The Accounting Review
Vol. 95, No. 2
March 2020

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THE ACCOUNTING REVIEW
Vol. 95, No. 2
March 2020
pp. 227–255

American Accounting Association
DOI: 10.2308/accr-52555

East, West, Home's Best: Do Local CEOs Behave Less Myopically?

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ABSTRACT: We test whether CEOs working near their childhood homes are less likely than nonlocal CEOs to make myopic decisions. Place attachment theories suggest that people develop mutual caretaking relationships with their birthplaces. Also, executive labor markets face less information asymmetry about local CEOs, resulting in lower pressure on local CEOs for quick profits. Consistent with the prediction, we find that local CEOs are less likely to cut R&D expenditures for beating analyst forecasts or avoiding earnings decreases. In their last year of office, local CEOs are significantly less likely to cut R&D than nonlocal CEOs. The CEO locality effect is stronger when more local business interests are embedded in the firm and when the residents of the CEO's birth state have stronger local social bonds. Local CEOs' longer horizons are consistently manifested in their other decisions, such as paying more state tax and being more socially responsible in business operation.

JEL Classifications: G10; G23; M40.

Keywords: local CEO; corporate myopia; short-termism.

I. INTRODUCTION

Managerial myopia arises when managers fail to maximize firm value by overweighting short-term cash flows while forgoing value-increasing long-term investments (Stein 1989; Edmans, Fang, and Lewellen 2017). A large portion of the myopia literature focuses on underinvestment in research and development (R&D) because the U.S. accounting rules require that R&D expenditures be immediately expensed. Compared to tangible long-term investment, such as capital expenditures that are expensed only gradually through depreciation, R&D spending has a much larger impact on accounting profits. Porter (1992) observes that in the modern economy, firms' competitive success increasingly depends on investment in intangible assets, such as human capital and R&D capabilities. Nonetheless, Graham, Harvey, and Rajgopal (2005) find in a survey that 80 percent of about 400 polled U.S. executives would choose to decrease intangible spending, including R&D, to meet earnings targets.[1]

We appreciate the invaluable comments from Venkatesh Nagar (editor), two anonymous reviewers, Zhaoyang Gu, Jia He, Louis Henock, Bingbing Hu, Kaiwai Hui, Zhenbin Liu, Byron Y. Song, Woody Wu, and seminar participants at the 40th Annual Congress of the European Accounting Association (EAA), 2017 American Accounting Association (AAA) Annual Meeting, The Chinese University of Hong Kong, Peking University, Hong Kong Baptist University, and Southern University of Science and Technology for their helpful comments and suggestions. We especially thank Professor Ying Cao for her significant input in developing the project in its early stages. Zengquan Li acknowledges the Program for Innovative Research Team of Shanghai University of Finance and Economics, the National Natural Science Foundation of China (No. 71572100, 71972124), and the Project of Key Research Institute of Humanities and Social Science in Universities by the Ministry of Education of China (MOE) (No. 18JJD790011) and 111 Project (B18033).

Editor's note: Accepted by Venkatesh Nagar.

Submitted: October 2017
Accepted: May 2019
Published Online: September 2019

[1] Kaplan (2018) contends that U.S. companies, taken as a whole, have not been short-term-oriented in the long run. His observations, however, do not preclude that some of these companies behave myopically under certain circumstances.

Prior research focuses on examining contractual solutions to containing managerial myopia. A dominant opinion is to award managers more equity ownership (Dechow and Sloan 1991; Cheng 2004), especially equity tied to the firm's long-term stock price (Gopalan, Milbourn, Song, and Thakor 2014; Edmans et al. 2017; among others).[2] More long-term equity holding can better align the managers' interest with that of the shareholders and motivate the managers to care more about the firm's sustainable value. In addition, a few recent studies propose providing specific contractual protection for managers. For example, Chen, Cheng, Lo, and Wang (2015) find that CEOs signing employment agreements or severance agreements with their firms are less likely to cut R&D to avoid earnings decreases. Gonzalez-Uribe and Groen-Xu (2015) find that firms offering longer-term employment contracts for their CEOs produce more innovation.

In this study, we examine whether a noncontractual factor, i.e., CEO locality, that is inspired by Yonker's (2017a, 2017b) innovative works, reduces CEOs' myopia tendencies. A local CEO candidate poses less information asymmetry to the board of directors, and she also has fewer incentives to chase short-term gains.

The board directors are more likely to be from the local business circle (A. Knyazeva, D. Knyazeva, and Masulis 2013). Thus, they know more about the capability and character of CEOs born and growing up near the firm than about nonlocal CEOs, either through direct interactions in their early stages of life or indirectly through information circulating on local social networks. The directors will accordingly have more confidence in their locally hired CEOs, who would, in turn, face less pressure to shore up near-term performance to demonstrate their ability. Relatedly, the more congenial relationships between a local CEO and the board members, local investors, and other local stakeholders, such as customers and suppliers, make direct monitoring less intrusive and hence more effective (Coleman 1988; Wu 2008). Such monitoring also reduces stakeholders' information asymmetry concerning the firm's investment projects (Stein 1989).

As for incentives, place attachment theories suggest that people are proactive in contributing to places for which they have a deep feeling, such as their hometowns, and strongly care for the well-being of the local people (Fullilove 1996; Mesch 1996; Vaske and Kobrin 2001).[3] For most people, their hometowns are sacred places where they want to maintain a good reputation (Relph 1976). Local CEOs, thus, need to overcome a higher emotional hurdle to take opportunistic short-term actions that risk their firms' long-term viability and, eventually, their local reputation. They have a much longer horizon in balancing short-term financial gains and long-term life and career outcomes. Compensation derived from overstated performance, stock sales based on inside information, and stock issuance at an inflated price generate lower net utility for them than for nonlocal CEOs. As a result, local CEOs face less of the stock price-related "market pressure" described in Stein (1989).

Moreover, while a nonlocal CEO can boost her firm's short-term performance and then move to a new firm elsewhere before her short-term decisions are revealed (Rumelt 1987; Bizjak, Brickley, and Coles 1993), such mobility is constrained for local CEOs due to their attachment to their hometowns. CEOs' strong preference to "stay local" is supported by Yonker's (2017a) finding that firms hire local CEOs five times more often than expected. In addition, local CEOs receive lower compensation and experience less unforced turnover than nonlocal CEOs. Relatedly, Hu (2018) finds that firms with local CEOs issue less voluntary disclosure and withhold more bad news than firms hiring nonlocal CEOs, consistent with local CEOs' greater concern about relocating.

Our sampling starts with the Standard & Poor's (S&P) 1500 firms over the period from 1992 to 2016. We define a CEO as local if her birth state is the same as the state in which her firm is headquartered. Following prior research (Bushee 1998; Bhojraj, Hribar, Picconi, and McInnis 2009; Chen et al. 2015), we measure managerial myopia by firms' likelihood of cutting R&D expenditure for beating analyst forecasts or avoiding earnings decreases. Note that managers' myopic behaviors are unquestionably much broader in scope and larger in scale than simple R&D cuts. Our use of the R&D-based measures is driven primarily by their precision in capturing the connotation of myopia—improving short-term profits to the detriment of the firm's long-term benefits. Other types of short-term decisions, such as reduction of capital expenditures, are more difficult to empirically disentangle from sound economic decisions driven by varied investment opportunities.

[2] We only consider firm-level solutions here. At the market level, prior research suggests that lower reporting frequency (Gigler, Kanodia, Sapra, and Venugopalan 2014; Kraft, Vashishtha, and Venkatachalam 2018) and restrictions on hostile takeover (Stein 1988) can also ease myopic pressures on managers.

[3] Place attachment is an emotional, mutual caretaking, and enduring bond that a person establishes with a specific place where she feels comfortable and safe and to which she wants to maintain closeness (Fullilove 1996; Gieryn 2000; Hidalgo and Hernandez 2001). Such a bond is cultivated through biographic experiences, such as success, failure, joy, fear, love, trauma, regret, and sorrow. It is intensified through participation in local public activities (Cuba and Hummon 1993) and summarizes the person's social relationships (Low and Altman 1992). Place attachment also facilitates the development of place identity, i.e., how people identify themselves according to the places in which they spend their lives, and provides various psychological benefits, such as a sense of belonging and a meaning of life (Relph 1976; B. Brown, Perkins, and G. Brown 2003). Among all the places a person experiences, home—in particular, the place where she was born and grew up—possesses the greatest significance in her life. As Relph (1976) states, home is "the central reference point of human experience." The unselfconscious attachment provides the individual with a sense of rootedness (Tuan 1980), which could be essential to human functioning.

Supporting our prediction, we find that firms with local CEOs are significantly less likely to cut R&D for beating performance benchmarks. The CEO locality effect on myopic R&D cut is also economically meaningful compared to that of a major contractual solution proposed by the literature, i.e., managerial ownership: it is about four to five times, depending on the model, the size of the executive ownership's effect when the latter varies from its 25th percentile to its 75th percentile. In additional tests, we find that while the CEO locality effect is only about half of that of severance agreements in inhibiting CEOs from cutting R&D to beat analyst forecasts, it is slightly larger than that of employment agreements in discouraging CEOs from cutting R&D to avoid earnings decreases. Overall, compared to contractual solutions, CEO locality is highly effective in curbing managerial short-termism.

Our main findings should be interesting to shareholders and other stakeholders because they reveal an association between a CEO's geographic origin and her myopic tendency. Even if the association originates from firms' CEO selection, the presence of a local CEO could still inform on a company's strategy and horizon. Next, we examine whether the relation is causal. For this purpose, we perform three analyses. First, we estimate two-stage least squares (2SLS) regressions. Following Yonker (2017a), we use the percentage of clear days in the firm's headquarters state and the percentage of clear days in the CEO's home state as instruments for local hiring. The results are consistent with our main findings.

We next perform a difference-in-differences analysis and inspect how a local CEO's myopic incentives change as she approaches retirement, as compared to a nonlocal CEO. Dechow and Sloan (1991) show that CEOs near retirement become more myopic. We expect and find supportive evidence that local CEOs are less plagued by this horizon issue than nonlocal CEOs.

Our third test uses a change analysis. Here we restrict the test to the same firm and examine how a firm's myopic behavior changes when its CEO changes from a nonlocal to a local, as compared to a change in the opposite direction. Consistent with our main results, we find that firms are less likely to cut R&D for beating performance expectations when their CEOs change from nonlocal to local. Overall, results from these additional tests support that local CEOs imprint their long-term horizons upon their firms' investment decisions.

We perform two lines of cross-sectional tests to corroborate our main results. First, the aforementioned information asymmetry condition for myopia suggests that when local shareholders, customers, and suppliers have larger stakes in the firm, the monitoring through local knowledge on the CEO is more effective. Corresponding to this reasoning, we find that the CEO locality effect on myopia is greater when the state's residents have a stronger preference for investing in local stocks and when the firm's business is more concentrated within the state.

Second, a CEO with a stronger attachment to a place would care more about her firm's long-term sustainability. Indeed, our tests show that the CEO locality effect on myopia is greater when the state has relatively lower population mobility and when it boasts relatively more social capital.

Our results withstand a battery of robustness tests. In particular, the CEO locality effect persists after we additionally control for CEOs' abilities, business networks, and political connections, as well as their age, tenure, gender, and political proclivity. Our finding is not driven by the presence of family firms, either. Our main findings are further corroborated by local CEOs' consistent decisions to pay more corporate tax to their home states and be more socially responsible in doing business than nonlocal CEOs. In a placebo test, we find no CEO locality effect when we replace R&D expenses with capital expenditures. Finally, we find that local CEOs' firms have better financial performance and higher valuation than those with nonlocal CEOs. The evidence suggests that local CEOs' disinclination to cut R&D upon short-term performance pressure is, on average, for the purpose of maximizing firms' long-run value.

