Do Repatriation Tax Holidays Promote Corporate Social Responsibility?
Evidence from the American Jobs Creation Act

Wen Chen
College of Business, City University of Hong Kong
Tat Chee Avenue, Kowloon, Hong Kong
Email: wchen55@cityu.edu.hk

Liandong Zhang
School of Accountancy, Singapore Management University
60 Stamford Road, Singapore 178900
Email: ldzhang@smu.edu.sg

ABSTRACT

In response to the temporary tax holiday introduced by the American Jobs Creation Act, U.S. multinational corporations repatriated approximately $300 billion from foreign subsidiaries to the United States. We find that repatriating firms invest at least a portion of the repatriated funds in corporate social responsibility (CSR) initiatives, as evidenced by the increasing CSR performance of repatriating firms relative to non-repatriating firms during the years after repatriation. The effect of repatriation on CSR performance is more pronounced for financially unconstrained firms, poorly governed firms, and firms located in states with increasing stakeholder preferences for CSR.

November 2018

1. Introduction

In 2004, the United States Congress enacted the American Jobs Creation Act (AJCA). The act created a temporary tax holiday that effectively reduced the reparation tax rate of U.S. multinational companies (MNCs) from 35% to 5.25%. In response to the tax holiday, MNCs repatriated approximately $300 billion of cash from foreign subsidiaries to their U.S.-based parents (e.g., Redmiles, 2008). In this study, we examine the impact of the tax holiday on corporate social responsibility (CSR) investment. In so doing, our objectives are twofold. First, we intend to further our understanding of the economic consequences of tax holidays. Second, we seek to inform the debate on the merits and motives of corporate CSR spending, using the AJCA as a quasi-natural experiment.

In the past two decades, one of the most significant corporate trends has been increasing investment in activities classified as CSR, commonly referring to corporate environmental and social initiatives. Notwithstanding its increasing popularity and significance, the merits of CSR have been highly controversial since at least the 1930s' public debate between Adolf A. Berle and E. Merrick Dodd, Jr., regarding the fundamental roles of business enterprises (Macintosh, 1999). Proponents of CSR argue that corporations should take care of the welfare of both shareholders and society. They further argue that CSR represents investments with positive net present value (NPV) that maximize firm value, because CSR investments help build good corporate reputation and social trust among various stakeholders, such as employees, customers, regulators, and the government. The enhanced reputation can then increase firm value by attracting high-quality employees, increasing market shares, and gaining support from the government or other stakeholders when needed (e.g., Navarro, 1988; Greening and Turban, 2000; Godfrey, 2005;

Edmans, 2011; Lins, Servaes, and Tamayo, 2017). The management literature terms this view of CSR as "doing well by doing good."

On the other hand, opponents of CSR argue that the "the only responsibility of corporations is to make profits" (Friedman, 1970). They view CSR as a manifestation of a managerial–shareholder agency problem that is detrimental to shareholder value (e.g., Bénabou and Tirole, 2010; Krueger, 2015; Cheng, Hong, and Shue, 2016). According to this agency view of CSR, managers overinvest in corporate goodness to gain private benefits at the expense of shareholders. CSR investments can enhance the personal reputation of managers as individuals who respect their employees, the community, and the environment (Barnea and Rubin, 2010), which helps boost their self-esteem and enhance their personal social network (e.g., Masulis and Reza, 2015). In addition, the economics literature suggests that individuals can gain utility in the form of life satisfaction and happiness by contributing to the public good due to the so-called warm glow motive[1] (e.g., Videras and Owen, 2006).

We examine the two views of CSR using the AJCA tax holiday as a temporary shock to the amount of domestic cash available to managers. To the extent that the AJCA is exogenous to MNCs' investment opportunities, we should not observe any increases in investment for repatriating firms relative to non-repatriating firms, because they should have already optimized their level of investment before the AJCA. However, according to agency theory (Jensen and Meckling, 1976), the increased amount of (domestic) cash can give managers more freedom in pursing (domestic) projects that benefit themselves at the expense of shareholders. Therefore, if managerial agency motives drive the spending on CSR projects, we should expect repatriating

---

[1] In the economics literature, the warm glow refers to the positive feeling people receive from helping others.

MNCs to increase their spending on CSR. In contrast, if CSR represents a value-maximizing investment, there should be no change in CSR spending for repatriating firms relative to non-repatriating firms.

One empirical challenge of the CSR literature is that it is extremely difficult to quantify the amount of CSR spending. Researchers often rely on CSR ratings as a proxy for CSR spending. In this study, we use the MSCI ESG–KLD environmental and social ratings to capture the extent of corporate CSR investment.[2] Following prior research on the AJCA (e.g., Blouin and Krull, 2009; Dharmapala, Foley, and Forbes, 2011; Faulkender and Petersen, 2012), we identify from firm 10K filings a sample of 475 firms that repatriated funds under the AJCA. We then track the CSR performance of repatriating and non-repatriating firms for the period three years before the repatriation year and six years after the repatriation year. We use a longer post-event window to accommodate the possibilities that CSR performance indicators likely reflect CSR investments with substantial lags and that managers do not spend the repatriated cash immediately after repatriation (Dharmapala, Foley, and Forbes, 2011; Di Giuli and Kostovetsky, 2014).

Using a difference-in-differences (DID) specification following Faulkender and Petersen (2012), we find that repatriating firms experience a significant improvement in CSR performance relative to control firms, holding firm characteristics and the capability and probability of repatriation constant. The significant improvement in CSR performance does not show up until at least three years after the repatriation year, suggesting that it takes time for the investments in CSR initiatives to manifest into higher CSR performance ratings. Alternatively, managers could invest in CSR projects with a delay, probably after they have explored other potential uses of the

---

[2] The MSCI dataset includes environmental, social, and governance performance indicators. Following most CSR research, we focus on environmental and social performance, because the CSR debate is largely about environmental and social investments rather than corporate governance.

repatriated funds. Either way, our findings suggest that managers invest at least part of the repatriated funds in CSR activities. This result is consistent with the agency view of CSR spending.

There are two potential concerns in interpreting our results as evidence supporting the agency view of CSR spending. One concern is that the AJCA does not change MNCs' overall cash holdings. Instead, it only increases domestic cash available to managers. Thus, one assumption of our research is that the improved CSR performance reflects domestic investment in CSR initiatives. We argue that this assumption is reasonable because it is unlikely that the improved CSR performance is driven by foreign investments, given that cash was already available to the foreign subsidiaries prior to the AJCA. Moreover, under the agency perspective, managers' private benefits derived from CSR spending are likely domestic in nature, such as reputation in society and local social networks.

