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Document Version

Final published version

Publication date:

2022

License

Unspecified

Citation for published version (APA):

Amore, M. D., Bennedsen, M., & Larsen, B. (2022). *Neighborhood CEOs*. Copenhagen Business School [wp]. Working Paper / Department of Economics. Copenhagen Business School No. 10-2022

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**Copenhagen
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Department of Economics

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Working paper 10-2022

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Neighborhood CEOs*

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May 30, 2022

Abstract

The working environment is a key driver of firms' success. Using unique survey and register data from Denmark, we show that firms led by neighborhood CEOs – defined by physical distance and personal values - exhibit better workplace conditions as perceived both by a regulatory authority and firms' own employees. The effect is stronger when the CEO's and employees' children attend the same school, pointing to social interactions as a channel for the result. Finally, we show that CEOs who emphasize neighborhood engagement adopt a management style tilted toward employees' welfare.

Keywords: CEO; geographic proximity; neighborhood values, working environment; management styles

JEL Codes: G34

*We are grateful for excellent comments from seminar participants at the Danish National Research Center for the Working Environment, Copenhagen Business School, COPE 2022 conference (Denmark), ESCP Business School, Goethe University Frankfurt, INSEAD, University of Amsterdam, University of Groningen, University of Copenhagen and Montpellier Business School. We thank the Danish Working Environment Authority (WEA) and the Danish National Research Centre for the Working Environment (NFA) for granting access to their data. We also thank Philip Rosenbaum for initial collaboration, Maithili Dipak Modi for excellent research assistance, Lartey Godwin Lawson for data management, and Bo Bao Chao for helpful guidance at Denmark Statistics. We are grateful for financial support from Danish Finance Institute and the Danish National Research Foundation (Niels Bohr Professorship).

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I Introduction

There is now a consensus among researchers and business executives that corporate culture is beneficial for firm performance. Works like Guiso et al. (2015) have documented a positive association between firm value and various elements of corporate culture, especially those that are deeply rooted within the organization and shared by employees. Li et al. (2021) , (2020) confirm this result and further show that corporate culture is particularly beneficial during hard times. ¹

Although a good corporate culture is generally desirable, there is a wide variation in the ability of firms to reach and maintain a satisfactory corporate culture. The evidence in Graham et al. (2022) indicates that 84% of US executives believe that their firms must strive to improve corporate culture. Li et al. (2021) show that corporate culture evolves, often in unpredictable directions, as a function of major corporate events like M&As. Corporate culture cannot be written down in a contract, nor it can be adopted by simply emulating successful firms. As a result, intangible and cultural factors related to CEOs' personal traits are likely to play a significant role.

In this paper, we focus on neighborhood CEOs, i.e. CEOs with an affinity toward the local community, and establish how they shape workplace conditions. We focus on workplace quality as a specific element of corporate culture for two reasons. First, our data allow to precisely establish whether the firm suffers from poor workplace and so we can overcome the challenge, common in the literature, regarding the measurement of

¹A parallel literature has focused on the importance of organizational capital for firms' returns. See, in particular, Eisfeldt and Papanikolaou (2013).

corporate culture. Second, workplace conditions are explicitly connected to the mechanism that we will spell out, which is about a higher propensity of neighborhood CEOs to promote employees' welfare as a result of social interactions. Studying the implications of neighborhood CEOs is important also in light of the evidence that firms often appoint CEOs by drawing from local labor markets Yonker (2017b).

For the empirical analysis, our main dataset is assembled from multiple Danish administrative sources covering more than 70 thousand firms from 2008 to 2015. Information on firms' workplace comes from the Danish Working Environment Authority (WEA), from which we get data on the administrative remarks that firms have received due to poor workplace conditions. These remarks typically pertain to violations of smoking ban, safety issues and other hazards which can have adverse effects on employees. We complement this regulatory measure of working environment with a comprehensive survey that measures working environment as perceived by firms' employees.

We have the precise address of firms as well as CEOs and employees' residence and birthplaces. Using this data, we build a neighborhood measure based on the physical distance between a firm's headquarter and the CEO's personal residence or birthplace. Moreover, for a subset of our sample firms, we have a survey on CEOs' personal values, including the importance of neighborhood for CEOs. This data allow us to construct a second neighborhood measure capturing the cultural extent to which CEOs feel embedded in their local community.

Two perspectives help us think about the relationship between neighborhood CEOs and workplace conditions. The first relies on the notion of social interactions: CEOs who

live closer to the firm and are culturally attached to their local community are engaged in tighter bonding relationships within the company, and this in turn spurs favoritism toward employees. The second perspective is based on the notion of place attachment: CEOs develop emotional ties toward their hometown, and hence are more likely to engage in socially responsible behaviors whenever they operate in the area where they were born. The social interactions perspective is explicitly tied to interpersonal relationships between a CEO and its employees, whereas the place attachment perspective stems from a CEO's ideal attachment to its hometown. We are able to parse these two mechanisms by leveraging information on where CEOs currently live and where they were born (which often do not coincide) and well as by using a proxy for the actual occurrence of social interactions.

We start by showing that the quality of a firm's workplace is an important production factor: companies subject to administrative remarks display a lower operating profitability than non-remark companies. This result, which withstands the inclusion of several controls such as labor and capital inputs, firm age, geography, industry and time effects, is consistent with existing findings on the importance of corporate culture for firms' efficiency. In an additional analysis, we further show that the underperformance of firms subject to administrative remarks is driven by lower labor productivity. This finding suggests that a high-quality workplace may increase firm performance by making employees more productive.

Having established the relevance of workplace quality as measured by administrative remarks, we move to examine the role of neighborhood CEOs. Our results indicate

that the likelihood of administrative remarks declines with the proximity between a CEO's personal residence and the firm's headquarter: when the CEO lives close to the firm, the probability of administrative remarks declines by 3.6 percentage points (which represents a 9% drop from the unconditional probability of remarks). We are aware that omitted factors may challenge the causal interpretation of this finding. To partly reduce this concern, we keep constant several firm characteristics such as firm size, location and industry, as well as CEO education and age which control for managerial quality and experience. Moreover, our results withstand the inclusion of a control variable distinguishing between family and non-family firms, which helps to make sure that the effect of CEO neighborhood does not merely stem from family businesses (in which the CEO may live closer to the firm as compared to non-family firms). Importantly, we also show that the workplace effect is specific to a CEO's *residence* and becomes insignificant once we focus on the distance between a CEO's *birthplace* and the firm's headquarter. In other words, the lower probability of administrative remarks (i.e. higher workplace quality) is likely to arise from the set of social interactions between a CEO and its workforce rather than from a CEO's place attachment to its hometown.

Of course, the effect of neighborhood CEOs on workplaces may stem from other mechanisms unrelated to social interactions. For instance, a CEO who lives close to the firm may be in a better position to oversee internal routines, improve coordination, reduce organizational slack, and so reduce pitfalls in the workplace.² To lend support to our favorite interpretation, we analyze the joint proximity of CEOs and employees.

²Relatedly, (Duchin and Sosyura, 2022) show that long-distance CEOs underperform due to a poorer access to information and lower commitment.

Our results indicate that the negative effect of neighborhood CEOs on the probability of remarks increases with the share of local employees. That is, when both CEO and employees live closer to the firm (i.e. they live close to each other) the firm exhibits a lower probability of administrative remarks. To provide further support to the social interactions perspective, we employ a proxy for the occurrence of interpersonal contacts between CEOs and employees outside of the workplace, i.e. whether the CEO's children attend the same school of employees' children. This variable is apt to capture the physical proximity in CEO and employees' personal lives, and the extent of interpersonal contacts among them. Results indicate that the probability of administrative remarks is significantly lower for firms led by CEOs whose children attend the same school of employees' children.

