0.012) lies below its 1 percent threshold, indicating that the negative effect of *LSC* on acquisitions is unlikely to be obtained by chance.

firms' actions and whose norms are most likely to shape corporate behavior. Firms are therefore more likely to heed these local stakeholders than the nominal stakeholders in their state of incorporation. Accordingly, LSC at the headquarters' location is more likely to influence corporate conduct than that at the place of incorporation.

To test this conjecture, we conduct a horse race between social capital measured at the headquarters' location and at the state of incorporation. We define the incorporation-based measure (ISC_{st}) as the average county-level *LSC* within the firm's historical state of incorporation, since incorporation data are disclosed only at the state level in SEC filings and Compustat. For comparability, we redefine headquarters-based social capital (LSC_{st}) as the average county-level *LSC* within the headquarters' state. Columns (7) and (8)—the counterparts to Columns (1) and (4), respectively—show that LSC_{st} remains significant (despite being measured at the coarser state level), whereas ISC_{st} is not, supporting that headquarters-based social capital is the relevant measure. Overall, the results in Table 2 indicate that LSC constrains acquisition activities, consistent with our hypothesis.

We also consider several alternative explanations for the negative relation between LSC and acquisition intensity, corresponding to the results in Table IA4. As an auxiliary analysis, we find that acquisitions in high-LSC regions take longer to complete (results not reported for brevity), consistent with the constraining effect of LSC. This finding also suggests that LSC constrains acquirers not only during the pre-announcement phase, such as target selection and choice of payment method (documented below), but also throughout the deal execution period. In addition, we present sector-specific regression results in Table IA3. The constraining effect of LSC is not confined to a certain sector: five out of six sectors show statistically significant negative coefficients, though magnitudes vary considerably.

4.2 Endogeneity and Identification Strategy

4.2.1 Exploiting Within-Firm Variation in LSC

The observed negative association between LSC and acquisition activity may reflect unobserved firm-level heterogeneity, such as technological capabilities, growth opportunities, tax liabilities, organizational structures, or incentive systems, that is shaped by location-specific characteristics correlated with social capital and also directly influences acquisition decisions. Since *LSC* tends to be relatively stable over time, with backfilled values repeated across multiple years, most of its variation is cross-sectional. This poses a challenge when introducing firm or regional fixed effects, as doing so could absorb substantial variation in *LSC*, potentially biasing panel data estimators

toward finding no relationship (see, e.g., Zhou, 2001, Breuer and Dehaan, 2024, Jennings et al., 2024).[14] To address concerns that our baseline models may estimate purely cross-sectional effects driven by *LSC*, we explore within-firm time-series variations arising from headquarters relocations. By focusing on firms that relocate to counties with differing levels of *LSC*, we are able to assess how changes in acquisition intensity are explained by within-firm variations in *LSC* over time.

To identify significant changes in *LSC*, we classify a relocation as *LSC*-increasing or *LSC*-decreasing when the absolute change in *LSC* ($|\Delta LSC|$) is at least two or three times the sample median change ($|Median|$) across all relocation events. We then construct two indicators: *LSC-Increasing*, which equals one if a firm's relocation belongs to an *LSC*-increasing event and zero otherwise, and *After Relocation*, which equals one for years after the relocation and zero otherwise. Using these two types of firms, we compare changes in acquisition intensity before and after relocations between firms experiencing *LSC* increases and those with *LSC* decreases. Firms are required to have at least three years of data both before and after the relocation.

Table 3 presents the results. In Column (1), the estimated coefficient on the interaction term (*LSC-Increasing* $\times$ *After Relocation*) is −0.268 and statistically significant at the 1% level, controlling for firm and year fixed effects. In our setting, reverse causality is less of a concern because *LSC* is measured at the community level; an individual firm's acquisition decisions are unlikely to affect the community-wide social capital collectively built by other local stakeholders. However, regional heterogeneity, such as differences in regulatory quality, economic development, cultures, or other institutions, may confound the relationship between LSC and acquisition activities. For instance, local fiscal growth could strengthen LSC by developing communal establishments while simultaneously boosting firms' competitiveness through higher demand without necessitating acquisitions. If anything, this bias in the OLS estimates should work against finding that LSC constrains acquisition activities.

Nonetheless, we include county and year fixed effects in Column (2), and county-by-year fixed effects in Column (3). The estimated coefficients on the interaction terms remain negative and significant. Column (4) extends Column (2) with industry fixed effects, yielding similar results. Using an alternative relocation threshold in Columns (5)–(8) yields qualitatively similar

[14]The elimination of variation in the independent variable, relative to the dependent variable, by fixed effects decreases test power (Breuer and Dehaan, 2024). For example, when county fixed effects are included in Table 2, Column (4) specification, the within–fixed effect variation of the independent variable (*LSC*) is only 30.96% of its variation in the pooled sample, in stark contrast to the dependent variable (*#Acq.*), whose within–fixed effect variation remains 98.76% of its pooled-sample variation. Among the control variables, the most affected is *Education* (18.12%), while the least affected is *MTB* (94.69%).

results, though statistical significance weakens in Column (7) with county-by-year fixed effects, due to fewer observations. Collectively, these findings suggest that firms experiencing LSC-increasing relocations exhibit lower post-relocation acquisition intensity than those experiencing LSC-decreasing relocations.

The empirical strategy in this section does not necessarily establish a causal relationship between LSC and acquisition intensity, given the endogenous nature of relocation decisions. However, we do not find any systematic differences in relocation decisions across LSC. Among 1,278 events of headquarters relocation, 629 (649) led to increases (decreases) in *LSC*, implying similar unconditional probabilities. Moreover, we find no significant differences in acquisition frequency prior to relocation between firms that increased versus decreased their *LSC*, suggesting that relocation decisions are unlikely to be driven by LSC.

4.2.2 Difference-in-Differences: The Tax Cuts and Jobs Act and Charitable Giving Incentives

To draw causal inference, we exploit the 2017 Tax Cuts and Jobs Act (TCJA), which induced plausibly exogenous variation in LSC by weakening charitable-giving incentives for high-income households. In particular, the reform disproportionately reduced donations to communal associations, religious groups, and nonprofit organizations—the core components of our *LSC* measure—among wealthy donors.

These broad effects were driven by several specific provisions of the TCJA, which fundamentally altered the U.S. tax system and had significant implications for charitable giving. Beginning in 2018, the TCJA nearly doubled the standard deduction—$12,000 for single filers and $24,000 for joint filers that year—while capping the state and local tax deduction at $10,000 and eliminating several other itemized deductions. As a result, fewer taxpayers itemized, and fewer claimed charitable-contribution deductions. The TCJA also roughly doubled the estate tax exemption to $11.18 million for singles (and twice that for couples) in 2018, further reducing certain giving incentives for wealthy households.[15]

Estimates from the Urban-Brookings Tax Policy Center suggest these reforms reduced the number of households claiming an itemized deduction for charitable contributions from approximately 37 million to 16 million and lowered the federal income tax subsidy for charitable giving

[15]Under the TCJA, the ceiling for cash charitable contribution increased from 50% to 60% of adjusted gross income (AGI), while the 30% cap for gifts of appreciated assets remained unchanged. The Act also suspended, for 2018-2025, the Pease limitation—under which taxpayers had to reduce itemized deductions by 3% of AGI above a threshold. Although these changes could raise incentives for some itemizers, the overall tax incentive for charitable giving declined significantly because of other provisions noted above. Evidence presented below supports this conclusion.

from about $63 billion to $42 billion by 2018.[16] Overall, the TCJA reduced the marginal tax benefit of donations by over 30 percent, effectively increasing the after-tax cost of giving by roughly 7 percent. Consistent with these estimates, Han et al. (2024) document that the TCJA decreased charitable giving by approximately $20 billion annually relative to the trend. Consequently, unless donors offset this by increasing their net sacrifice, charities and their beneficiaries bear much of the impact rather than the taxpayers.

These policy changes provide a natural experiment for identifying the causal impact of LSC by generating plausibly exogenous variation along two dimensions: (i) the participation and activity of local stakeholders within existing communal associations, religious groups,[17] and non-profit organizations (intensive margin), and (ii) the number of these associations themselves (extensive margin). Importantly, these associations constitute the core components of our *LSC* measures.

High-income earners contribute the largest share of donations, and the TCJA disproportionately reduced the marginal tax benefits for these donors. This differential impact motivates our measures of treatment intensity. At the state level, we construct the fraction of taxpayers with adjusted gross income (AGI) above $100,000, measured in two ways: (i) based on the number of taxpayers ($TreatInt^{\#}$), and (ii) based on aggregate AGI amount ($TreatInt^{\$}$). We obtain the relevant data from the *Individual Income Tax Return (Form 1040) Statistics* from Statistics of Income (SOI) Tax Stats provided by the U.S. Internal Revenue Service (IRS).[18] This treatment intensity, measured *prior* to the TCJA, identifies the states where LSC is most likely to be affected by the reform. Leveraging this variation, we implement a difference-in-differences framework to compare acquisition activities of firms located in states with high versus low treatment intensity before and after the TCJA. This reduced-form event-study design also sidesteps direct measurement of LSC, mitigating concerns about measurement error, construct validity, and local co-movements.

The underlying assumption behind our treatment intensity measures is that charitable donations are locally biased, such that tax-induced changes in giving behavior disproportionately affect in-state organizations that sustain LSC and build trust. A large body of evidence supports this view. First, field experiments demonstrate that donors strongly prefer nearby beneficiaries, with support declining as the distance increases (Grimson et al., 2020). Second, laboratory and

[16] https://taxpolicycenter.org/briefing-book/how-did-tcja-affect-incentives-charitable-giving

[17] Yörük (2013) documents that a higher after-tax price of charitable giving decreases religious attendance, providing direct evidence that tax incentives shape participation in community organizations. Relatedly, Hungerman et al. (2019) show that government-funded program expansions can reduce church closures and mergers, suggesting that the survival of these associations is also likely affected by policy-induced resource changes.

[18] https://www.irs.gov/statistics/soi-tax-stats-individual-income-tax-return-form-1040-statistics

field studies highlight perceived distance as a key mechanism for charitable action: people expect donations to have a greater impact when recipients are proximate, and reducing perceived distance increases giving (Touré-Tillery and Fishbach, 2017). Third, donor-advised fund data from Fidelity Charitable reveal that a large share of contributions remains within donors' home metros: on average, across the top 30 giving cities in 2022, four out of five donors recommended at least one grant to a nonprofit in their home metro.[19] Finally, practical frictions further reinforce this locally biased giving. Because charitable solicitation regulations are set at the state level, cross-state fundraising is costly, incentivizing nonprofits to focus on in-state donors and strengthening local donor–charity linkages.[20] Taken together, these findings suggest that reductions in tax-motivated giving after the TCJA primarily constrained resources for local associations, creating plausibly exogenous shocks to *LSC* at the state level.

Beyond individual tax changes, the TCJA also introduced substantial corporate tax reforms. Most notably, the top corporate income tax rate was permanently reduced from a graduated rate of up to 35% to a flat 21%. Other key business-related provisions of the TCJA include the elimination of the corporate Alternative Minimum Tax (AMT), the shift to a modified territorial tax system exempting most foreign profits from U.S. taxation, and the temporary allowance for immediate expensing of certain capital investments, all of which simplified the corporate tax code and enhanced firms' tax benefits by reducing overall tax liability.

Lower corporate tax rates could, in principle, stimulate investment, such as mergers and acquisitions, by easing financing constraints and creating financial slack. Importantly, however, there is no reason to expect such effects to vary systematically across states in relation to our treatment intensity measure (i.e., the fraction of high-income earners). To address this potential confounding effect, we control for corporate marginal tax rates, *MTR (After)*, in our analyses. Notably, Albertus et al. (2025) document that the TCJA had no meaningful impact on firms' real or financial decisions, including capital expenditures, employment, R&D, or M&A, despite the liquidity shock it generated. Thus, corporate tax provisions in the TCJA are unlikely to pose a threat to our identification strategy.

We restrict our sample around the implementation of the TCJA (2013-2020) and estimate the

[19] https://www.fidelitycharitable.org/content/dam/fc-public/docs/insights/2023-geography-of-giving.pdf

[20] https://www.irs.gov/charities-non-profits/charitable-organizations/charitable-solicitation-state-requirements?

following difference-in-differences specification:

$$\begin{aligned} \#Acq._{i,t} = \alpha_i + \alpha_t + \beta_1\ TreatInt_{s,2017} \times TCJA_t + \beta_2\ Firm\ Characteristics_{i,t-1} \\ + \beta_3\ County\ Characteristics_{c,t-1} + \beta_4\ State\ Characteristics_{s,t-1} + \epsilon_{i,t}, \end{aligned} \tag{2}$$

where $TreatInt_{s,2017}$ is one of the treatment intensity measures in 2017 for a given state s, either $TreatInt^{\#}_{s,2017}$ or $TreatInt^{\$}_{s,2017}$, and $TCJA_t$ equals one in 2018 and later years and zero otherwise.[21] Firm and year fixed effects are included to absorb unobserved firm-level heterogeneity and aggregate shocks around the TCJA. We expect β_1 to be positive, implying that firms located in states more exposed to the TCJA—that experienced a larger decline in charitable giving incentives, and thus a larger decline in LSC—tend to increase their acquisition intensity after the TCJA, relative to those in less affected states.

The results in Columns (1) and (5) of Panel A in Table 4 confirm our prediction. The estimated coefficients on the interaction terms are positive and statistically significant across both treatment intensity measures. The effects are economically meaningful: in Column (5), for a one-standard-deviation increase in $TreatInt^{\$}_{s,2017}$, the number of acquisitions increases by 0.0215 ($= 0.332 \times 0.0648$) after the TCJA, which represents about 13.7% ($= 0.0215/0.1568$) of the sample mean. We further examine the dynamics of the treatment effect by replacing the single $TCJA_t$ indicator with year-by-year indicators, using 2013 as the reference year. The year-by-year coefficients and their 90% confidence intervals are plotted in Panels A and B of Figure 1. All estimated coefficients prior to the TCJA are statistically insignificant, while the strong positive effects emerge only after the Act, reassuring that acquisition activity in the years leading up to the TCJA is unrelated to the treatment intensity (i.e., confirming no pre-trend).[22]

In Columns (2) and (6), we replace year fixed effects with industry-by-year fixed effects to account for industry-wide changes in investment opportunities over time. The interaction coefficients remain positive and statistically significant in both specifications. In Columns (3), (4), (7), and (8), we include additional regional variables measured prior to the Act—*Population Growth*$_{2017}$, *Education*$_{2017}$, *Net Job Creation Rate*$_{2017}$, and Δ *Housing Price*$_{2017}$— interacted with $TCJA_t$. These controls address concerns that pre-shock differences in demographics or economic conditions may drive differential responses to the reform. The main interactions remain robust.

[21] To avoid misclassifying treatment intensity due to changes in firms' headquarters locations, we exclude firms that relocated to a different state during the sample period. Our results remain robust to defining treatment intensity based on 2015 or 2016 values, or using the three-year average prior to the TCJA.

[22] The Coronavirus Aid, Relief, and Economic Security (CARES) Act temporarily removed the 60% AGI cap on cash gifts to public charities for 2020-2021 to encourage pandemic-era giving. This policy likely contributes to the weaker effect for the year 2020 observed in Figure 1.

In addition to controlling for the marginal tax rate to mitigate concerns about potential confounding effects of the Act's corporate tax reforms, we examine whether after-tax profitability changed in the post-Act period relative to the pre-Act period. In Panel B of Table 4, we regress net profit margin (NPM) and return on assets (ROA) on the same set of variables as in Columns (1), (2), (5), and (6) of Panel A. The interaction terms are insignificant, indicating that the Act does not influence firms' profitability. This result is consistent with Albertus et al. (2025), who document that the Act did not materially affect firms' real or financial policies, and it provides further assurance that our results are not driven by broader changes in firm performance.

Together, these complementary identification strategies consistently demonstrate that LSC constrains firms' acquisition activity, lending support to a causal interpretation. To the best of our knowledge, this is among the first studies to leverage the TCJA to identify the causal effects of LSC, thereby advancing the literature on how LSC shapes corporate decisions.[23]

5 The Mechanisms Through Which LSC Shapes Acquisition Decisions

5.1 Target Selection I: Anticompetitive Perspective

After establishing the constraining effect of LSC on acquisitiveness, we examine how LSC limits a firm's acquisition choices by narrowing the set of viable targets. We begin with an anticompetitive perspective, as such conduct is widely regarded as a deviation from socially acceptable behavior. As discussed in the hypothesis development section, firms located in high-LSC communities face stronger social or normative pressures to comply with local standards. In addition, stronger community coordination enhances the credibility and effectiveness of collective action, leading to earlier and more forceful complaints that draw regulatory attention and heighten federal scrutiny. Since antitrust authorities tend to scrutinize mergers that increase market concentration within specific *geographic* or *product* markets, such pressures should induce firms to avoid ex-ante acquisitions more likely to trigger concerns, particularly targets that are geographically or industry-wise proximate.[24] We therefore investigate whether firms in high-LSC counties are less likely to acquire targets from the same region or industry, conditional on making an acquisition.