Another concern is that, if the majority of repatriating firms are financially constrained, the improvement in CSR performance can reflect efficient investments rather than overinvestments in CSR. The AJCA temporarily reduces the cost of financing investment projects using internal cash, which could change some negative-NPV CSR projects into positive-NPV ones, because constrained firms are not able to finance the CSR projects from external markets at reasonable costs. Again, we argue that this scenario is unlikely, because Blouin and Krull (2009) and Dharmapala, Foley, and Forbes (2011) find that repatriating firms under the AJCA are generally large MNCs facing little financial constraint. Nonetheless, we next address this concern by examining how financial constraints affect the impact of repatriation on CSR performance.

Consistent with the agency view of CSR spending, we find that the effect of AJCA repatriation on CSR performance is more pronounced for financially unconstrained firms than for financially constrained firms. For unconstrained firms, the increased domestic cash should not

affect the optimal level of investments and the improvement in CSR performance should reflect managerial overinvestment in CSR projects. Dharmapala, Foley, and Forbes (2011) find no evidence that repatriating firms increase investment, even those that are financially constrained. In contrast, Faulkender and Petersen (2012) find that the AJCA increases investment for the subset of firms that are financially constrained. Moreover, for unconstrained firms, they find little evidence that managers return the cash to shareholders. Our findings complement those of Faulkender and Petersen, in that we show unconstrained firms overinvest part of their repatriated funds in CSR projects (which is difficult to observe from traditional measures of investment).

We next conduct several additional tests and the results generally favor the agency view of CSR investment. First, we find that the impact of repatriation on CSR spending is more pronounced for poorly governed firms. This result is consistent with agency theory, in that poorly governed firms are more likely to use the repatriated cash in ways that increase managerial private gains at the expense of shareholder value. Dharmapala, Foley, and Forbes (2011) find that better-governed firms responded to the AJCA by returning funds to shareholders, whereas poorly governed firms did not. Our result complements that of Dharmapala, Foley, and Forbes (2011) by showing where the repatriated funds go for poorly governed firms.

Second, prior research suggests that Democrats emphasize CSR-related issues, such as environmental protection, more than Republicans do (Hong and Kostovetsky, 2012; Di Giuli and Kostovetsky, 2014). Research also shows that people who are more religious are more likely to support CSR initiatives (e.g., Angelidis and Ibrahim, 2004). Therefore, managers in Democrat-leaning states and more religious states are likely to face more pressure from politicians or the community to invest in CSR projects. Relatedly, managers in these states can also gain a greater personal reputation or social-networking benefits by overinvesting in CSR using the repatriated

funds, because the CSR investment is more consistent with local preferences. Consistent with prior research, we show that the impact of repatriation on CSR spending is more pronounced for firms headquartered in states with increasing political and community pressure or preferences for CSR spending.

Third, we separate improvements in overall CSR performance into improvements in CSR strength and reductions in CSR concerns. Krüger (2015) shows that positive CSR news is less likely to reflect agency problems if the CSR events represent the firm's desire to offset previous episodes of corporate social irresponsibility. Consistent with the agency view of CSR, we find that the impact of repatriation on CSR performance is largely driven by improvements in CSR strength rather than reductions in CSR concerns.

Finally, we examine how CSR investments are associated with the long-term stock performance of repatriating firms. We find that the portfolios of repatriating firms with more improvements in CSR performance around the AJCA significantly underperform those of repatriating firms with fewer improvements in CSR performance. This result suggests that improvements in CSR induced by repatriated funds are a manifestation of a managerial agency problem and are thus detrimental to shareholder value.

Our study contributes to the literature in the following ways. First, our research contributes to the literature on the economic consequences of repatriation tax holidays. Most prior studies on the AJCA find that repatriating firms return the repatriated funds to shareholders through share repurchases or dividend payments (e.g., Clemons and Kinney, 2008; Blouin and Krull, 2009; Graham, Hanlon, and Shevlin, 2010; Dharmapala, Foley, and Forbes, 2011). Although the AJCA explicitly prohibits the distribution of repatriated funds back to shareholders, the decision to distribute excess cash to shareholders is consistent with efficient contracting and good corporate

governance. Dyreng and Hills (2017) show that the repatriation and distribution of funds benefit the concentrated areas surrounding the headquarters of repatriating MNCs in terms of increased local employment. The findings of Faulkender and Petersen (2012) are also consistent with contracting efficiency, in that financially constrained firms use the repatriated funds for domestic investments but unconstrained firms do not. In contrast, our study shows that managers can overinvest the repatriated cash in CSR projects, particularly those firms without financial constraints and poorly governed firms. Thus, we extend this line of literature by identifying one potentially inefficient use of repatriated funds, from the shareholders' perspective. Our findings are consistent with earlier research on how firms respond to cash windfalls. For example, using a small sample of firms receiving cash windfalls, Blanchard, Lopez-de-Silanes, and Shleifer (1994) show that the managers of these firms tend to keep the resources inside the firm and invest them in unattractive projects.

Second, our research contributes to the literature on the motives and determinants of CSR spending. Using the AJCA as a shock of domestic cash windfall, we show evidence consistent with the agency motive for CSR spending. This evidence is consistent with the findings of Masulis and Reza (2015) and Cheng, Hong, and Shue (2016), who show that conflicts of interest between shareholders and managers, as captured by insider ownership, drive CSR investments. Moreover, our analysis of CSR strengths and concerns is consistent with that of Krüger (2015), suggesting that positive improvements in CSR strength are more likely to be driven by agency motives. In contrast to our findings, Ferrell, Liang, and Renneboog (2016) show that well-governed firms engage more in CSR among a cross-country sample of firms. In one particular test, they show that cash abundance is negatively associated with CSR performance. Besides the different samples, one key difference between their study and ours is the identification strategy. Ferrell, Liang, and

Renneboog use industry peers' average cash holdings as the instrument for cash abundance, whereas we use the AJCA as an exogenous source of variations.[3] Nonetheless, we view our research, which focuses on the marginal effects of agency problems, as a complement to theirs, which focuses on average effects.

Finally, our research has implications for policy makers. Our finding that the temporary tax holiday motivates U.S. corporations to spend more on CSR initiatives, although somewhat unintended by the AJCA, could imply an important social benefit of tax holidays. One of the purposes of governments in levying taxes is to raise funds for promoting social agenda, such as better education, environmental protection, and workplace safety. Our results suggest that governments can perhaps use tax holidays to shift some of the social agenda to the private sector. Of course, this would require a careful examination of the comparative advantages of corporations and the public sector in advancing social goals. Our results are also informative to the ongoing discussion of the implications of the 2017–2018 tax reform, which substantially reduces the repatriation tax for foreign earnings stockpiled in the past and effectively removes the repatriation tax for future foreign earnings of U.S. MNCs.