Next, we ask whether neighborhood CEOs affect firms' workplace quality beyond the administrative measure used so far. To this end, we use data from a large survey which asks employees their perception on the firm's workplace. Results indicate that when the CEO lives in the same area of firm's headquarter, the employees feel significantly more involved in workplace decisions, and the working environment is perceived as fairer and more inclusive.

Neighborhood encompasses both has a physical and a cultural dimension. To capture the latter, we use data from a comprehensive survey on CEOs' cultural values and preferences. Results indicate that firms led by CEOs who feel more engaged with the local community exhibit a lower probability of getting remarks for poor working environment. Linking this data to another administrative survey on business leaders and employee

representatives' perspective toward the working environment, we further show that when the CEO feels more engaged with the local community, the firm's workplace suffers less from conflicts, is more supportive of elderly workers and, in general, employees are more satisfied with the working conditions.

It is well known that CEOs matter for firm performance (Bennedsen et al., 2020) and that each CEO has a unique style of managing the firm (Bertrand and Schoar, 2003). CEO styles are shaped by many factors such as professional experience (Dittmar and Duchin, 2016), family structure (Cronqvist and Yu, 2017), psychological traits (Malmendier and Tate, 2005), cultural heritage (Nguyen et al., 2018), (Pan et al., 2020) and education (Amore et al., 2019). Our work contributes to the large literature on managerial styles as well as to the literature on how geographic proximity shapes CEOs' decision-making. Works in this area have shown that CEOs who lead firms close to their hometown engage in less myopic behaviors, e.g. they cut less research and development to meet analyst expectations (Lai et al., 2020), reduce less employment and wages in response to industry distress (Yonker, 2017a) and are more likely to acquire other firms located in their hometown (Jiang et al., 2019). Relatedly, banks have been shown to lend more near the CEO's hometown (Lim and Nguyen, 2021).³ We are the first to document that, by spurring social interactions, neighborhood relationships make CEOs more likely

³A related literature has also looked at the role of proximity between the firm and other actors like board members (Alam et al., 2014) or investors (Chhaochharia et al., 2012). The tenet of these works is that proximity acts as a governance mechanism which disciplines CEO. Our work, in contrast, has highlighted how proximity may improve CEOs' attitude toward employees' welfare via social interactions.

to adopt a managerial style which elevates the firm’s workplace.

In so doing, our work is close to (Landier et al., 2017), which has shown that the closeness between different the organizational units of multi-divisional firms is conducive of employee-friendly policies. More generally, we expand the growing research on the organizational and financial determinants of workplace quality, which has focused on factors like financial constraints (Bradley et al., 2021) or the pressure to meet earnings expectations (Caskey and Ozel, 2017).⁴

II Data and summary statistics

II.1 Measuring workplace quality

We use measures of working environment from three different sources: regulatory third-party evaluation, employee evaluation and actions and priorities taken by firm leadership. We provide the details on each data source below, and then we describe the other data sources used in the empirical analysis.

II.1.1 Administrative measure of firms’ working environment

Our first measure of workplace quality comes from the Danish Working Environment Authority (WEA), an agency under the Ministry of Employment whose purpose is to contribute to the creation of safe and healthy working conditions at Danish workplaces.

⁴Other works have examined the role of external factors like recessions (Boone et al., 2011) and import competition on working environment (McManus and Schaur, 2016).

WEA's three main activities are to carry out inspections at companies, draw up rules on employees' health and safety, and provide information on health and safety at work. WEA has the authority to sanction firms that do not live up to its standards for good working environment. The different forms of sanctions include improvement notices, legal charges, administrative fines and guidelines, and depend on both the enterprise's actual working environment standards and its efforts to improve over time. When there are clear violations of substantive rules, WEA has the power to issue administrative fines. In cases of extreme danger, WEA may even order the business activities to be suspended.

We have access to the data of 76,000 inspections (covering around 42,000 unique firms) carried out from 2008 to 2015, which can be matched with our other data sources (see below for details). The dataset contains information about the topic of the visit and what the remarks relate to. The most common topics include, in order of frequency, general working environment evaluation, fall accidents, machines and other equipment, physical movements (lift, pull and push) and air quality. These topics constitute around three quarter of observations in the dataset. The most important variable for our analysis is the outcome of the visit, i.e. whether or not a firm has received a *remark*. We also have information about the type of remarks that are given to the firms. There are nine types of remarks, where smoking injunction is the the most frequent. Other types of remarks include psycho-social decisions, decisions without mandatory action, urgent immediate injunctions, urgent smoking injunctions and environmental injunctions. After matching the WEA dataset with the dataset containing firm characteristics, we have

35,320 remarks (immediate injunctions and guidances).

II.1.2 Employee survey on firms' working environment

We collect data from the Working Environment and Health Survey (AH survey) conducted by the National Research Center for Working Environment (NFA), an independent institute that carries out research on the working environment of Danish firms. The AH survey asks an extensive number of questions related to employees' perception of the working conditions. For the analysis, we focus on a set of questions about whether employees feel involved in workplace decisions, the inclusiveness and fairness of the workplace, and the extent to which employees collaborate, connect with each other and feel engaged with their daily tasks. In the Appendix we provide a detailed list of survey questions and the distribution of answers.

II.1.3 Firm's working environment policies and priorities

Our final measure of working environment is based on the official policy and priorities seen from the perspective of the firm's leadership. We collect data from the Danish National Survey on Firms' Working Environment Policy (VAI survey) also undertaken by the NFA. The VAI survey has been conducted in 2012, 2014-15 and 2017, and it asks both company leaders and employee representatives about how firms deal with workplace issues and what policies they have implemented. The survey is divided into the major topics of psycho-social, physical, noise and vibration, chemical, safety and accidents and health and work ability. In this paper, we focus on a set of questions about the

belief that the firm’s workplace must be better than rules, the effort of firms to retain older employees, prevent sick leaves, avoid large work overloads, the effort to prevent and manage conflicts and quarrels, whether the firm’s working environment is reflected into its overall strategy, the top management focus on working environment issues, and whether the firm’s actions in the area of working environment are systematically measured. In the Appendix we provide a detailed list of survey questions and the distribution of answers.

II.2 Management data

To identify the firms’ CEOs, we rely on three data sources: (a) Experian; (b) Erhvervs- og Selskabsstyrelsen (ES), a dataset assembled by the Danish Commerce and Companies Agency; and (c) employment information from the “Integrated Database for Labour Market Research” (denoted IDA database) at Denmark Statistics, a government entity under the Ministry of Economic Affairs that is responsible for data collection and record keeping for a large number of economic variables). Experian reports the names of firms’ top executives but does not contain individual identifiers. To be able to merge the names reported in Experian with other data sources, we use the ES dataset, which contains the Danish Personal Identification number (CPR) for all managers of limited liability firms. Under Danish corporate law, firms are required to file with ES any change in CEO positions within two weeks of its occurrence. Lastly, we use the IDA database to verify that CEOs are indeed registered as employees in the reporting firms.