We first test whether LSC shapes the geographic scope of acquisition choices. In Table 5,

[23]Prior studies on local social capital commonly employ instrumental variable approaches (e.g., Hasan et al., 2017b,a, Gupta et al., 2020). Following this literature, we use distance to the Canadian border and ethnic homogeneity as instruments for LSC and obtain results that are consistent with our main findings (see Table IA5).

[24]The DOJ and the FTC emphasize that mergers which increase concentration within defined product or geographic markets raise significant competitive concerns under their Merger Guidelines (https://www.ftc.gov/system/files/ftc_gov/pdf/2023_merger_guidelines_final_12.18.2023.pdf).

Column (1), we estimate a linear regression of acquirer-target distance on *LSC* and acquirer-level characteristics, conditional on making acquisitions. The dependent variable, *Distance*, is defined as the logarithm of one plus the distance between the acquirer and target headquarters based on zip codes. The estimated coefficient on *LSC* is 0.106, implying that a one-standard-deviation increase in *LSC* corresponds to an increase of 81 miles between acquirers and targets— a 9.0% rise compared to the sample average distance.[25] This finding supports the prediction that firms in high-LSC counties pursue geographically distant targets to avoid community scrutiny and mitigate antitrust concerns amplified by stronger collective actions by local stakeholders.

To further test this prediction, we examine whether LSC reduces the likelihood of acquiring targets within the same political boundaries, which are particularly salient to antitrust authorities. We construct indicators *Same State* and *Same County*, which equal one if the acquirer and target are located in the same state or county, respectively. Columns (2) and (3) of Table 5 report logistic regression results using these indicators. The negative and significant coefficients on *LSC* indicate that firms in high-LSC counties are less likely to acquire targets within the same state or county, reinforcing the view that local social constraints lead firms to avoid acquisitions that could trigger social penalties and/or heightened antitrust scrutiny.[26]

We then investigate how LSC affects the likelihood of making a horizontal acquisition that may reduce competition intensity and harm customers and suppliers. In Column (4), we define *Same Ind.* as an indicator that equals one if the acquirer and target operate within the same four-digit SIC or six-digit NAICS industry. The significantly negative coefficient on *LSC*, −0.080, suggests that firms in high-LSC regions are less likely to acquire targets from the same industries. In terms of economic magnitude, a one-standard-deviation increase in *LSC* is associated with a 3.8% decrease in the predicted probability of horizontal acquisition relative to the sample mean, with predicted values computed while holding all other covariates at their sample means.

Since product homogeneity plays a crucial role in determining the product market consequences of horizontal acquisitions (Fathollahi et al., 2022) and antitrust investigations extend beyond standard industry classifications, we utilize the fixed industry classification (FIC) system developed by Hoberg and Phillips (2010, 2016), which considers industry networks based on

[25] A one-standard-deviation increase in *LSC* raises the log distance by 0.0864 ($= 0.106 \times 0.8151$). This translates into a mile distance change of 81 miles from the sample mean (898.25 miles): $[exp(ln(1 + 898.25) + 0.0864) - 1] - 898.25$.

[26] State-level anti-takeover laws or acquisition regulations may limit the capacity to acquire geographically proximate firms. We control for second-generation state-level anti-takeover laws and judicial takeover standards since 1990, including 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 these state-level controls does not affect the results.

product descriptions from SEC 10-K filings.[27] In Column (5), we redefine horizontal acquisitions, *Same Ind.(FIC)*, using the FIC-50 classifications, and confirm consistent results.

However, the results in Columns (4) and (5) may also reflect diversification motives rather than antitrust concerns, as firms in high-LSC counties could reduce horizontal acquisitions by shifting toward unrelated industries. If diversification were the primary driver, we would expect a greater propensity to acquire targets in unrelated industries rather than in the same or similar industries. To investigate this possibility, we estimate a multinomial logit model with three possible acquisition outcomes: acquisitions in the same industry, in similar industries (sharing the same three-digit SIC or five-digit NAICS, but not the same four-digit SIC or six-digit NAICS), or in unrelated industries (the base outcome). Columns (6) and (7) of Table 5 present the results. We find that *LSC* increases the likelihood of acquiring a firm in a similar industry but decreases the likelihood of acquiring a firm in the same industry, relative to unrelated industries.

These patterns suggest that firms in high-LSC regions avoid horizontal acquisitions primarily due to antitrust concerns, while still pursuing acquisitions in peripheral industries to maintain competitiveness. Thus, the reduced propensity for horizontal acquisitions is unlikely to be explained by diversification motives, such as empire building (Jensen, 1986), the new toy effect (Schoar, 2002), or risk reduction (Gormley and Matsa, 2016).[28] To further rule out risk reduction channel, we control for firm- and managerial-level factors associated with geographic or industrial diversification. Table IA6 confirms that the constraining effects of *LSC* persist.

The results so far suggest that LSC constrains a firm's target choices, leading them to avoid potentially norm-violating acquisitions. To provide direct ex-post evidence, we examine whether acquisitions by firms in high-LSC regions are less likely to be challenged by antitrust authorities (*Challenged*), focusing on deals most likely to be scrutinized (Fathollahi et al., 2022). In Table 5, Column (8), the estimated coefficient on *LSC* (=−0.410) indicates that LSC is negatively associated with the likelihood of being challenged, conditional on making an acquisition. This finding suggests that the *ex-ante* avoidance of proximate targets by firms in high-LSC. [29]

[27] Hoberg and Phillips (2010, 2016) construct this industry classification by building firm pairwise similarities using business descriptions from 10-K filings. This classification is advantageous as it avoids time-fixed or transitivity restrictions present in SIC and NAICS classifications. We thank Professor Hoberg for sharing the data on his website (http://hobergphillips.tuck.dartmouth.edu).

[28] We obtain similar results when performing a multinomial logit regression on geographical distance. Specifically, the results show that firms in high-*LSC* regions engage in fewer acquisitions within close proximity (less than 100 miles) but demonstrate a higher propensity for acquisitions in peripheral regions (between 100 and 500 miles) compared to those in remote regions (distances greater than 500 miles). Due to space constraints, these results are omitted.

[29] In an untabulated result, we also find that acquirers in high-LSC areas hire more legal advisors during due diligence to mitigate potential repercussions from local stakeholders regarding norm-deviating anticompetitive deals.

5.2 Target Selection II: Other Social Perspectives

Shared norms within a community may shape firm behavior beyond restricting anticompetitive conduct. For instance, social norms could influence target selection based on the alignment between the target's and acquirer's LSC, whether the target operates in socially sensitive industries, or the target's financial or operational characteristics with social implications, such as accounting transparency and disclosure quality. Targets that align with these socially valued characteristics are likely to be viewed more favorably by local stakeholders, enhancing the acquirer's legitimacy and reputation. This suggests that community norms may guide firms toward acquisitions that not only avoid anticompetitive conduct but also align with broader expectations of responsible, socially aware corporate behavior. Accordingly, we examine how the LSC of an acquirer's headquarters is associated with various characteristics of acquisition targets.

Because LSC captures local norms and social interactions, differences in LSC may generate integration frictions analogous to those associated with cultural differences. Previous studies have shown that cultural similarities can reduce post-acquisition integration costs (Chatterjee et al., 1992, Ahern et al., 2015, Bereskin et al., 2018). In a similar vein, acquirers may prefer targets with comparable LSC to mitigate integration costs arising from differences in local normative practices. Table 6, Column (1) tests this hypothesis, with the dependent variable *Target LSC*, which is the level of *LSC* where a target's headquarters is located. The positive and significant coefficient on acquirer *LSC* indicates assortative matching: acquirers in high-LSC counties tend to favor targets in similarly high-LSC counties, while those in low-LSC counties prefer targets with lower LSC.

We also expect that firms located in high-LSC communities would avoid targets operating in sin industries, as such deals could harm the local society and thereby provoke objections from the community. Column (2) tests this prediction using *Sin Target*, an indicator for targets operating in sin industries.[30] The negative and significant coefficient on *LSC* supports the prediction, showing that acquirers in high-LSC regions are less likely to target sin industries.

Acquirers generally assume the legal and financial responsibilities of their targets, including risks related to financial reporting and accounting practices, which carry important social implications for local capital markets. Accordingly, we expect high-LSC acquirers to favor targets with higher accounting quality. We measure *Target Accounting Quality* using accrual quality of targets, following Marquardt and Zur (2015), where higher values indicate better quality. The positive

[30]We define sin industries using the following SIC and NAICS codes: 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), following the classification by Hong and Kacperczyk (2009).

and significant coefficient on *LSC* (0.016 in Column (3)) indicates that high-LSC firms tend to acquire transparent targets with superior accounting quality. This assortative matching suggests that community norms not only discourage socially undesirable targets but also guide acquirers toward financially sound choices with broader implications for capital market trust and efficiency. Overall, the results in Table 6 underscore that LSC shapes acquisition decisions across multiple social dimensions beyond anticompetitive concerns.

5.3 Choice of Payment Method

This section examines another mechanism through which LSC imposes frictions on acquisition decisions, namely, the accelerated diffusion of reputational information within dense social networks. In more socially connected communities, information about firms' norm deviations diffuses more quickly and broadly. This heightened visibility amplifies the reputational consequences of actions perceived as nonconforming to these norms. As discussed in the hypothesis development section, stock payments by overvalued acquirers can be viewed as norm-deviating, since such transactions not only transfer wealth from target to acquirer shareholders (Shleifer and Vishny, 2003, Rhodes-Kropf and Viswanathan, 2004) but also undermine the broader deal-making environment and local communities by distorting takeover market efficiency (Li et al., 2018). Accordingly, we expect that LSC constrains a firm's choice of M&A payment method and, in turn, dampens overall acquisition activities. Specifically, we conjecture that firms in low-LSC counties would be more likely to use stock payments to exploit overvaluation, compared to firms in high-LSC counties, holding the level of overvaluation constant.

To test this, we first measure unexplained valuation (UV) using the industry-adjusted market-to-book (MTB) ratio, denoted as *UV* (*Ind*) and defined as the difference between a firm's MTB and the industry-year average MTB. However, *UV* (*Ind*) may capture not only overvaluation, as suggested by behavioral theory, but also high growth opportunities, as emphasized by investment-based rational theory. To isolate firm-specific misvaluation, we construct alternative UV measures based on residual models developed by Rhodes-Kropf et al. (2005) (referred to as *UV* (*RRV*)) and Pastor and Veronesi (2003) (referred to as *UV* (*PV*)), following prior studies (e.g., Hoberg and Phillips, 2010, Phillips and Zhdanov, 2013). Details on the construction of these measures are provided in Table IA1.

Using these three UV measures, we construct indicators, *High UV* (*Ind*), *High UV* (*RRV*), and *High UV* (*PV*), which equal one if the corresponding UV measure is in the top quartile, and zero if in the bottom quartile. *High LSC* is defined analogously. The dependent variable is the

percentage of stock used in the transaction, and our main variable of interest is the interaction between *High LSC* and each *High UV* indicator. In addition to the baseline controls, we include *Competed*, *Hostile*, and *Public Target* to account for deal competition (Berkovitch and Narayanan, 1990) and information asymmetry (Hansen, 1987, Eckbo et al., 1990), both of which are known to affect the choice of payment method.

Table 7, Columns (1), (2), and (3) show that the estimated coefficients on *High UV* (*Ind*), *High UV* (*RRV*), and *High UV* (*PV*) are all positive and significant. This aligns with previous studies demonstrating that equity overvaluation increases the likelihood of using stock as the payment method (Rhodes-Kropf et al., 2005, Dong et al., 2006). In addition, firms tend to pay more with stock when acquiring public targets, consistent with prior studies (e.g., Jaffe et al., 2015).

Although overvalued acquirers generally rely more on stock payments, a high level of LSC constrains this tendency. This is evidenced by the significantly negative coefficients on the interaction terms between *High LSC* and *High UV*.[31] Importantly, the constraining effect of LSC is substantial, as the magnitude of the interaction coefficients is comparable to that of *High UV*. These findings suggest that in regions with dense social networks, firms face heightened reputational scrutiny: overvalued acquirers avoid using stock payments because such transactions are more visible within the community and may incur higher normative costs. Consequently, LSC restricts firms' payment choices, revealing a mechanism through which LSC curbs acquisition activities.[32]

6 Additional Robustness Tests

6.1 Non-random Location Choices

A potential concern in our baseline analyses is that firms may endogenously select their headquarters locations based on acquisition opportunities, with those facing fewer (more) opportunities choosing high-(low-)LSC regions. This issue is most relevant for younger firms or recent relocators. To address it, we exclude the first two years of each firm's sample period and the first two years following any relocation, leaving 87,263 firm–year observations (77% of the baseline sample). Using the restricted sample, we repeat the baseline analyses for the primary outcomes

[31] These results are qualitatively similar when the dependent variable is an indicator equal to one for payments made entirely in stock, and a logistic model is applied.

[32] Fu et al. (2013) finds that overvalued acquirers tend to pay higher acquisition premiums, potentially offsetting the wealth transfer. However, unreported results show no significant differences in the sensitivity of premiums to overvaluation between high- and low-LSC firms (i.e., the insignificant association between premium and *High UV* $\times$ *High LSC*). This suggests that low-LSC firms benefit more from paying with overvalued stock than their high-LSC counterparts. Moreover, it implies that the observed difference in the use of overvalued stock is unlikely to be driven by variation in negotiation skills or tactics.

and obtain robust results (Table IA7, Panel A).

Another concern is that industry-specific geographic clustering may jointly shape location choice and acquisition behavior. For example, oil and gas companies concentrate in resource-rich areas such as Texas or the Gulf of Mexico, while technology firms cluster in Silicon Valley (Almazan et al., 2010). If such industries also exhibit distinct acquisition patterns, our estimates could be confounded. To mitigate this concern, we re-estimate the previous analyses after excluding firms headquartered in industry clusters, defined as MSAs with at least ten firms in the same three-digit SIC and at least 3% of industry market value. As reported in Table IA7, Panel B, the results remain qualitatively unchanged, underscoring the robustness of our findings.

6.2 Local Social Capital vs. Corporate Social Responsibility

As highlighted in Section 2, LSC operates as an external friction and should not be conflated with corporate social responsibility (CSR) orientation or managerial ethics, which are *internal* firm attributes. Importantly, LSC refers to local-level social capital manifested through community networks, norms, and social trust, which impose normative costs for violating local standards and foster mutual benefit. CSR, by contrast, is a firm-level practice that integrates social and environmental concerns into management and operations, typically on a voluntary or strategic basis and increasingly shaped by "soft" regulations such as reporting initiatives and compliance programs. LSC thus reflects the broader social environment created by local communities, enforcing norms that go beyond formal rules (e.g., legal requirements) or internal firm policies. As such, LSC constitutes an external constraint largely beyond the control of any individual firm operating in the same region. Therefore, it is unlikely that LSC exerts a secondary impact on observed acquisition outcomes indirectly via CSR.

Although conceptually distinct, it is natural to ask how LSC relates to CSR, a focus that has attracted considerable attention from both practitioners and scholars in recent decades (see, e.g., Gillan et al., 2021, for a recent review on CSR). If such a link exists, our findings could be interpreted through the lens of CSR's influence on acquisition behavior. We examine this possibility by conducting a comparative analysis to determine which factor—LSC or CSR—exerts a stronger influence on acquisition decisions. Table IA8 shows that our main findings remain robust for five out of six outcome variables, even after controlling for the CSR measure (*CSR*) used in Deng et al. (2013). The insignificant coefficients on *CSR* in most columns indicate that CSR does not significantly affect acquisitiveness or target selection.

6.3 Other Miscellaneous Tests

We conduct a battery of additional robustness checks. First, we exclude counties whose *LSC* values deviate by more than one standard deviation from the mean of neighboring counties, addressing potential over- or underestimation relative to adjacent regions. Second, instead of backfilling, we use original *LSC* values from 1990, 1997, 2005, 2009, and 2014, assigning them to the corresponding subperiods, 1992–1996, 1997–2004, 2005–2008, 2009–2013, and 2014–2020. We then aggregate acquisition activities within each subperiod. Third, since firms may be influenced by local communities at multiple operational sites, relying solely on headquarters in identifying their *LSC* could introduce measurement errors, potentially underestimating the role of LSC. Using data from Garcia and Norli (2012), we exclude acquirers and targets with multiple operating locations. Fourth, to account for potential serial and cross-sectional correlations, we cluster standard errors at the firm, county, or county and industry levels. Finally, we expand the sample to include all attempted acquisitions, including withdrawn, pending, and unknown-status deals. The robust results are documented in Tables IA9 to IA13.

7 Shareholder Value Implications

Having established that LSC constrains corporate decisions in undertaking and structuring acquisitions, we assess the shareholder value implications of restraints imposed by local stakeholders. To provide a theoretical lens, consider a standard optimization problem in which a firm maximizes shareholder value. Introducing an additional, binding friction—such as a socially imposed constraint—restricts the firm's choice set and, at first glance, appears to reduce the value function. However, the theory of second best (Viner, 1950, Lipsey and Lancaster, 1956) suggests that this is not necessarily the case.[33] The newly imposed friction may partially counteract the effects of existing distortions on investment (e.g., overinvestment arising from managerial overconfidence or agency problems). In this way, the countervailing effect could restore allocative efficiency by preventing value-destroying projects.