Our paper contributes to the literature by identifying a noncontractual factor—CEOs' locality—that affects managerial myopia.[4] Our findings suggest that while contractual factors based on monetary incentives, such as equity ownership and severance payments, could help curb short-termism, social and cultural factors could also be leveraged with similar magnitudes of effect. More important, shareholders have to bear monetary costs for equity or severance payments to CEOs. Hiring a local CEO, however, taps into the CEO's psychological value arising from place attachment and exploits the lower information asymmetry regarding the CEO's character and ability. It benefits both the CEO and the shareholders without incurring additional financial burden. Rather, there could be savings. Both Yonker (2017a) and our untabulated analysis, for instance, reveal that the compensation for local CEOs is lower than for nonlocal CEOs. Also, firms are significantly less likely to use severance and employment agreements when they employ local CEOs.

Our paper adds to the burgeoning literature on whether managers imprint their idiosyncratic styles on their firms' operation (Bertrand and Schoar 2003; J. Sunder, S. Sunder, and Zhang 2017; among others). Our study suggests that CEOs' locality is a salient factor shaping their operating styles.

[4] To our knowledge, Dechow and Sloan (1991) is the only extant study examining the effect of a noncontractual factor, i.e., CEOs' retirement age, on managerial myopia.

Finally, prior studies show that social capital is associated with various corporate decisions, such as risk taking (Hilary and Hui 2009), earnings manipulation (McGuire, Omer, and Sharp 2012), and tax avoidance (Hasan, Hoi, Wu, and Zhang 2017a), and, by extension, correlates with firms' audit fees (Jha and Chen 2015) and debt costs (Hasan, Hoi, Wu, and Zhang 2017b). Our study substantiates this literature and provides evidence of a working mechanism through which social capital affects business outcomes by influencing CEOs' behavior.

II. METHODOLOGY

We operationalize managerial myopia using R&D cuts for beating analyst forecasts.[5] Corporate executives frequently cite pressure from Wall Street as a reason for their short-term decisions, suggesting that analysts' consensus forecasts are likely a formidable benchmark that CEOs strive to meet.[6]

Specifically, we estimate the following logistic regression model:

$$BeatbyCutRD_{i,t} = \beta_0 + \beta_1 \times Local\ CEO_{i,t} + Controls + \eta_{i,t}, \tag{1}$$

in which subscripts i and t denote firm i and year t, respectively. *BeatByCutRD* is an indicator equal to 1 if the firm reduces its R&D expenses in the year and its reported earnings are higher than analysts' median consensus forecast, but it would miss the forecast if it maintained last year's R&D spending, and 0 otherwise. We follow Bhojraj et al. (2009) and use the consensus earnings forecast as of the second month of the final quarter of the fiscal year as our proxy for the market expectation.[7] *Local CEO* is an indicator equal to 1 if the CEO's birth state is the same as her firm's headquarters state, and 0 otherwise. We choose to define a local CEO at the state level, not at a finer level such as city or village, due to a trade-off between a stronger place attachment effect and the size of the treatment sample.[8] Matching a firm's locality with its CEO's hometown at the city level could yield a stronger place attachment effect, but the treatment sample would be principally restricted to large cities where employment opportunities exist on a meaningful scale.[9] A significant negative estimate of α_1 will support our prediction.

Note that if a firm simply beats analyst forecasts without cutting R&D, then we do not categorize it as behaving myopically. It is possible that the firm beats the expectation through genuine performance. We perform a validity check by leveraging the difference between managerial myopia and true superior performance: We estimate Model (1) by replacing the dependent variable with an indicator variable, *Beat,* which takes the value of 1 if the unexpected earning (i.e., actual earnings − consensus forecast) is positive, and 0 otherwise. As *Beat* comingles performance from both myopic behavior and truly superior operating decisions, the significance level of *Local CEO* is likely to be lower.

According to Burgstahler and Dichev (1997), Brown and Caylor (2005), and Graham et al. (2005), the previous year's earnings are also likely to be an important performance benchmark. We, thus, test our prediction using an alternative empirical specification for additional insights. We estimate the following logistic regression model:

$$CutRD_{i,t} = \alpha_0 + \alpha_1 \times Local\ CEO_{i,t} + Controls + \varepsilon_{i,t}, \tag{2}$$

in which subscripts i and t denote firm i and year t, respectively. Following Chen et al. (2015), we define *CutRD* as an indicator variable that equals 1 if year t's R&D expense is lower than that of year t−1, and 0 otherwise.

To identify CEOs' acute incentives for myopic decisions, we follow Bushee (1998) and Chen et al. (2015) to divide our sample into three subsamples. The first subsample consists of firm-years that observe a decrease in earnings from the previous year before subtracting R&D expenses, with the decrease smaller than last year's R&D expenses (hereafter, the "small decreases" subsample). Firms in this subsample obviously have the strongest incentive to cut R&D spending to avoid an

[5] Compared to studies using events, such as Agarwal, Vashishtha, and Venkatachalam (2018), Kraft, Vashishtha, and Venkatachalam (2018), and Ladika and Sautner (2018), the specific performance situations, namely, the potential to underperform analyst forecasts in Model (1) and the potential to report an earning decrease in Model (2), constitute our "events."

[6] Brown and Caylor (2005) find evidence suggesting that since the mid-1990s, i.e., for most of our sample years, analyst forecasts are more important expectation thresholds than past earnings. Kasznik and McNichols (2002) find that firms beating analyst forecasts enjoy a higher valuation premium than firms failing to meet the forecasts. Bartov, Givoly, and Hayn (2002) find that the market barely differentiates firms that beat analysts' expectations through true performance from those using earnings manipulation and rewards both with a return premium. Meanwhile, failing to meet analysts' expectations could incur significant costs: Skinner and Sloan (2002) find that growth firms unable to meet analyst forecasts experience a drastic stock price decline. In the same vein, Matsunaga and Park (2001) show that failing to meet analyst forecasts has a pronounced negative impact on CEOs' annual bonus.

[7] Using the consensus forecast of the first month of the final quarter yields similar results.

[8] People commonly extend their emotional attachment to their hometown to larger surrounding areas, such as the city and the province/state (Tuan 1975; Cuba and Hummon 1993; Hidalgo and Hernandez 2001). Such region consciousness is shaped by a multitude of historical, political, cultural, and social factors. Each state as a political entity strives to establish and enhance its image, identity, and visibility (Tuan 1975). Each state in the U.S. has its own nickname, slogan, flag, symbol, and proud stories. All states promote their own seasonal celebrations and festivals. Identification with these social and institutional arrangements and involvement in various regional activities help define group boundaries and foster continuing attachment.

[9] To the extent that our prediction is conceptually valid, this relaxation of the matching criterion should bias against finding the predicted result.

earnings decrease. The second subsample includes firm-years observing a decrease in pre-R&D earnings, with the decrease larger than last year's R&D expenses (hereafter, the "large decreases" subsample). These firms cannot reverse the earnings decrease by cutting even all of their previous year's R&D expenses. Thus, we conjecture that, on average, these firms' R&D-cutting incentives will be relatively weaker than those in the "small decreases" subsample. Accordingly, we are less likely to detect any CEO locality effect. The third subsample includes firm-years that observe an increase in pre-R&D earnings (hereafter, the "increases" subsample). These firms also do not have a particularly strong incentive to cut R&D spending, because their earnings performance is already higher than the benchmark even if they maintain last year's R&D expenses. Nonetheless, to the extent that the "large decreases" firms have incentives to minimize the decrease and the "increases" firms have incentives to still further boost earnings for a larger performance pay, we cannot confidently predict that the differences of myopia incentives between the three subsamples are significant.

Dechow and Sloan (1991) and Cheng (2004) find evidence suggesting that equity incentives can align managers' interest with that of shareholders and, accordingly, reduce managers' tendencies to engage in short-term decisions. We, thus, control for *Executive Ownership,* computed as the percentage equity ownership held by the firm's executives and board directors.[10]

We follow Bushee (1998) and Chen et al. (2015) to further include the following control variables. See Appendix A for the detailed definitions. The R&D change in the previous year (*Lag of RD Change*) captures the firm's trend in R&D investment. *Industry RD Change* reflects the firm's R&D investment opportunities at the industry level. *Earnings Distance* measures how close this year's pre-tax and pre-R&D earnings are to last year's, computed as a multiple of last year's R&D expenses. When the earnings shortfall-R&D spending gap is too large, firms are less likely to consider cutting R&D as an option for increasing earnings. Change in capital expenditure (*CAPX Change*) and *Sales Change* measure the firm's growth opportunities. *Firm Size* relates to the market attention and, thus, pressure to achieve the performance expectation.

Leverage captures firms' incentives to increase earnings for avoiding debt covenant violations. Firms with large bank debts also have incentives to boost their absolute performance so as to lower the interest rates due to performance pricing (Asquith, Beatty, and Weber 2005). As an offsetting effect, creditors monitor and inhibit firms' earnings management incentives to contain their downside risk. *Tobin's Q* proxies for firms' investment opportunities. A higher *Free Cash Flow* suggests that the firm has sufficient funds and, therefore, has a lower incentive to sacrifice long-term innovation projects for improving short-term accounting performance. *Capital Intensity* is an inverse proxy for labor intensity. Matsumoto (2002) argues that firms with greater reliance on implicit claims from stakeholders, such as customers, suppliers, and employees, have stronger incentives to avoid negative earnings surprises. *Analyst Following* and *Institutional Ownership* capture both the amount of pressure and monitoring intensity, with offsetting effects, from sophisticated investors.

As Dechow and Sloan (1991) show that CEOs closer to retirement are more myopic in investment, we include an indicator, *Retirement,* for whether the CEO's age is greater than 63. Following Gillan, Hartzell, and Parrino (2009), we use *Abnormal Compensation* as a proxy for a CEO's ability. We further include an indicator for whether the CEO is a founder of the firm (*Founder*). Founders are, in general, more long-term-oriented than non-founder managers. Finally, we include year and industry fixed effects in both Models (1) and (2).

III. SAMPLE AND DATA

Table 1 reports the detailed sampling process. We start with the Execucomp database for the period from 1992 to 2016. The initial dataset registers 43,740 firm-year observations and 7,686 unique CEOs. Because Compustat reports the address of a firm's current (i.e., most recent) principal executive office, not its historic (i.e., observation year) headquarters location, we follow Heider and Ljungqvist (2015) and use firms' historical headquarters states.[11] Next, we delete firms missing headquarters information or with headquarters outside the U.S. (1,593 observations). We further delete 16,083 observations missing the CEO's birth state information.

To collect CEOs' birthplace information, we first search in The Complete Marquis Who's Who® Biographies through LexisNexis Academic. Then we use Wikipedia and NNDB for the remaining CEOs. Finally, we supplement the search using

[10] We use the whole executive team's (including the board directors') ownership because their personal equity interest in the firm is likely to drive them to restrain the CEO's myopic incentive. In robustness tests, we use only CEO's percentage ownership and find similar conclusions. The executive ownership level is also highly stable and provides strong incentives for the executives to care about the firms' long-term value. In untabulated analysis, we find that 88.4 percent (91.9 percent) of the year t holding level persists into year t+1 for the whole executive team (CEO). In three years apart, the persistence level attains 73.5 percent (83.6 percent) for executives (CEO). Armstrong, Core, and Guay (2015) and Edmans et al. (2017) elaborate on various explicit and implicit constraints for executives to hold firm equity in the long run, including ownership guidelines, maintaining of voting power, signaling of confidence, and tax considerations.

[11] We thank Professor Ljungqvist for generously sharing the data. Deleting firms that experienced changes in their headquarters states does not materially affect our conclusion.