As mentioned in the introduction, we use two alternative measures of CEOs’ neighborhood. In the management data, we have the home address (and birthplace) of the

CEO and the business address of the firm’s headquarter. Using this data, we construct a measure capturing the physical dimension of CEOs’ neighborhood. We also construct a measure apt to capture the cultural dimension of CEOs’ neighborhood. To elicit this, we conducted a large-scale survey in 2015 in which we asked leaders about their personal values. The survey was done through Denmark Statistics, which was responsible for sending out the survey and collecting answers. We contacted 49,799 CEOs and collected 13,593 answers, resulting in a final response rate of approximately 27%. The survey contained 50 questions organized in three main sections: (a) social and leadership values, (b) firm and industry characteristics, and (c) firm ownership. In the first section, we used questions routinely asked in the World Value Survey and the European Values Study. For the present paper, we focus on four questions that ask about how the firm’s neighborhood and the neighborhood during childhood influences CEOs’ way of managing their firms. Matching this data with the Remarks dataset (and with the dataset containing CEO and financial information) yields data covering more than 3,000 firms. Matching it with the VAI survey described above (and again with the dataset containing CEO and financial information) yields data covering more than 8,000 firms.⁵

II.3 Accounting data

Accounting data are drawn from Experian and the Statistical Business Register (SBR) at Denmark Statistics. Experian assembles its dataset from the financial statements and management information of all limited liability firms in Denmark, which are

⁵See Bennedsen and Chevrot (2022) for more details on this survey.

required to file to the Ministry of Economics and Business Affairs. Firms must disclose the value of total assets, as well as operating and net income. Though most of the firms in Experian are privately held, external accountants audit firm financials subjected to Danish corporate law. Critical for our purposes, Experian includes the unique firm-level identifier (CVR number) issued by the Danish Commerce and Companies Agency, which serves as firm identifier in all interactions with the Danish authorities. The CVR numbers allow us to match Experian data with other data sources. We supplement Experian's data with revenue and employment information from the SBR. Merging Experian and SBR data allows us to focus on those limited liability firms with actual employment and sales records, and exclude from the analysis shell companies that are otherwise difficult to identify using Experian alone.

II.4 Summary statistics

In this section, we provide the summary statistics for the main variables used in the empirical analysis. Appendix contains details on the construction of each variable.

We have a total of approximately 76,000 visits which relate to 42,000 unique firms (as identified by their legal entity). The discrepancy between the number of visits and that of firms is due to the fact that some firms have multiple plants and thus can receive visits on different plants; also, some firms may have received more than one visit on the same plant during the time period covered in our data. The 76,000 observations (with slight variations across tables due to missing values) will be used to estimate the effect of CEO-firm geographic proximity on the probability of receiving administrative remarks.

We illustrate this sample here. In the analyses that involve survey data, which we discuss later, the number of observations will be determined by how many firms appear both in the remarks dataset and in the specific survey being used.

Table 1 shows that 46 pct. of observations are associated with at least one administrative remark, whereas the number of remarks scaled by employees amount to 0.16. Next, the table shows the average of a set of firm characteristics and shows the comparison of those characteristics for the sample of firms with and without administrative remarks. Panel A shows that firms with remarks are statistically older than non-remark firms, they have a higher number of employees and are more likely to be family firms, defined as those firms in which more than one individuals from the same family are involved in the firm's ownership or management (see Appendix for details).

Panel B moves the focus to CEO characteristics. CEOs are, on average, 49 years old, almost exclusively male, have 14 years of education, and 34 pct. of the CEOs live within 5 kilometers of the workplace (i.e. the variable CEO residence equal to workplace is equal to 1). Yet, there are significant differences across the two subsamples: CEOs of firms without remarks tend to be younger, more educated and more likely to live closer to the firm: 36 pct. of them live close to the firm, whereas the fraction is only 32 pct. for the CEOs of firms that have received remarks. This finding is confirmed when we look at the continuous distance from CEOs' personal home to work: CEOs of non-remark firms live, on average, 11.7 km from their firm, whereas CEOs on remark firms live is 12.4 km away from the firm. The difference is statistically significant at the 1 pct. level. This result, which we will validate with a multivariate analysis in the next section, gives

a preview of our main finding: firms led by CEOs who live close to the company exhibit a better workplace. Importantly, this result is specific to CEOs' residence, and does not apply to CEOs' birthplace: the last row of Table 1 shows that 35 pct. of CEOs in the non-remark sample were born within 5 km of their birthplace, whereas the fraction in the remark sample is actually higher 38 pct. This first partial evidence goes against the place attachment perspective which we outlined in the introduction.

III Empirical results

III.1 Workplace quality and firm profitability

Before addressing our main research question, we illustrate how workplace quality associates with firm profitability. This analysis is instrumental to understanding whether or not neighbourhood would induce CEOs to trade-off employees' welfare with shareholder returns. Theoretically, the relationship between workplace quality and firm performance is unclear. On the one hand, investing in the quality of working environment may motivate employees, encourage effort provision, and reduce the risk of conflicts or slack. These may, in turn, raise labor productivity.⁶ On the other hand, adopting better internal routines and investing in employees' welfare may entail significant organizational or financial costs. In this section, we test the association between working environment and firm performance.

⁶Some existing works have shown a positive association between firm productivity and various aspects of the workplace, e.g. health and safety standards (Buhai et al., 2017) or employees' participation in workplace issues (Black and Lynch, 2001).

To do so, we use the return on assets (ROA) computed as the ratio of operating profits to total assets. This measure is common in the literature on the accounting performance of privately-held firms (e.g. (Bennedsen et al., 2020)). In Table 2, we show the results obtained by regressing ROA on a dummy equal to one if the firm has received any administrative remark, and zero otherwise. Since firms that receive and do not receive remarks may be different (e.g., the former may be carry out more complex operations or operate in industries subject to a closer regulatory oversight) we employ a set of control variables including: (1) the logarithm of property, plants and equipment as a proxy for physical capital in the firms' production function; (2) the logarithm of employees, as a proxy for the use of labor inputs; (3) the logarithm of firm age, to control for differences in the maturity of firms; (4) year dummies, to account for common time effects; (5) industry dummies to control for sectoral differences in working environment; and (6) municipality dummies to control for the effect of being headquartered in specific geographic areas. Standard errors are clustered by firm, but results hold if we use simple heteroskedasticity adjustment or if we cluster standard errors by industry. As shown in Columns (1) and (2), receiving an administrative remark is associated with a lower ROA by 2 percentage points. Columns (3) and (4) re-estimate this relationship by using an alternative measure of remarks, i.e. the number of remarks scaled by the number of employees. Results are robust to this specification too. Collectively, these findings suggest that firms with a poorer workplace, as proxied by the occurrence of administrative remarks, are less profitable.

While we acknowledge the challenges in giving a causal interpretation to this finding,

in Columns (5) and (6) we parse a potential driver of the profitability effect, namely that employees at firms with better workplace are more productive. We do that by using as dependent variable the logarithm of a firm’s value added scaled by the number of employees. As shown, the coefficient of the remark dummy is negative and statistically significant: labor is 3.7% less productive when the firm’s workplace is poorer.