To test this theoretical prediction, we identify firms likely to be *overinvesting* using two approaches. First, under the assumption that firms undertake projects in descending order of NPV, market reactions to acquisition announcements provide a signal of the current investment level: deals that elicit positive market reactions suggest that the firm was previously underinvesting

[33] Lipsey and Lancaster (1956) describe one of the main principles as follows: "in a situation in which there exist many constraints which prevent the fulfillment of the Paretian optimum conditions, the removal of any one constraint may affect welfare or efficiency either by raising it, by lowering it, or by leaving it unchanged" (p.12).

(investment below the optimum), whereas deals with negative market reactions indicate potential overinvestment (investment above the optimum). Second, we rely on the theoretical link between CEO optimism and corporate investment levels (Campbell et al., 2011). By using a firm's actual investment-based measure instead of a stock-option–based measure (Malmendier and Tate, 2008), we aim to mitigate concerns that managerial compensation motives drive the results. Moreover, since firms' investment levels tend to be similar within industries (e.g., Shue, 2013, Fracassi, 2017, Bustamante and Frésard, 2021), we use the industry average as the benchmark.

We begin by examining the unconditional relation between *LSC* and acquirer cumulative abnormal returns (*CAR*) over the [-1, +1] window, from one day before to one day after the acquisition announcement.[34] Abnormal returns are estimated using both the market model and the Fama-French three-factor model. As reported in Panels A and B of Table 8, Column (1), although *CAR*s are on average higher for acquirers in high-*LSC* regions than for those in low-*LSC* areas, the difference is statistically insignificant. This observation is consistent with the idea that variation in investment levels may obscure the relation between LSC and shareholder value.

To uncover heterogeneous effects, we employ quantile regression. This allows us to distinguish between deals that signal underinvestment (higher CARs) and those that signal overinvestment (lower CARs) in assessing how LSC affects shareholder value conditional on firms' investment efficiency. Columns (2) and (3) of Panels A and B report estimates at the 33rd and 67th percentiles of *CAR*s. While the coefficients on *LSC* at the 33rd percentiles are positive and statistically significant at the 1% level, those at the 67th percentiles are small and insignificant. These results suggest that high-LSC firms realize higher announcement returns only in deals associated with potential overinvestment. One possible explanation for the lack of a negative effect at the 67th percentile is that shareholders may also factor in long-term non-financial benefits, such as reduced anticompetitive behavior (and thus lower litigation risk or social sanctions) or stronger local community support following norm-conforming deals.

To test the relation between *LSC* and *CAR* conditional on a firm's investment level, we interact *High LSC* and *Overinvestment* in Column (4). *High LSC* equals one if *LSC* is greater than the median value, and zero otherwise, while *Overinvestment* equals one if a firm's investment rate is greater than the industry median in a given year, and zero otherwise. Following Campbell et al. (2011), the investment rate is calculated as capital expenditures divided by beginning-of-year property, plant, and equipment. While the coefficient on *Overinvestment* confirms our prior that the market

[34]Results remain qualitatively similar when using alternative windows, such as [-1, +3] or [-1, +5].

reacts negatively to acquisitions by currently overinvesting firms, *LSC* counteracts this effect. The results in both panels further confirm the positive association between *LSC* and *CAR*s only for overinvesting firms.[35] Although testing the theoretical prediction is empirically challenging because the optimal investment level is unobservable, the results in this section provide suggestive evidence of heterogeneous value effects, underscoring the importance of accounting for firm-level differences when assessing shareholder value implications.

8 Conclusion

This study demonstrates that local social capital operates as a powerful informal institution that constrains corporate acquisition activities. By narrowing the set of viable targets, disciplining payment methods, and amplifying the risk of reputational and regulatory sanctions, LSC mitigates norm-deviating deal-making and channels firms toward more selective and norm-conforming acquisitions. Our results highlight a nuanced shareholder welfare trade-off: socially imposed frictions can discipline value-destroying overinvestment, yet may simultaneously restrict value-enhancing opportunities. In doing so, we broaden the view of how community norms influence corporate strategy, moving beyond the conventional shareholder-manager agency framework to emphasize the pervasive role of external social constraints.

More broadly, our findings contribute to the ongoing debate on the evolving objectives of the firm. While Graham (2022) documents that managers are placing greater emphasis on stakeholders such as employees, customers, and local communities, he also emphasizes that how such shifts affect corporate decision-making is underexplored in the literature. Our study addresses this gap by demonstrating that community-level social preferences materially shape firms' acquisition choices, offering empirical evidence of how stakeholder-oriented considerations influence major corporate decisions. This perspective also opens new avenues for research on whether such shifts toward stakeholder interests ultimately reinforce or dilute shareholder value.

[35]This positive association aligns with findings in Chowdhury et al. (2024) and Suchard et al. (2024). Although it is evident only among overinvesting firms in our sample, these studies document an unconditional relation. The discrepancy is, in fact, consistent with our findings and the theory of second best: for instance, Suchard et al. (2024) focus on larger deals (exceeding $5 million), which are more likely driven by agency problems or managerial overconfidence and thus tend to destroy value (Grinstein and Hribar, 2004).

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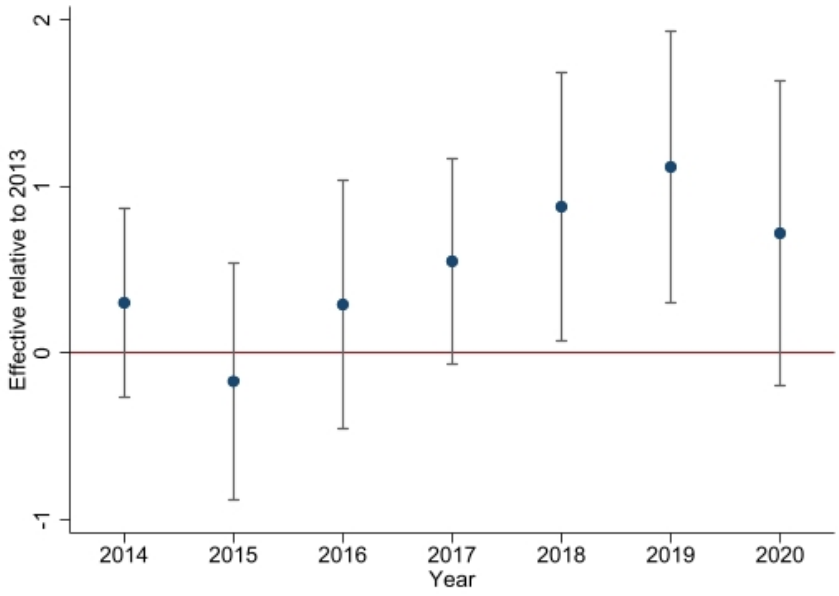
Figure 1. Dynamic Impact of the 2017 Tax Cuts and Jobs Act on Acquisition Intensity

This figure shows the dynamics of acquisition intensity around the 2017 Tax Cuts and Jobs Act (TCJA). The $TCJA_t$ in Equation (2) is replaced with year-by-year indicators, which are interacted with $TreatInt^{\#}_{s,2017}$ and $TreatInt^{\$}_{s,2017}$ in Panels A and B, respectively. The figures plot the resulting coefficients on the interaction terms relative to the 2013 baseline year, with 90% confidence intervals. Confidence intervals are based on standard errors clustered at the state level. The post period starts from 2018.

Panel A: Treatment Intensity - Number ($TreatInt^{\#}_{s,2017}$)



Panel B: Treatment Intensity - Amount ($TreatInt^{\$}_{s,2017}$)

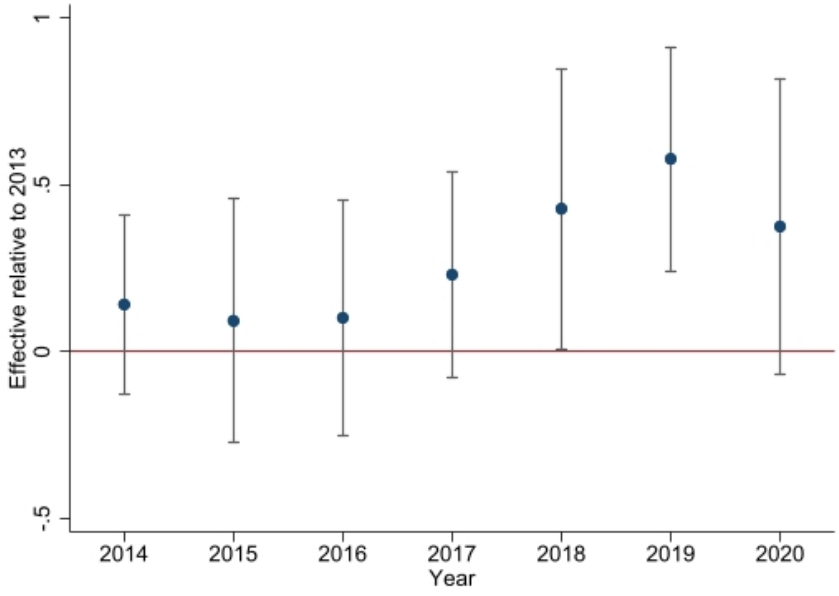


Table 1. Descriptive Statistics

This table reports summary statistics for key variables used in the study over the sample period 1992–2020. Panel A presents descriptive statistics for local social capital (*LSC*) and control variables in the baseline sample. Panel B reports the mean values of the main dependent variables across quintiles of *LSC*, based on the relevant subsample for each test. The inter-quintile differences and corresponding *t*-statistics (in parentheses) are reported in the last column. The detailed definition of variables is provided in Table IA1.

Panel A: Summary statistics for variables in the baseline sample

				Percentile				
Variable	**N**	**Mean**	**Std. Dev.**	**10th**	**25th**	**50th**	**75th**	**90th**
LSC	113,666	-0.568	0.846	-1.625	-1.206	-0.578	-0.031	0.447
MTB	113,666	2.126	1.834	0.927	1.087	1.503	2.371	4.004
EBITDA	113,666	0.034	0.249	-0.217	0.016	0.094	0.157	0.221
Tangible Assets	113,666	0.246	0.232	0.023	0.065	0.167	0.360	0.620
Cash	113,666	0.200	0.231	0.010	0.031	0.102	0.292	0.572
Size	113,666	5.509	2.200	2.722	3.879	5.396	7.003	8.452
Sales	113,666	5.203	2.365	2.303	3.615	5.198	6.847	8.242
Leverage	113,666	0.221	0.237	0.000	0.013	0.142	0.357	0.595
Population Growth	113,666	0.388	0.310	0.037	0.236	0.410	0.576	0.731
Education	113,666	0.583	0.104	0.448	0.519	0.590	0.654	0.713
Net Job Creation Rate	113,666	0.014	0.030	-0.025	-0.002	0.016	0.032	0.049
Δ *Housing Price*	113,666	0.041	0.062	-0.030	0.012	0.041	0.071	0.112
#Acq.	113,666	0.196	0.581	0.000	0.000	0.000	0.000	1.000
Acq.	113,666	0.147	0.355	0.000	0.000	0.000	0.000	1.000

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

	***LSC* quintiles**					**Difference**
Variable	**Q1**	**Q2**	**Q3**	**Q4**	**Q5**	**Q1 - Q5 (*t*-stat)**
#Acq.	0.201	0.209	0.186	0.205	0.181	0.021 (3.92)
#Asset Acq.	0.123	0.122	0.109	0.120	0.105	0.018 (4.68)
#Firm Acq.	0.078	0.087	0.077	0.085	0.075	0.003 (0.85)
Acq.	0.150	0.153	0.143	0.153	0.138	0.011 (3.41)
Asset Acq.	0.097	0.096	0.089	0.096	0.086	0.012 (4.40)
Firm Acq.	0.067	0.073	0.068	0.073	0.066	0.001 (0.47)
Stock%	25.864	24.227	23.746	23.410	22.650	3.214 (4.01)
Distance	5.644	5.851	5.904	5.861	5.889	-0.245 (4.52)
Same State	0.362	0.266	0.199	0.181	0.179	0.183 (16.10)
Same County	0.162	0.097	0.082	0.065	0.074	0.088 (10.53)
Same Ind.	0.404	0.382	0.355	0.360	0.349	0.054 (5.44)

Table 2. The Effect of Local Social Capital on Acquisition Likelihood and Intensity

This table reports regression results of various acquisition measures on local social capital (*LSC*) over the sample period 1992–2020, estimated using Equation (1). Columns (1)-(3) present logistic regression results for the likelihood of completing any acquisitions (*Acq.*), asset acquisitions (*Asset Acq.*), and firm acquisitions (*Firm Acq.*), respectively. Columns (4)-(6) present linear regression results for acquisition intensity, measured by the number of all completed acquisitions (#*Acq.*, asset acquisitions, #*Asset Acq.*, and firm acquisitions, #*Firm Acq.*), respectively. Columns (7)–(8) compare the effects of headquarters-based social capital (LSC_{st}) and incorporation-based social capital (ISC_{st}), both measured at the state level, on acquisition likelihood and intensity. Heteroskedasticity-robust standard errors are reported in parentheses. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively. The detailed definition of variables is provided in Table IA1.

	(1) *Acq.*	(2) *Asset Acq.*	(3) *Firm Acq.*	(4) #*Acq.*	(5) #*Asset Acq.*	(6) #*Firm Acq.*	(7) *Acq.*	(8) #*Acq.*
LSC (LSC_{st})	-0.057***	-0.066***	-0.035**	-0.012***	-0.008***	-0.004***	-0.026*	-0.011***
	(0.011)	(0.013)	(0.014)	(0.002)	(0.001)	(0.001)	(0.016)	(0.003)
ISC_{st}							-0.018	-0.010
							(0.042)	(0.007)
MTB	-0.037***	-0.055***	-0.014*	-0.001	-0.005***	0.004***	-0.035***	-0.002
	(0.006)	(0.008)	(0.008)	(0.001)	(0.001)	(0.001)	(0.007)	(0.002)
EBITDA	0.870***	1.188***	0.404***	0.080***	0.066***	0.014***	0.885***	0.086***
	(0.062)	(0.080)	(0.078)	(0.007)	(0.005)	(0.004)	(0.070)	(0.008)
Tangible Assets	-1.003***	-0.807***	-1.195***	-0.181***	-0.096***	-0.085***	-0.806***	-0.169***
	(0.058)	(0.069)	(0.081)	(0.012)	(0.009)	(0.006)	(0.068)	(0.015)
Cash	-0.585***	-0.737***	-0.389***	-0.129***	-0.101***	-0.029***	-0.496***	-0.121***
	(0.057)	(0.071)	(0.078)	(0.010)	(0.008)	(0.006)	(0.066)	(0.013)
Size	0.363***	0.334***	0.401***	0.067***	0.039***	0.028***	0.337***	0.068***
	(0.010)	(0.012)	(0.014)	(0.002)	(0.001)	(0.001)	(0.012)	(0.002)
Sales	-0.140***	-0.158***	-0.128***	-0.024***	-0.018***	-0.005***	-0.124***	-0.023***
	(0.011)	(0.013)	(0.014)	(0.002)	(0.001)	(0.001)	(0.012)	(0.002)
Leverage	-0.247***	-0.133**	-0.289***	0.002	0.004	-0.002	-0.357***	-0.015
	(0.053)	(0.065)	(0.074)	(0.008)	(0.006)	(0.005)	(0.063)	(0.010)
Population Growth	0.019	0.022	-0.004	0.005	0.002	0.003	-0.022	-0.001
	(0.041)	(0.050)	(0.058)	(0.008)	(0.006)	(0.005)	(0.048)	(0.010)
Education	0.413***	0.578***	0.180	0.086***	0.055***	0.031**	0.387***	0.068**
	(0.110)	(0.134)	(0.150)	(0.021)	(0.016)	(0.012)	(0.137)	(0.027)
Net Job Creation Rate	0.855**	0.822*	1.035*	0.151**	0.101*	0.050	1.141**	0.209**
	(0.392)	(0.478)	(0.539)	(0.075)	(0.054)	(0.045)	(0.484)	(0.101)
Δ *Housing Price*	0.118	0.156	0.198	0.029	0.003	0.026	-0.104	-0.005
	(0.221)	(0.263)	(0.312)	(0.041)	(0.031)	(0.024)	(0.254)	(0.051)
Observations	113,634	113,587	113,534	113,666	113,666	113,666	77,110	77,153
Adj./Pseudo R^2	0.071	0.065	0.076	0.054	0.036	0.035	0.073	0.057
Year&Ind. FE	✓	✓	✓	✓	✓	✓	✓	✓

Table 3. Exploiting Within-Firm Variation in Local Social Capital from Headquarters Relocation