The remainder of this paper proceeds as follows. Section 2 discusses the background of the U.S. tax system, the AJCA, and related literature. Section 3 describes the data and research design. Section 4 presents the main empirical results, cross-sectional analyses, and the analysis of long-term performance. Section 5 sets forth our conclusions.

---

[3] Arguably, our strategy perhaps provides better identification. For example, Larcker and Rusticus (2010) suggest that using industry averages as instrumental variables does not generally resolve reverse causality or omitted variable problems.

2. Background and Related Literature

Before 2018, the United States followed a worldwide tax policy that taxed the foreign income of its residents, with a credit for foreign income tax paid abroad. However, the law permits U.S. MNCs to defer their U.S. tax liabilities on foreign profits until they return these profits to the United States. Since around the end of the 20th century, the U.S. corporate tax rate had become greater than the tax rates of the major trading partners of the United States and this tax difference motivated U.S. MNCs to stockpile cash in their overseas subsidiaries (Foley, Hartzell, Titman, and Twite, 2007; Graham and Leary, 2018). According to a recent estimate by Goldman Sachs, the cash held overseas by U.S. companies reached a record $3.1 trillion in 2017 (Townsend and Meisler, 2017). On December 22, 2017, President Trump signed into law the Tax Cuts and Jobs Act, effective January 1, 2018. Among other things, the law changed the United States from a worldwide to a territorial system for corporate tax, reduced the statutory corporate tax rate from 35% to 21%, and introduced a one-time repatriation tax of cash profits in overseas subsidiaries of 15.5%. The Trump administration claims that the tax reform would spur investments by U.S. companies and promote domestic economic growth and job creations. Since it is still too early to conduct a rigorous empirical analysis regarding the economic impact of the 2018 tax reform, in this study, we focus on the AJCA of 2004, which introduced a temporary reduction of the repatriation tax for U.S. MNCs. The findings of this investigation should be informative for evaluations and potential modifications of the 2018 tax reform.

Similar to the Tax Cuts and Jobs Act, the purpose of the AJCA's temporary reduction in the repatriation tax was to spur U.S. economic growth by encouraging MNCs to increase domestic

investment and employment. President George W. Bush signed the AJCA on October 22, 2004.[4]

Among other things, the AJCA introduced a temporary tax holiday on the repatriation of dividends from foreign subsidiaries, which allowed firms to deduct 85% of repatriations from additional U.S. taxes in either 2004 or 2005. [5] Thus, the act effectively reduced the maximum tax rate on repatriations to 5.25% ((1 - 85%)*35%). To be eligible for the tax holiday, firms had to abide by a number of restrictions. First, the repatriation had to be in cash. Second, the dividends had to be extraordinary, defined as incremental repatriations in the current year over the average amount of repatriations during the previous five years. The act further limits the amount of repatriations by the amount of foreign earnings that are permanently reinvested outside the United States, as reported in firms' financial statements. Finally, to qualify for the reduced repatriation tax, firms are required to adopt a reinvestment plan to use the repatriated funds for approved uses, including (but not limited to) worker hiring and training, infrastructure, research and development (R&D), capital investments, and financial stabilization for the purpose of job retention and creation. The act and its subsequent regulations prohibit several uses of the funds, including executive compensation, dividend payments, share repurchases, tax payments, and purchases of debt instruments or minority interest (less than 10%) investments.

Prior research on the AJCA generally finds that the act is effective, in that it has motivated MNCs to bring back substantial amounts of foreign cash to the United States. For example, Redmiles (2008) estimates that firms repatriated about $312 billion under the AJCA. Blouin and Krull (2009) identify 357 firms that repatriated a total of $292 billion and Faulkender and Petersen (2012) find 423 firms that repatriated $298 billion. Although there is a consensus in prior research

---

[4] See Blouin and Krull (2009) for more detailed descriptions of the AJCA.
[5] In effect, according to our search of 10-K filings, firms reported repatriations under the AJCA in fiscal years 2004 to 2007 (see also Faulkender and Petersen, 2012).

on the approximate amount of foreign funds repatriated under the AJCA, the actual use of the funds by the repatriating firms is controversial. According to a report from the Democratic staff of the Senate Permanent Subcommittee on Investigations (Peterson, 2011), the 15 companies that benefited the most from the AJCA for the return of their overseas profits cut more than 20,000 jobs between 2004 and 2007 and slightly decreased the pace of their research spending. The report calls the AJCA "a failed tax policy." It further shows that the top 15 repatriating companies also accelerated their spending on stock buybacks and executive compensation after the tax holiday.

In the academic literature, Blouin and Krull (2009) find that firms that repatriate funds under the AJCA have low investment opportunities and high free cash flows and they increased share repurchases during 2005 by approximately $60 billion more than non-repatriating firms, representing 20% of the repatriated funds. Dharmapala, Foley, and Forbes (2011) find that a $1 increase in the amount of repatriation is associated with a $0.60 to $0.92 increase in shareholder payout. Both Blouin and Krull (2009) and Dharmapala, Foley, and Forbes (2011) find no evidence that repatriation increases domestic investment, employment, or R&D, even for firms that appear to be financially constrained. In contrast, Faulkender and Petersen (2012) find that capital-constrained firms invest a majority of repatriated funds to approved domestic investments. For unconstrained firms, which account for a majority of repatriated funds, the use of the funds is less clear. These firms do not increase domestic investments or significantly increase shareholder payouts. Faulkender and Petersen (2012) argue that the different findings between their study and those of Blouin and Krull (2009) and Dharmapala, Foley, and Forbes (2011) are attributable to different methods in classifying the research sample into treatment and control firms.

Our study extends this line of research on repatriation tax holidays by examining how the AJCA affects CSR investments. As discussed in the introduction, the merits and motives of CSR

spending are extremely controversial and, thus, another major purpose of our research is to inform the debate on the motives of CSR spending. Academic research on the value of CSR spending is mixed (Margolis, Elfenbein, and Walsh, 2009). Some studies find evidence that CSR has a positive effect on shareholder value or total firm value (e.g., Dhaliwal, Li, Tsang, and Yang, 2011; Deng, Kang, and Low, 2013; Servaes and Tamayo, 2013; Lins, Servaes, and Tamayo, 2017), whereas others find no effects or negative effects (e.g., Di Giuli and Kostovetsky, 2014; Krüger, 2015; Manchiraju and Rajgopal, 2017). In addition, some studies suggest that the effect of CSR on firm performance could be driven by reverse causality, in that better-performing firms are more likely to invest in CSR (e.g., Hong, Kubik, and Scheinkman, 2012; Lys, Naughton, and Wang, 2015).