TABLE 1
Sampling Process

	No. of Firm-Years	No. of CEOs
Execucomp database (1992–2016) with *CEOann* = "CEO"	43,740	7,686
Delete:		
Observations missing the firms' headquarters info. or with the firms' headquarters outside the U.S.	1,593	245
Observations missing CEOs' birth states information	16,083	3,193
Observations missing current or lag R&D data	13,889	2,083
Sample Remaining	12,175	2,165
Delete:		
Observations missing other necessary control variables	1,786	262
Final Sample	10,389	1,903

Google. For every record, we cross-validate the information by checking the CEO's first name and last name against her middle name, age, and company name when available.[12]

Because our proxies for myopic behavior require information on changes in R&D expenses, we exclude 13,889 observations in Table 1 missing the current or the previous year's R&D data.[13] Deleting observations missing information necessary for calculating other control variables causes an additional loss of 1,786 observations, representing 262 CEOs. Our final sample consists of 10,389 firm-year observations and 1,903 unique CEOs.[14] To avoid outliers exerting potentially undue influence on regressions, we winsorize all continuous variables at the extreme 2 percentiles.

Table 2 exhibits the percentage of local CEOs by year and by state. On average, 21.30 percent of firms hire local CEOs. This statistic is comparable to Yonker's (2017a) finding of 23.4 percent local hiring.[15] Columns I to IV show that the percentage of local CEOs is relatively stable through the sample period. Columns V to VIII present the distribution of local CEOs by state. Confirming the finding of Yonker (2017a), geographical segmentation in CEO selection is apparently a prevalent phenomenon across states. For example, firms headquartered in New York State (NY) hire 37.45 percent of their CEOs from within the state. Overall, a strong preference for hiring local CEOs exists across year and state in our sample.

IV. MAIN RESULTS

Table 3 reports the descriptive statistics for variables used in the main analysis. A total of 66.0 percent (mean of *Beat*) of sample firms reported earnings higher than analysts' consensus forecasts. Nonetheless, according to the mean of *BeatByCutRD,* only 15.0 percent of our sample firms beat analysts' expectations through cutting R&D expenses. Confirming that our sample

[12] Among the successfully identified 4,429 CEO birthplace records, LexisNexis contributes about 43 percent, Wikipedia and NNDB 33 percent, and Google 24 percent.

[13] Setting missing R&D to zero and keeping these observations does not change our conclusions.

[14] In untabulated analysis, we find that due to data requirements, firms in our final sample are 21 percent larger in assets, less leveraged, with higher growth potential (as reflected in Tobin's Q: 1.805 versus 1.461), less cash constrained, with more analyst following (11.6 versus 10.3) and higher institutional ownership (53.8 percent versus 51.4 percent), and more R&D-intensive (RD/Sales: 8.1 percent versus 4 percent) than an average Execucomp firm. To the extent that including these characteristics in the regression models cannot fully address the potential sampling selection issue, the generalizability of our findings to other samples needs to be accepted with caution.

[15] Yonker (2017a) uses CEOs' social security numbers to identify their hometowns. Between 1986 and 1990, children over five years of age needed to apply for the social security card, and after 1990, children over one year of age needed to apply. However, prior to 1986, as is the case for most of our sample CEOs (average age 57 years), most people applied for their social security cards when they started their first job or when they applied for a driver's license (Yonker 2017a). To the extent that relatives and friends in the birth state are less likely to relocate together with the concerned person, birthplace serves as an emotional attachment anchor even if one moves to another state to grow up. In contrast, one may apply for the social security card in a state where she did not grow up, thus, with little emotional attachment. Therefore, the measurement noise in using the birthplace to identify one's "home" state is likely to be smaller than using the social security number. Bernile, Bhagwat, and Rau (2017) and Yonker (2017b) both use the birthplace to identify CEOs' hometowns. About 58 percent of our birth states overlap with the social security card issuing states (we thank Professor Yonker for generously sharing the data). Using either the intersection or the union of the two datasets potentially misclassifies a substantial portion of local CEOs as nonlocals or *vice versa,* respectively. Both approaches introduce large Type II errors, reducing the power of the test. Indeed, while the CEO locality effect is negative and significant at the conventional level in Model (1) for both the union and the intersection datasets, in Model (2), it is only marginally significant (negative, $p = 0.14$) for the intersection dataset and insignificantly negative ($p = 0.283$) for the union dataset.

TABLE 2

Distribution of Local CEOs by Year and by State[a]

Year I	Obs. II	Obs. With Local CEOs III	% Local CEOs IV	State V	Obs. VI	Obs. with Local CEOs VII	% Local CEOs VIII
1992	149	33	22.15%	CA	2,086	277	13.28%
1993	345	76	22.03%	NY	770	288	37.45%
1994	469	100	21.32%	TX	660	153	23.18%
1995	486	104	21.40%	IL	654	146	22.32%
1996	489	110	22.49%	PA	554	126	22.74%
1997	499	110	22.04%	OH	542	197	36.35%
1998	491	100	20.37%	NJ	524	97	18.51%
1999	508	115	22.64%	MA	516	103	19.96%
2000	485	108	22.27%	MI	324	113	34.88%
2001	457	96	21.01%	CT	317	9	2.84%
2002	454	94	20.70%	VA	297	61	20.54%
2003	466	101	21.67%	MN	287	98	34.15%
2004	467	95	20.34%	WI	217	58	26.73%
2005	444	100	22.52%	FL	216	19	8.80%
2006	439	99	22.55%	GA	206	26	12.62%
2007	468	96	20.51%	MO	199	31	15.58%
2008	445	92	20.67%	NC	196	69	35.20%
2009	426	85	19.95%	MD	184	24	13.04%
2010	420	91	21.67%	WA	150	16	10.67%
2011	406	88	21.67%	CO	141	7	4.96%
2012	383	81	21.15%	IN	140	46	32.86%
2013	345	68	19.71%	TN	137	29	21.17%
2014	324	63	19.44%	NV	102	3	2.94%
2015	286	60	20.98%	OR	101	8	7.92%
2016	238	48	20.17%	IA	82	49	59.76%
Total	10,389	2,213	21.30%	AZ	81	7	8.64%
				KY	79	11	13.92%
				AL	70	17	24.29%
				RI	61	32	52.46%
				SC	59	19	32.20%
				OK	55	6	10.91%
				UT	53	9	16.98%
				NE	52	7	13.46%
				DE	47	7	14.89%
				AR	43	9	20.93%
				ID	43	2	4.65%
				NH	32	0	0.00%
				ME	27	0	0.00%
				DC	26	14	53.85%
				LA	23	11	47.83%
				MS	14	8	57.14%
				KS	6	0	0.00%
				VI	6	0	0.00%
				MT	4	0	0.00%
				VT	4	0	0.00%
				ND	1	1	100.00%
				NM	1	0	0.00%
				Total	10,389	2,213	21.30%

[a] This table reports the percentage of local CEOs by year and state, respectively.

TABLE 3

Descriptive Statistics[a]

Variable	n	Mean	Std	P25	P50	P75
Beat	10,389	0.660	0.474	0.000	1.000	1.000
BeatByCutRD	10,389	0.150	0.358	0.000	0.000	0.000
CutRD	10,389	0.266	0.442	0.000	0.000	1.000
Local CEO	10,389	0.213	0.409	0.000	0.000	0.000
Executive Ownership	10,389	0.019	0.047	0.000	0.002	0.016
Lag of RD Change	10,389	0.009	0.287	−0.053	0.000	0.124
Industry RD Change	10,389	0.004	0.305	−0.073	0.000	0.074
Earnings Distance	10,389	0.193	5.674	−0.730	0.253	1.125
CAPX Change	10,389	0.061	0.476	−0.172	0.067	0.309
Sales Change	10,389	0.089	0.202	0.004	0.077	0.169
Size	10,389	7.723	1.683	6.497	7.564	8.814
Leverage	10,389	0.168	0.153	0.018	0.147	0.264
Tobin's Q	10,389	1.805	1.250	0.989	1.415	2.157
Free Cash Flow	10,389	0.144	0.235	0.031	0.140	0.260
Capital Intensity	10,389	0.287	0.273	0.124	0.210	0.356
Analyst Following	10,389	11.618	8.173	5.000	10.000	16.000
Institutional Ownership	10,389	0.538	0.353	0.064	0.655	0.828
Retirement	10,389	0.201	0.401	0.000	0.000	0.000
Abnormal Compensation	10,389	0.001	0.084	−0.012	0.000	0.010
Founder	10,389	0.075	0.263	0.000	0.000	0.000

[a] This table exhibits the descriptive statistics of the variables used in the main regressions.

includes relatively large firms, firm size (*Size*), measured based on total assets, has an average value of 7.723 (median 7.564), corresponding to US$2,259 (US$1,927) million. Our sample firms observe thick following by sophisticated investors. An average sample firm is covered by about 12 analysts (mean of *Analyst Following:* 11.618). *Institutional Ownership* has a mean (median) of 53.8 percent (65.5 percent). Among the sample CEOs, 20.1 percent are close to retirement with an age greater than 63. On average, executives and board directors hold 1.9 percent of their firm's ownership. In addition, 7.5 percent of the CEOs are their firms' founders.

Table 4, Panel A exhibits the regression results for Model (1). Column I reports the results using *Beat* as the dependent variable. The coefficient on *Local CEO,* −0.060, while negative in sign, is not statistically significant (t = −0.89). This finding is consistent with our conjecture that the CEO locality effect is weak under this model specification, because a fraction of the observations represent firms beating analyst forecasts through true performance.

The negative sign of *Local CEO*'s coefficient in Column II of Table 4, Panel A indicates that local CEOs are less likely to cut R&D expenditures for beating analyst forecasts than nonlocal CEOs. The coefficient −0.237 (t = −2.85) translates to 21.1 percent lower odds.[16] As a comparison, the coefficient on *Executive Ownership,* a contractual solution to managerial myopia, −3.074 (t = −3.48) implies a mere 4.8 percent lower odds for local CEOs than for nonlocal CEOs when executive ownership changes from its 25th percentile to its 75th percentile.

For control variables in Table 4, Panel A, the positive coefficient 0.560 (t = 3.47) of *Lag of RD Change* suggests that firms with more R&D expenses have more room for cuts. The significantly negative coefficient −0.360 (t = −4.89) of *CAPX Change* indicates that firms in a fast-expanding stage are less likely to engage in myopic behavior, possibly due to the large opportunity costs. Firm size (*Size*) is significantly positive (coeff. = 0.139, t = 3.18) in Column II, supporting that larger firms face greater pressure to meet market expectations. Consistent with Matsumoto's (2002) finding, firms using relatively more capital than labor (*Capital Intensity:* coeff. = −0.851, t = −7.49) are less likely to cut R&D to meet analyst forecasts.

[16] Our model only examines CEOs' tendency, or likelihood, to cut R&D. It does not reflect the amount of the cut. In untabulated analysis, we find that when facing a potential miss of analyst forecasts, firms with local and nonlocal CEOs reduce their R&D spending by an average of US$21.67 million (median US$1.40 million) and US$41.37 million (median US$3.71 million), respectively, corresponding to 10.4 percent (median 5.6 percent) and 14.0 percent (median 9 percent), respectively, of their firms' total R&D spending.