This table reports the regression results of acquisition intensity on changes in local social capital (*LSC-Increasing*) using headquarters relocation events over the sample period 1992–2020. We restrict the sample to relocation events where the absolute change in *LSC* is at least two or three times the sample median change. A relocation is classified as *LSC-Increasing* if the post-relocation level of *LSC* exceeds the pre-relocation level by at least two times (Columns (1)–(4)) or three times (Columns (5)–(8)) the sample median change, and zero otherwise. *After Relocation* equals one for years following the relocation and zero otherwise. All regressions are estimated using linear regressions with year fixed effects, and additional fixed effects at various levels are included as indicated. Controls include the same firm and regional characteristics as in Table 2. Heteroskedasticity-robust standard errors are reported in parentheses. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively. The detailed definition of other variables is provided in Table IA1.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
				#Acq.				
LSC-Increasing × *After Relocation*	-0.268***	-0.914***	-0.739**	-0.893***	-0.248***	-0.632**	0.299	-0.835**
	(0.061)	(0.162)	(0.302)	(0.173)	(0.094)	(0.311)	(0.572)	(0.342)
After Relocation	0.085*	0.158**	0.137	0.228***	0.088	0.264*	-0.041	0.514***
	(0.046)	(0.079)	(0.156)	(0.085)	(0.067)	(0.154)	(0.291)	(0.177)
LSC-Increasing		0.577***	0.523**	0.662***		0.351**	-0.149	0.452**
		(0.104)	(0.203)	(0.120)		(0.171)	(0.336)	(0.202)
Observations	3,454	3,454	3,454	3,454	1,320	1,320	1,320	1,320
Adj. R^2	0.383	0.225	0.510	0.275	0.286	0.241	0.703	0.329
Thresholds of $\lvert\Delta LSC\rvert$		2× |Median|				3× |Median|		
Controls	✓	✓	✓	✓	✓	✓	✓	✓
Year FE	✓	✓		✓	✓	✓		✓
Firm FE	✓				✓			
County FE		✓		✓		✓		✓
County by Year FE			✓				✓	
Industry FE				✓				✓

Table 4. Difference-in-Differences: The 2017 Tax Cuts and Jobs Act and Charitable Giving Incentives

This table reports difference-in-differences (DID) regression results of acquisition intensity (Panel A) and after-tax firm profitability (Panel B) on the 2017 Tax Cuts and Jobs Act (TCJA) over the period 2013-2020, estimated using Equation (2). Treatment intensity is measured in 2017 as the fraction of high-income earners with adjusted gross income (AGI) above $100,000. In Columns (1)–(4) of Panel A and Columns (1), (2), (5), and (6) of Panel B, treatment intensity is based on the number of taxpayers ($TreatInt^{\#}_{2017}$); in Columns (5)–(8) of Panel A and Columns (3), (4), (7), and (8) of Panel B, it is based on aggregate AGI amount ($TreatInt^{\$}_{2017}$). $TCJA$ equals one for 2018 and later years, and zero otherwise. NPM denotes net profit margin and ROA denotes return on assets. Controls include the same firm and regional characteristics as in Table 2. All columns include corporate marginal tax rates, *MTR (After)*, as an additional control. Columns (3), (4), (7), and (8) of Panel A additionally include pre-TCJA regional characteristics-$Population\ Growth_{2017}$, $Education_{2017}$, $Net\ Job\ Creation\ Rate_{2017}$, and $\Delta\ Housing\ Price_{2017}$-and their interactions with $TCJA$. All regressions are estimated using linear regressions and include either firm and year fixed effects or firm and industry-by-year fixed effects, as indicated. Standard errors are clustered at the state level and reported in parentheses. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively. The detailed definition of other variables is provided in Table IA1.

Panel A: DID estimation

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
					#Acq.			
$TreatInt^{\#}_{2017} \times TCJA$	0.676**	0.590**	0.582**	0.523**				
	(0.287)	(0.276)	(0.243)	(0.249)				
$TreatInt^{\$}_{2017} \times TCJA$					0.332**	0.320**	0.295**	0.289*
					(0.141)	(0.140)	(0.143)	(0.156)
Observations	16,558	16,556	14,434	14,432	16,558	16,556	14,434	14,432
Adj. R^2	0.161	0.167	0.175	0.181	0.161	0.167	0.175	0.181
Regional Characteristics$_{2017} \times TCJA$			✓	✓			✓	✓
Controls	✓	✓	✓	✓	✓	✓	✓	✓
Year FE	✓		✓		✓		✓	
Firm FE	✓	✓	✓	✓	✓	✓	✓	✓
Industry by year FE		✓		✓		✓		✓

Panel B: TCJA and after-tax firm profitability

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
		NPM				*ROA*		
$TreatInt^{\#}_{2017} \times TCJA$	3.002	0.598			0.165	0.047		
	(20.655)	(21.326)			(0.100)	(0.115)		
$TreatInt^{\$}_{2017} \times TCJA$			2.609	2.510			0.053	0.008
			(8.223)	(8.135)			(0.050)	(0.049)
Observations	15,407	15,405	15,407	15,405	15,480	15,478	15,480	15,478
Adj. R^2	0.546	0.530	0.546	0.530	0.765	0.764	0.765	0.764
Controls	✓	✓	✓	✓	✓	✓	✓	✓
Year FE	✓		✓		✓		✓	
Firm FE	✓	✓	✓	✓	✓	✓	✓	✓
Industry by year FE		✓		✓		✓		✓

Table 5. Target Selection I: Anticompetitive Perspective

This table reports the regression results of acquirers' target selection on local social capital (*LSC*) from an anticompetitive perspective over the sample period 1992–2020. Column (1) presents linear regression results of acquirer-target distance (*Distance*) on *LSC*; Columns (2)-(5) report logistic regression results of the acquirer and target being in the same state (*Same State*), county (*Same County*), four-digit SIC or six-digit NAICS industry (*Same Ind.*), and fixed industry classification industry (*Same Ind.(FIC)*) on *LSC*, respectively. Columns (6) and (7) present multinomial logistic regression results of acquisitions in similar industries (*Similar Ind.*, sharing the same three-digit SIC or five-digit NAICS but not the same four- or six-digit codes) and same industries (*Same Ind.*) relative to unrelated industries. Column (8) reports the logistic regression results for whether the acquisition has been subject to antitrust investigation by the FTC or DOJ (*Challenged*). Heteroskedasticity-robust standard errors are reported in parentheses. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively. The detailed definition of variables is provided in Table IA1.

	(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*
LSC	0.106***	-0.553***	-0.475***	-0.080***	-0.163**	0.055**	-0.069***	-0.410**
	(0.021)	(0.033)	(0.045)	(0.019)	(0.064)	(0.027)	(0.020)	(0.198)
MTB	0.020	0.005	-0.043**	-0.021**	-0.020	0.010	-0.017	-0.178
	(0.014)	(0.015)	(0.021)	(0.010)	(0.039)	(0.014)	(0.011)	(0.241)
EBITDA	0.312**	-0.341**	-0.725***	0.352***	0.719*	0.376***	0.442***	2.723
	(0.147)	(0.147)	(0.192)	(0.105)	(0.429)	(0.138)	(0.111)	(3.225)
Tangible Assets	-0.446***	0.521***	0.393*	1.089***	1.656***	-0.118	1.072***	0.902
	(0.117)	(0.157)	(0.203)	(0.097)	(0.408)	(0.158)	(0.104)	(1.062)
Cash	-0.336***	0.850***	0.495***	0.575***	1.979***	0.437***	0.714***	-5.437*
	(0.118)	(0.137)	(0.184)	(0.095)	(0.393)	(0.132)	(0.103)	(2.886)
Size	-0.002	0.002	-0.011	0.092***	0.165**	0.073**	0.107***	0.695***
	(0.025)	(0.030)	(0.041)	(0.020)	(0.081)	(0.029)	(0.021)	(0.222)
Sales	0.032	-0.034	-0.013	-0.100***	-0.255***	-0.078***	-0.117***	-0.260
	(0.026)	(0.030)	(0.042)	(0.020)	(0.082)	(0.030)	(0.022)	(0.217)
Leverage	-0.047	-0.052	-0.001	0.477***	0.310	-0.411***	0.429***	3.279**
	(0.119)	(0.157)	(0.217)	(0.102)	(0.426)	(0.159)	(0.108)	(1.315)
Population Growth	-0.186**	0.165	0.534***	-0.072	-0.137	-0.030	-0.080	0.198
	(0.082)	(0.104)	(0.140)	(0.069)	(0.234)	(0.099)	(0.073)	(0.787)
Education	-0.652***	2.526***	4.008***	0.278	-0.033	-0.110	0.253	1.372
	(0.197)	(0.297)	(0.408)	(0.191)	(0.707)	(0.283)	(0.201)	(2.131)
Net Job Creation Rate	1.438**	-2.224**	-3.506***	-0.365	-2.099	-0.367	-0.469	9.519
	(0.725)	(0.953)	(1.261)	(0.671)	(2.378)	(0.991)	(0.704)	(6.917)
Δ *Housing Price*	-1.254***	2.762***	1.925***	0.644*	1.499	0.475	0.758*	-4.608
	(0.435)	(0.532)	(0.728)	(0.371)	(1.234)	(0.535)	(0.392)	(4.033)
Observations	14,141	14,116	14,093	22,287	2,419	22,287	22,287	1,094
Adj./Pseudo R^2	0.074	0.119	0.075	0.070	0.158	0.077	0.077	0.165
Year&Ind. FE	✓	✓	✓	✓	✓	✓	✓	✓

Table 6. Target Selection II: Other Social Perspectives

This table reports regression results of acquirers' target selection on local social capital (*LSC*) from other social perspectives over the sample period 1992–2020. Columns (1) and (3) present linear regression results of target local social capital (*Target LSC*) and target accrual quality (*Target Accounting Quality*), measured following Marquardt and Zur (2015), respectively. Column (2) reports logistic regression results for acquiring a target operating in sin industries (*Sin Target*), defined following Hong and Kacperczyk (2009). Heteroskedasticity-robust standard errors are reported in parentheses. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively. The detailed definition of variables is provided in Table IA1.

	(1) *Target LSC*	(2) *Sin Target*	(3) *Target Accounting Quality*
LSC	0.153***	-0.253*	0.016***
	(0.010)	(0.147)	(0.006)
MTB	-0.003	-0.481***	-0.002
	(0.005)	(0.147)	(0.003)
EBITDA	0.096**	1.859	0.012
	(0.048)	(1.534)	(0.044)
Tangible Assets	0.051	1.140*	-0.044*
	(0.051)	(0.599)	(0.026)
Cash	-0.024	1.038	0.081
	(0.044)	(0.940)	(0.052)
Size	-0.004	0.795***	-0.015**
	(0.010)	(0.146)	(0.007)
Sales	-0.003	-0.751***	0.012
	(0.010)	(0.131)	(0.007)
Leverage	0.106**	3.046***	-0.038
	(0.050)	(0.749)	(0.033)
Population Growth	0.058*	0.616	0.013
	(0.033)	(0.560)	(0.018)
Education	-0.386***	-2.241*	-0.077
	(0.090)	(1.346)	(0.054)
Net Job Creation Rate	-0.130	5.044	0.144
	(0.315)	(5.344)	(0.197)
Δ *Housing Price*	-0.339**	5.037*	0.000
	(0.166)	(2.802)	(0.090)
Observations	14,074	5,527	431
Adj./Pseudo R^2	0.050	0.405	0.072
Year&Ind. FE	✓	✓	✓

Table 7. Choice of Payment Method: Local Social Capital and Tendency of Paying with Overvalued Stock

This table reports regression results of acquirers' payment choice on their stock overvaluation and local social capital (*LSC*) over the sample period 1992–2020. The dependent variable, *Stock%*, is the percentage of stock used in the transaction. In Column (1), overvaluation is measured using the industry-adjusted market-to-book ratio (*UV (Ind)*), defined as the difference between a firm's *MTB* and the industry-year average. In Columns (2) and (3), overvaluation is measured as the residual from the expected valuation models of Rhodes-Kropf et al. (2005) (*UV (RRV)*) and Pastor and Veronesi (2003) (*UV (PV)*), respectively, both estimated at the industry-year level. *High LSC* and *High UV* equal one for the top quartile and zero for the bottom quartile of the corresponding measure. Heteroskedasticity-robust standard errors are reported in parentheses. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively. The detailed definition of variables is provided in Table IA1.

High UV	(1) *High UV (Ind)*	(2) *High UV (RRV)*	(3) *High UV (PV)*
		Stock%	
High LSC × *High UV*	-6.992***	-4.149**	-4.798**
	(1.943)	(1.883)	(1.867)
High UV	4.231***	4.636***	5.353***
	(1.624)	(1.540)	(1.408)
High LSC	0.627	-1.807	-0.434
	(1.339)	(1.273)	(1.164)
MTB	3.223***	3.488***	2.892***
	(0.334)	(0.323)	(0.312)
EBITDA	-27.677***	-25.875***	-26.880***
	(3.350)	(3.356)	(3.157)
Tangible Assets	-4.908	-5.415*	-8.408***
	(3.132)	(2.875)	(2.671)
Cash	3.138	1.543	7.724**
	(3.174)	(3.190)	(3.043)
Size	-0.248	0.459	0.977
	(0.656)	(0.632)	(0.598)
Sales	-1.084	-1.962***	-1.727***
	(0.668)	(0.650)	(0.607)
Leverage	-7.189**	-3.115	-0.930
	(3.199)	(2.999)	(2.830)
Competed	-5.909	-8.958	-8.390
	(6.209)	(6.101)	(6.191)
Public Target	27.089***	28.322***	28.389***
	(1.489)	(1.506)	(1.461)
Hostile	-22.862	-1.129	-11.710
	(22.383)	(16.622)	(14.814)
Population Growth	2.843	0.692	2.436
	(2.203)	(2.073)	(2.045)
Education	7.180	7.021	4.650
	(6.157)	(6.193)	(5.771)
Net Job Creation Rate	15.764	16.612	10.969
	(22.249)	(22.103)	(20.802)
Δ *Housing Price*	2.329	-8.220	-7.153
	(11.415)	(11.183)	(10.965)
Observations	6,028	6,068	6,850
Adjusted R^2	0.286	0.296	0.275
Year&Ind. FE	✓	✓	✓

Table 8. Shareholder Value Implications: Announcement Returns

This table reports regression results of acquirer announcement returns on local social capital (*LSC*) over the sample period 1992–2020. The dependent variable is the cumulative abnormal return from one day before to one day after the acquisition announcement, estimated using the market model (*CAR [-1,+1] (Market)*) in Panel A and the Fama-French three-factor model (*CAR [-1,+1] (FF3)*) in Panel B. Columns (1) and (4) present linear regression results, and Columns (2) and (3) represent quantile regression results with the 33rd and the 67th percentiles of CARs. In Column (4), *High LSC* interacts with *Overinvestment*. *High LSC* is an indicator equal to one if *LSC* is greater than the median value, and zero otherwise. *Overinvestment* is an indicator equal to one if the investment rate (Capex/Beg. PP&E) is greater than the industry median in a given year following Campbell et al. (2011), and zero otherwise. Heteroskedasticity-robust standard errors are reported in parentheses. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively. The detailed definition of variables is provided in the Table IA1.

Panel A: Abnormal returns using market model

	(1)	(2)	(3)	(4)
		Conditional Quantiles of Interest		
		33rd	67th	
	CAR [-1,+1] (Market)	*CAR [-1,+1] (Market)*		*CAR [-1,+1] (Market)*
LSC	0.060	0.149***	0.035	
	(0.066)	(0.048)	(0.059)	
High LSC × *Overinvestment*				0.466**
				(0.227)
Overinvestment				-0.504***
				(0.166)
High LSC				-0.067
				(0.170)
Observations	21,790	21,790	21,790	18,404
Adj./Pseudo R^2	0.039	0.022	0.031	0.041
Controls	✓	✓	✓	✓
Year&Ind. FE	✓	✓	✓	✓

Panel B: Abnormal returns using Fama-French three-factor model

	(1)	(2)	(3)	(4)
		Conditional Quantiles of Interest		
		33rd	67th	
	CAR [-1,+1] (FF3)	*CAR [-1,+1] (FF3)*		*CAR [-1,+1] (FF3)*
LSC	0.057	0.149***	0.076	
	(0.066)	(0.047)	(0.058)	
High LSC × *Overinvestment*				0.437*
				(0.224)
Overinvestment				-0.490***
				(0.164)
High LSC				-0.084
				(0.168)
Observations	21,790	21,790	21,790	18,404
Adj./Pseudo R^2	0.038	0.021	0.031	0.041
Controls	✓	✓	✓	✓
Year&Ind. FE	✓	✓	✓	✓

Internet Appendix for "Bound by the Community Norms: Local Social Capital as an Informal Constraint on Acquisitions"

A Additional Robustness Tests

A.1 Alternative Channels

To investigate whether alternative channels can explain the negative relationship between LSC and acquisition intensity, we consider other factors that might influence acquisition rates. One possibility is that the negative association between LSC and acquisition rates could reflect shareholder-manager agency problems. Specifically, firms in low-LSC counties could engage in empire-building behaviors due to weaker governance structures. This explanation is consistent with prior studies (e.g., Hoi et al., 2019) showing that local social capital mitigates rent extraction in managerial compensation. To isolate our results from the agency channel, we directly control for firm-level governance measures, including the *G-index*, *Institutional Ownership*, and *Executive Ownership* (e.g., Gompers et al., 2003, Hoi et al., 2019, Fu et al., 2013). Even after accounting for these governance metrics, the negative sensitivity of *#Acq.* to *LSC* remains significant in Columns (1) through (3) of Table IA4.