Rather than focus on the ex post consequences of CSR investment, our study takes an ex ante perspective. We use the foreign earnings repatriation under the AJCA as an exogenous shock to managerial disposable cash and examine whether managers increase investments in CSR given the cash windfall. According to agency theory, managers tend to overinvest for empire building and the extraction of private benefits when the firm has a great deal of cash on hand (Jensen, 1986). Thus, if CSR represents a form of managerial overinvestment, we should expect repatriating firms to invest more in CSR using funds repatriated in the years after the AJCA, relative to non-repatriating firms. On the other hand, if CSR represents value-maximizing investments, we should not observe any changes in CSR investment for repatriating firms relative to non-repatriating firms because both groups of firms should have already optimized their levels of CSR spending before adoption of the AJCA.

3. Data and Research Design

3.1 Sample

To identify repatriation firms under the AJCA, we first use a Perl script to extract the relevant paragraphs containing the keywords *AJCA* and *American jobs creation* from all usable 10-Ks filings during 2004 to 2007. Then, we read the extracted paragraphs to determine the repatriation decisions, amounts, and periods. This process leads to 1,465 unique firms that discussed potential repatriation decisions under the AJCA from 2004 to 2007. For most firms that mentioned the AJCA, the repatriation decisions were initially discussed in 2004 or 2005. Among the 1,465 firms, 475 firms actually repatriated under the AJCA and 990 firms discussed the act and decided not to repatriate. The proposed total repatriation amount by the 475 repatriation firms was approximately $280 billion, similar to the figure of Faulkender and Petersen (2012).

We then merge the 1,465 unique firms with all firms in 2003 (i.e., the year before the AJCA) from the Compustat database. After removing firms with missing accounting data to calculate the variables in the Faulkender–Petersen repatriation prediction model, we are left with 4,941 firms to estimate the first-stage prediction model.

To construct the sample for our main regression analysis, we merge the 4,941 firms with the MSCI ESG–KLD database. For each of the 4,941 firms, we obtain CSR data for a period of 10 years spanning from three years before the event year and six years after it, leading to a sample of 17,739 firm–year observations. After removing firms missing values from Compustat and the Center for Research in Security Prices to calculate the control variables in the main regression, we are left with a final sample of 16,687 firm–year observations. We winsorize the extreme top and bottom percentiles of the accounting variables to mitigate the influence of outliers. Detailed variable definitions are presented in Appendix I.

3.2 CSR measurement

MSCI evaluates a firm's CSR performance based on different performance indicators, using a binary scoring model.[6] MSCI assesses both strength and concern items for seven categories: the environment, the community, human rights, employee relations, diversity, products, and governance. If a firm meets the criteria of the assessment, then a value of one is assigned to the item and zero otherwise. For example, there are 17 positive indicators under the category of the environment, including pollution prevention, communications, and natural resource use. When a firm is evaluated for positive indicators, it will receive a score of one if it meets the criteria stated in the environmental metrics, such as the firm "has notably strong pollution prevention programs, including emissions reductions and toxic-use reduction program," and zero otherwise. Furthermore, MSCI evaluates a firm's negative environment performance using 12 negative indicators, including regulatory compliance, toxic emissions and waste, and energy and climate change. The firm will receive a score of one if it has severe controversies related to these negative metrics, such as it has "paid a settlement, fine or penalty due to non-compliance with U.S. environmental regulations," and zero otherwise.[7]

We construct two measures of firm CSR scores using MSCI scores. The first, *CSR_Raw,* is calculated as the total number of strength items minus the total number of negative items for all six categories other than governance in the year. To control for variations in the number of strength and concern items over time, we introduce a second measure of the CSR score, *CSR_ADJ,*

---

[6] MSCI started collecting these data in 1991 and has gradually increased coverage since. MSCI initially started with the MSCI KLD 400 Social Index and the S&P 500. In 2001, it extended its coverage to the top 1,000 U.S. firms and then, in 2003, to the top 3,000 U.S. firms.
[7] See the manual for the MSCI ESG KLD STATS methodology at https://wrds-www.wharton.upenn.edu/pages/support/manuals-and-overviews/msci/.

following Deng, Kang, and Low (2013). We first summarize the raw strength and concern scores for each category separately and scale them by the respective number of strength and concern indicators in the year and then take the difference between the scaled strength score and the concern score.[8] The variable *CSR_ADJ* is the summation of the differences across the six categories. This adjusted CSR score weights the six categories equally and mitigates any bias caused by one indicator of firm social performance that has different levels of relative relevance across industries. We exclude corporate governance and focus on the other six dimensions, following prior studies (e.g., Servaes and Tamayo, 2013; Di Giuli and Kostovetsky, 2014; Chen, Dong, and Lin, 2018; Dyck, Lins, Roth, and Wagner, 2018).

3.3 Research design

3.3.1 Prior literature and first-stage estimation

Several studies have examined the impact of the AJCA on various outcomes using a DID approach (e.g., Clemons and Kinney, 2008; Blouin and Krull, 2009; Graham, Hanlon, and Shevlin, 2010; Dharmapala, Foley, and Forbes, 2011; Faulkender and Petersen, 2012). However, these studies have different empirical designs, defining the treatment and control groups differently in the AJCA setting. These differences lead to somewhat inconsistent conclusions and mixed findings. For example, Dharmapala, Foley, and Forbes (2011) find no increase in investment due to repatriation but a substantial increase in shareholder payouts. In contrast, Faulkender and Petersen (2012) find large increases in investments among financially constrained firms and a small increase

---

[8] For example, suppose that, in 2008, the summations of the CSR strength indicators across the six dimensions are one, two, zero, three, zero, and one and the numbers of the strength indicators across the six dimensions are four, five, seven, eight, nine, and three. The adjusted strength score for the firm is calculated as $1/4 + 2/5 + 0/7 + 3/8 + 0/9 + 1/3 = 1.36$. The adjusted concern score is calculated in the same way and is equal to 1.11. Then *CSR_ADJ* is $1.36 - 1.11 = 0.25$.

in shareholder payouts among financially unconstrained firms. We next briefly discuss the different DID methods employed in these studies.[9]

Blouin and Krull (2009) define the treatment and control samples using firms' decisions to repatriate. A treatment indicator is included in the DID regression and equal to one in the year a firm decides to repatriate and all the years afterward and zero otherwise. The problem with this approach is that it fails to control for potential endogeneity bias. Firms with no foreign earnings are classified as non-repatriating firms and such firms could be fundamentally different from MNCs, with their large balance of permanently reinvested earnings. Thus, the estimated effect of the AJCA on any corporate actions could be driven by differences in firm characteristics rather than a shock of cash windfall.