TABLE 4

CEOs' Locality and Their Myopic Behavior

Panel A: CEOs' Locality and Their Tendency to Cut RD for Beating Analyst Forecasts

	Dep. Var. = *Beat* (I)	Dep. Var. = *BeatByCutRD* (II)
Local CEO	−0.060	−0.237***
	(−0.89)	(−2.85)
Executive Ownership	−1.451***	−3.074***
	(−3.20)	(−3.48)
Lag of RD Change	−0.059	0.560***
	(−0.61)	(3.47)
Industry RD Change	−0.011	−0.077
	(−0.16)	(−0.93)
Earnings Distance	0.029***	−0.009
	(6.79)	(−1.26)
CAPX Change	−0.125***	−0.360***
	(−2.65)	(−4.89)
Sales Change	0.861***	−0.388
	(5.86)	(−1.47)
Size	0.117***	0.139***
	(4.24)	(3.18)
Leverage	−0.407*	−0.492*
	(−1.96)	(−1.87)
Tobin's Q	0.010	0.033
	(0.34)	(1.10)
Free Cash Flow	0.952***	−0.454**
	(7.45)	(−2.02)
Capital Intensity	−0.183	−0.851***
	(−1.57)	(−7.49)
Analyst Following	−0.005	−0.012
	(−0.88)	(−1.56)
Institutional Ownership	−0.002	0.214**
	(−0.03)	(2.22)
Retirement	0.002	−0.002
	(0.03)	(−0.02)
Abnormal Compensation	0.504*	−0.465
	(1.83)	(−1.18)
Founder	0.045	−0.163
	(0.40)	(−0.97)
Intercept	−0.187	−2.950***
	(−0.53)	(−8.67)
n	10,389	10,389
Pseudo R^2	0.057	0.081

(continued on next page)

Table 4, Panel B exhibits the results for Model (2). In Column I, *Local CEO* has a negative coefficient of −0.141 that is significant at the 5 percent level (t = −2.02), suggesting that local CEOs, on average, are less likely to cut R&D. The coefficient indicates that local CEOs' odds of cutting R&D are 13.2 percent lower than those of nonlocal CEOs.

The result in Column I of Table 4, Panel B is an average effect on R&D cutting. Column II explicitly focuses on CEOs' trade-offs between short-term profits and potential destruction of their firms' long-run value by restricting the regression in the subsample experiencing small potential decreases in earnings that are reversible through R&D cutting. *Local CEO* still remains significantly negative. The coefficient of −0.345 (t = −2.04) suggests that in this specific situation, characterized by CEOs' heightened incentives to cut R&D, the odds that local CEOs will actually cut R&D are 29.2 percent lower than those of

TABLE 4 (continued)

Panel B: CEOs' Locality and Their Tendency to Cut R&D for Avoiding Earnings Decreases

	Dependent Variable = *CutRD*			
	Full Sample (I)	**Subsample with Small Decreases in Pre-R&D Earning (II)**	**Subsample with Large Decreases in Pre-R&D Earnings (III)**	**Subsample with Increases in Pre-R&D Earning (IV)**
Local CEO	−0.141**	−0.345**	−0.211	−0.089
	(−2.02)	(−2.04)	(−1.00)	(−1.11)
Executive Ownership	−1.341*	−3.540*	−1.537	−0.471
	(−1.65)	(−1.85)	(−1.24)	(−0.38)
Lag of RD Change	0.265**	−0.523*	−0.192	0.689***
	(2.14)	(−1.68)	(−0.95)	(4.86)
Industry RD Change	−0.107	0.003	−0.352**	−0.004
	(−1.35)	(0.01)	(−2.26)	(−0.04)
Earnings Distance	0.030***	0.213	0.003	0.043***
	(6.49)	(0.95)	(0.27)	(5.29)
CAPX Change	−0.801***	−0.684***	−0.800***	−0.815***
	(−12.12)	(−4.15)	(−6.19)	(−9.38)
Sales Change	−2.979***	−4.476***	−3.458***	−3.161***
	(−9.01)	(−6.57)	(−8.45)	(−8.55)
Size	−0.076**	−0.093	0.020	−0.123**
	(−2.06)	(−1.39)	(0.36)	(−2.54)
Leverage	0.257	2.443***	−0.108	−0.094
	(1.14)	(3.72)	(−0.26)	(−0.30)
Tobin's Q	−0.187***	−0.183**	−0.233***	−0.147***
	(−6.76)	(−2.40)	(−3.05)	(−4.10)
Free Cash Flow	−0.590***	0.096	−0.218	−1.046***
	(−3.53)	(0.16)	(−0.79)	(−4.33)
Capital Intensity	−0.273**	−0.891*	−0.348	−0.044
	(−2.41)	(−1.88)	(−1.42)	(−0.29)
Analyst Following	0.010	0.012	−0.016	0.018**
	(1.34)	(0.82)	(−1.51)	(2.07)
Institutional Ownership	0.046	−0.406	0.257	0.069
	(0.51)	(−1.62)	(1.23)	(0.60)
Retirement	−0.047	0.100	−0.045	−0.106
	(−0.65)	(0.53)	(−0.46)	(−1.04)
Abnormal Compensation	−0.149	0.223	0.310	−0.334
	(−0.41)	(0.31)	(0.58)	(−0.68)
Founder	−0.207*	−0.130	−0.052	−0.268*
	(−1.73)	(−0.57)	(−0.19)	(−1.66)
Intercept	−1.040	−0.387	−1.982	−0.182
	(−0.89)	(−0.71)	(−1.31)	(−0.16)
n	10,389	1,624	2,593	6,172
Pseudo R^2	0.174	0.217	0.227	0.177

***, **, * Indicate significance at the 0.01, 0.05, and 0.10 levels, respectively.

This table exhibits regression results on whether a CEO's locality (*Local CEO*) is related to her tendency to cut R&D expenses for beating analyst forecasts (Panel A) or avoiding a potential earnings decrease (Panel B). The subsample with "Small Decreases in Pre-R&D Earnings" (Panel B, Column II) includes firm-years in which the pre-tax, pre-R&D earnings decrease from the previous year and the decrease is smaller than the previous year's R&D expenses. The subsample with "Large Decreases in Pre-R&D Earnings" (Panel B, Column III) includes firm-years in which the pre-tax, pre-R&D earnings decrease from the previous year and the decreases are greater than the previous year's R&D expenses. The subsample with "Increases in Pre-R&D Earnings" (Column IV) includes firm-years in which the pre-tax, pre-R&D earnings increase from the previous year. All results are from logistic regressions. The standard errors are clustered by firm and year. Industry and year fixed effects are included in all models. t-statistics are in parentheses.

See Appendix A for the variable definitions.

nonlocal CEOs.[17] As a comparison, *Executive Ownership* has a coefficient −3.540 (t = −1.85), equivalent to 5.5 percent lower odds of myopic R&D cutting when it changes from 0 percent (25th percentile) to 1.6 percent (75th percentile).

In Columns III and IV of Table 4, Panel B, where either solely cutting R&D cannot reverse the earnings decrease or R&D cutting is not necessary because the pre-R&D earnings are already an increase, respectively, the coefficients on *Local CEO* are insignificant. Thus, the average effect of CEO locality in Column I appears to be primarily driven by observations in Column II.

To summarize, results in Table 4 suggest that the inhibiting effect of CEO locality on firms' myopic decisions is statistically significant, and also economically meaningful when compared to a major contractual solution, executive ownership.

V. EVIDENCE ON CAUSALITY

Our findings above should be useful to investors when analyzing firms' sustainability and long-term profitability. Nonetheless, these results could happen in two scenarios: local CEOs impress their long-term horizon upon firms' strategies and operating decisions, or local CEOs have better knowledge of local firms and self-select into those with longer horizons. Cohen (2017) points out that the CEO-firm employment pairing is an equilibrium outcome of a two-sided match and negotiation. We, thus, perform three analyses to address this potential endogeneity issue including, (1) two-stage least squares regressions (2SLS), (2) a difference-in-differences test using CEO retirement as the event, and (3) regressions using the change form of variables.

2SLS

For the two-stage least squares regression, we follow Deng and Gao (2013) and Yonker (2017a) and use the percentage of clear days in the firm's headquarters state (*PctClearHQ*) and the percentage of clear days in the CEO's home state (*PctClearHome*) as the instruments (IV). As people in general prefer sunny weather, firms in regions with more desirable weather can more easily attract talented CEOs from across the country and are, thus, less likely to hire locally. Similarly, local talents are more likely to stay in their home areas if the weather there is more desirable. We expect *PctClearHome* to be positively and *PctClearHQ* negatively associated with local hiring. The climate condition at a firm's headquarters' location and that at its CEO's birthplace are not likely to directly affect the firm's myopic behavior, which should be primarily driven by firm executives' economic incentives. In untabulated tests for the validity of the IVs' exclusion restriction, we use the model in Fang, Tian, and Tice (2014) to examine whether the weather of a firm's headquarters state (i.e., *PctClearHQ*) is related to its R&D productivity, proxied by the number of patents filed by the firm in the year. Firms should be reluctant to cut productive R&D projects. We do not find any evidence suggesting that the weather is related to a firm's R&D efficiency.[18] Although the two instruments are conceptually sound, we also follow Larcker and Rusticus (2010) to calculate the partial F-statistic and the over-identifying restriction test statistic to examine their econometric validity.

Table 5, Columns I and II report the regression results for Model (1). In Column I, the coefficients of *PctClearHQ* (coeff. = −1.053, t = −15.96) and *PctClearHome* (coeff. = 0.999, t = 13.62) are consistent with our conjecture on how weather affects CEOs' locality choice. The partial R^2 of 0.060 and the significant partial F-statistic (173.68, $p < 0.01$) indicate that the two instruments have significant explanatory power for *Local CEO*. In addition, the χ^2 statistic in the over-identifying restriction test has a p-value of 0.242. Thus, we cannot reject the null that the two instruments are uncorrelated with the error term.

We use the predicted value of *Local CEO* from the first-step regression in the second step as an independent variable, together with the other variables in Model (1). The results in Table 5, Column II show that *Local CEO* (predicted) remains negative and statistically significant (coeff. = −0.329, t = −1.69).

Table 5, Columns III and IV exhibit the 2SLS regression results for Model (2) in the small earnings decreases subsample. The two instrument variables remain statistically significant in the predicted signs. The partial R^2 of 0.096, partial F-statistic (40.50, $p < 0.01$), and the χ^2 statistic ($p = 0.351$) support their statistical validity as instruments. In the second stage, *Local CEO* (predicted) (coeff. = −0.082, t = −1.70) remains significant.

To sum up, the 2SLS regression analysis shows that our earlier results are robust to controlling for potential endogeneity between CEOs' geographic origin and the type of their firms.

[17] In dollar amounts, when facing a potential small earnings decrease, firms with local CEOs cut US$43.39 million (median US$2.17 million) less of R&D spending than firms with nonlocal CEOs, equivalent to 20.8 percent (median 8.7 percent) of the total R&D spending of local CEOs' firms.

[18] Nonetheless, to the extent that the weather affects the mood of the employees conducting R&D activities, which, in turn, makes CEOs' myopic R&D cutting more or less difficult, the exclusion restriction and, thus, the exogeneity of our instruments would be weakened.