Next, we assess whether the observed relationship between LSC and acquisition activity stems from potential disparities in acquisition opportunities across regions. For instance, distressed firms in high-LSC areas might receive more support from local governments or employees, shielding them from being targeted by potential bidders within the same region. In this scenario, firms in high-LSC regions may face fewer acquisition opportunities compared to those in low-LSC areas. Since acquisition opportunities are not directly observable in the data, we rely on the theoretical predictions of Almazan et al. (2010), which suggest that firms located within geographic industry clusters have more acquisition opportunities. To measure this, we construct two variables: *Ratio of Firms* and *Cluster-Firm*. The detailed definitions are provided in Almazan et al. (2010).[36] Additionally, we employ *Industry M&A Liquidity*, following Schlingemann et al. (2002) and Uysal (2011), to control for liquidity in the takeover markets. Columns (4) through (6) of Table IA4 indicate that the negative relationship between *LSC* and *#Acq.* persists, even after accounting for these various proxies for acquisition opportunities.

Lastly, we investigate whether the low acquisition rate of firms located in high-LSC counties could be attributed to an underinvestment problem faced by financially constrained firms. Even though prior studies suggest that social capital lowers financing costs (e.g., Javakhadze et al., 2016, Ferris et al., 2017, Dudley, 2021), we conservatively examine the possibility that the observed effects of LSC may be driven by underinvestment due to financial constraints. Our empirical tests

[36] *Ratio of Firms* and *Cluster-Firm* are constructed at the MSA level, as per Almazan et al. (2010), though the results are consistent when using county-level definitions. The results are also robust when using a more intuitive count measure of firms in the same region.

are grounded in the theoretical literature, which posits that limited financial slack can constrain a firm's ability to finance new investment opportunities (e.g., Myers, 1977, Myers and Majluf, 1984, Jensen, 1986, Hart and Moore, 1994). Based on this, we examine whether the low acquisition rates of firms in high-LSC counties increase as their financial positions strengthen.

We first apply the cash flow sensitivity of investment, following the premise that financially constrained firms can invest more when they experience incremental cash flows (Fazzari et al., 1988). However, this measure is subject to criticism, as cash flow may also contain information about future investment opportunities.[37] Thus, we also consider alternative measures. Cash holdings, for instance, can provide financially constrained firms with the ability to increase investments, as stockpiled free cash flow is particularly valuable for such firms (Denis and Sibilkov, 2010).[38] Additionally, Almeida and Campello (2007) demonstrate that firms with high asset tangibility face fewer financial constraints due to their ability to pledge more assets as collateral, thereby increasing their debt capacity and ability to pursue investment projects (Gan, 2007). Lastly, we use leverage as a proxy for debt capacity.[39]

If the underinvestment problem were a driving factor, we would expect that the low acquisition propensity of firms in high-LSC counties diminishes as cash flow, cash holdings, and asset tangibility increase, and leverage decreases. However, Table IA4, Columns (8), (9), and (10) show that the coefficients of the interactions between *LSC* and these financial proxies are contrary to what would be expected under the underinvestment channel. Furthermore, the coefficient of the interaction between *LSC* and *Cash* in Column (7) is insignificant.

A.2 Instrumental Variable Approach

To strengthen causal inference, we use two instrumental variables (IVs): distance to the Canadian border (*Distance to Canadian Border*) and ethnic homogeneity (*Ethnic Homogeneity*). *Distance to Canadian Border* is the log of one plus the shortest distance from a county to the Canadian border, calculated using U.S. postal codes. *Ethnic Homogeneity* is computed from county-level Census data by summing the squares of the proportions of non-Hispanic White, non-Hispanic Black or African American, non-Hispanic Asian, and Hispanic populations. These IVs have been used in previous studies on LSC (e.g., Hasan et al., 2017b,a, Gupta et al., 2020).

We draw on the work of Putnam (2001, 2007) to justify the relevance of our IVs. Putnam's theory highlights that historical factors, such as the legacy of the slavery system, have shaped the geographic distribution of LSC. Consistent with this, Putnam (2001) shows that social capital is higher in areas closer to the Canadian border, making distance to the border a strong predictor of LSC in the U.S. Figure IA1 visually confirms this positive correlation. Alesina and La Ferrara (2000) and Putnam (2007) provide evidence that residents in ethnically diverse neighborhoods typically

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

[38] Almeida et al. (2004) show that financially constrained firms tend to reserve cash from their cash flows. On the other hand, Harford (1999) and Von Beschwitz (2018) explore the relationship between excess cash and investment, especially in the context of acquisition behavior.

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

report lower levels of trust, have fewer social connections, and demonstrate limited altruism and community cooperation. We further validate the relevance condition of these instruments through the first-stage regression results discussed below.

For the *exclusion* restriction to hold, the IVs must affect firm acquisition activities only through their impact on *LSC*, and not directly in any other way. First, there is no theoretical or empirical ground linking our instruments to corporate acquisition decisions. Intuitively, *Ethnic Homogeneity* in a county is largely determined by historical settlement patterns, migration flows, and relevant institutional or policy factors, all of which are unlikely to influence an individual firm's acquisition choices directly. Historically, the U.S.–Canada border was established gradually over the 18th and 19th centuries through a series of treaties, well before the start of our sample period. Furthermore, *Distance to Canadian Border* is a static variable that varies only with latitude, not longitude. Were it to incorporate variations in longitude, it would point to specific geographic coordinates and might instead capture distinct geographic features that could influence firm acquisition activities independent of *LSC*.[40] Figure IA3 confirms that no monotonic or salient pattern is observed in acquisition activities as latitude or ethnic homogeneity varies.

Second, the instruments may have a direct impact on local labor characteristics, which in turn affect acquisition activities. To examine this possibility, we construct county-year measures of capital-to-labor ratio, labor intensity, and labor leverage by averaging the corresponding firm-level values. Panel B of Table IA5 presents regressions of these local labor characteristics on our instruments, revealing no systematic correlations. While these tests cannot formally verify the exclusion restriction, they strengthen our confidence that the instruments are unrelated to acquisition outcomes except through *LSC*. To further alleviate a similar concern regarding industry heterogeneity, we include industry fixed effects in IV estimation.[41] Third, firms may endogenously locate their headquarters in areas with better acquisition opportunities or stronger industry clustering, potentially violating the exclusion restriction. To mitigate this concern, we replicate the baseline IV analysis in subsamples where such sorting is less likely and obtain consistent results (discussed below), suggesting that headquarters self-selection is unlikely to drive our findings. Overall, these results suggest that the instruments are likely related to acquisition activities primarily through their connection to *LSC*, rather than through their direct influence or other confounding channels.

With this identification strategy, we extract variation in *LSC* that is plausibly orthogonal to unobserved drivers of acquisition behaviors. The first-stage regression results are shown in Panel

[40] For instance, consider San Jose (37.3° N, 121.9° W) and Memphis (35.1° N, 90.0° W). While both share similar latitudes with San Francisco (37.8° N, 122.4° W), San Jose is much closer in longitude. San Jose and San Francisco are not only geographically proximate but also share business structures and demographics, potentially leading to similar acquisition practices independent of *LSC*. In contrast, the substantial differences between Memphis and San Jose make it unlikely that any similarly observed effects on acquisition practices would stem from these confounding factors rather than from *LSC*.

[41] IV results remain robust to the inclusion of industry-by-year fixed effects, further isolating exogenous variation in *LSC* within the same industry and year.

A of Table IA5, Column (4). The estimated coefficient on *Distance to Canadian Border* is negative and significant at the 1% level, while that on *Ethnic Homogeneity* is positive and significant at the 1% level, supporting the relevance of these IVs. The *F*-statistic is well above 10, indicating strong evidence against the null hypothesis of weak instruments. Column (1) reports the second-stage regression results, showing that *LSC* inhibits firms' acquisition activities, which is consistent with the baseline model findings. The comparable magnitudes of the OLS and IV estimates mitigate concerns about weak instruments and the associated "IV blow-up" problem (Jiang, 2017).

To address concerns about endogenous location choice, we exclude the first two years of each firm's sample period and the first two years after any headquarters relocation. The restricted sample comprises 87,263 firm-year observations (77% of the baseline), and the estimates in Columns (2) and (5) remain consistent with those in Columns (1) and (4). We also re-estimate the models after excluding firms headquartered in established industry clusters, defining an MSA as a cluster if it hosts at least ten firms in the same three-digit SIC and accounts for at least 3% of industry market value (Almazan et al., 2010). As reported in Columns (3) and (6), the results are qualitatively unchanged, reinforcing the robustness of our findings.

A.3 Alternative Explanation: Risk Aversion

To further rule out diversification motives for risk reduction (e.g., Amihud and Lev, 1981, Acharya et al., 2011, Gormley and Matsa, 2016), we control for firm-level and managerial-level factors associated with geographic or industrial diversification. Firm-level proxies include *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 across business segments within a firm).[42] Managerial-level controls include *CEO Age*, *CEO Tenure*, and a dummy variable for *Female CEO*, capturing potential risk aversion. Table IA6 confirms that the constraining effects of *LSC* on geographic or industry choices persist after controlling for these factors.

A.4 Local Social Capital vs. Corporate Social Responsibility

Although conceptually distinct, it is natural to ask how LSC relates to CSR, a focus that has attracted considerable attention from both practitioners and scholars in recent decades (see, e.g., Gillan et al., 2021, for a recent review on CSR). If such a link exists, our findings could be interpreted through the lens of CSR's influence on acquisition behavior. Prior research examining the interplay between LSC and CSR highlights both distinctions and similarities. For instance, Lins et al. (2017) contend that conventional CSR indices may fail to capture the full scope of community-level social capital. While Jha and Cox (2015) demonstrate that firms embedded in high-LSC regions tend to engage more actively in CSR activities, Hoi et al. (2018) find that LSC facilitates positive CSR practices and curbs negative ones. These findings suggest that LSC may shape CSR choices and, through this channel, potentially influence corporate outcomes, if at all, rather than CSR shaping LSC. We examine this possibility by conducting a comparative analysis

[42]Sales information for business segments is available in the Compustat Historical Segment data.

to determine which factor—LSC or CSR—exerts a stronger influence on acquisition decisions.

To measure a firm's CSR engagement/performance, we use the MSCI ESG KLD STATS data set. This dataset provides ESG ratings based on multiple metrics, with each metric evaluated through 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. Following Deng et al. (2013), we define *CSR* as the sum of positive scores minus the sum of negative scores across all seven metrics. Since the number of positive and negative indicators for each metric can vary from year to year, we first calculate the positive and negative scores for each metric by summing all relevant indicators and dividing by the total number of indicators available in a given year. Since the dataset was initiated in 1991 and the most recent update was made in 2019, our sample period spans from 1991 to 2019 for this analysis.

Table IA8 shows that our main findings remain robust for five out of six outcome variables, even after controlling for *CSR*. The insignificant coefficients on *CSR* in most columns indicate that CSR does not significantly affect acquisition intensity or target selection. However, CSR appears to have a positive effect on the likelihood of using stock as the means of payment.

A.5 Excluding Counties with Outlier Local Social Capital

We revisit the main results after excluding outlier counties with *LSC* values that are exceptionally high or low relative to their neighboring counties. Although a county's *LSC* is based on objective, region-specific factors, neighboring counties may share similar cultural characteristics that transcend administrative boundaries. In such cases, the *LSC* of outlier counties may be either overestimated or underestimated relative to their adjacent counterparts. To account for this, we exclude counties whose *LSC* values deviate by more than one standard deviation from the mean of neighboring counties' *LSC* values. These standard deviations are calculated annually at the national level. Table IA9 demonstrates that the effects of *LSC* (and its interactions with *UV (PV)*) remain consistent with the results in the previous tables, suggesting that these effects are robust even after excluding outlier counties.

A.6 Local Social Capital without Backfilling

We re-run the tests without backfilling the *LSC* values. Instead, we use the *LSC* values for each county in 1990, 1997, 2005, 2009, and 2014 exclusively for the corresponding subperiods: 1992–1996, 1997–2004, 2005–2008, 2009–2013, and 2014–2020. To align with this approach, we aggregate acquisition activities across these subperiods. Specifically, *#Acq.* and *Challenged* are summed, while other dependent variables are averaged for each firm over the subperiods.

In Table IA10, most baseline results remain consistent even when *LSC* is not backfilled and acquisition activities are aggregated by subperiod.

A.7 Excluding Firms Operating in Multiple Locations

While it is generally assumed in both practice and academic research that significant corporate decisions, such as acquisitions, are primarily made at headquarters (e.g., Almazan et al., 2010,

John et al., 2011), firms may also be cognizant of and influenced by the local communities in their operational sites, not just those at their headquarters.[43]

If this is the case, our identification may introduce bias and potentially underestimate the impact of social capital by focusing solely on headquarters locations. To conduct a more rigorous test, we utilize data on operating locations compiled by Garcia and Norli (2012), which details a firm's geographical dispersion of operations derived from 10-K filings.[44] We exclude observations where either an acquirer or a target has multiple operating locations. Table IA11 shows that the results remain robust even after implementing this restriction.

A.8 Robust Standard Errors

For robustness, we account for arbitrary correlations of the error terms in three ways: (i) within the same firm over time, (ii) across different firms within a given county, and (iii) across different firms within a given county and/or industry. Serial correlation may be a concern because a county's *LSC* tends to vary little over time, and many firms remain in the same county. Additionally, cross-sectional correlation is a potential issue, as all firms in a given county (and/or industry) are similarly influenced by their shared environment, specifically, *LSC*. In Table IA12, we present standard errors that are robust to clustering at various levels, including firm, county, and a two-way combination of county and industry.

A.9 All Acquisition Attempts

The sample analyzed throughout this paper includes only completed acquisitions. For a robustness check, we expand our acquisition sample to encompass all *attempted* acquisitions. If the constraining effect of social capital is significant, firms in high-social-capital neighborhoods are expected to be less likely to initiate a deal in the first place. To investigate this, we include all announced acquisitions classified as "Withdrawn," "Pending," and "Status Unknown," in addition to those that are "Completed," using data from the SDC database over the sample period.

Columns (1) through (3) in Table IA13 demonstrate that the effects of *LSC* remain consistent within the expanded acquisition sample. In Columns (4), (5), and (6), we assess the ex-post deal completion rates conditional on attempts at acquisitions, asset acquisitions, and firm acquisitions, respectively. The coefficients for *LSC* are either marginally positive or insignificant, suggesting that the findings in Table 2 are not primarily influenced by low deal completion rates, but rather reflect a reluctance among firms in high-social-capital neighborhoods to initiate acquisitions.

[43] For instance, the statement from Canadian Pacific highlights that acquirers may take into account the interests 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 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).

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

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Figure IA1. Geographic Distribution of Local Social Capital and Acquirers

This figure displays the spatial distribution of social capital and acquirers at the U.S. county level. For graphical purposes, counties are shaded according to the deciles of local social capital (*LSC*), classified based on the most recent values, ranging from 'Low' to 'High'. Darker shades indicate higher levels of *LSC*. Red circles represent the total number of acquirers headquartered in each county over the sample period 1992–2020, with circle size proportional to the number of acquirers. Counties without acquisitions over the sample period are not marked with a red circle.