Dharmapala, Foley, and Forbes (2011) tackle the selection bias issue by using an instrumental variable approach. The instrumental variables are indicators capturing whether a firm's foreign tax rate is lower than the U.S. tax rate and whether the firm's foreign subsidiaries are in tax havens. This method effectively replaces the AJCA indicator in Blouin and Krull's (2009) DID regression with the predicted probability of repatriation. However, this approach creates another concern by essentially grouping all firms with a high repatriation probability together as the treatment sample and all firms with a low repatriation probability together as the control sample. However, firms with a high repatriation probability might not actually have repatriated funds under the AJCA. Ideally, we would like to conduct the comparison between two types of firms that are alike in every aspect, including the probability of repatriation, but differ in their actual repatriation decisions.

---

[9] See Faulkender and Petersen (2012) for more detailed discussions.

Faulkender and Petersen (2012) proposed another DID design to better capture the exogenous shock due to the AJCA. They essentially partition the sample into three groups: firms with no foreign earnings (group 1), firms with foreign earnings but no repatriation (group 2), and firms with foreign earnings and repatriation (group 3). They then use an ordered logit regression to isolate the effect of repatriation under the AJCA, after controlling for the presence of unrepatriated foreign earnings and the endogeneity bias in firms' repatriation choices.

We adopt the approach of Faulkender and Petersen (2012) by estimating the following prediction model in the first stage and using the residuals from the regression to capture the effect of the AJCA:

$$Repat_{i,t} = \alpha_0 + \alpha_1*Log(MV)_{i,t-1} + \alpha_2*MB_{i,t-1} + \alpha_3*PreInvestEarn_{i,t-1} +$$
$$\alpha_4*Log(1+PermEarn)_{i,t-1} + \alpha_5*PermEarn\_Pos_{i,t-1} +$$
$$\alpha_6*Log(1+ForeignEarn)_{i,t-1} + \alpha_7*ForeignEarn\_Pos_{i,t-1} + \alpha_8*RepatTax_{i,t-1} +$$
$$\alpha_9*TaxLoss_{i,t-1} \qquad\qquad (1)$$

where, for firm i and year t, $Repat_{i,t}$ is a discrete variable that takes the value of zero if the firm did not discuss the tax provision of the AJCA during the event period from 2004 to 2007, the value of one if the firm discussed the tax provision but decided not to repatriate, and the value of two if the firm repatriated, based on our reading of firm 10-K filings.

Three sets of firm characteristics are included as determinants for the probability of a firm's choice to repatriate. The first set of variables measures firm fundamentals and profitability: firm size (*MV*, measured as the market value of assets), the market-to-book ratio (*MB*), and preinvestment earnings (*PreInvestEarn*, measured as earnings before interest, taxes, depreciation, and amortization after adjustments for R&D and advertising expenditures, scaled by total assets). The second set of variables measures the presence of unrepatriated foreign earnings. Permanently

reinvested foreign earnings (*PermEarn*) are hand-collected from 10-Ks and included as a stock measure of firm unrepatriated foreign earnings. The sum of foreign earnings (*ForeignEarn*) for the last three years is also added to the regression to account for the possibility of firms not reporting permanently reinvested foreign earnings in their 10-K filing. To allow for discontinuity at zero, we construct two dummy variables from the two foreign earnings measures. Both *PermEarn_Pos* and *ForeignEarn_Pos* take the value of one if the foreign earnings variable is greater than zero and zero otherwise. Finally, we control for the tax incentive of the repatriation: *RepatTax* captures the tax payment that would be due upon the repatriation of foreign earnings without the AJCA. It is calculated as foreign earnings in the year before the repatriation year multiplied by 35% minus the foreign tax payment, scaled by the market value of assets. If firms have no foreign earnings, *RepatTax* is set to zero. Lastly, we control for tax loss carryforward (*TaxLoss*). A larger tax loss carryforward balance potentially decreases the benefits from the AJCA and thus reduces the likelihood of firm repatriation. We obtain the tax loss carryforward variable from Compustat and supplement it with numbers on firms missing data manually collected by reading the tax notes in the 10-Ks. All the explanatory variables are measured in the year before the repatriation year. The repatriation year is defined as the year when the firm disclosed its repatriation decision in its 10-K filings and, if the firm did not discuss the AJCA during 2004–2007, it is assigned the year 2004.

The estimation of the prediction model is reported in Appendix II. Our results are largely consistent with the estimation results reported in column (4) of Table 4 of Faulkender and Petersen (2012). The likelihood of repatriation under the AJCA increases if the firms are less likely to be constrained in capital, that is, larger firms and firms with higher pre-investment earnings. In addition, the supply of unrepatriated foreign earnings has significant power in predicting the

18

decision to repatriate. Both the presence and the balance of permanent reinvested earnings significantly enhance the chances of firm repatriation. The second set of proxies for unrepatriated foreign earnings, the sum of the past three years of foreign earnings, have incremental explanatory power in the model, mitigating the potential bias due to firm self-selection in reporting the balance of permanent reinvested earnings. Furthermore, the more tax benefits firms can gain upon repatriation, the more likely they are to repatriate foreign earnings.

3.3.2 DID regression specification

We follow Faulkender and Petersen (2012) by employing a DID approach to examine the impact of the AJCA on firm CSR performance, as follows:

$$CSR_{i,t} = \beta_0 + \beta_1 Repat\_Residual_{i,t} + \beta_2 Repat\_Predict_{i,t} + \gamma'X_{i,t} + f_i + \mu_t + \varepsilon_{i,t}$$

$$(2)$$

for firm *i* and year *t*. The dependent variable, *CSR*, is the firm CSR performance score and takes the values of *CSR_Raw* or *CSR_ADJ*. The variable *Repat_Residual* is the residual from regression (1) for the post-repatriation period and is zero for the pre-repatriation period. We define the pre-repatriation period from three years before the repatriation year to the repatriation year and the post-repatriation period as the six-year horizon after the repatriation year. We use a longer horizon following the repatriation year to accommodate the possibilities that CSR ratings likely reflect CSR investments with substantial lags and managers do not invest in CSR-related activities using the repatriated cash immediately after repatriation (e.g., Dharmapala, Foley, and Forbes, 2011; Di Giuli and Kostovetsky, 2014).