TABLE 5

2SLS Regressions Using Weather as the Instrument

	Dep. Var. = *BeatByCutRD*		Dep. Var. = *CutRD*[a]	
	Step 1 (I)	**Step 2 (II)**	**Step 1 (III)**	**Step 2 (IV)**
Local CEO (predicted)		−0.329*		−0.082*
		(−1.69)		(−1.70)
Executive Ownership	0.172	−1.418***	−0.084	−1.012
	(1.50)	(−2.79)	(−0.25)	(−0.82)
Lag of RD Change	0.011	0.293***	−0.000	−0.460***
	(0.69)	(4.99)	(−0.00)	(−3.28)
Industry RD Change	−0.007	−0.007	−0.026	0.086
	(−0.59)	(−0.16)	(−0.71)	(0.68)
Earnings Distance	0.000	−0.006*	−0.003	−0.042
	(0.10)	(−1.82)	(−0.07)	(−0.28)
CAPX Change	0.005	−0.153***	0.021	−0.396***
	(0.47)	(−3.63)	(0.75)	(−3.68)
Sales Change	0.052*	−0.248**	0.115*	−2.322***
	(1.95)	(−2.49)	(1.70)	(−8.09)
Size	−0.014***	0.085***	−0.019	−0.071
	(−2.92)	(4.82)	(−1.54)	(−1.63)
Leverage	−0.294***	−0.433***	−0.400***	1.119***
	(−8.77)	(−3.13)	(−4.26)	(3.17)
Tobin's Q	0.001	0.018	0.009	−0.171***
	(0.33)	(1.17)	(0.88)	(−4.00)
Free Cash Flow	−0.031	−0.222***	0.059	0.267
	(−1.43)	(−2.61)	(0.88)	(1.04)
Capital Intensity	0.020	−0.432***	0.128**	−0.288
	(1.10)	(−5.64)	(2.38)	(−1.42)
Analyst Following	−0.002**	−0.007**	−0.002	0.013
	(−2.08)	(−2.08)	(−0.77)	(1.49)
Institutional Ownership	0.023	0.117**	0.092**	−0.287**
	(1.62)	(2.22)	(2.51)	(−2.11)
Retirement	0.034***	0.004	0.045	0.016
	(2.90)	(0.09)	(1.48)	(0.15)
Abnormal Compensation	−0.142**	−0.318	−0.191	−0.153
	(−2.54)	(−1.56)	(−1.35)	(−0.31)
Founder	0.067***	0.006	0.083*	−0.038
	(3.47)	(0.08)	(1.72)	(−0.20)
PctClearHQ	−1.053***		−1.484***	
	(−15.96)		(−9.09)	
PctClearHome	0.999***		0.750***	
	(13.62)		(3.83)	
Intercept	0.458***	−1.679***	0.687***	−0.379
	(8.39)	(−8.09)	(4.88)	(−0.84)
n	8,397	8,397	1,267	1,267
Adjusted R^2	0.312	0.174	0.356	0.414
Partial R^2	0.060		0.096	
Partial F-statistic	173.68		40.50	
Over-Ident. Restriction Test	p-value = 0.242		p-value = 0.351	

***, **, * Indicate significance at the 0.01, 0.05, and 0.10 levels, respectively.

[a] *CutRD* in the small earnings decreases subsample.

This table exhibits the 2SLS regression results. *PctClearHQ* is the percentage of clear days (i.e., the number of clear days/365) in the firm's headquarters state. *PctClearHome* is the percentage of clear days in the CEO's birth state. Industry and year fixed effects are included in all regressions. Standard errors are clustered by firm and year. t-statistics are in parentheses.

See Appendix A for the variable definitions.

Myopia Near Retirement

Dechow and Sloan (1991) find that CEOs near retirement behave myopically and spend less on R&D. We adopt this setting and use a difference-in-differences design to examine whether local CEOs differ from nonlocal ones in R&D spending when approaching retirement. The retirement event grants us benefits similar to those of an exogenous shock. First, this event is unavoidable for all CEOs. Second, although CEO retirement can be anticipated by a firm, to the extent that myopic behavior impairs firm value and firms accordingly make contractual arrangements (such as the compensation contract modifications in Cheng [2004]) to curtail its effect, such anticipation would bias us against finding any significant effect of CEO locality. To implement the test, we define an indicator variable, *Last Year,* that equals 1 if the observation year is the CEO's final year of office, and 0 otherwise.

Table 6 reports the regression results. Note that because retirement itself constitutes an incentive for myopic decisions, it is not necessary to restrict the analysis in the "small earnings decreases" subsample.[19] Column I shows that, indeed, CEOs in their last years of office are significantly more likely to cut R&D spending. The coefficient of *Last Year* 0.091 ($t = 1.69$) corresponds to 9.5 percent higher odds for retiring CEOs than non-retiring CEOs to cut R&D. In the meantime, *Local CEO* remains significantly negative (coeff. $= -0.234$, $t = -3.04$). In Column II, the significantly negative coefficient on the interaction term *Last Year* × *Local CEO,* −0.309 ($t = -2.46$), suggests that local CEOs are less likely than nonlocal CEOs to cut R&D in their last year of office.[20]

Change Analysis

Another approach to establishing causality between CEOs' locality and their firms' myopic behavior is to conduct the tests within the same firm through a change analysis. To the extent that firms' cultures and strategic orientations do not dramatically shift in a short period, a change in myopic behavior accompanying a change of CEO locality would suggest a causal relationship.

For this test, we only consider firms that experience at least one instance of CEO turnover in the sample period. Change of locality (Δ*Local CEO*) equals 1 if the new CEO is local and the departing CEO nonlocal, −1 if the new CEO is nonlocal and the leaving CEO is local, and 0 otherwise. Incorporating the feature of the subsample with small decreases in pre-R&D earnings in Table 4, we define *CutRD* here to take the value of 1 if the firm's current-year R&D expenses are lower than those of the previous year, and at the same time, the current year's pre-R&D earnings are lower than the previous year's, but the decrease is smaller than the previous year's R&D expenses, and 0 otherwise. Δ*CutRD* then equals the average of *CutRD* for the current CEO over her tenure in the firm through the sample period minus the average of *CutRD* for the previous CEO. All other variables are defined as the change of their averages over the tenure of the concerned CEOs. We then perform ordinary least squares (OLS) regressions.

Table 7, Column I presents the regression results for Model (1). The significantly negative coefficient of Δ*Local CEO,* −0.058 ($t = -1.72$), suggests that when a firm replaces a nonlocal CEO with a local one, its tendency to cut R&D for beating analyst forecasts is weaker and *vice versa*. Column II reports the results for Model (2) following a similar approach. Again, Δ*Local CEO* has a significantly negative coefficient −0.036 ($t = -1.95$) in the small earnings decreases subsample.

Overall, the results in this section suggest that the relationship between CEO locality and firm myopia is likely causal.

VI. CROSS-SECTIONAL ANALYSIS

Local Economic Interest

If local firms and residents have larger financial stakes in a firm, then they will be more proactive in using their local information to monitor the firm's CEO. The CEO, especially a local one, will correspondingly be more concerned about her behavior's impact on the local residents' interests and her local reputation.

[19] Model (1) does not produce significant results in this setting (untabulated). Gibbons and Murphy (1992) find that as CEOs get closer to retirement, their compensation contracts emphasize more cash-based performance pay, such as bonuses and salaries. Such pay is likely more sensitive to historical performance benchmarks than analyst forecasts.

[20] The sum of the coefficients of *Last Year* and *Last Year* × *Local CEO* is insignificant ($p = 0.185$). Namely, local CEOs do not behave significantly different in their last year of office than in earlier years as regards myopic R&D cutting.

TABLE 6

CEO's Myopia in Her Last Year of Office

	Dependent Variable = *CutRD*	
	(I)	(II)
Local CEO	−0.234***	−0.145*
	(−3.04)	(−1.78)
Last Year	0.091*	0.148**
	(1.69)	(2.13)
Last Year × Local CEO		−0.309**
		(−2.46)
Executive Ownership	−2.222**	−2.213**
	(−2.37)	(−2.36)
Lag of RD Change	0.302**	0.304**
	(2.26)	(2.27)
Industry RD Change	−0.133**	−0.134**
	(−2.51)	(−2.49)
Earnings Distance	0.029***	0.028***
	(5.70)	(5.66)
CAPX Change	−0.780***	−0.779***
	(−11.60)	(−11.63)
Sales Change	−3.154***	−3.156***
	(−8.87)	(−8.89)
Size	0.027	0.026
	(0.81)	(0.80)
Leverage	−0.315	−0.311
	(−1.34)	(−1.33)
Tobin's Q	−0.144***	−0.144***
	(−4.26)	(−4.25)
Free Cash Flow	−0.650***	−0.646***
	(−3.50)	(−3.50)
Capital Intensity	−0.116	−0.117
	(−0.89)	(−0.91)
Analyst Following	−0.003	−0.003
	(−0.39)	(−0.36)
Institutional Ownership	0.205**	0.205**
	(2.06)	(2.07)
Retirement	−0.074	−0.069
	(−0.93)	(−0.87)
Abnormal Compensation	−0.152	−0.143
	(−0.44)	(−0.41)
Founder	−0.235*	−0.237*
	(−1.72)	(−1.73)
Intercept	−0.575**	−0.586**
	(−2.31)	(−2.35)
n	10,389	10,389
Pseudo R^2	0.126	0.126

***, **, * Indicate significance at the 0.01, 0.05, and 0.10 levels, respectively.
This table exhibits regression results on whether local CEOs are less myopic during their last year in office. *Last Year* is an indicator variable that equals 1 if it is the CEO's final year in office, and 0 otherwise. The standard errors are clustered by firm and year. Industry and year fixed effects are included in both models. The t-statistics are in parentheses.
See Appendix A for the definition of the other variables.

TABLE 7

Change Regressions

	Dep. Var. = Δ*BeatByCutRD* (I)	**Dep. Var. = Δ*CutRD* (II)**
Δ*Local CEO*	−0.058*	−0.036*
	(−1.72)	(−1.95)
Δ*Executive Ownership*	−0.629	−0.040
	(−1.48)	(−0.25)
Δ*Lag of RD Change*	−0.081	−0.041
	(−1.24)	(−1.02)
Δ*Industry RD Change*	0.015	−0.003
	(0.36)	(−0.20)
Δ*Earnings Distance*	−0.001	−0.000
	(−0.84)	(−0.85)
Δ*CAPX Change*	−0.021	−0.006
	(−0.36)	(−0.21)
Δ*Sales Change*	0.030	−0.101*
	(0.24)	(−1.78)
Δ*Size*	−0.011	−0.035**
	(−0.63)	(−2.25)
Δ*Leverage*	−0.090	0.131
	(−0.78)	(1.59)
Δ*Tobin's Q*	−0.031*	−0.003
	(−1.89)	(−0.24)
Δ*Free Cash Flow*	0.085	0.058
	(1.43)	(1.26)
Δ*Capital Intensity*	−0.048	−0.097**
	(−0.48)	(−2.01)
Δ*Analyst Following*	−0.006*	0.002
	(−1.80)	(1.18)
Δ*Institutional Ownership*	0.040	−0.042
	(0.60)	(−1.38)
Δ*Retirement*	−0.001	0.000
	(−0.83)	(0.00)
Δ*Abnormal Compensation*	−0.049	−0.004
	(−0.85)	(−0.15)
Δ*Founder*	−0.023	−0.013
	(−0.76)	(−0.33)
Intercept	−0.014	−0.085
	(−0.55)	(−1.29)
n	768	768
Adjusted R^2	0.109	0.096

***, **, * Indicate significance at the 0.01, 0.05, and 0.10 levels, respectively.
This table exhibits results from regressions using change variables. The sample consists of 768 CEO turnover events. OLS is used in all regressions. The standard errors are clustered by firm and year. Industry and year effects are included in both models. t-statistics are in parentheses.
See Appendix A for the definition of the other variables contained in Table 4 in their non-change form.

We use two variables to measure the intensity of a firm's local interest concentration. One is the concentration level of the firm's business in the state. Following Garcia and Norli (2012) and Bernile, Kumar, and Sulaeman (2015), we classify a firm as locally concentrated in business (thus, the indicator *Local Concentration* = 1, and 0 otherwise) if, in its 10-K report of the year, the number of times that its headquarters state is cited is more than 50 percent of its citations of all U.S. states.[21]

The other variable is the preference of the state's residents for holding local stocks. We use the data in Barber and Odean (2000) and follow Hong, Kubik, and Stein (2008) to compute the measure.[22] A stock is defined local if the issuing firm's headquarters state matches the investor's state of residence. Local investment preference is calculated as the difference between the percentage of local investment (*%Local Investment*) and the percentage of local stocks available (*%Local Stocks*). The *%Local Investment* is defined as the number of local stocks held by an investor divided by the total number of stocks held by that investor in a particular year. The *%Local Stocks* is defined as the number of stocks issued by firms headquartered in the concerned state divided by the total number of stocks available in Compustat. Investment bias at the state level is computed as the average local investment preference across households in the state. If a firm's headquarters state is ranked in the top quintile of local investment bias, then the observations from this state are classified as having high local investment bias (i.e., the indicator variable *Local Bias* = 1, and 0 otherwise).[23] Although the individual households' stockholding information in Barber and Odean (2000) is available only for the period from 1991 to 1996, the measure itself is highly persistent over time.[24] We assume that the relative ranking of local investment bias across states remains stable over time, and that the average ranking for the period 1991–1996 holds through our sample period. We also report results for the period 1992–1996 with a much smaller sample.