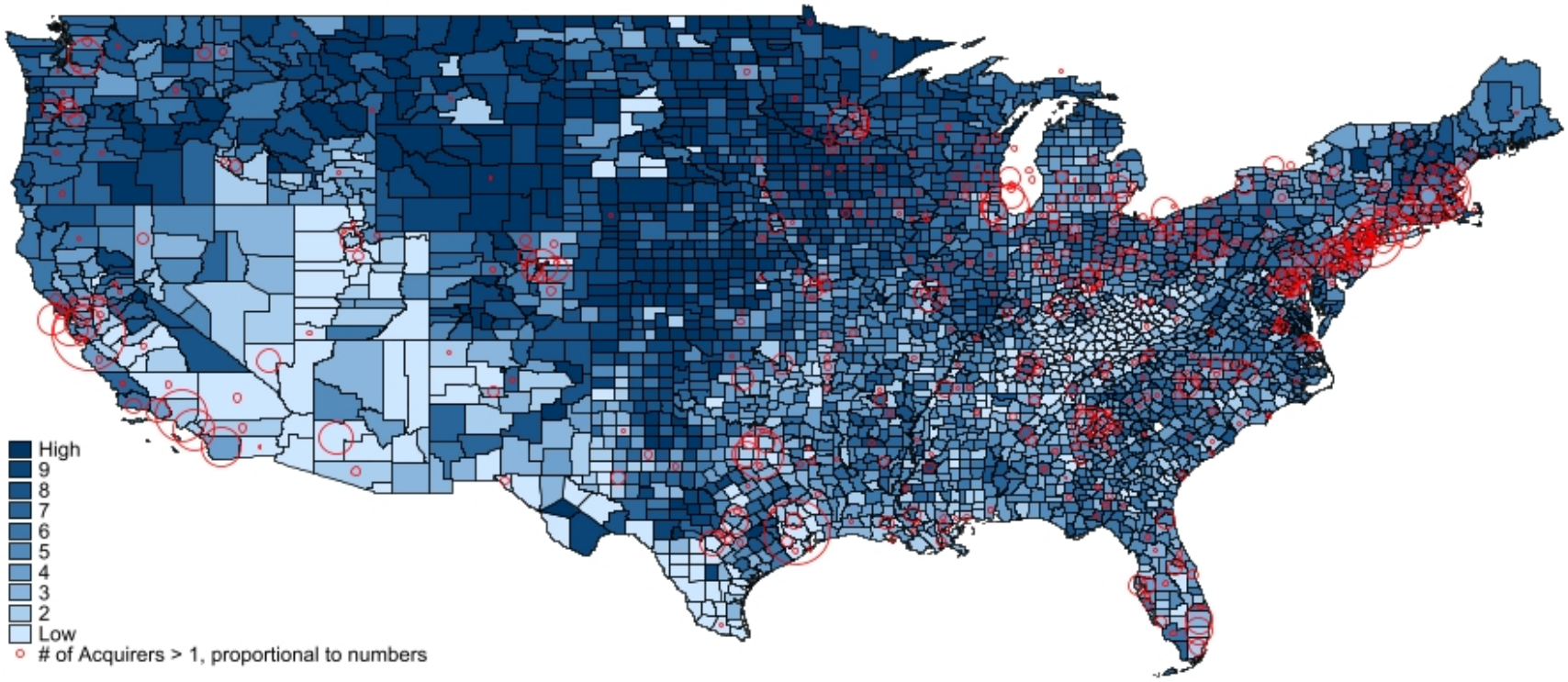
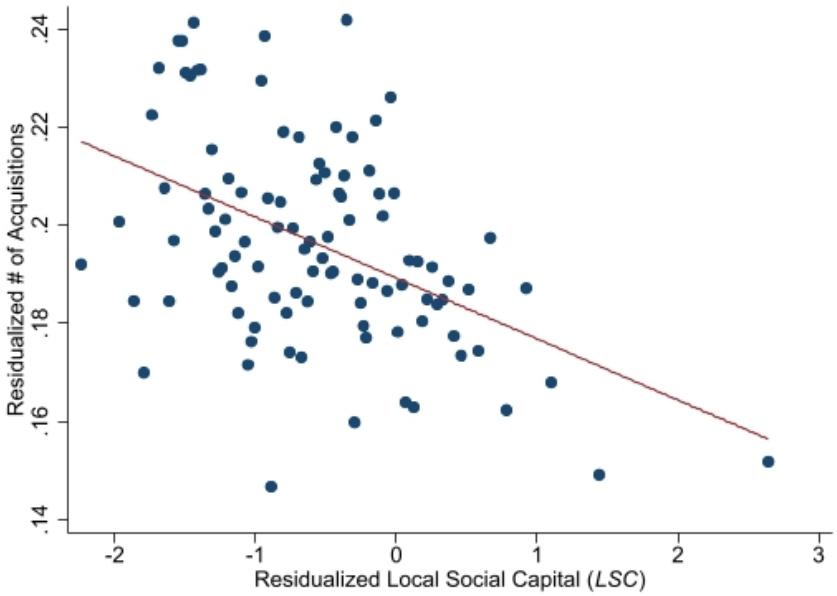


Figure IA2. Local Social Capital and Frequency of Acquisitions

This figure plots the relationship between local social capital (*LSC*) and firms' acquisition frequency over the sample period 1992–2020. Panel A presents a binned scatter plot of the number of completed acquisitions against *LSC*, after residualizing both variables on the control variables in Equation (1). Firm-year observations are divided into 100 equal-sized bins based on the residualized *LSC* values, and each point represents the mean of the residualized number of acquisitions within a bin. Panel B shows the number of completed deals by quintiles of *LSC*. *LSC* is measured in 1990, 1997, 2005, 2009, and 2014, and deal counts are aggregated over the corresponding periods 1992–1996, 1997–2004, 2005–2008, 2009–2013, and 2014–2020.

Panel A: Relation Between Number of Acquisitions and *LSC*



Panel B: Number of Acquisitions Across *LSC* quintiles by Period

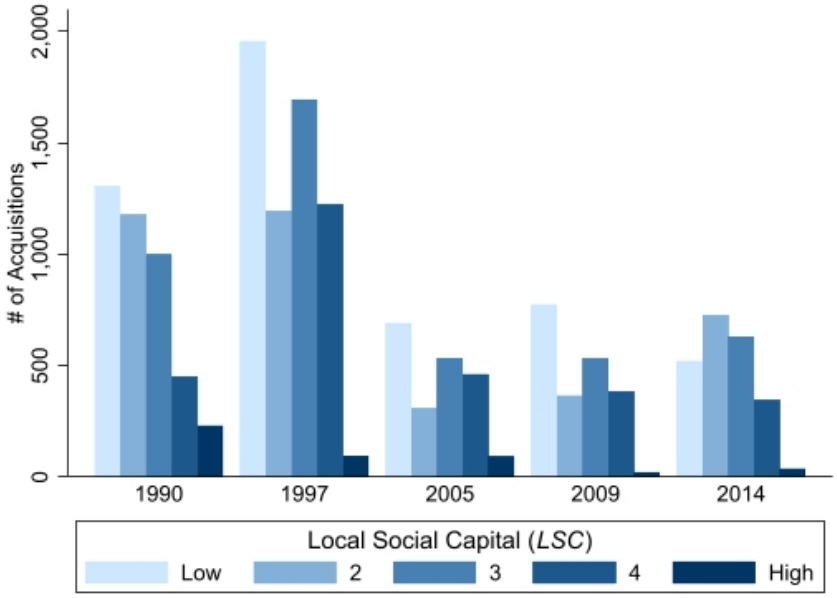


Figure IA3. Geographic Distribution of Ethnic Homogeneity and Acquirers

This figure displays the spatial distribution of ethnic homogeneity and acquirers at the U.S. county level. Counties are shaded according to the deciles of ethnic homogeneity (*Ethnic Homogeneity*), measured as the average value over the sample period 1992–2020, ranging from 'Diverse' to 'Homogeneous'. Darker shades indicate higher levels of *Ethnic Homogeneity*, which is calculated from county-level Census data by summing the squares of the proportions of non-Hispanic White, non-Hispanic Black or African American, non-Hispanic Asian, and Hispanic populations. Red circles represent the total number of acquirers headquartered in each county over the sample period 1992–2020, with circle size proportional to the number of acquirers. Counties without acquisitions over the sample period are not marked with a red circle.

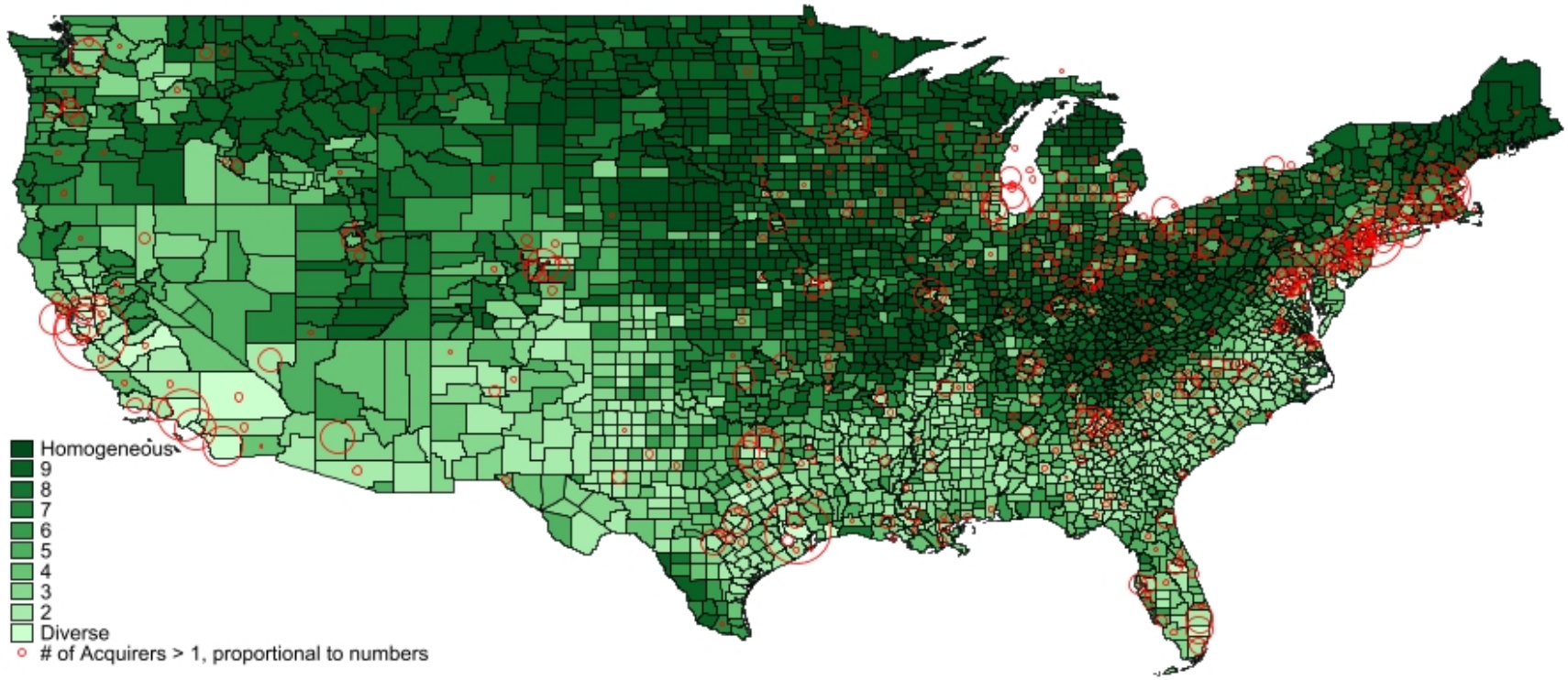
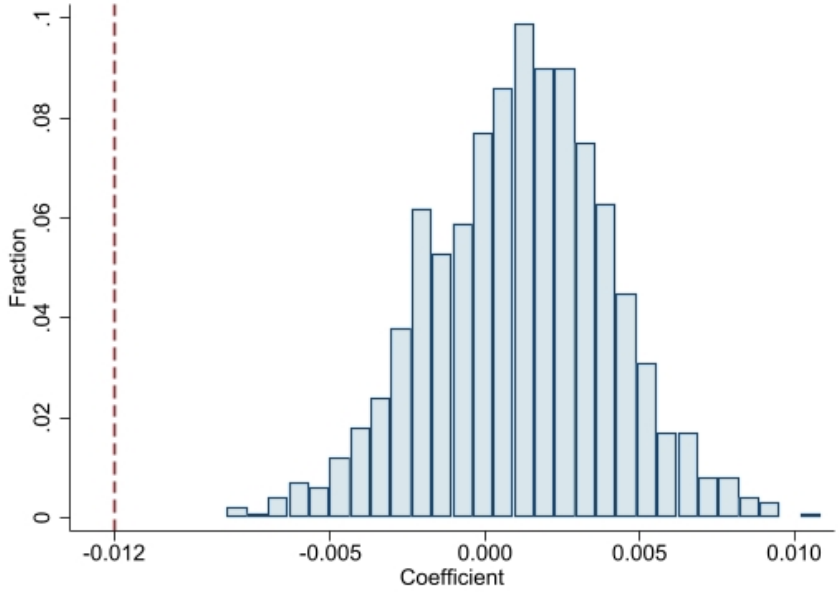


Figure IA4. Acquisition Intensity: Placebo Test

This figure illustrates the empirical distribution of the estimated coefficients on local social capital (*LSC*) (Panel A) and its corresponding *t*-statistics (Panel B) from a placebo test. Firms are randomly assigned to pseudo-headquarters counties, and the specification in Column (4) of Table 2 is re-estimated 1,000 times. The red dotted line marks the actual estimate of −0.012 from Column (4) of Table 2, which falls below the 1st percentile of the placebo distribution.

Panel A: Placebo coefficients



Panel B: Placebo *t*-statistics

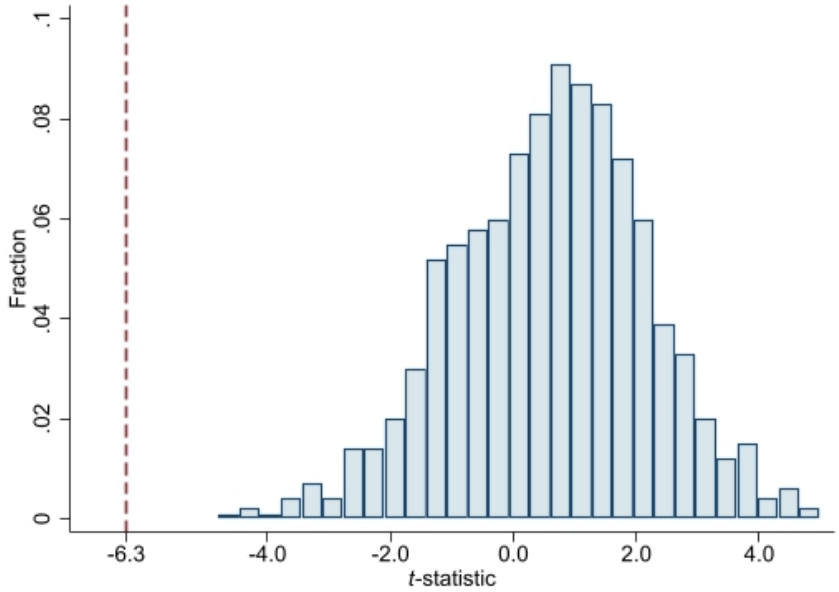


Table IA1. Variable Definitions

Variable	Definition
LSC	The level of social capital in the county where the firm is headquartered. The detailed construction of the variable is described in section 3.1.
LSC_{st}	The level of social capital in the state, measured as the average county-level *LSC* across the firm's headquarters state.
ISC_{st}	The level of social capital based on the firm's state of incorporation, measured as the average county-level *LSC* across the incorporation state.
High LSC	An indicator equal to one for firms located in high-LSC regions, defined as above the sample median (or, in a stricter specification, the top quartile), and zero otherwise.
Acq.	An indicator equal to one if the firm acquires any other firms or assets of other firms in a given year, and zero otherwise.
Asset Acq.	An indicator equal to one if the firm acquires any assets of other firms in a given year, and zero otherwise.
Firm Acq.	An indicator equal to one if the firm acquires any other firms in a given year, and zero otherwise.
#*Acq.*	The number of acquisitions in a given year.
#*Asset Acq.*	The number of asset acquisitions in a given year.
#*Firm Acq.*	The number of firm acquisitions in a given year.
LSC-Increasing	An indicator equal to one if the post-relocation *LSC* exceeds the pre-relocation level by two or three times the sample median change, and zero otherwise.
After Relocation	An indicator equal to one for post-relocation years, and zero otherwise.
$TreatInt^{\#}_{2017}$	The fraction of high-income earners with adjusted gross income (AGI) above $100,000, based on the number of taxpayers.
$TreatInt^{\$}_{2017}$	The fraction of total adjusted gross income (AGI) earned by high-income earners with AGI above $100,000.
TCJA	An indicator equal to one for 2018 and later years, and zero otherwise.
NPM	Net income divided by sales.
ROA	Net income divided by beginning-of-year total assets.
MTR (After)	Simulated corporate marginal tax rate, based on income after interest expense has been deducted (Graham, 1996a,b), from Professor Graham's website.
Distance	The natural logarithms of one plus the distance between the acquirer and the target based on the headquarters' zip codes.
Same State	An indicator equal to one if the acquirer and the target are in the same state, and zero otherwise.
Same County	An indicator equal to one if the acquirer and the target are in the same county, and zero otherwise.
Same Ind.	An indicator equal to one if the acquirer and the target operate in the same four-digit SIC or six-digit NAICS industry, and zero otherwise.
Same Ind.(FIC)	An indicator equal to one if the acquirer and the target have the same FIC-50 classifications by Hoberg and Phillips (2010, 2016), and zero otherwise.
Similar Ind.	An indicator equal to one if the acquirer and the target operate in the same three-digit SIC or five-digit NAICS industry but are not defined as *Same Ind.*, and zero otherwise.
Challenged	An indicator equal to one if the deal has been under antitrust investigation by the FTC or DOJ, and zero otherwise. The sample includes public targets and acquirers in industries with a Herfindahl-Hirschman Index greater than 1500.
Target LSC	The level of social capital in the target firm's headquarters county.
Sin Target	An indicator equal to one if the target operates in the sin industries following Hong and Kacperczyk (2009), and zero otherwise.