III.2 Neighborhood CEOs and working environment

In this section, we establish the association between neighborhood CEOs and firms’ working environment. In Table 3, we estimate a linear probability model in which the dependent variable is a dummy equal to one for any administrative remark, and zero otherwise. To identify neighborhood CEOs, we start by using a dummy equal to one if the CEO’s personal residence is within a 5 km radius from the firm’s headquarter. Of course, firms led by a local CEO may be smaller, located in smaller municipalities (which restrain the pool of potential hires) and they may operate in industries where the efficient scale of operations is low.⁷ Moreover, local CEOs may differ from non-local ones in terms of individual characteristics such as education. All these factors may, in turn, correlate with the quality of working environment. To alleviate this concern, we include a set of individual-level controls: (1) the level of CEOs’ education (i.e. number of years of schooling); (2) a dummy for male CEOs; (3) the CEOs’ age. Moreover, we include all the firm-level controls already included in the profitability analysis, as well as year and industry effects. Standard errors are clustered at the firm level to adjust residuals for

⁷See (Yonker, 2017b) for a discussion about why firms tend to hire CEOs locally.

heteroskedasticity and serial correlation by firms.

Table 3, Column (1) indicates that having a CEO who lives close to the firm is associated with a 3.6 pct points reduction in the likelihood of receiving remarks for poor workplace conditions; this coefficient represents a 9% reduction from the unconditional likelihood of remarks. In Column (2), we confirm this finding by saturating the model with municipality dummies, so as to compare local and non-local CEOs who manage firms within the same geographic area. In Columns (3) and (4), we further show that the finding holds using a continuous measure of localness, i.e. the logarithm of the distance (in kilometers) between the CEO's residence and the firm's headquarter. Collectively, the first four columns of Table 3 provide strong evidence for the idea that a neighborhood relationship between CEOs and firms is associated with better working environment.

Moving on, we test the place attachment hypothesis in Column (5). To this end, we include an additional explanatory variable which measures the (logged) distance between the CEO's birthplace and the firm's headquarter. As shown, the coefficient of CEO birthplace-firm distance is not statistically different from zero, whereas the coefficient of residence-firm distance remains positive and statistically significant.⁸. In other words, it is the proximity between firms and CEOs' *personal residence* which drives a better working environment.

One may be concerned that the results so far reflect the fact that the firms with neighborhood CEOs are family-owned. In particular, it could be that the employees of

⁸The coefficient of the distance between a CEOs' birthplace and firms is insignificant even when estimated without including the distance between CEOs' residence and firms.

family firms tend to exhibit a higher job satisfaction ((Huang et al., 2015)) and, at the same time, the CEOs of family business live closer to the firm due to the intertwinement between corporate activities and their personal life. To ameliorate this concern, in Column (6) we include as an additional control a dummy equal to one for family firms, and zero for non-family firms. The family firm dummy is positive and statistically significant (i.e. it is *positively* associated with the probability of remarks) and so the evidence counters the view that family firms provide a better working environment. Yet, the coefficient of the variable capturing that the CEO lives close to the firm remains statistically significant. Thus, the neighborhood effect is strong and significant independently of the family firm status.

Looking at the coefficients of the other control variables, we find that CEOs' education is negatively associated with the probability of remarks, possibly owing to their ability to implement superior management practices or greater social concerns (Amore et al. 2019). Also, CEO age is negatively associated with the probability of remarks, perhaps because older CEOs have more experience in complying with regulatory issues. Finally, we find that older and larger firms (in terms of physical capital) are less likely to get administrative remarks, whereas firms with a larger workforce are more likely to obtain a remarks (perhaps due to higher complexity and coordination costs, which may impair workplace quality).

In summary, firms led by CEOs who live farther away experience a higher probability of remarks pointing to a poorer working environment. The result stems from the distance between the firm and where the CEO currently lives. There is no evidence that this result

is driven by the distance from the CEO's birthplace to the firm nor from the firm being a family firm. Thus we do not find support for the improved working environment in neighborhood firms is triggered by CEOs place attachment.

III.2.1 The role of social interactions between CEO and employees

Establishing that neighborhood CEOs improve the workplace due to social interactions is challenging due to the difficulty of measuring the social interactions between CEOs and employees. In the following we provide two types of evidence.

Our first approach is to investigate how the interaction between CEOs and employees' localness affects the working environment. Specifically, we compute the distance between the residence of each employee and the firm, and then compute the average across all employees of a given firm. For CEOs, we compute the distance between their residence and firms, and construct a dummy equal to one when the distance is below the median (zero otherwise).

In Panel A of Table 4, we provide the unconditional frequency of the remark dummy for firms whose CEO and employees' average distance is above or below the median threshold. As shown, the lowest probability of remarks is obtained when both CEO and employees' distance is below the median (meaning both the CEO and the employees are close to the firm and, hence, close to each other); the highest probability is obtained when both CEO and employees' distance is above the median (i.e. they are far from each other). In Panel B of Table 4, we confirm this insight by estimating a regression in which we control for the usual set of individual- and firm-level variables. The table

shows that the direct effect of having a local CEO is positive (i.e. a local CEO actually increases the likelihood of remarks when the fraction of local employees goes toward zero). Yet, having a local CEO decreases the probability of remarks as the fraction of local employees increases. This result, which confirms our univariate evidence, is suggestive of the fact that the result is driven by the physical proximity, and possibly higher frequency of social interactions, between CEOs and employees.

Our second approach provide a direct test of the social interactions channel. Specifically, we argue that children’s schooling provides a venue for social interactions among parents. This is indeed the case given that parents are often actively involved in a number of social and local activities surrounding the schooling activities of their children (e.g. attend meetings with school representatives, join events etc). Given the average number of employees in our sample is about 15, it is plausible that having children who attend the same school make parents engage in social interactions.

In Table 5, we estimate a regression in which the dependent variable is the remark dummy and the key explanatory variable is a dummy equal to one if the CEO’s children have attended the same school of any of the employees’ children in a given year (Columns 1 and 2). Alternatively, we use a dummy equal to one if the CEO’s children have attended the same school of any of the employees’ children in any year in our sample (Columns 3 and 4). On average, these two variables amount to 45% and 69%, respectively. The evidence indicates that when the CEO and employees’ children attend the same school, the company experiences a 2 pct. points reduction in the probability of administrative remarks (i.e. a 4% reduction from the unconditional probability) which is significant at

the 1% level. As per our earlier regressions, this finding is robust to controlling for the set of individual- and firm-level variables that may confound the result.⁹

To sum up, both our indirect and direct approach to measuring social interactions between CEO and employees provide strong support for the view that social interactions are a channel through which neighborhood CEOs generate better working environment.

III.3 Do neighborhood CEOs improve the workplace? Evidence from employees

So far, our analysis has been based on a proxy of workplace quality assigned by a third party (i.e. whether or not a firm receives a remark by an administrative remark for poor workplace conditions). In this section, we explore employees' perception of their own workplace. The spirit of this analysis is close to (Guiso et al., 2015) which has argued how important is it to delve into employees' perspectives in order to elicit the organizational culture of companies. For the analysis, we exploit the AH survey (see data section and Appendix for details) and use as dependent variables a set of questions about: (1) the involvement of employees in the firm's workplace policies, (2) the extent to which employees feel that the workplace is inclusive, (3) the perception of fairness in the workplace, (4) the level of care toward weaker employees, (5) the scope of collaboration and (6) connections among employees, (7) the level of engagement, and (8) the level of

⁹The result is also robust when we leave out the four largest municipalities in Denmark. Outside of these big cities, the choice of schooling is relatively limited, and this ameliorates the reverse causality concern that well-paid employees (in successful firms with high quality working environment) choose the same school as the CEO.

energy employees feel while at work. Given the nature of these survey responses, used as dependent variables, we estimate ordered logit regressions. The key explanatory variable is the dummy equal to one if the CEO lives close to the company (as done in Table 3). After matching the survey data with our sources on CEO and firm characteristics, we obtain around 7,000 observations.