Table 8, Column I exhibits the regression results for Model (1). The interaction term *Local CEO* × *Local Concentration* is significantly negative (coeff. = −0.292, t = −2.06). Thus, supporting our prediction, local CEOs' lower tendency to cut R&D for beating analyst forecasts is more salient when their firms' business is more concentrated in the state. The results in Column II for Model (2) convey a similar message when the performance pressure is about avoiding earnings decreases.[25]

Table 8, Columns III to VI exhibit results on how the CEO locality effect varies with investors' preference for holding local stocks. The negative coefficient of *Local CEO* × *Local Bias* in Column III (coeff. = −0.199, t = −1.97) indicates that the locality effect on CEOs' myopic behavior is greater when local investors have a stronger preference for holding local stocks. The results are similar in Column IV if we restrict the analysis to only the subperiod 1992–1996. In Columns V and VI, we draw similar conclusions when we estimate Model (2).

Overall, the above results confirm that when a firm's business embeds more local interest, its CEO is less likely to behave myopically if she was also born in the state.

Social Capital

Social bonds between the CEO and the local people, and the attendant reputation concerns and implicit social pressures, can also help constrain managerial myopia. People's home areas cluster their most intimate and persisting social relationships (Wellman and Wortley 1990; Wellman, Wong, Tindall, and Nazer 1997), which collectively constitute a major component of their social capital.[26] Because local CEOs run businesses in their home areas, their opportunistic behavior could often impair the interest of their closely connected people. Their reputation and trustworthiness will then be tarnished. Thus, as a CEO's birthplace features more close-knit social bonds and hence more social capital, her long-term reputation concerns will be greater. Her operating horizons will be longer and she is less likely to behave myopically.

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[21] We follow Garcia and Norli (2012) and count the occurrence of state names in the following sections of 10-K reports: "Item 1: Business," "Item 2: Properties," "Item 6a: Consolidated Financial Data," and "Item 7: Management's Discussion and Analysis." The 50 percent cutoff point leaves 3,525 observations in the partition of high local concentration. Using a lower cutoff point of 40 percent or 30 percent (with 3,854 and 4,528 observations, respectively, in the partition of high local concentration) yields similar results.

[22] We thank Professor Odean for generously sharing the data.

[23] For example, in 1996, in the portfolios of household investors in California, about 43.56 percent are local stocks and, meanwhile, 15.72 percent of U.S. stocks in Compustat are issued by firms headquartered in California in the year. Thus, the local bias for California in 1996 is 27.84 percent (43.56 percent − 15.72 percent). According to this definition, the top five U.S. states with the highest local investment bias in 1996 are Arkansas, Washington, Georgia, California, and Minnesota.

[24] The Pearson correlation coefficient of year *t* and year *t*−1 local investment bias is 0.971 in the period from 1991 to 1996, and the correlation between 1991 and 1996 is 0.904.

[25] Interactions in logit models can have unstable signs and significance levels (Ai and Norton 2003; Norton, Wang, and Ai 2004). As a robustness check, we use STATA's "inteff" command to calculate the interaction effects in Table 8. The conclusion remains the same. We also estimate the regressions using OLS, and all the interaction variables remain statistically significant at the conventional level with $p \leq 0.10$.

[26] Putnam (1995) defines social capital as "connections among individuals—social networks and the norms of reciprocity and trustworthiness that arise from them."

TABLE 8

Local CEO Myopia and Local Business Interest

	Partition = Local Concentration		*Partition = Local Bias*			
	Dep. Var. = *BeatByCutRD*	**Dep. Var. = *CutRD*[a]**	**Dep. Var. = *BeatByCutRD***		**Dep. Var. = *CutRD*[a]**	
	1992–2016 (I)	**1992–2016 (II)**	**1992–2016 (III)**	**1992–1996 (IV)**	**1992–2016 (V)**	**1992–1996 (VI)**
Local CEO	−0.125	−0.611**	−0.180*	−0.115	−0.401***	−0.692
	(−1.17)	(−2.29)	(−1.95)	(−0.58)	(−2.63)	(−1.37)
Partition	0.118	−0.383*	0.156*	0.048	−0.241	0.318
	(1.17)	(−1.77)	(1.80)	(0.54)	(−1.63)	(1.08)
Local CEO × Partition	−0.292**	−0.579*	−0.199*	−0.762**	−0.218*	−1.250*
	(−2.06)	(−1.75)	(−1.97)	(−2.19)	(−1.74)	(−1.71)
Executive Ownership	−3.037***	−4.082**	−3.046***	1.284	−3.892**	12.947
	(−3.43)	(−2.17)	(−3.43)	(0.37)	(−2.09)	(0.49)
Lag of RD Change	0.561***	−0.669**	0.555***	0.475	−0.643**	−1.141
	(3.50)	(−2.21)	(3.45)	(1.31)	(−2.06)	(−1.19)
Industry RD Change	−0.076	−0.072	−0.077	0.023	−0.077	0.408
	(−0.92)	(−0.31)	(−0.91)	(0.12)	(−0.34)	(0.98)
Earnings Distance	−0.009	0.148	−0.009	−0.046***	0.159	0.876
	(−1.28)	(0.68)	(−1.27)	(−3.09)	(0.74)	(1.36)
CAPX Change	−0.358***	−0.662***	−0.358***	−0.199	−0.642***	−2.049***
	(−4.87)	(−4.36)	(−4.93)	(−1.36)	(−4.28)	(−7.26)
Sales Change	−0.397	−4.403***	−0.398	0.874***	−4.455***	−2.887**
	(−1.50)	(−6.54)	(−1.53)	(4.39)	(−6.38)	(−2.25)
Size	0.143***	−0.100	0.147***	0.428***	−0.104*	0.035
	(3.19)	(−1.57)	(3.31)	(3.03)	(−1.71)	(0.21)
Leverage	−0.487*	2.274***	−0.456*	−1.125*	2.298***	1.871
	(−1.84)	(4.14)	(−1.73)	(−1.68)	(4.25)	(1.27)
Tobin's Q	0.033	−0.200***	0.027	−0.037	−0.203***	−0.526*
	(1.08)	(−2.79)	(0.94)	(−0.63)	(−2.69)	(−1.65)
Free Cash Flow	−0.449**	0.211	−0.437**	0.641	0.210	0.777
	(−1.99)	(0.38)	(−1.97)	(1.29)	(0.37)	(0.57)
Capital Intensity	−0.846***	−0.651	−0.829***	−0.563***	−0.687	−0.167
	(−7.54)	(−1.57)	(−7.24)	(−3.01)	(−1.64)	(−0.16)
Analyst Following	−0.012	0.010	−0.013*	−0.063***	0.013	0.014
	(−1.61)	(0.64)	(−1.75)	(−4.67)	(0.81)	(0.47)
Institutional Ownership	0.215**	−0.425**	0.225**	0.722***	−0.444**	−0.217
	(2.22)	(−1.99)	(2.36)	(4.00)	(−2.04)	(−0.36)
Retirement	0.001	0.148	−0.002	−0.094	0.145	−0.610*
	(0.02)	(0.77)	(−0.03)	(−0.32)	(0.73)	(−1.74)
Abnormal Compensation	−0.451	0.046	−0.444	−1.455	0.103	−0.718
	(−1.14)	(0.07)	(−1.12)	(−1.13)	(0.15)	(−0.23)
Founder	−0.150	−0.155	−0.181	0.292	−0.113	−0.279
	(−0.88)	(−0.67)	(−1.06)	(0.50)	(−0.47)	(−0.45)
Intercept	−3.082***	−0.015	−3.046***	−4.290***	−0.289	−0.763
	(−7.71)	(−0.03)	(−8.67)	(−5.07)	(−0.62)	(−0.68)
n	10,389	1,624	10,389	1,938	1,624	325
Pseudo R^2	0.049	0.200	0.073	0.061	0.268	0.232

***, **, * Indicate significance at the 0.01, 0.05, and 0.10 levels, respectively.

[a] *CutRD* in the small earnings decreases subsample.

This table tests whether the association between a CEO's locality and her tendency to be myopic is moderated by the firm's local business concentration (*Local Concentration*) and local investors' stock investment preferences (*Local Bias*). We classify a firm as locally concentrated in business; thus, *Local Concentration* = 1 (and 0 otherwise) if the firm's headquarters citation share, defined as the number of times the headquarters state is cited divided by the total number of citations of all U.S. states in the firm's 10-K report for the year, is greater than 50 percent. *Local Bias* equals 1 if the firm's headquarters state is ranked among the top quintile across all states in local investment bias, and 0 otherwise. All results are from logistic regressions. Standard errors are clustered by firm and year. Industry and year fixed effects are included in all models. t-statistics are in parentheses.

See Appendix A for the definition of other variables.

According to Coleman (1988), reputation cannot develop in a social network with an open structure in which many members are not directly connected. Sparse connections render collective sanctions that ensure trustworthiness unviable and hamper the cultivation of social capital. A place's social structure is more likely to be open when its population has higher mobility. Sampson (1988) provides evidence that mobility inhibits place attachment. We, thus, predict that regions with lower population mobility will observe a stronger CEO locality effect in constraining myopia.

We collect the state-to-state migration flows data from https://www.census.gov, which provides state residence data for the period from 2005 to 2016. We calculate each state's population mobility as the number of changes of residence places in the state divided by the total number of places of residence in the state in the prior year. As state mobility is very stable, we use the average state population mobility over 2005–2016 for the whole sample period. We classify a state as having low mobility (thus, *Low Mobility* = 1, and 0 otherwise) if its population mobility is in the bottom quintile of all the U.S. states.[27]

Table 9, Column I reports the regression results for Model (1) by including population mobility. The significantly negative coefficient on the interaction term *Local CEO* × *Low Mobility* (coeff. = −0.331, t = −2.15) supports our prediction above. The finding based on Model (2), reported in Column II, yields a similar conclusion.

Rupasingha, Goetz, and Freshwater (2006) propose an alternative proxy for social capital: the number of various social organizations and entities, which could presumably facilitate the development of social capital.[28] We use the average of their social capital index across counties within the same state as our state-level social capital score. We classify a state as having high social capital (thus, *High Social Capital* = 1, and 0 otherwise) if its score is among the top quintile of all states.

Table 9, Column III exhibits the regression results for Model (1) using this alternative proxy. The interaction term *Local CEO* × *High Social Capital* has a significantly negative coefficient (−0.360, t = −2.36). Column IV reports the regression results for Model (2) and the inference is similar.[29] The evidence, thus, corroborates the conclusion drawn from Columns I and II.

To sum up, the findings in Table 9 support our prediction that the CEO locality on firm myopia is influenced by the intensity of the local social capital. These results corroborate our main findings in the previous section.

VII. ROBUSTNESS TESTS

Other Contractual Factors

To address managerial myopia, some recent studies (Chen et al. 2015; Gonzalez-Uribe and Groen-Xu 2015) suggest providing managers with employment protections, including employment agreements and severance agreements. The former are fixed-term, commonly two to five years, contracts between a firm and its managers. The latter specify the terms and amount of payments managers can receive when they are dismissed by the firm. Neither of the two types of agreements could be voided by the firm without good cause.