The variable *Repat_Predict* captures the predicted possibility of a firm's repatriation of foreign earnings under the AJCA and controls for the potential endogenous relation between firm

repatriation and CSR performance improvement. It is estimated based on the coefficient estimates from regression (1) for the post-repatriation period and is zero for the pre-repatriation period. The vector X includes control variables that affect firm CSR performance, as identified by previous studies. Peloza (2006) shows that larger firms have more resources for CSR expenditures and Teoh, Welch, and Wazzan (1999) present evidence that large firms face greater pressure to engage in CSR activities. We measure firm size (*Size*) as the natural logarithm of total assets. Peloza also indicates that firms with higher litigation risk are likely to use CSR as insurance; we therefore include litigation expenses (*Litigation*), computed as the after-tax settlement divided by sales, as a proxy for litigation concerns. We include the firm's market to book (*MB*) and leverage (*Leverage*) to control for firm risk, since prior studies document a negative relation between the firm's risk level and CSR expenditures (Cochran and Wood, 1984; Orlitzky and Benjamin, 2001). In addition, we include advertising (*Advertise*) and R&D expenses (*RD*), since prior studies also show that firms with higher advertising and R&D expenses engage in more CSR activities (Shane and Spicer, 1983; McWilliams and Siegel, 2000) as well. Finally, we include the return on assets (*ROA*), cash flow from operations (*CFO*), and the level of cash (*Cash*), since firms are more able and pressured to increase CSR expenditures when their financial indicators are better (Preston and O'Bannon, 1997; Campbell, 2007).

The panel regression includes firm and year fixed effects, f_i and μ_t, respectively, and thus represents a generalization of the DID design that allows us to draw a causal inference (Bertrand and Mullainathan, 2003; Angrist and Pischke, 2009; Armstrong, Balakrishnan, and Cohen, 2012). The coefficient β_1 in regression (2) captures any changes in a firm's subsequent CSR performance due to the AJCA shock, after controlling for firm characteristics and the probability of repatriation. If firms choose to engage in more CSR expenditures when they receive a cash windfall, we expect

a positive coefficient estimate of β_1. In all the regressions, we cluster standard errors at the firm level.

4. Empirical Results

4.1 Descriptive statistics

Table 1 reports descriptive statistics for the key dependent and independent variables for our main regression sample. On average, firms have more CSR weaknesses than strengths, as indicated by the negative values of *CSR_Raw* and *CSR_Adj*, consistent with prior studies (e.g., Deng, Kang, and Low, 2013). The mean CSR strength raw score is 1.41 and the mean adjusted CSR strength score is 0.256. For CSR concerns, the mean raw score is 1.52 and the mean adjusted score is 0.408. Firms in our final sample skew toward large firms, since we need CSR ratings to be available for the observation to enter the regression estimation.

4.2 Baseline results

Table 2 presents the DID regression results regarding the impact of AJCA repatriation on CSR. In columns (1) and (2), we present the results for the full sample, which spans from three years before the repatriation year to six years after it. Column (1) shows that the coefficient on *Repat_Residual* is positive and significant ($t = 1.94$) when we use raw CSR scores as the dependent variable. In column (2), when we use the adjusted CSR score as the dependent variable, the coefficient on *Repat_Residual* continues to be positive and significant ($t = 2.05$). The coefficient in column (2) suggests that repatriating firms increase their CSR performance by about 26.2% of

the mean level of the CSR strength score around the AJCA relative to non-repatriating firms, holding firm characteristics and the capability and probability of repatriation constant.[10]

These results are consistent with our prediction that repatriation under the AJCA has a positive impact on CSR spending. Interestingly, we find that the coefficients on *Repat_Predict* are also positive and statistically significant at the 1% level for both the raw CSR score regression and the adjusted CSR score regression. According to Faulkender and Petersen (2012), the coefficients on *Repat_Predict* capture improvements in the CSR performance of firms that are highly likely to repatriate under the AJCA (but may not actually repatriate) relative to non-repatriating firms but do not necessarily capture the effect of actual repatriation. While the coefficient on *Repat_Predict* could still reflect the effect of a potential repatriation or tax holiday on CSR performance, it likely overstates the effect of actual repatriation on CSR performance. In other words, the results likely have implications for the effect of tax holidays and tax policies on CSR performance (our second research objective), whereas they do not provide strong support for the agency view of CSR spending, for which an actual cash windfall is required (our first research objective).

As discussed in the research design, we use a six-year window to accommodate the possibility that CSR ratings likely reflect CSR investments with substantial lags. For example, some CSR initiatives, such as improvements in green technology and product safety, likely require several years to realize after the initial investment (similar to technological innovations). Even if the CSR spending has an immediate effect, such as improved community relationships, new KLD ratings likely reflect CSR performance long after the actual spending or policy changes because of the substantial quantity of data collection and analysis required (Di Giuli and Kostovetsky, 2014).

---

[10] We use the mean CSR strength score as the benchmark because the mean CSR (net) score is negative. Therefore, the economic significance of the improvement in CSR performance is likely understated.

Moreover, many firms repatriate foreign cash in multiple years after the disclosure of their repatriation decision. Managers can also withhold the cash for some time and spend the repatriated fund on CSR projects in a delayed manner (perhaps after they have explored alternative uses). Bearing these possibilities in mind, we next separate the post-repatriation window into two periods: the first three-year period and the second three-year period. We then replace the variable *Repat_Residual* with two variables for the observations of the two periods, respectively: *Repat_Residual_Early* and *Repat_Residual_Late*. Columns (3) and (4) of Table 2 report the results.

As expected, we find that the improvement in CSR performance is positive but statistically insignificant during the first three years after AJCA repatriation. On the other hand, the improvement in CSR performance is positive and statistically significant at the 1% level during the second three-year period after repatriation. For example, in column (4) of Table 2, the coefficient on *Repat_Residual_Late* is 0.146 ($t = 2.75$), suggesting that repatriating firms increase their CSR performance by about 57% of the mean level of the CSR strength score relative to non-repatriating firms. In columns (5) and (6), we present the results by focusing only on the second three-year period after repatriation. The coefficients on *Repat_Residual_Late* are almost identical to those in columns (3) and (4). Given these findings, in the following sections, we focus on the specifications in columns (5) and (6), where the treatment period is considered the second three-year period after the repatriation year.