Results, presented in Table 6, show that neighborhood CEOs are associated with higher employees' involvement, more inclusiveness, fairness and care toward special needs. While not all of the dimensions of employees' perception are statistically significant, this analysis provides evidence consistent with the idea that neighborhood CEOs promote a better working environment. Thus, we conclude that neighborhood firms provide better working environment both when it is measured by a third party and when it is measured by the employees of the firms.

III.4 How important is the neighborhood for CEOs? A value-based approach

Our working hypothesis has been that a CEO's "local" preferences raise the salience of employees' welfare and thereby induce the CEO to strive to improve the workplace quality. To measure CEOs' neighborhood, we have so far employed the geographic distance between a CEO's personal residence and the location of the company. In this section, we tackle the question differently. Specifically, we take advantage of the survey on CEOs' social values from which we extract two questions that measure how important the neighborhood is for CEOs. The first question asks how much the CEO values the

firm's engagement with the neighbourhood at a personal level. The second question asks how important the neighborhood is for the firm's operations. To test whether these questions are capturing the importance of neighborhood or whether they proxy for having strong personal values and moral-driven operations more generally, we also use two questions that directly ask for the latter. These questions ask (1) To what extent do you think your personal values are important for the operation of the company? and (2) To what extent is the business operation based on strong moral values, e.g. keeping words, treating employees, customers and suppliers well, etc?¹⁰. Higher values indicate a the perception of a more satisfactory workplace. These questions will be used as alternative explanatory variables, whereas the dependent variable is the dummy for having received any remark for poor working environment. After matching this survey data with our sources on administrative remarks, CEO and firm characteristics, we obtain around 3,000 observations.

In Table 7, we employ as explanatory variable the answers to the two questions which measure the strength of local engagement at the personal level (Column 1) or firm level (Column 2). Higher values of those variables imply a higher focus on local engagement. As shown, firms led by CEOs who are more engaged with the local community are significantly less likely to receive administrative remarks for poor workplace quality. The rest of the table shows that this finding is specific to individual values regarding the local community: the effect is insignificant if we focus on the general importance of personal values as a company leader (Column 3), or on a CEO's morale in business

¹⁰Bennedsen and Chevrot 2022 uses this survey to analyze the impact of CEO values on firm performance

operations (Column 4). Taken together, the results of Tables 3 and 7 confirm that both the physical and cultural part of being a neighborhood CEO are important to understand how leaders influence firms' working environment.

III.5 What do neighborhood CEOs do?

Our final exercise explores the specific actions that make neighborhood CEOs able to improve the working conditions. Measuring CEO actions is notoriously hard. To overcome this difficulty, we took advantage of the VAI survey, which describes the firms' perception and policies related to workplace conditions as stated by company leaders and employee representatives (see data section and Appendix for details). The questions we focus on include: (1) the perception of a high-quality workplace, (2) the extent to which the firm takes care of elderly employees, (3) the flexibility concerning sick leaves, (4) the presence of work overload, (5) the efforts to prevent conflicts within the organization, (6) the extent to which the firm's strategy is consistent with its working environment, (7) the extent to which the firm's management demands improvements in the working environment, and (8) the extent to which a firm's working environment is systematically measured by the management. Higher values indicate a more satisfactory workplace. Given the nature of these items, used as dependent variables, we use ordered logit regressions. The key explanatory variable is the cultural dimension of CEO neighborhood as per our previous section. Matching the VAI survey with the survey on CEO values and firm and individual data, we obtain around 1,000 observations.

As Table 8 shows, firms led by CEOs who emphasize local values have a more satis-

factory workplace and put in place mechanisms to reduce the risk of conflict. Moreover, these firms have a more ambitious perception of the importance of working environment which is more closely aligned with the overall strategy, and the top management is more thoughtful of workplace issues. Thus, neighborhood firms are significantly more focused on taking strategic actions to protect and improve the working conditions.

IV Conclusion

In finance and organizational economics, there is a growing literature on the benefits of geographic proximity for companies. Using administrative and large-scale survey data from Denmark, we have shown that neighborhood CEOs are a significant driver of firms' workplace quality: companies led by CEOs who live closer to the firms are less likely to receive administrative remarks due to poor workplace conditions. We documented that one key channel through which neighborhood affects working environment is the set of social interactions between CEO and employees: the firm's working environment is better when CEOs and employees live close to each other and/or have children attending the same schools.

Going beyond the measure of geographic proximity, our survey evidence has shown that firms led by CEOs with a more local mindset are less likely to be hit by administrative remarks. Moreover, employees of such firms are generally more satisfied about the environment where they work, they consider their firms to be more caring of individuals with special needs (e.g. elders), and are less worried about work-related conflicts. An important premise of these results, which we validated with our data, is that the quality

of working environment is positively associated with firm performance - mainly through the labor channel: when the working environment is better, employees are more productive. Taken together, our results indicate that neighborhood CEOs are conducive of pro-social actions which are beneficial for both employees and the company at large.

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Table 1: Descriptive statistics

This table reports summary statistics for the main variables used in the analysis. The table reports, in the first column, the average and standard deviations (in parenthesis) for the whole sample. Then, in the second and third column, it reports the average and standard deviations (in parenthesis) separately for firms that received or did not receive any remark. The fourth column reports the t-test difference in averages between column two and one (with standard errors reported in parenthesis). ***, **, and * correspond to statistical significance at the 1%, 5%, and 10% level, respectively. Detailed descriptions of the variables are given in Appendix.

Panel A: Firms	All firms		No-remark firms		Remark firms		Difference
	Obs.	Mean	Obs.	Mean	Obs.	Mean	T-Test
Dummy for any remark	76,784	0.46 (0.498)					
Scaled number of remarks (Remarks/Employees)	76,784	0.16 (0.389)					
Plant,property and equipment (in millions)	77,858	18.76 (591.521)	42,361	17.42 (553.956)	35,497	20.36 (633.445)	-2.9392 (4.256)
Firm age	77,858	13.59 (12.569)	42,361	13.24 (12.382)	35,497	14.01 (12.775)	-0.7692*** (0.090)
Employees	77858	14.75 (44.488)	42,361	11.48 (39.942)	35,497	18.64 (49.085)	-7.1576*** (0.319)
Family firm	76,877	0.36 (0.481)	41,322	0.34 (0.475)	35,555	0.38 (0.486)	-0.0397*** (0.003)
Panel B: CEOs	All firms		No-remark firms		Remark firms		Difference
	Obs.	Mean	Obs.	Mean	Obs.	Mean	T-Test
CEO age	77,858	49.18 (10.234)	42,361	49.35 (10.207)	35,497	48.98 (10.264)	0.3731*** (0.074)
Male CEO dummy	75,947	0.92 (0.265)	40,863	0.91 (0.279)	35,084	0.93 (0.248)	-0.0195*** (0.002)
CEO education	77,858	14.45 (2.130)	42,361	14.50 (2.143)	35,497	14.39 (2.114)	0.1108*** (0.015)
CEO residence equal to workplace	77,858	0.34 (0.474)	42,361	0.36 (0.480)	35,497	0.32 (0.465)	0.0425*** (0.003)
CEO distance home to workplace	48,500	11.69 (24.160)	26,409	11.08 (24.479)	22,091	12.41 (23.754)	-1.3332*** (0.220)
CEO birthplace equal to workplace	69,199	0.36 (0.481)	37,547	0.35 (0.478)	31,652	0.38 (0.484)	-0.0225*** (0.004)

Table 2: Workplace quality and firm performance

This table reports our findings on the relationship between working environment and firm profitability. Each column provides the coefficients from a OLS regression. The dependent variable is ROA in Columns (1-4) and the logarithm of value added to employees in Columns (5-6). Columns (1-2) use as main explanatory variable a dummy equal to one if the firm has received any administrative remark for poor working environment (zero otherwise), whereas Columns (3-4) use the number of remarks scaled by the number of employees. Municipality, year and industry dummies are included depending on the specification. Firm-clustered standard errors are reported in parentheses. ***, **, and * correspond to statistical significance at the 1%, 5%, and 10% level, respectively.