In Table 10, Panel A, we find that employment agreements are observed for 71.4 percent of the nonlocal CEOs and only 65.5 percent of the local CEOs (t-value for the difference = −5.132); similarly, severance agreements are observed for 58.9 percent of nonlocal CEOs and 56.4 percent of local CEOs (t-value for the difference = −2.008). It appears that firms realize that local CEOs are less likely to behave myopically and hence less often adopt these costly contractual arrangements. In Panel B, we include both *Employment Agreement* and *Severance Agreement* as indicators for the presence of the two corresponding types of contractual protection in our main regressions. *Local CEO* remains significant in both Models (1) and (2). *Severance Agreement* is significantly negative in Model (1), with a coefficient of −0.530 (t = −2.82), translating to 41.1 percent lower odds for firms to cut R&D for beating analyst forecasts. In the meantime, *Employment Agreement* is insignificant at the conventional level (coeff. = −0.043, t = −0.53). As a comparison, *Local CEO*'s coefficient is −0.211 (t = −2.69), corresponding to 19.0 percent lower odds for local CEOs than for nonlocal ones. In Model (2), *Employment Agreement* is significantly negative, with a coefficient of −0.308 (t = −1.92), or 26.5 percent lower odds for firms to cut R&D for avoiding an earnings decrease. Nonetheless, *Severance Agreement* is insignificantly negative. *Local CEO*'s coefficient is −0.446 (t = −2.15), equivalent to 36.0 percent lower odds for local CEOs to cut R&D. Overall, the results suggest that our noncontractual factor, CEOs' locality, functions through channels distinct from those of CEOs' contractual protections to affect managerial myopia. The magnitude of the CEO locality effect is economically meaningful when compared to those of contractual protections.

[27] The ten least-mobile states are Texas, California, Ohio, Michigan, Wisconsin, Indiana, Alabama, Oklahoma, Minnesota, and Arkansas. In our full sample, 4,424 observations are in low-mobility states. Using the bottom decile yields similar results.

[28] See: http://aese.psu.edu/nercrd/community/social-capital-resources for details. Specifically, the measure considers dimensions including religious organizations, civic and social associations, business associations, political organizations, professional organizations, labor organizations, bowling centers, fitness and recreational sports centers, golf courses and country clubs, and sports teams and clubs.

[29] Using STATA's "inteff" command or OLS regressions does not materially change our conclusion.

TABLE 9

Local CEO Myopia and Local Social Capital

	Partition = Low Mobility		*Partition = High Social Capital*	
	Dep. Var. = *BeatByCutRD* (I)	**Dep. Var. = *CutRD*[a] (II)**	**Dep. Var. = *BeatByCutRD* (III)**	**Dep. Var. = *CutRD*[a] (IV)**
Local CEO	0.009	−0.250	−0.073	−0.203
	(0.08)	(−1.07)	(−0.75)	(−1.01)
Partition	−0.007	0.040	0.156*	0.093
	(−0.10)	(0.24)	(1.81)	(0.56)
Local CEO × Partition	−0.331**	−0.246*	−0.360**	−0.270*
	(−2.15)	(−1.74)	(−2.36)	(−1.71)
Executive Ownership	−2.643***	−3.570*	−3.089***	−3.853**
	(−3.12)	(−1.86)	(−3.47)	(−2.03)
Lag of RD Change	0.487***	−0.523*	0.558***	−0.642**
	(3.29)	(−1.68)	(3.49)	(−2.09)
Industry RD Change	−0.043	0.009	−0.077	−0.086
	(−0.46)	(0.03)	(−0.92)	(−0.38)
Earnings Distance	−0.008	0.209	−0.009	0.147
	(−1.12)	(0.93)	(−1.30)	(0.67)
CAPX Change	−0.340***	−0.690***	−0.357***	−0.655***
	(−5.04)	(−4.19)	(−4.87)	(−4.30)
Sales Change	−0.190	−4.463***	−0.396	−4.381***
	(−0.77)	(−6.51)	(−1.52)	(−6.39)
Size	0.113***	−0.089	0.147***	−0.076
	(2.77)	(−1.46)	(3.40)	(−1.19)
Leverage	−0.089	2.440***	−0.461*	2.349***
	(−0.31)	(3.73)	(−1.71)	(4.34)
Tobin's Q	0.005	−0.184**	0.032	−0.215***
	(0.17)	(−2.37)	(1.06)	(−2.84)
Free Cash Flow	−0.402*	0.100	−0.440**	0.212
	(−1.89)	(0.17)	(−1.98)	(0.38)
Capital Intensity	−0.716***	−0.881*	−0.864***	−0.677
	(−5.07)	(−1.84)	(−7.67)	(−1.64)
Analyst Following	−0.005	0.012	−0.013*	0.008
	(−0.73)	(0.82)	(−1.77)	(0.50)
Institutional Ownership	0.019	−0.401	0.219**	−0.420**
	(0.22)	(−1.61)	(2.27)	(−1.96)
Retirement	−0.000	0.093	−0.010	0.132
	(−0.01)	(0.48)	(−0.12)	(0.66)
Abnormal Compensation	−0.486	0.228	−0.453	0.131
	(−1.16)	(0.31)	(−1.14)	(0.19)
Founder	−0.042	−0.125	−0.151	−0.123
	(−0.26)	(−0.54)	(−0.90)	(−0.52)
Intercept	−4.148***	−0.406	−3.065***	−0.600
	(−3.15)	(−0.77)	(−9.14)	(−1.13)
n	10,389	1,624	10,389	1,624
Pseudo R^2	0.050	0.196	0.050	0.197

***, **, * Indicate significance at the 0.01, 0.05, and 0.10 levels, respectively.

[a] *CutRD* in the small earnings decreases subsample.

This table exhibits results of tests on whether the CEO locality effect on firm myopia is influenced by the intensity of the local social capital. We classify a state as having low mobility (thus, *Low Mobility* = 1, and 0 otherwise) if its population mobility is in the bottom quintile of all the U.S. states. We classify a state as having high social capital (thus, *High Social Capital* = 1, and 0 otherwise) if its social capital score is among the top quintile of all states. All results are from logistic regressions. Standard errors are clustered by firm and year. Industry and year fixed effects are included in all models. t-statistics are in parentheses.

See Appendix A for the variable definitions.

TABLE 10
Additional Controls

Panel A: Descriptive Statistics

Variable	Local CEO n	Local CEO Mean	Local CEO Median	Local CEO Std.	Nonlocal CEO n	Nonlocal CEO Mean	Nonlocal CEO Median	Nonlocal CEO Std.	t-stat	Wilcoxon t-stat
Employment Agreement	1,972	0.655	1.000	0.476	7,531	0.714	1.000	0.452	−5.132	−5.125
Severance Agreement	1,972	0.564	1.000	0.496	7,531	0.589	1.000	0.492	−2.008	−2.007
Family Firm	2,234	0.502	0.000	0.500	8,156	0.362	0.000	0.481	12.069	10.387
Degree	852	3.100	3.000	0.616	3,046	3.010	3.000	0.679	−0.207	−0.001
Ivy	852	0.361	0.000	0.479	3,046	0.356	0.000	0.481	0.222	0.222
Professional Certification	852	0.058	0.000	0.233	3,046	0.109	0.000	0.311	−4.484	−4.473
Business Networks (original value)	2,233	1.374	1.000	0.941	8,156	1.408	1.000	1.037	1.307	−0.862
Political Contribution (original value)	2,233	356.429	0.000	1,574.135	8,156	565.083	0.000	2,784.419	−3.197	−6.268
Age	2,233	57.095	57.000	8.204	8,156	56.320	57.000	7.392	4.373	4.802
Tenure (original value)	2,233	10.401	7.000	0.901	8,156	8.256	6.000	0.877	11.482	9.751
Female	2,233	0.013	0.000	0.113	8,156	0.022	0.000	0.148	−2.799	−2.077
Republican	2,233	0.353	0.000	0.445	8,156	0.302	0.000	0.418	5.079	5.399

(continued on next page)

Firm Type

A related concern is that local CEOs could be more frequently associated with family firms, which prior studies find perform better than nonfamily firms (Anderson and Reeb 2003). We define *Family Firm* as equal to 1 if the firm's founders or their family members are its key executives, directors, or blockholders, and 0 otherwise. We first retrieve the family firm data for years 1992–2010 from Anderson's website.[30] We next use the Execucomp database to identify family firms by checking whether the firm's founders are its top executives. For the remaining observations, we download the firms' proxy statements to check whether a firm's founders or their family members are its key executives, directors, or blockholders. Our final sample contains 39.2 percent as family firms.[31] Table 10, Panel B shows that including *Family Firm* in the models does not affect our main conclusion.

Additional Controls

CEO Abilities

One potential explanation for why local CEOs appear to behave less myopically is that they are more capable and, thus, more confident in their skills. They, thus, perceive it unnecessary to use R&D cuts to beat performance benchmarks. In regressions above, we include *Abnormal Compensation* as a proxy for a CEO's ability. To further reduce this concern, we extend our models to include CEOs' education records as proxies for their abilities. We retrieve CEOs' education background information, such as the names of their institutions of study, their academic degrees, and their professional certifications, from the BoardEx database. We then measure a CEO's education level in three dimensions: highest degree obtained by the CEO (*Degree:* 1 for an associate's degree, 2 for a bachelor's degree, 3 for a master's degree or an M.B.A. degree, and 4 for a Ph.D. degree),[32] whether the school belongs to the Ivy League (*Ivy League*), and whether the CEO has a professional certification (*Professional Certification*).[33] We set these variables to zero if the relevant information is missing.[34]

[30] See: http://www.ronandersonprofessionalpage.net/data-sets.html

[31] This statistic is comparable to those in prior research; for example, 45.67 percent in Chen, Dasgupta, and Yu (2014), 46.3 percent in S. Chen, X. Chen, Cheng, and Shevlin (2010), and 36.29 percent in Anderson, Reeb, and Zhao (2012) with comparable samples.

[32] Separately coding a master's degree as 3 and an M.B.A. degree as 4 (thus, a Ph.D. degree as 5) does not alter our conclusion.

[33] Professional certifications are categorized based on broad industries, such as CPA, CFA, Certified Bank Auditor, Certified Solar Engineer, Chartered Building Engineer (CEng), Chartered Physicist, Licensed Civil Engineer, Registered Architect, and Registered Pharmacist (R.Ph.).

[34] Setting missing values to the corresponding variable's mean does not qualitatively change our main conclusion.

TABLE 10 (continued)

Panel B: Regression Results

	Dep. Var. = *BeatByCutRD* (I)	Dep. Var. = *CutRD*[a] (II)
Local CEO	−0.211***	−0.446**
	(−2.69)	(−2.15)
Employment Agreement	−0.043	−0.308*
	(−0.53)	(−1.92)
Severance Agreement	−0.530***	−0.053
	(−2.82)	(−0.36)
Executive Ownership	−2.832***	−4.018
	(−2.58)	(−1.37)
Family Firm	−0.116	0.046
	(−1.64)	(0.22)
Degree	0.083	0.148
	(0.73)	(0.55)
Ivy League	0.044	0.133
	(0.27)	(0.37)
Professional Certification	−0.034	−0.346
	(−0.13)	(−0.82)
Business Networks	0.156	−0.070
	(1.29)	(−0.21)
Political Contribution	−0.004	0.035
	(−0.27)	(1.39)
Age	−0.014*	−0.010
	(−1.79)	(−0.55)
Tenure	−0.042	−0.082
	(−0.96)	(−0.96)
Female	−0.558	0.285
	(−1.48)	(0.50)
Republican	0.089	0.249
	(0.98)	(1.11)
Other Control Variables	Included	Included
Intercept	−2.578***	0.097
	(−3.94)	(0.09)
n	9,503	1,516
Pseudo R^2	0.053	0.202

***, **, * Indicate significance at the 0.01, 0.05, and 0.10 levels, respectively.
[a] *CutRD* in subsample with small decreases in pre-R&D earnings.
Standard errors are clustered by firm and year. Industry and year fixed effects are included in both models. t-statistics are in parentheses.

Business Networks

Local CEOs could have developed a larger business network such that they can secure more business and financial support from their connected firms when facing financial difficulty than nonlocal CEOs. These CEOs can then afford to invest more in R&D. We, thus, include *Business Networks,* measuring the number of public firms (in logarithm value) that the CEO has worked for as a board member (as in BoardEx) or a named executive since 1992, the first year in which Execucomp data are available.