Table IA1 (Continued)

Variable	Definition
Target Accounting Quality	The accrual quality of the target following Marquardt and Zur (2015), where the higher value implies the higher quality of accruals.
Stock%	Percent of stock used as the payment method by the acquirer.
High UV (Ind)	An indicator equal to one if *UV (Ind)* is within the top quartile, and zero if it is within the bottom quartile, where *UV (Ind)* is the industry-adjusted market-to-book ratio, defined as the difference between a firm's *MTB* and the industry-year average.
High UV (RRV)	An indicator equal to one if *UV (RRV)* is within the top quartile, and zero if it is within the bottom quartile, where *UV (RRV)* is the degree of unexplained valuation, measured as the residual from the expected valuation model from Rhodes-Kropf et al. (2005) at the industry-year level.
High UV (PV)	An indicator equal to one if *UV (PV)* is within the top quartile, and zero if it is within the bottom quartile, where *UV (PV)* is the degree of unexplained valuation, measure as the residual from the expected valuation model from Pastor and Veronesi (2003) at the industry-year level.
CAR [-1,+1] (Market)	Acquirer cumulative abnormal returns from one day before to one day after the acquisition announcement, where the abnormal 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, where the abnormal returns are calculated using the Fama-French 3-factor model.
Overinvestment	An indicator equal to one if a firm's investment rate is greater than the industry median in a given year, and zero otherwise. The investment rate is calculated as capital expenditures divided by beginning-of-year property, plant, and equipment following Campbell et al. (2011).
MTB	Ratio of the market value of assets to the book value of assets, where the market value of assets is defined as total assets plus market value of equity minus book value of equity.
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 natural logarithms of the market value of equity.
Sales	The natural logarithms of sales.
Leverage	Total debt divided by the sum of total debt and market value of equity.
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)
Competed	An indicator equal to one if the number of bidders is greater than one, and zero otherwise.
Public Target	An indicator equal to one if the target is a publicly-listed firm, and zero otherwise.
Hostile	An indicator equal to one if the deal is hostile, and zero otherwise.

Table IA2. 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 activists	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 IA3. The Effect of Local Social Capital on Acquisition Intensity: Sector Analysis

This table reports sector-specific regressions of acquisition intensity (#*Acq.*) on *LSC* over the sample period 1992-2020. Columns (1)-(6) 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. Heteroskedasticity-robust standard errors are reported in parentheses. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively. The detailed definition of variables is provided in the Table IA1.

	(1) Agriculture, Forestry, Fishing, & Mining	(2) Construction	(3) Manufacturing	(4) Transportation	(5) Trade	(6) Services
			#*Acq.*			
LSC	-0.012	-0.042**	-0.008***	-0.031***	-0.009**	-0.027***
	(0.011)	(0.019)	(0.003)	(0.010)	(0.005)	(0.005)
MTB	-0.023***	0.086**	-0.004*	-0.017**	-0.000	0.000
	(0.005)	(0.034)	(0.002)	(0.007)	(0.005)	(0.003)
EBITDA	0.007	0.415***	0.042***	0.147***	-0.048	0.092***
	(0.032)	(0.116)	(0.008)	(0.041)	(0.032)	(0.019)
Tangible Assets	0.112**	-0.166	-0.236***	-0.548***	-0.163***	-0.112***
	(0.047)	(0.111)	(0.015)	(0.053)	(0.026)	(0.026)
Cash	-0.127*	0.266*	-0.124***	-0.349***	-0.054	-0.115***
	(0.069)	(0.157)	(0.012)	(0.074)	(0.041)	(0.023)
Size	0.037***	0.023	0.054***	0.101***	0.051***	0.102***
	(0.010)	(0.019)	(0.002)	(0.011)	(0.006)	(0.005)
Sales	-0.003	-0.016	-0.006***	-0.086***	-0.023***	-0.046***
	(0.009)	(0.019)	(0.002)	(0.012)	(0.006)	(0.005)
Leverage	0.003	-0.201**	-0.047***	0.081*	-0.014	0.017
	(0.042)	(0.081)	(0.010)	(0.044)	(0.021)	(0.022)
Population Growth	0.010	0.040	0.003	0.020	0.012	0.008
	(0.031)	(0.068)	(0.011)	(0.032)	(0.021)	(0.020)
Education	-0.024	0.104	0.095***	0.024	-0.017	0.231***
	(0.129)	(0.216)	(0.026)	(0.094)	(0.059)	(0.068)
Net Job Creation Rate	-0.294	1.310*	0.008	0.649*	0.457**	-0.037
	(0.493)	(0.735)	(0.097)	(0.364)	(0.207)	(0.202)
Δ *Housing Price*	-0.259	-0.396	0.014	-0.486***	0.055	0.160
	(0.201)	(0.308)	(0.054)	(0.184)	(0.107)	(0.103)
Observations	6,065	1,474	55,169	6,798	13,501	23,596
Adjusted R^2	0.028	0.134	0.057	0.084	0.055	0.065
Year&Ind. FE	✓	✓	✓	✓	✓	✓

Table IA4. Alternative Channels

This table reports the regression results of acquisition intensity (#*Acq*.) on *LSC* with additional controls to test alternative channels, over the sample period 1992-2020. Columns (1)-(3) control for firm-level governance measures: *G-index*, the governance index created by Gompers et al. (2003); *Institutional Ownership*, the fraction of the firm's shares owned by institutional shareholders; and *Executive Ownership*, the fraction of the firm's shares owned by the top 5 executives, respectively. Columns (4)-(6) control for regional differences in acquisition opportunities. *Ratio of Firm* is the fraction of firms in the same three-digit SIC within an MSA. *Cluster-Firm* equals one for firm-years within the industry clusters, defined as MSAs hosting at least ten firms in the same three-digit SIC and representing at least 3% of the industry market value. *Industry M&A Liquidity* is the total transaction value of all acquisitions within a three-digit SIC divided by total assets of all firms in that SIC for a given year. Columns (7)-(10) control for the possibility of underinvestment by financially constrained firms by interacting *LSC* with proxies for financial constraints, *Cash*, *Tangible Assets*, *Leverage*, and *Cash Flow*, respectively. *Cash Flow* is the sum of depreciation and amortization, and income before extraordinary items, divided by total assets. Heteroskedasticity-robust standard errors are reported in parentheses. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively. The detailed definition of variables is provided in the Table IA1.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
					#*Acq*.					
LSC	-0.017***	-0.013***	-0.011***	-0.013***	-0.012***	-0.012***	-0.012***	-0.009***	-0.015***	-0.013***
	(0.006)	(0.002)	(0.004)	(0.002)	(0.002)	(0.002)	(0.003)	(0.003)	(0.003)	(0.002)
Gindex	0.001									
	(0.002)									
Institutional Ownership		0.023***								
		(0.009)								
Executive Ownership			-0.000							
			(0.000)							
Ratio of Firm				-0.017						
				(0.012)						
Cluster-Firm					0.029***					
					(0.007)					
Industry M&A Liquidity						0.561***				
						(0.034)				
LSC × *Cash*							-0.004			
							(0.008)			
LSC × *Tangible Assets*								-0.015*		
								(0.008)		
LSC × *Leverage*									0.012*	
									(0.006)	
LSC × *Cash Flow*										-0.008***
										(0.002)
Cash Flow										-0.012***
										(0.004)
Observations	17,289	62,360	38,786	113,666	113,666	99,176	113,362	113,666	113,666	113,666
Adjusted R^2	0.070	0.054	0.053	0.054	0.055	0.064	0.055	0.054	0.055	0.054
Controls	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Year&Ind. FE	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

Table IA5. Instrumental Variable Approach

This table reports results from an instrumental variable approach over the sample period 1992–2020. Panel A presents 2SLS estimates of acquisition intensity on (*LSC*), using two instruments: the natural logarithm of one plus the shortest distance from the acquirer's headquarters county to the Canadian border (*Distance to Canadian Border*), and the sum of squared population shares of non-Hispanic White, non-Hispanic Black or African American, non-Hispanic Asian, and Hispanic populations using county-level Census data (*Ethnic Homogeneity*). Columns (1) and (4) report second- and first-stage regression results for the full sample, respectively. $\widehat{LSC}$ denotes the fitted value of *LSC* from the first-stage regression. Columns (2) and (5) exclude the first two years of each firm's sample period and post-relocation period. Columns (3) and (6) exclude firms headquartered in industry clusters, defined as MSAs hosting at least ten firms in the same three-digit SIC and accounting for at least 3% of industry market value (Almazan et al., 2010). Panel B presents regression results of local labor characteristics on the instruments. *Capital-to-labor* is net property, plant, and equipment divided by the number of employees, scaled by 10,000. *Labor Intensity* is the sum of total staff expense and pension and retirement expense divided by sales. *Labor Leverage* is total staff expense divided by the sum of operating income before depreciation, change in finished goods inventories, and total staff expense. Heteroskedasticity-robust standard errors are reported in parentheses. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively. The detailed definition of other variables is provided in Table IA1.

Panel A: IV estimation

Sample	(1) All	(2) Location History	(3) Industry Cluster	(4) All	(5) Location History	(6) Industry Cluster
	#Acq. (2nd Stage)			*LSC* (1st Stage)		
$\widehat{LSC}$	-0.019***	-0.018***	-0.015***			
	(0.004)	(0.004)	(0.004)			
Distance to Canadian Border				-0.220***	-0.205***	-0.214***
				(0.002)	(0.003)	(0.002)
Ethnic Homogeneity				1.666***	1.805***	1.603***
				(0.016)	(0.018)	(0.016)
Observations	113,666	87,263	101,863	113,666	87,263	101,863
Adj. R^2/*F*-statistic	0.054	0.056	0.051	22,367	18,405	18,996
Controls	✓	✓	✓	✓	✓	✓
Year&Ind. FE	✓	✓	✓	✓	✓	✓

Panel B: IVs and local labor characteristics

	(1) *Capital-to-labor*	(2) *Labor Intensity*	(3) *Labor Leverage*
Distance to Canadian Border	0.003	0.012	0.001
	(0.011)	(0.012)	(0.002)
Ethnic Homogeneity	-0.133	-0.094	0.022
	(0.110)	(0.090)	(0.031)
Population Growth	-5.705	-2.376	-3.248
	(6.728)	(10.604)	(2.566)
Education	-0.316*	0.091	-0.041
	(0.168)	(0.095)	(0.041)
Net Job Creation Rate	0.025	-0.002	-0.001
	(0.023)	(0.005)	(0.001)
Δ *Housing Price*	-0.847	-0.439	-0.068
	(0.538)	(0.458)	(0.043)
Observations	2,272	2,294	1,474
Adj. R^2	0.008	0.001	-0.003
Year FE	✓	✓	✓

Table IA6. Alternative Explanation: Risk Aversion

This table reports the regression results of target selection on *LSC* after controlling for factors related to the firm- or manager-level motives of diversification over the sample period 1993-2008. *Firm Age* is the number of years since the firm appeared 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 equal to one if the CEO is female, and zero otherwise. Column (1) represents linear regression results, and Columns (2)-(5) represent logistic regression results. Heteroskedasticity-robust standard errors are reported in parentheses. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively. The detailed definition of variables is provided in the Table IA1.

	(1) *Distance*	(2) *Same State*	(3) *Same County*	(4) *Same Ind.*	(5) *Same Ind.(FIC)*
LSC	0.131***	-0.744***	-0.840***	-0.112***	-0.399***
	(0.039)	(0.077)	(0.121)	(0.040)	(0.110)
Firm Age	0.005	-0.025	-0.018	-0.010	0.020
	(0.011)	(0.016)	(0.024)	(0.010)	(0.032)
Geographic Dispersion	0.136***	-0.236***	-0.100	-0.012	0.293**
	(0.046)	(0.075)	(0.105)	(0.048)	(0.114)
Sales Concentration	0.040	-0.006	-0.209**	0.085**	0.063
	(0.040)	(0.059)	(0.092)	(0.040)	(0.110)
CEO Age	0.002	0.003	-0.001	-0.004	-0.026**
	(0.004)	(0.007)	(0.009)	(0.004)	(0.013)
CEO Tenure	-0.026**	0.025	0.050**	0.016	0.062**
	(0.012)	(0.017)	(0.024)	(0.012)	(0.031)
Female CEO	-0.186	0.332	0.083	-0.217	1.466
	(0.280)	(0.332)	(0.479)	(0.256)	(0.948)
MTB	0.032	-0.025	-0.087*	-0.019	-0.038
	(0.029)	(0.032)	(0.049)	(0.022)	(0.064)
EBITDA	-0.081	-0.055	0.083	0.660*	1.384*
	(0.395)	(0.453)	(0.634)	(0.354)	(0.788)
Tangible Assets	-0.414	0.653*	0.338	1.261***	2.147***
	(0.254)	(0.388)	(0.561)	(0.230)	(0.676)
Cash	-0.644**	1.433***	0.314	1.340***	3.195***
	(0.255)	(0.321)	(0.453)	(0.222)	(0.692)
Size	0.003	0.017	0.059	0.073	0.255
	(0.058)	(0.079)	(0.111)	(0.054)	(0.165)
Sales	-0.058	0.075	-0.022	-0.141***	-0.330**
	(0.058)	(0.079)	(0.114)	(0.055)	(0.167)
Leverage	-0.138	0.214	-0.824	0.559**	0.415
	(0.279)	(0.458)	(0.656)	(0.275)	(0.814)
Population Growth	0.068	-0.153	0.205	0.181	0.107
	(0.160)	(0.203)	(0.272)	(0.136)	(0.383)
Education	-1.893***	5.936***	8.273***	0.347	1.058
	(0.395)	(0.848)	(1.229)	(0.432)	(1.180)
Net Job Creation Rate	1.403	-2.626	-2.267	0.567	-5.481
	(1.334)	(1.947)	(2.765)	(1.325)	(3.639)
Δ *Housing Price*	-1.538**	5.894***	2.188	0.892	1.242
	(0.735)	(1.043)	(1.416)	(0.738)	(2.110)
Observations	3,640	3,566	3,334	5,735	966
Adj./Pseudo R^2	0.034	0.144	0.134	0.096	0.196
Year&Ind. FE	✓	✓	✓	✓	✓

Table IA7. Non-Random Location Choice

This table reports regression results for the primary outcome variables, addressing potential endogeneity related to firms' headquarters choices over the sample period 1992–2020. Panel A excludes the first two years of each firm's sample period and post-relocation period. Panel B excludes firms headquartered in industry clusters, defined as MSAs hosting at least ten firms in the same three-digit SIC and accounting for at least 3% of industry market value (Almazan et al., 2010). Columns (1), (2), and (6) represent linear regression results, and Columns (3)-(5) represent logistic regression results. Heteroskedasticity-robust standard errors are reported in parentheses. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively. The detailed definition of variables is provided in the Table IA1.

Panel A: Location History

	(1) *#Acq.*	(2) *Distance*	(3) *Same State*	(4) *Same Ind.*	(5) *Challenged*	(6) *Stock%*
LSC	-0.013***	0.089***	-0.654***	-0.133***	-0.684**	
	(0.002)	(0.032)	(0.059)	(0.032)	(0.280)	
High LSC × High UV (PV)						-5.315**
						(2.656)
Observations	87,263	6,139	6,052	9,231	474	2,528
Adj./Pseudo R^2	0.056	0.060	0.126	0.100	0.308	0.333
Controls	✓	✓	✓	✓	✓	✓
Year&Ind. FE	✓	✓	✓	✓	✓	✓

Panel B: Industry Cluster

	(1) *#Acq.*	(2) *Distance*	(3) *Same State*	(4) *Same Ind.*	(5) *Challenged*	(6) *Stock%*
LSC	-0.009***	-0.005	-0.444***	-0.090***	-0.426**	
	(0.002)	(0.022)	(0.036)	(0.021)	(0.206)	
High LSC × High UV (PV)						-4.592**
						(1.966)
Observations	101,863	12,223	12,198	19,267	992	5,850
Adj./Pseudo R^2	0.051	0.085	0.116	0.072	0.268	0.259
Controls	✓	✓	✓	✓	✓	✓
Year&Ind. FE	✓	✓	✓	✓	✓	✓

Table IA8. Local Social Capital vs. Corporate Social Responsibility

This table reports regression results for the primary outcome variables after controlling for Corporate Social Responsibility (CSR) over the sample period 1992–2019. *CSR* is a firm's corporate social responsibility score, calculated as the sum of positive (strength) scores minus negative (concern) scores across seven metrics (environment, community, human rights, employee relations, diversity, product, and governance), scaled by the number of available indicators each year (Deng et al., 2013). Columns (1), (2), and (6) represent linear regression results, and Columns (3)-(5) represent logistic regression results. Heteroskedasticity-robust standard errors are reported in parentheses. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively. The detailed definition of variables is provided in the Table IA1.