Dependent variables:	ROA	ROA	ROA	ROA	Ln (Value added/ Employees)	Ln (Value added/ Employees)
	(1)	(2)	(3)	(4)	(5)	(6)
Dummy for any remark	-0.0210** (0.0103)	-0.0202** (0.00963)			-0.0360*** (0.00941)	-0.0370*** (0.00942)
Scaled number of remarks			-0.00905** (0.00363)	-0.00837** (0.00331)		
Ln(Plant,property and equipment)	0.0181** (0.00706)	0.0176** (0.00690)	0.0183** (0.00711)	0.0178** (0.00694)	0.0612*** (0.00502)	0.0621*** (0.00506)
Ln(Employees)	-0.00557** (0.00224)	-0.00478** (0.00214)	-0.00870*** (0.00293)	-0.00773*** (0.00264)	0.0645*** (0.00739)	0.0649*** (0.00742)
Ln(Firm age)	0.00509 (0.00551)	0.00543 (0.00559)	0.00539 (0.00534)	0.00572 (0.00543)	0.0197*** (0.00597)	0.0175*** (0.00598)
Observations	79,786	79,786	79,786	79,786	77,238	77,238
R-squared	0.006	0.007	0.006	0.007	0.055	0.057
Municipality FE	No	Yes	No	Yes	No	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes

Table 3: Neighborhood CEOs and workplace quality

This table reports our findings on the relationship between neighborhood CEOs and work environment. Each column provides the coefficients from a OLS regression. In all columns, the dependent variable is a dummy equal to one if the firm has received any remark for poor working environment (zero otherwise). Columns (1) and (2) use a dummy variable equal to one if the CEO's personal residence is within a 5 km radius of the firm's headquarter. Columns (3)-(4) use the logarithm of the continuous distance between the CEO's personal residence and the firm's headquarter. Column (5) further adds to Column (4) the logarithm of the continuous distance between a CEO's birthplace and the firm's headquarter. Firm-clustered standard errors are reported in parentheses. ***, **, and * correspond to statistical significance at the 1%, 5%, and 10% level, respectively.

Dependent variable: Dummy for any remark	(1)	(2)	(3)	(4)	(5)	(6)
CEO residence equal to work	-0.0362*** (0.00389)	-0.0309*** (0.00393)				
Ln(CEO distance home to workplace)			0.0133*** (0.00182)	0.0112*** (0.00186)	0.0129*** (0.00239)	0.0131*** (0.00239)
Ln(CEO distance birthplace to workplace)					-0.00180 (0.00312)	-0.00166 (0.00311)
CEO education	-0.00566*** (0.000906)	-0.00636*** (0.000904)	-0.00405*** (0.00115)	-0.00473*** (0.00115)	-0.00488*** (0.00154)	-0.00478*** (0.00154)
Male CEO dummy	0.0116* (0.00672)	0.0122* (0.00671)	0.00834 (0.00863)	0.00909 (0.00865)	0.0101 (0.0114)	0.0117 (0.0114)
CEO age	-0.000627*** (0.000195)	-0.000555*** (0.000194)	-0.000983*** (0.000252)	-0.000895*** (0.000251)	-0.000738** (0.000346)	-0.000794** (0.000346)
Family firm						0.0170** (0.00661)
Ln(Plant,property and equipment)	-0.00494*** (0.00124)	-0.00449*** (0.00124)	-0.00684*** (0.00159)	-0.00633*** (0.00159)	-0.00399* (0.00213)	-0.00414* (0.00213)
Ln(Employees)	0.108*** (0.00203)	0.108*** (0.00204)	0.120*** (0.00268)	0.120*** (0.00268)	0.116*** (0.00364)	0.115*** (0.00365)
Ln(Firm age)	-0.0169*** (0.00219)	-0.0178*** (0.00219)	-0.0127*** (0.00280)	-0.0136*** (0.00281)	-0.0122*** (0.00384)	-0.0132*** (0.00386)
Observations	77,676	77,676	48,500	48,500	26,356	26,356
R-squared	0.088	0.093	0.103	0.108	0.117	0.117
Municipality FE	No	Yes	No	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes

Table 4: CEO-employees interactions and workplace quality

This table shows how CEO and employees' localness interact to influence the firms' working environment. Panel A reports the unconditional average of the remark dummy for four subsamples constructed using the following: distance between CEOs' residence and workplace above/below the median value in the whole sample; firm-level average distance between employees' residence and workplace above/below the median value in the whole sample. Panel B reports the results of a OLS regression in which the dependent variable is the remark dummy, and the key explanatory variables are a dummy equal to one if the distance between a CEO's residence and the firm headquarter is below median (zero otherwise), the share of employees whose distance between home and firm headquarter is below the median, and the interaction between these two variables. Municipality, year and industry dummies are included. Firm-clustered standard errors are reported in parentheses. ***, **, and * correspond to statistical significance at the 1%, 5%, and 10% level, respectively.

Panel A: Average frequency of remarks

	High distance CEO home-firm (1)	Low distance CEO home-firm (2)	Difference (1) - (2)
(1) High distance employees home-firm	0.497	0.413	0.085*** (0.005)
(2) Low distance employees home-firm	0.427	0.369	0.058*** (0.007)
Difference (1) - (2)	0.070*** (0.005)	0.044*** (0.007)	0.026*** (0.009)

Panel B: Regression analysis

Dependent variable: Dummy for any remark	
	(1)
Local CEO	0.0249** (0.0104)
Proportion of local employees	0.115*** (0.0127)
Local CEO x Proportion of local employees	-0.109*** (0.0146)
CEO education	-0.00596*** (0.000924)
Male CEO dummy	0.0125* (0.00686)
CEO age	-0.000535*** (0.000198)
Ln(Plant,property and equipment)	-0.00450*** (0.00127)
Ln(Employees)	0.103*** (0.00217)
Ln(Firm age)	-0.0173*** (0.00223)
Observations	75,404
R-squared	0.090
Municipality FE	Yes
Year FE	Yes
Industry FE	Yes

Table 5: CEO-employees interactions: Evidence from children's schools

This table reports how CEOs' and employees' children going to the same school affects the firm's working environment. In all columns, the dependent variable is a dummy equal to one if the firm has received any administrative remark for poor working environment (zero otherwise). Columns (1-2) use as explanatory variable a dummy equal to one if the CEO's and (at least one) employees' children went to the same school in the same year. Columns (3-4) use as explanatory variable a dummy equal to one if the CEO's and (at least one of) employees' children went to the same school in any year. Firm-clustered standard errors are reported in parentheses. ***, **, and * correspond to statistical significance at the 1%, 5%, and 10% level, respectively.