Political Connections

Local CEOs could also have cultivated more connections with local politicians who grant them more business resources and opportunities. Following prior research, we use PAC (Political Action Committee) contributions (in logarithm value), available on the Federal Election Commission's website (see: https://www.fec.gov), to capture political connections (Correia

2014). We calculate *Political Contribution* as the logarithm of 1 plus the firm's yearly total political contribution in dollar amount.[35]

Other CEO Characteristics

Local CEOs and their nonlocal peers could differ in various other aspects, such as age, tenure, gender, and political proclivity, which might cause their differential decisions when facing short-term performance pressure. We, thus, add the following controls to our main models: *Age,* measuring a CEO's age; *Tenure,* measuring the number of years (in logarithm value) the CEO has been on the post in the firm; *Female,* an indicator for a female CEO; *Republican,* an indicator for whether the CEO is inclined to the Republican party. We first extract the CEO Republican index (*REPceo*) from Jiang's website for years from 1992 to 2008 (Hutton, Jiang, and Kumar 2014).[36] *REPceo* is an indicator for whether the CEO's political contributions in a given election cycle all go to Republican-affiliated candidates or party committees. We supplement the data by using the Federal Election Commission's "Individual Contributions" files to identify each CEO's political orientation following the same approach. *Republican* then takes the same definition as *REPceo*. Overall, 31.3 percent of our sample CEOs are pro-Republican.

As exhibited in Table 10, Panel B, our main results about the effect of CEO locality on firm myopia remain significant after including the above variables.

Evidence of Decision Consistency

Cohen (2017) suggests that when studying whether CEOs' traits affect their decisions, examining whether the rationale applies consistently across different decision settings can help solidify the conclusion. Hence, we study whether the impact of CEO locality on firm short-termism is also reflected in their other business decisions. Sociology research on place attachment (Fullilove 1996; Mesch 1996; Vaske and Kobrin 2001) suggests that people actively contribute to the improvement of places to which they feel deeply attached. We, thus, study whether local CEOs differ from nonlocal ones in paying tax and being socially responsible. More state tax can help improve local infrastructure and better the condition of local communities, both beneficial to the firm's long-run development. Corporate social responsibility (CSR) activities directly improve a firm's business sustainability (Dhaliwal, Li, Tsang, and Yang 2011) and the CEO's local reputation.

In untabulated tests, we follow Armstrong, Blouin, and Larcker's (2012) empirical model and find firms with local CEOs pay more state tax, but not more federal tax. In addition, we use the Kinder, Lydenberg, Domini & Co. (KLD) data to measure firms' CSR performance and find that, indeed, firms with local CEOs demonstrate more strengths in environmental protection, community support, and employees' welfare improvement than firms with nonlocal CEOs. The evidence, thus, further supports that local CEOs take a long-term approach to operating their businesses.

A Placebo Test—Cutting Capital Expenditure

Although both R&D spending and capital investment consume cash, the former is expensed immediately and the latter over multiple years through depreciation. Managers should less prefer cutting capital projects for increasing short-term performance. Untabulated results show that, indeed, when we replace R&D expenses with capital expenditures in Models (1) and (2), *Local CEO* is insignificant at the conventional level in both models.

Future Performance

An assumption underlying our prediction is that local CEOs, on average, would make operating decisions to maximize their firms' long-term value.[37] The R&D cutting under short-term performance pressure reflects a suboptimal decision that destroys firm value. To the extent that local CEOs' resistance to myopic R&D cutting is representative of their long-term-oriented value-maximizing decisions, we should observe that local CEOs' firms outperform those of nonlocal CEOs. However, local CEOs might choose not to cut wasteful or unsuccessful R&D projects simply because they pursue a "quiet life" and are, thus, not responsive to performance pressure (Bertrand and Mullainathan 2003). Alternatively, chance might be that a typical R&D cut in our sample involves laying off people belonging to the local community that the CEOs tend to favor. Under these possibilities, the "non-myopic" behavior we document earlier actually destroys firm value. To examine this issue, we follow

[35] We assume that each year, the firm makes half of the total contribution made in the two-year election cycle. Untabulated analysis using contribution to only local candidates yields similar conclusions.

[36] See: https://sites.google.com/site/danlingjiang/data-library

[37] This average effect does not preclude that under certain special circumstances, as documented by Yonker (2017b), local CEOs could make value-destroying decisions to protect their hometowns' interest when their firms' operation spans multiple regions.

TABLE 11

CEO Locality and Firm Performance/Firm Value

Panel A: CEO Locality and Firm Performance

	ROA
Local CEO	0.005***
	(2.70)
Size	0.006***
	(8.02)
Book to Market	−0.041***
	(−10.68)
LagROA	0.620***
	(24.92)
StdROA	−0.010
	(−0.31)
Ret	0.033***
	(7.67)
Intercept	0.060***
	(9.11)
n	9,908
Adjusted R^2	0.491

Panel B: CEO Locality and Firm Valuation

	Tobin's Q
Local CEO	0.057**
	(2.47)
Size	0.160***
	(17.82)
Log Firm Age	−0.262***
	(−15.82)
Executive Ownership	2.232***
	(3.06)
Executive Ownership Square	−4.192
	(−1.42)
ROA	3.297***
	(14.56)
CAPX/Asset	1.993***
	(6.98)
RD/Sales	2.907***
	(19.34)
Leverage	−0.808***
	(−7.98)
Intercept	0.262**
	(2.26)
n	10,389
Adjusted R^2	0.371

***, **, * Indicate significance at the 0.01, 0.05, and 0.10 levels, respectively.
Panel A's model follows Bens, Nagar, and Wong (2002). Panel B's model follows Bebchuk, Cohen, and Ferrell (2009). Standard errors are clustered by firm and year. Industry and year fixed effects are included in both models. t-statistics are in parentheses.
See Appendix A for the definitions of the other variables.

Bens, Nagar, and Wong (2002) and Bebchuk, Cohen, and Ferrell (2009) to examine whether local CEOs are associated with superior financial performance and higher firm valuation, respectively.[38] Table 11, Panels A and B report positive CEO locality effects on both measures. The evidence, thus, suggests that local CEOs make value-enhancing decisions when facing myopic incentives.

VIII. CONCLUSIONS

We find that local CEOs are less likely to cut R&D expenses for beating analyst forecasts or avoiding earnings decreases. Various tests suggest that the relation is causal. Our finding is particularly strong in firms with their business concentrated in the CEOs' birth states and in states whose residents strongly prefer to invest in local firms. The result is also more salient in states whose populations are less mobile and in states that boast higher social capital.

Our findings are robust to controlling for CEOs' contractual protection, whether the firm is a family firm, and numerous CEO characteristics. In addition, we find that local CEOs make consistent long-term decisions in paying more state tax and being more socially responsible than nonlocal CEOs. Finally, firms with local CEOs have better financial performance and enjoy higher valuation, suggesting that local CEOs' resistance to cutting long-term projects is not because they pursue "a quiet life" or face agency issues. What is particularly worth noting is that the magnitude of the CEO locality effect is comparable to that of equity ownership, as well as that of contractual protections, such as employment agreements and severance agreements.

Overall, consistent with place attachment theories and the notion that the executive labor market faces lower information asymmetry about local CEO candidates, our evidence suggests that local CEOs are more long-term-oriented than nonlocal CEOs. This finding should be of interest to investors, analysts, board directors, and regulators.

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[38] We thank the editor and an anonymous reviewer for suggesting this analysis.

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APPENDIX A
Variable Definitions

Variable	Definition	Data Sources
Variables used in Table 4		
Local CEO	An indicator equal to 1 if the CEO's birth state is the same as the state in which her firm is headquartered, and 0 otherwise.	LexisNexis, Wikipedia, NNDB, and Google
SUE	Earnings surprise: (EPSPX − MEDEST)/PRCC_F, where EPSPX is earnings per share before extraordinary items and discontinued operations, MEDEST is the I/B/E/S median consensus forecast, and PRCC_F is the close price at the end of the fiscal year.	I/B/E/S, CRSP, and Compustat
RD	R&D expense per share, defined as the firm's R&D expense for the year scaled by common shares outstanding that is used to calculate basic EPS: XRD/CSHPRI.	Compustat
AdjRDSUE	Earnings surprise if the firm maintained last year's R&D spending: (EPSPX − MEDEST + ΔRD)/PRCC_F.	I/B/E/S, CRSP, and Compustat
BeatByCutRD	An indicator equal to 1 if $SUE \geq 0$ and at the same time, $AdjRDSUE < 0$, and 0 otherwise.	As above
Beat	An indicator equal to 1 if $SUE \geq 0$, and 0 otherwise.	As above
CutRD	An indicator equal to 1 if the current year's R&D expense is lower than last year's (i.e., $\Delta XRD < 0$), and 0 otherwise.	Compustat
Executive Ownership	The percentage ownership held by the firm's executives and board directors.	Execucomp and Institutional Shareholder Services
RD Change	Yearly change in the firm's R&D (measured in logarithm value): $\Delta ln(RD)$.	Compustat
Industry RD Change	Yearly change in R&D intensity of the industry to which the firm belongs, i.e., $\Delta ln(IRD/Isales)$, where *IRD* and *ISales* are the total R&D expenses and total sales, respectively, for all firms in the same four-digit SIC code, excluding the firm concerned.	Compustat
Earnings Distance	ΔEBTRD/lagRD, where EBTRD is pre-tax and pre-R&D earnings per share, calculated as (PI + XRD)/CSHPRI, where PI is pre-tax income, XRD is R&D expense, and CSHPRI is common shares used to calculate basic earnings per share.	Compustat
CAPX Change	Change of the firm's capital expenditure in logarithm in the year: $ln(CAPX_t) - ln(CAPX_{t-1})$.	Compustat
Sales Change	Change in sales: $ln(SALES_t) - ln(SALES_{t-1})$.	Compustat
Size	Natural logarithm of the firm's total assets: $ln(AT)$.	Compustat
Leverage	Long-term debt (DLTT) over total assets (AT).	Compustat
Tobin's Q	(MVE + PSTK + DLTT + DLC)/AT, where MVE is market value of common equity, calculated as common shares outstanding multiplied by the closing price at the end of the fiscal year. PSTK is preferred stock value. DLTT and DLC are long-term debt and debt in current liabilities, respectively. AT is total assets.	Compustat and CRSP
Free Cash Flow	Operating cash flows minus capital expenditure, scaled by lagged current assets, i.e., (OANCF − CAPX)/lagACT.	Compustat
Capital Intensity	Net PPE scaled by lagged sales: PPENT/lagSale.	Compustat
Analyst Following	Number of analysts following the firm during the year.	I/B/E/S
Institutional Ownership	Percentage of the firm's shares held by institutional investors.	Thomson Reuters
Retirement	An indicator equal to 1 if the CEO's age ≥ 63, and 0 otherwise.	Execucomp
Abnormal Compensation	The residual from the regression of the CEO's cash compensation (in logarithm) on the firm's total assets (in logarithm), ROA, Tobin's Q, CEO tenure, and industry and year indicators (see Gillan et al. [2009] for details).	Execucomp, CRSP, and Compustat
Founder	An indicator equal to 1 if the CEO is also the firm's founder, and 0 otherwise.	Execucomp

(continued on next page)

APPENDIX A (continued)

Variable	Definition	Data Sources
Additional Variables in Table 11		
ROA	Income before extraordinary items scaled by average total assets: IB/Average AT.	Compustat
Book to Market	Book value of equity divided by market value of equity: CSE/MVE, with MVE calculated as common shares outstanding multiplied by the closing price at the end of the fiscal year.	Compustat and CRSP
StdROA	Standard deviation of ROA over the previous five fiscal years.	Compustat
Ret	Return of the firm's common stock over the year.	CRSP
Firm Age	Number of years since the firm was first included in Compustat.	Compustat