4.3 Financial constraint

Our DID results suggest that managers invest at least a portion of the incrementally repatriated funds under the AJCA into CSR projects. We interpret this result as evidence that the marginal dollar investment in corporate goodness is a result of shareholder–manager agency conflicts, because firms should have already optimized the level of investments before the AJCA.

The AJCA should not alter investment opportunities and thus AJCA-driven spending on CSR likely reflects managerial overinvestment. However, if the repatriating firms are financially constrained around the AJCA and cannot finance valuable domestic projects, including CSR initiatives, from the external capital market at reasonable cost, the increased investment in CSR in response to the repatriation could represent firm value-maximizing decisions. To gain further insights into the motives of CSR investments, we next examine whether financially constrained firms are mainly driving the effect of repatriation on CSR investment.

We first classify all firms into constrained and unconstrained firms based on the median level of the Kaplan–Zingales index (*KZ Index*). For each firm, we calculate the average *KZ Index* using the coefficients from Kaplan and Zingales (1997) and observations before the repatriation year. Then, we re-estimate our DID regression by interacting the independent variable of interest with indicators of the presence of financial constraint and indicators of the absence of financial constraints. Table 3 presents the results. Surprisingly, we find that the effect of AJCA repatriation on CSR investment is statistically significant for unconstrained firms, but not for constrained firms. This result is more consistent with the agency motive of CSR investment than the value maximization view of CSR investment. One potential interpretation of this result is that constrained firms utilize the repatriated funds for positive-NPV projects other than CSR and unconstrained firms overinvest repatriated funds into CSR initiatives.

We next construct several alternative financial constraint measures in the spirit of Faulkender and Petersen (2012) and repeat the analysis of the moderating effect of financial constraint. Specifically, we first examine whether each firm's internal cash flow is sufficient to finance its investment expenditures during the pre-repatriation period. We then define a firm as financially constrained if it does not have sufficient internal cash flow in at least one year during

the entire pre-repatriation period. Second, we define a firm as financially constrained if it does not have a debt rating from a Compustat credit rating file during the pre-repatriation period. Finally, we combine the first two measures by defining a firm as financially constrained if it does not have a debt rating and has insufficient internal cash flows to finance investment expenditures. Consistent with the *KZ Index* results, Table 3 shows that the positive effect of AJCA repatriation is generally driven by firms without financial constraints. Faulkender and Petersen find evidence that constrained firms increase domestic investment whereas unconstrained firms do not. For unconstrained firms, the authors find little evidence that these firms increase equity payouts. Our findings complement theirs, in that we show one potential use of repatriated funds by unconstrained firms. Overall, our results suggest that constrained firms are not the major or sole driver of the effect of AJCA repatriation on CSR, consistent with our conclusion that the marginal investment in CSR is likely a manifestation of a manager–shareholder agency problem.

4.4 Corporate governance

Dharmapala, Foley, and Forbes (2011) argue that repatriated cash under the AJCA gives managers more flexibility in investment decisions. Managers in strongly governed firms with a less severe agency problem should return the excess cash back to shareholders, because the firms already optimized their investments before the AJCA. In contrast, managers in poorly governed firms could spend the repatriated cash on projects that provide private benefits. Even if they do not use the cash immediately, managers could retain the cash to maintain the freedom to pursue projects that do not maximize value in the future. Consistent with this argument, Dharmapala, Foley, and Forbes (2011) show that repatriation under the AJCA has a significant positive effect on the payouts of firms with strong governance but an insignificant and approximately zero effect on the payouts of firms with weak governance. However, they do not find evidence that poorly

governed firms increase their investment or executive compensation. In this section, we examine whether poorly governed firms are more likely to invest cash repatriated under the AJCA in CSR initiatives.

The first proxy of governance we use is the existence of a dual-class ownership structure. In dual-class firms, superior voting rights provide incumbents with a powerful entrenchment mechanism and thus facilitate the managerial extraction of private benefits of control (e.g., Bebchuk, Cohen, and Ferrel, 2009; Masulis, Wang, and Xie, 2009; Gompers and Metrick, 2010). The second measure of governance is an indicator of whether the CEO of a firm simultaneously serves as the chair of the board. The monitoring function of the board is likely compromised if the CEO, who is the key target of monitoring, leads the board. Table 4 shows that the effect of AJCA repatriation on CSR is more pronounced for poorly governed firms, as captured by a dual-class structure and CEO–chair duality. This result is again consistent with the agency view of CSR spending.[11]

4.5 Stakeholder pressure

Managers are more likely to overinvest in CSR activities when they face more pressure from local stakeholders toward such investments. Moreover, managers are more likely to gain private benefits in the form of personal reputation, social respect and networks, and life satisfaction if the CSR investment is more consistent with the preferences of local stakeholders. In this section, we examine whether the effect of AJCA repatriation on CSR spending is enhanced by local preferences toward CSR. We use the political environment and religiosity of firms' home states to

---

[11] Following Dharmapala, Foley, and Forbes (2011), we also use the anti-takeover index of Gompers, Ishii, and Metrick (2003) as a proxy for governance. However, we do not find significant differences in the effects of the AJCA on CSR.

capture the CSR preferences of local stakeholders. Prior research suggests that Democrats emphasize CSR-related issues, such as environmental protection, more than Republicans do (Hong and Kostovetsky, 2012; Di Giuli and Kostovetsky, 2014). For example, DiGiuli and Kostovetsky (2014) find that firms headquartered in Democratic-leaning states are associated with more CSR activities than firms in Republican-leaning states. They further show that increases in firm CSR performance are associated with negative future stock returns and declines in the return on assets, suggesting that CSR spending motivated by the political preferences of stakeholders come at the direct expense of firm value. Regarding religiosity, several surveys suggest that more religious individuals tend to have a more positive attitude toward CSR (e.g., Angelidis and Ibrahim, 2004; Brammer, Williams, and Zinkin, 2007). Deng, Kang, and Low (2013) find that companies located in states with more religious adherents have better CSR performance.

To capture increasing political pressure in favor of CSR spending, we define firms located in states that changed from Republican- to Democrat-leaning between 2000 and 2004 as firms facing high political pressure to increase CSR spending.[12] Following Deng, Kang, and Low (2013), we measure the degree of religiosity of each state by the ratio of the number of religious adherents in the state to the state's total population.[13] Similarly, we define firms located in states that experienced above-median levels of changes in the degree of religiosity as firms facing higher community pressure to increase CSR spending. Table 5 presents the results. Consistent with our prediction, we find that the effect of AJCA repatriation on CSR is positive and significant for firms headquartered in states facing increased political or community pressures for CSR spending, whereas the effect is insignificant for firms located in other states. We argue that this result

---

[12] This political information is from Wikipedia, at https://en.wikipedia.org/wiki/Red_states_and_blue_states.
[13] The religiosity data are from the Association of Religion Data Archives, which is updated every 10 years. We use the difference in the religion ratios for 2000 and 2010 to capture changes in the degree of religiosity.

enhances the agency theory explanation of AJCA-driven CSR spending, because optimal investment should not be affected by stakeholder pressure or preferences. Our results are also consistent with the direct value theory of Bénabou and Tirole (2010), which suggests that CSR is a form of delegated pro-social behavior that provides direct value to various corporate stakeholders.