Dependent variable: Dummy for any remark				
	(1)	(2)	(3)	(4)
Firm-year level school overlap	-0.0252*** (0.00529)	-0.0191*** (0.00618)		
Firm-level school overlap			-0.0225*** (0.00445)	-0.0185*** (0.00531)
Ln(CEO Distance home to work)		0.0130*** (0.00205)		0.0128*** (0.00205)
CEO education	-0.00477*** (0.00105)	-0.00369*** (0.00130)	-0.00479*** (0.00105)	-0.00371*** (0.00130)
Male CEO dummy	0.0127 (0.00809)	0.0119 (0.0101)	0.0132 (0.00809)	0.0124 (0.0102)
CEO age	-0.000195 (0.000233)	-0.000492* (0.000296)	-0.000210 (0.000233)	-0.000514* (0.000296)
Ln(Plant,property and equipment)	-0.00441*** (0.00145)	-0.00525*** (0.00182)	-0.00432*** (0.00145)	-0.00522*** (0.00182)
Ln(Employees)	0.101*** (0.00250)	0.106*** (0.00320)	0.101*** (0.00252)	0.106*** (0.00323)
Ln(Firm age)	-0.0122*** (0.00249)	-0.00893*** (0.00312)	-0.0119*** (0.00249)	-0.00879*** (0.00312)
Observations	61,581	40,153	61,581	40,153
R-squared	0.068	0.080	0.068	0.080
Municipality FE	No	No	No	No
Year FE	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes

Table 6: CEOs' distance to the workplace and employees' perception of workplace quality

This table establishes the relationship between neighborhood CEOs and employees' perception of the working environment. In each column, the dependent variables are the response from different survey questions sent out to employees and that take on values from 1 to 5; the higher the value, the better is the perception of the work environment. The main explanatory variable is a dummy variable equal to one if the CEO's personal residence is within a 5 km radius of the firm's headquarter. Details on the meaning of these variables is reported in Appendix. The regressions include the usual set of control variables and fixed effects. Firm-clustered standard errors are reported in parentheses. ***, **, and * correspond to statistical significance at the 1%, 5%, and 10% level, respectively.

Dependent variable:	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Involvement	Inclusion	Fairness	Care	Collaboration	Connection	Engagement	Energy
CEO residence equal to workplace	0.219*** (0.0690)	0.126* (0.0669)	0.211*** (0.0651)	0.225*** (0.0629)	0.0971 (0.0613)	0.122* (0.0631)	-0.0681 (0.0563)	0.0782 (0.0621)
CEO education	-0.0362** (0.0152)	-0.0616*** (0.0150)	-0.0439*** (0.0142)	-0.0438*** (0.0140)	-0.0282* (0.0146)	-0.0213 (0.0137)	0.0114 (0.0125)	-0.0271** (0.0137)
Male CEO dummy	0.135 (0.108)	0.00551 (0.106)	0.137 (0.0981)	0.0616 (0.107)	-0.0247 (0.111)	0.103 (0.105)	0.0187 (0.102)	0.113 (0.107)
CEO age	0.00428 (0.00327)	0.00602* (0.00320)	0.00461 (0.00320)	0.00556* (0.00315)	-0.000382 (0.00300)	0.00166 (0.00301)	0.00151 (0.00284)	0.00384 (0.00307)
Ln(Plant,property and equipment)	-0.0435** (0.0198)	-0.0390** (0.0180)	0.000712 (0.0188)	-0.0115 (0.0187)	0.0245 (0.0179)	0.0197 (0.0174)	0.0205 (0.0168)	0.00637 (0.0183)
Ln(Employees)	-0.0248 (0.0337)	0.165*** (0.0334)	0.296*** (0.0334)	0.272*** (0.0330)	0.110*** (0.0315)	0.0259 (0.0305)	-0.00621 (0.0296)	0.0698** (0.0310)
Ln(Firm age)	-0.0754** (0.0384)	-0.0499 (0.0381)	-0.0474 (0.0370)	-0.0318 (0.0363)	-0.0572 (0.0369)	-0.00127 (0.0352)	0.00473 (0.0340)	0.0300 (0.0363)
Observations	6,892	6,916	7,118	7,126	7,116	7,125	7,068	7,145
Municipality FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Table 7: CEOs' attachment to local community and workplace quality

This table reports the relationship between CEOs' personal values and the firms' work environment. In all columns, the dependent variable is a dummy equal to one if the firm has received any remark (zero otherwise). The main explanatory variables are a set of survey-based measures of CEOs' values. Details on the meaning of these variables is reported in Appendix. The regressions include the usual set of control variables and fixed effects. Firm-clustered standard errors are reported in parentheses. ***, **, and * correspond to statistical significance at the 1%, 5%, and 10% level, respectively.

Dependent variable: Dummy for any remark				
	(1)	(2)	(3)	(4)
Neighborhood: importance of engagement (personal)	-0.0815** (0.0368)			
Neighbourhood: importance of engagement (firm)		-0.0986** (0.0387)		
Importance of personal values			-0.0120 (0.0457)	
Moral-driven operations				-0.0120 (0.0457)
CEO education	-0.00584 (0.00480)	-0.00598 (0.00478)	-0.00489 (0.00478)	-0.00489 (0.00478)
Male CEO dummy	0.00760 (0.0426)	0.00540 (0.0425)	0.00828 (0.0427)	0.00828 (0.0427)
CEO age	0.000408 (0.00109)	0.000443 (0.00109)	0.000351 (0.00109)	0.000351 (0.00109)
Ln(Plant,property and equipment)	-0.00117 (0.00685)	-0.00134 (0.00684)	-0.00198 (0.00687)	-0.00198 (0.00687)
Ln(Employees)	0.0726*** (0.0127)	0.0741*** (0.0127)	0.0728*** (0.0127)	0.0728*** (0.0127)
Ln(Firm age)	-0.0168 (0.0114)	-0.0168 (0.0113)	-0.0173 (0.0113)	-0.0173 (0.0113)
Observations	3,331	3,331	3,331	3,331
R-squared	0.132	0.133	0.131	0.131
Municipality FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes

Table 8: CEOs' attachment to the local community and management practices

This table relates the CEOs' emphasis on local engagement with a set of management policies as perceived by the employees. Both dependent variables and key explanatory variable are survey-based. Details on the meaning of these variables is reported in Appendix. The regressions include the usual set of control variables and fixed effects. Firm-clustered standard errors are reported in parentheses. ***, **, and * correspond to statistical significance at the 1%, 5%, and 10% level, respectively.

Dependent variable:	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Workplace quality	Elderly care	Sick leave	Overload	Conflict avoidance	Strategy	Top focus	Management
Neighbourhood: importance of engagement (personal)	2.795*** (0.711)	0.569 (1.296)	-4.235 (2.638)	1.907 (1.409)	1.753* (1.020)	3.517* (1.860)	3.454 (2.137)	3.291** (1.627)
CEO education	-0.197*** (0.0728)	0.0324 (0.0913)	0.137 (0.106)	0.261 (0.183)	0.00607 (0.0840)	-0.0137 (0.155)	-0.235 (0.208)	-0.253 (0.162)
Male CEO dummy	-1.794* (0.939)	-0.334 (0.557)	-0.421 (0.913)	1.558* (0.914)	-0.136 (0.810)	-0.499 (1.469)	-1.406 (1.437)	-2.366 (1.684)
CEO age	-0.0368*** (0.0140)	0.00915 (0.0170)	0.0182* (0.0110)	-0.00382 (0.0184)	-0.0136 (0.0127)	0.0118 (0.0198)	0.000754 (0.0179)	-0.0190 (0.0167)
Ln(Plant,property and equipment)	0.141 (0.126)	0.207 (0.165)	-0.0963 (0.134)	0.251* (0.148)	0.293** (0.115)	0.202 (0.223)	-0.167 (0.173)	-0.422 (0.259)
Ln(Employees)	-0.139 (0.297)	-0.249 (0.307)	-0.326 (0.357)	0.133 (0.395)	-0.402 (0.270)	-1.866*** (0.589)	-0.762 (0.537)	-2.385*** (0.616)
Ln(Firm age)	0.0563 (0.256)	-0.0398 (0.385)	-1.431*** (0.526)	0.589 (0.378)	-0.0135 (0.223)	-0.258 (0.611)	-0.627 (0.494)	0.0418 (0.509)
Observations	1,135	969	916	1,088	1,056	851	864	840
Municipality FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Appendix: Variable definition and distribution of survey answers