	(1) *#Acq.*	(2) *Distance*	(3) *Same State*	(4) *Same Ind.*	(5) *Challenged*	(6) *Stock%*
LSC	-0.015***	0.111***	-0.727***	-0.151***	-0.542**	
	(0.004)	(0.031)	(0.133)	(0.033)	(0.263)	
High LSC × High UV (PV)						-2.772
						(2.750)
High UV (PV)						3.085
						(2.341)
High LSC						-2.855
						(1.900)
CSR	-0.004	-0.061	0.053	0.001	-0.376	3.503**
	(0.008)	(0.058)	(0.167)	(0.055)	(0.405)	(1.582)
MTB	-0.007*	0.009	0.049	-0.019	-0.271	4.735***
	(0.004)	(0.027)	(0.063)	(0.022)	(0.361)	(0.625)
EBITDA	0.132***	0.281	0.203	0.417	8.013	-35.691***
	(0.020)	(0.334)	(0.812)	(0.273)	(5.334)	(10.034)
Tangible Assets	-0.254***	-0.480***	0.879	1.303***	2.752*	0.247
	(0.026)	(0.180)	(0.574)	(0.174)	(1.539)	(4.745)
Cash	-0.175***	-0.746***	0.929	0.943***	-2.354	-3.367
	(0.025)	(0.199)	(0.613)	(0.177)	(3.099)	(5.405)
Size	0.071***	-0.041	0.100	0.090**	0.866**	-3.297***
	(0.004)	(0.046)	(0.141)	(0.043)	(0.403)	(1.188)
Sales	-0.024***	0.008	-0.200	-0.175***	-0.284	1.846
	(0.004)	(0.046)	(0.133)	(0.043)	(0.431)	(1.204)
Leverage	-0.034*	-0.055	-0.032	0.777***	4.806***	2.108
	(0.018)	(0.205)	(0.698)	(0.194)	(1.625)	(4.621)
Population Growth	-0.012	-0.047	0.711**	-0.115	1.019	0.038
	(0.015)	(0.120)	(0.333)	(0.108)	(0.986)	(3.166)
Education	0.086**	-0.860***	4.142***	1.023***	1.391	14.737
	(0.044)	(0.325)	(1.401)	(0.344)	(2.904)	(9.080)
Net Job Creation Rate	0.103	-1.958	-1.707	-1.074	9.995	-0.416
	(0.164)	(1.197)	(3.793)	(1.154)	(9.332)	(35.347)
Δ Housing Price	-0.065	-1.529***	4.893***	0.041	-5.843	-3.569
	(0.071)	(0.589)	(1.628)	(0.521)	(4.751)	(14.152)
Competed						2.454
						(8.643)
Public Target						27.477***
						(2.311)
Hostile						0.005
						(23.392)
Observations	36,390	6,244	6,200	8,624	566	1,980
Adj./Pseudo R^2	0.051	0.037	0.128	0.098	0.273	0.372
Year&Ind. FE	✓	✓	✓	✓	✓	✓

Table IA9. Excluding Counties with Outlier Local Social Capital

This table reports regression results for the primary outcome variables after excluding counties whose *LSC* values deviate by more than one standard deviation from the mean of neighboring counties' *LSC* values. The sample spans from 1992 to 2020. Columns (1), (2), and (6) represent linear regression results, and Columns (3)-(5) represent logistic regression results. Heteroskedasticity-robust standard errors are reported in parentheses. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively. The detailed definition of variables is provided in the Table IA1.

	(1) *#Acq.*	(2) *Distance*	(3) *Same State*	(4) *Same Ind.*	(5) *Challenged*	(6) *Stock%*
LSC	-0.009***	0.145***	-0.626***	-0.074***	-0.430*	
	(0.002)	(0.024)	(0.037)	(0.022)	(0.235)	
High LSC × High UV (PV)						-5.521***
						(1.760)
High UV (PV)						5.713***
						(1.260)
High LSC						-0.118
						(1.074)
MTB	-0.001	0.020	0.006	-0.021**	-0.110	2.934***
	(0.002)	(0.014)	(0.016)	(0.011)	(0.198)	(0.298)
EBITDA	0.086***	0.291*	-0.315**	0.286***	2.051	-26.791***
	(0.007)	(0.153)	(0.151)	(0.109)	(2.648)	(3.066)
Tangible Assets	-0.183***	-0.485***	0.611***	1.147***	1.512	-9.395***
	(0.012)	(0.121)	(0.164)	(0.102)	(1.170)	(2.518)
Cash	-0.128***	-0.383***	0.883***	0.560***	-5.802*	5.922**
	(0.011)	(0.122)	(0.141)	(0.099)	(3.069)	(2.879)
Size	0.069***	-0.005	0.007	0.095***	0.626***	0.964*
	(0.002)	(0.026)	(0.031)	(0.021)	(0.218)	(0.565)
Sales	-0.025***	0.038	-0.041	-0.099***	-0.224	-1.768***
	(0.002)	(0.027)	(0.032)	(0.021)	(0.229)	(0.574)
Leverage	0.005	-0.059	-0.065	0.418***	2.915**	-0.549
	(0.008)	(0.122)	(0.164)	(0.107)	(1.354)	(2.680)
Population Growth	0.002	-0.128	0.097	-0.064	0.201	1.606
	(0.008)	(0.084)	(0.107)	(0.072)	(0.773)	(1.952)
Education	0.098***	-0.620***	2.685***	0.292	0.523	0.817
	(0.022)	(0.202)	(0.312)	(0.198)	(2.352)	(5.186)
Net Job Creation Rate	0.119	1.243*	-1.745*	-0.404	11.097	11.273
	(0.077)	(0.745)	(0.988)	(0.696)	(7.426)	(19.378)
Δ Housing Price	0.034	-1.218***	2.895***	0.612	-4.349	-6.851
	(0.043)	(0.444)	(0.546)	(0.383)	(4.124)	(10.519)
Competed						-9.553*
						(5.668)
Public Target						28.754***
						(1.392)
Hostile						-18.228
						(13.975)
Observations	105,514	13,215	13,186	20,775	959	7,557
Adj./Pseudo R^2	0.054	0.081	0.125	0.071	0.238	0.275
Year&Ind. FE	✓	✓	✓	✓	✓	✓

Table IA10. Local Social Capital without Backfilling

This table reports regression results for the primary outcome variables without backfilling *LSC* values for years with missing data, over the sample period 1992-2020. For each subperiod of 1992-1996, 1997-2004, 2005-2008, 2009-2013, and 2014-2020, the *LSC* values of each county in 1990, 1997, 2005, 2009, and 2014 are used once. Within each subperiod, #*Acq.* and *Challenged* are summed, while other dependent variables are averaged for each firm. Columns (1), (2), and (6) represent linear regression results, and Columns (3)-(5) represent logistic regression results. Heteroskedasticity-robust standard errors are reported in parentheses. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively. The detailed definition of variables is provided in the Table IA1.

	(1) *#Acq.*	(2) *Distance*	(3) *Same State*	(4) *Same Ind.*	(5) *Challenged*	(6) *Stock%*
LSC	-0.036***	0.048*	-0.494***	-0.067**	-1.217**	
	(0.012)	(0.026)	(0.039)	(0.027)	(0.511)	
High LSC × High UV (PV)						-0.488
						(2.478)
High UV (PV)						0.970
						(1.817)
High LSC						-3.225**
						(1.501)
MTB	0.006	0.029*	-0.013	0.006	-0.584	1.923***
	(0.010)	(0.016)	(0.018)	(0.015)	(0.428)	(0.395)
EBITDA	0.284***	0.245	-0.255	0.251*	5.803	-22.061***
	(0.043)	(0.170)	(0.165)	(0.131)	(5.434)	(3.794)
Tangible Assets	-0.451***	-0.374**	0.313	0.968***	0.319	-3.189
	(0.074)	(0.147)	(0.192)	(0.147)	(2.976)	(3.500)
Cash	-0.469***	-0.302**	0.700***	0.663***	-7.839	10.796***
	(0.059)	(0.140)	(0.165)	(0.133)	(4.864)	(3.699)
Size	0.226***	0.027	0.083**	0.074***	0.905	0.931
	(0.011)	(0.030)	(0.036)	(0.028)	(0.568)	(0.779)
Sales	-0.028***	0.048	-0.062*	0.003	-0.333	-2.689***
	(0.010)	(0.031)	(0.036)	(0.029)	(0.596)	(0.792)
Leverage	-0.135**	-0.244	0.291	0.273*	-0.218	1.121
	(0.054)	(0.148)	(0.191)	(0.144)	(1.905)	(3.732)
Population Growth	0.062	-0.182*	0.293**	-0.111	0.776	2.068
	(0.054)	(0.103)	(0.132)	(0.103)	(1.830)	(2.750)
Education	0.278**	-0.050	2.297***	0.479*	-4.183	10.524
	(0.127)	(0.242)	(0.360)	(0.274)	(4.306)	(7.432)
Net Job Creation Rate	-0.291	-0.056	-0.906	0.526	7.328	12.891
	(0.470)	(0.903)	(1.251)	(0.987)	(12.371)	(27.555)
Δ *Housing Price*	-0.021	-0.396	2.295***	0.401	10.572	-8.334
	(0.192)	(0.533)	(0.663)	(0.529)	(6.994)	(14.312)
Competed						-12.181*
						(6.755)
Public Target						19.467***
						(1.989)
Hostile						-32.222***
						(7.421)
Observations	23,467	7,540	7,517	9,756	225	3,214
Adj./Pseudo R^2	0.105	0.103	0.115	0.065	0.339	0.239
Year&Ind. FE	✓	✓	✓	✓	✓	✓

Table IA11. Excluding Firms Operating in Multiple Locations

This table reports regression results for the primary outcome variables after excluding firms with multiple operating locations, as identified by Garcia and Norli (2012), over the sample period 1992–2020. Columns (1), (2), and (6) represent linear regression results, and Columns (3)-(5) represent logistic regression results. Heteroskedasticity-robust standard errors are reported in parentheses. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively. The detailed definition of variables is provided in the Table IA1.

	(1) *#Acq.*	(2) *Distance*	(3) *Same State*	(4) *Same Ind.*	(5) *Challenged*	(6) *Stock%*
LSC	-0.011***	0.077**	-0.540***	-0.101***	-1.026**	
	(0.003)	(0.032)	(0.149)	(0.029)	(0.514)	
High LSC × High UV (PV)						-3.543
						(2.784)
High UV (PV)						5.006**
						(2.072)
High LSC						-1.850
						(1.784)
MTB	-0.006***	0.002	0.024	-0.023	0.379	2.397***
	(0.001)	(0.021)	(0.025)	(0.017)	(0.417)	(0.564)
EBITDA	0.055***	0.823***	-0.864***	0.461***	-4.870	-19.695***
	(0.008)	(0.226)	(0.220)	(0.159)	(4.002)	(4.937)
Tangible Assets	-0.154***	-0.499***	0.707***	1.055***	-2.288	-4.477
	(0.013)	(0.162)	(0.223)	(0.139)	(3.290)	(3.869)
Cash	-0.129***	-0.401**	0.980***	0.336**	0.825	11.356**
	(0.012)	(0.170)	(0.199)	(0.146)	(5.764)	(4.665)
Size	0.052***	-0.007	0.003	0.139***	0.701	-0.575
	(0.002)	(0.035)	(0.043)	(0.030)	(0.481)	(0.942)
Sales	-0.019***	0.017	-0.011	-0.158***	0.438	-1.317
	(0.002)	(0.036)	(0.044)	(0.030)	(0.542)	(0.954)
Leverage	-0.006	-0.114	0.059	0.696***	9.832**	3.732
	(0.010)	(0.173)	(0.222)	(0.149)	(3.858)	(4.490)
Population Growth	-0.013	-0.234**	0.375**	-0.231**	3.280**	-2.655
	(0.009)	(0.115)	(0.155)	(0.103)	(1.610)	(3.081)
Education	0.051**	-0.018	1.337***	0.316	-4.985	-10.797
	(0.026)	(0.283)	(0.412)	(0.288)	(5.623)	(9.147)
Net Job Creation Rate	0.430***	0.258	-0.712	-0.074	6.584	4.253
	(0.094)	(1.098)	(1.499)	(1.081)	(18.571)	(33.879)
Δ Housing Price	-0.031	-1.021	1.311	1.187**	-10.868	-26.573
	(0.050)	(0.692)	(0.842)	(0.591)	(13.553)	(18.295)
Competed						-16.071
						(11.097)
Public Target						31.147***
						(2.533)
Hostile						63.205***
						(11.860)
Observations	61,666	7,143	7,027	10,369	224	2,955
Adj./Pseudo R^2	0.042	0.076	0.120	0.079	0.433	0.244
Year&Ind. FE	✓	✓	✓	✓	✓	✓

Table IA12. Robust Standard Errors

This table reports regression results for the primary outcome variables under different standard error specifications over the sample period 1992–2020. Panels A, B, and C present results with standard errors clustered by firm, by county, and by county and industry, respectively. Columns (1), (2), and (6) represent linear regression results, and Columns (3)-(5) represent logistic regression results. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively. The detailed definition of variables is provided in the Table IA1.

Panel A: By Firm

	(1) *#Acq.*	(2) *Distance*	(3) *Same State*	(4) *Same Ind.*	(5) *Challenged*	(6) *Stock%*
LSC	-0.012***	0.106***	-0.553***	-0.080***	-0.410**	
	(0.003)	(0.027)	(0.042)	(0.029)	(0.199)	
High LSC × High UV (PV)						-4.798**
						(2.419)
Observations	113,666	14,141	14,116	22,287	1,094	6,850
Adj./Pseudo R^2	0.054	0.074	0.119	0.070	0.165	0.275
Controls	✓	✓	✓	✓	✓	✓
Year&Ind. FE	✓	✓	✓	✓	✓	✓

Panel B: By County

	(1) *#Acq.*	(2) *Distance*	(3) *Same State*	(4) *Same Ind.*	(5) *Challenged*	(6) *Stock%*
LSC	-0.012***	0.106	-0.553***	-0.080***	-0.410*	
	(0.004)	(0.084)	(0.115)	(0.030)	(0.209)	
High LSC × High UV (PV)						-4.798*
						(2.513)
Observations	113,666	14,141	14,116	22,287	1,094	6,850
Adj./Pseudo R^2	0.054	0.074	0.119	0.070	0.165	0.275
Controls	✓	✓	✓	✓	✓	✓
Year&Ind. FE	✓	✓	✓	✓	✓	✓

Panel C: By County-Industry

	(1) *#Acq.*	(2) *Distance*	(3) *Same State*	(4) *Same Ind.*	(5) *Challenged*	(6) *Stock%*
LSC	-0.012***	0.106**	-0.553***	-0.080***	-0.410**	
	(0.003)	(0.047)	(0.066)	(0.030)	(0.195)	
High LSC × High UV (PV)						-4.798*
						(2.453)
Observations	113,666	14,141	14,116	22,287	1,094	6,850
Adj./Pseudo R^2	0.054	0.074	0.119	0.070	0.165	0.275
Controls	✓	✓	✓	✓	✓	✓
Year&Ind. FE	✓	✓	✓	✓	✓	✓

Table IA13. All Acquisition Attempts

This table reports regression results based on the sample of all acquisition attempts regardless of the deal completion status over the sample period 1992–2020. *Compl. Rate* is defined as the fraction of completed *Acq.* out of all attempted deals. *Compl. Rate (Asset)* is defined as the fraction of completed *Asset Acq.* out of all attempted deals. *Compl. Rate (Firm)* is defined as the fraction of completed *Firm Acq.* out of all attempted deals. Heteroskedasticity-robust standard errors are reported in parentheses. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively. The detailed definition of variables is provided in the Table IA1.

	(1) *#Acq.*	(2) *#Asset Acq.*	(3) *#Firm Acq.*	(4) *Compl. Rate*	(5) *Compl. Rate (Asset)*	(6) *Compl. Rate (Firm)*
LSC	-0.014***	-0.009***	-0.004***	0.002	0.002	-0.001
	(0.002)	(0.002)	(0.001)	(0.003)	(0.001)	(0.002)
MTB	-0.003*	-0.006***	0.004***	0.001	0.002***	0.001
	(0.002)	(0.001)	(0.001)	(0.002)	(0.001)	(0.001)
EBITDA	0.075***	0.072***	0.010**	0.111***	-0.004	0.008
	(0.008)	(0.006)	(0.005)	(0.017)	(0.007)	(0.007)
Tangible Assets	-0.197***	-0.122***	-0.078***	-0.081***	0.005	0.004
	(0.014)	(0.012)	(0.007)	(0.015)	(0.008)	(0.008)
Cash	-0.155***	-0.118***	-0.028***	0.014	0.019***	0.007
	(0.012)	(0.010)	(0.007)	(0.014)	(0.006)	(0.007)
Size	0.075***	0.045***	0.027***	0.003	-0.007***	-0.003**
	(0.002)	(0.002)	(0.001)	(0.003)	(0.001)	(0.002)
Sales	-0.029***	-0.022***	-0.005***	0.005	0.006***	0.002
	(0.002)	(0.002)	(0.001)	(0.003)	(0.002)	(0.002)
Leverage	0.008	0.011	-0.003	-0.031**	-0.012*	-0.011
	(0.009)	(0.007)	(0.005)	(0.016)	(0.007)	(0.008)
Population Growth	0.006	-0.000	0.006	-0.005	0.000	-0.002
	(0.009)	(0.007)	(0.005)	(0.010)	(0.005)	(0.005)
Education	0.077***	0.051***	0.029**	0.030	-0.003	-0.002
	(0.023)	(0.019)	(0.014)	(0.026)	(0.013)	(0.015)
Net Job Creation Rate	0.202**	0.200***	-0.020	-0.082	-0.076*	-0.014
	(0.080)	(0.064)	(0.052)	(0.093)	(0.046)	(0.050)
Δ *Housing Price*	0.038	0.028	0.013	0.004	-0.025	-0.010
	(0.044)	(0.036)	(0.027)	(0.050)	(0.025)	(0.027)
Observations	113,666	113,666	113,666	18,201	9,873	6,885
Adjusted R^2	0.054	0.031	0.027	0.030	0.023	0.009
Year&Ind. FE	✓	✓	✓	✓	✓	✓