Firm-level variables

Dummy for any remark	Indicator variable that takes the value of one if the firm in a year has received any remark regarding a poor working environment.
Scaled number of remarks	The number of remarks a firm receives in a firm year divided by the number of employees in that year.
Plant, property and equipment	The part of the assets that is intended for permanent ownership or use by the company, e.g. buildings, machinery, furniture, patents, licenses and long-term investments of a financial nature, e.g. shares and bonds. Measured in Millions.
Firm age	Years since establishment of the legal entity.
Equivalent of full-time employees	Number of full-time employees in a firm in each year.
Firm-year level school overlap	Indicator variable that takes the value one if the CEO's children attend the same school as any employee's children in a given firm in a specific year.
Firm-level school overlap	Indicator variable that takes the value one if the CEO's children attend the same school as any employee's children in a given firm across any year.

CEO-level variables

CEO distance home to work	The shortest road distance between home address and firm address.
Local CEO	Indicator variable that takes the value of 1 if the distance between the CEO's home address and work address is less than the median distance of all the CEOs across all years.
CEO residence equal to workplace	Indicator variable that takes the value of one if the shortest road distance between the CEO's home address and work address is less than 5 kilometers.
CEO birthplace equal to workplace	Indicator variable that takes the value of one if the municipality codes of the CEO's birthplace and work address are the same.

Variable	Definition
<i>CEO value survey variables</i>	
Neighbourhood: importance of engagement (personal)	Survey Question asking managers how much they value engagement with the neighbourhood at a personal level. Coded 0 to 1 in increments of 0.25. The greater the value of the variable, the more important engagement is.
Neighbourhood: importance of engagement (firm)	Survey Question asking managers how much they value the firm's engagement with the neighbourhood. Coded 0 to 1 in increments of 0.25. The greater the value of the variable, the more important engagement is.
Importance of personal values	Survey question asking managers, "To what extent do you think your personal values are important for the operation of the company?" Coded 0 to 1 in increments of 0.25. The greater the value of the variable, the more important are personal values.
Moral-driven operations	Survey question asking managers, "To what extent is the business operation based on strong moral values, e.g. keeping words, treating employees, customers and suppliers well, etc.?" Coded 0 to 1 in increments of 0.25. The greater the value of the variable, the greater emphasis on morals.
Loyalty to firm employees	Survey question asking managers how loyal they feel to their employees. Coded 0 to 1 in increments of 0.25. The greater the value of the variable, the greater the loyalty.
<i>CEO-level variables</i>	
<i>Leadership survey variables (VAI) on firms' working environment policy</i>	
Workplace Quality	Survey question asked to leadership regarding attitude that working environment must be better than rules. Coded from 1 to 4 in increments of 1. No=1 and Greatly=4.
Elderly Care	Survey question asked to leadership regarding efforts made to retain older employees. Coded from 1 to 4 in increments of 1. No=1 and Greatly=4.
Sick Leave	Survey question asked to leadership regarding efforts made to prevent sick leave. Coded from 1 to 4 in increments of 1. No=1 and Greatly=4.
Overload	Survey question asked to leadership regarding efforts made to prevent large work overloads and time pressures. Coded from 1 to 4 in increments of 1. No=1 and Greatly=4.
Conflict	Survey question asked to leadership regarding efforts made to prevent and manage conflicts and quarrels. Coded from 1 to 4 in increments of 1. No=1 and Greatly=4.
Strategy	Survey question asked to leadership about the extent to which the working environment is written into the company's overall strategy. Coded from 1 to 4 in increments of 1. No=1 and Greatly=4.
Top Focus	Survey question asked to leadership about the extent to which top management demands results in the field of working environment. Coded from 1 to 4 in increments of 1. No=1 and Greatly=4.
Management	Survey question asked to leadership about the extent to which the development of the company's working environment is systemically measured?. Coded from 1 to 4 in increments of 1. No=1 and Greatly=4.

Variable	Definition
<i>Employee level variables</i>	
Proportion of local employees	Total number of employees for who the distance between home and work is less than the median distance for all employees across all years, divided by the total number of employees in the firm, in each year.
<i>Employee survey variables (AH) about employees perception of workenvironment</i>	
Involvement	Survey question asked employees about the extent to which employees get involved in making decisions that affect their working environment. Coded from 1 to 5 in increments of . No=1 and Greatly=5.
Inclusion	Survey question asked employees about the extent to which affected employees are heard for a given decision. Coded from 1 to 5 in increments of . No=1 and Greatly=5.
Fairness	Survey question asked employees about the extent to which employees are treated fairly in the workplace. Coded from 1 to 5 in increments of . No=1 and Greatly=5.
Care	Survey question asked employees about the extent to which employees with lower representation (elderly or sick) are taken into account in the workplace. Coded from 1 to 5 in increments of . No=1 and Greatly=5.
Collaboration	Survey question asked employees about the extent to which you and your colleagues would make an effort to improve the working environment. Coded from 1 to 5 in increments of . No=1 and Greatly=5.
Connection	Survey question asked to employees about the extent to which you and your colleagues connect around working environment. Coded from 1 to 5 in increments of . No=1 and Greatly=5.
Engagement	Survey question asked employees about the extent to which you have to take a stand on your (for example) clients', patients' or students' problems (not your colleagues' problems) in your work. Coded from 1 to 5 in increments of . No=1 and Greatly=5.
Energy	Survey question asked employees about the extent to which your job give you confidence and job satisfaction. Coded from 1 to 5 in increments of . No=1 and Greatly=5.

Table 1: Distribution of AH Survey Responses

	Involvement	Inclusion	Fairness	Care	Collaboration	Connection	Engagement	Energy
Greatly			3.017	2.234	2.479	1.359	29.03	2.148
Somewhat	7.708	8.315	19.03	9.082	8.328	9.728	27.61	5.839
Small extent	20.29	20.68	37.68	24.76	23.14	35.54	23.11	29.06
Weak	48.88	48.06	30.55	41.87	38.04	40.77	13.90	40.04
No	23.13	22.95	9.725	22.05	28.02	12.61	6.352	22.91
Total	100	100	100	100	100	100	100	100

Table 2: Distribution of VAI Survey Responses

	Workplace quality	Elderly care	Sick leave	Overload	Conflict	Strategy	Top focus	Management
Greatly	21.30	25.34	49.95	15.24	20.79	39.47	33.15	28.62
Somewhat	57.31	40.06	40.39	47.74	44.71	36.05	34.24	30.29
Small extent	8.354	8.285	3.946	21.08	13.80	5.733	10.65	15.81
No	13.03	26.32	5.711	15.94	20.70	18.74	21.96	25.28
Total	100	100	100	100	100	100	100	100