4.6 CSR strengths versus concerns

In this section, we separately examine the effect of AJCA repatriation on CSR strengths and concerns. DiGiuli and Kostovetsky (2014) argue that CSR strengths reflect proactive CSR policies (e.g., the use of green technology). whereas concerns generally reflect the actual outcomes of irresponsible behavior (e.g., mining accident). Thus, improvements in CSR performance can be driven by either investments in CSR initiatives or by correcting previously irresponsible corporate behaviors. DiGiuli and Kostovetsky (2014) find that the positive effect of political preference on CSR is much stronger for CSR strengths than CSR concerns, suggesting that it is easier for firms to improve CSR strengths than to reduce CSR concerns. Krüger (2015) shows that the stock market reacts more positively to CSR news representing firms' desire to offset previous episodes of corporate social irresponsibility, which suggests that activities reducing CSR concerns are likely to be value enhancing. Based on these findings, we expect the effect of AJCA repatriation on CSR to be driven by CSR strengths, because improvements in CSR strengths are more likely to reflect agency problems. Consistent with our prediction, Table 6 shows that the effect of repatriation on CSR is positive and significant for regressions using CSR strengths as the dependent variable. In contrast, the effect is small and insignificant for regressions using CSR concerns as the dependent variable.

4.7 Long-term stock performance

In this final section, we examine how the stock performance of AJCA repatriating firms has developed since implementation of the AJCA, conditioning on their spending on CSR. To do so, we construct two portfolios of repatriating firms based on their change in CSR around the AJCA. We assign a firm to the low–CSR change (high–CSR change) portfolio if the change in average CSR performance between the post- and pre-repatriation periods ranks in the bottom (top) tercile of all repatriating firms. We then track the monthly performance of the two portfolios over the six-year period after AJCA repatriation. To obtain Jensen's alpha, we run Fama–French (1993) calendar time regressions of monthly portfolio returns on the factor portfolio returns, including the market excess return factor, the size factor, the market-to-book factor, and the Carhart (1997) momentum factor. Table 7 reports the results. We find evidence that the low–CSR change portfolio marginally (t = 1.71) outperforms the high–CSR change portfolio over the six-year post-repatriation period. Similar to previous studies, our return test has potential endogeneity issues, in that unknown factors could be simultaneously driving changes in CSR and stock performance. With caveats, our findings suggest that the increased spending on CSR after AJCA repatriation decreases shareholder value.

5. Conclusions

In 2004, President Bush signed into law the AJCA, which introduced a temporary tax holiday that significantly reduced tax costs for MNCs repatriating foreign earnings back to the United States. In response to the tax holiday, U.S. corporations moved more than $300 billion from their foreign subsidiaries to the United States. We find that repatriating firms experienced

significant improvements in CSR performance relative to non-repatriating firms during the periods after the AJCA. The improvements in CSR are more pronounced for financially unconstrained firms, for firms that are poorly governed, and for firms located in states that experienced increasing political or community pressure to increase CSR investments. In addition, we find that the impact of the AJCA on CSR is more likely to be driven by improvements in CSR strengths than in CSR concerns and repatriating firms with more improvements in CSR underperform those with fewer improvements in CSR. Taken together, our results suggest that managers tend to increase their spending in CSR initiatives when they experience exogenous cash windfalls, supporting the agency view of CSR (over)investment. Our findings also show an unintended consequence of the AJCA and suggest that governments can potentially use temporary tax holidays to encourage corporations to invest in environmental and social initiatives.

REFERENCES

Angelidis, J., Ibrahim, N., 2004. An exploratory study of the impact of degree of religiousness upon an individual's corporate social responsiveness orientation. Journal of Business Ethics 51, 119–128.

Angrist, J.D., Pischke, J.-S., 2010. The credibility revolution in empirical economics: how better research design is taking the con out of econometrics. Journal of Economic Perspectives 24, 3-30.

Armstrong, C.S., Balakrishnan, K., Cohen, D., 2012. Corporate governance and the information environment: evidence from state antitakeover laws. Journal of Accounting and Economics 53, 185-204.

Barnea, A., Rubin, A., 2010. Corporate social responsibility as a conflict between shareholders. Journal of Business Ethics 97, 71-86.

Bebchuk, Cohen, Ferrell, 2009. What matters in corporate governance? The Review of Financial Studies 22, 783.

Bénabou, R., Tirole, J., 2010. Individual and corporate social responsibility. Economica 77, 1-19.

Bertrand, M., Mullainathan, S., 2003. Enjoying the quiet life? Corporate governance and managerial preferences. Journal of Political Economy 111, 1043-1075.

Blanchard, O.J., Lopez-de-Silanes, F., Shleifer, A., 1994. What do firms do with cash windfalls? Journal of Financial Economics 36, 337-360.

Blouin, J., Krull, L., 2009. Bringing it home: a study of the incentives surrounding the repatriation of foreign earnings under the American Jobs Creation Act of 2004. Journal of Accounting Research 47, 1027-1059.

Brammer, S., Williams, G., Zinkin, J., 2007. Religion and attitudes to corporate social responsibility in a large cross-country sample. Journal of Business Ethics 71, 229-243.

Campbell, J.L., 2007. Why would corporations behave in socially responsible ways? An institutional theory of corporate social responsibility. Academy of Management Review 32, 946-967.

Carhart, M.M., 1997. On persistence in mutual fund performance. The Journal of Finance 52, 57-82.

Chen, T., Dong, H., Lin, C., 2018. Institutional shareholders and corporate social responsibility. Journal of Financial Economics, forthcoming.

Cheng, I.-H., Hong, H., Shue, K., 2016. Do managers do good with other people's money? National Bureau of Economic Research Working Paper #19432.

Clemons, R., Kinney, M., 2008. An analysis of the tax holiday for repatriation under the Jobs Act. Tax Notes 120.

Cochran, P.L., Wood, R.A., 1984. Corporate social responsibility and financial performance. Academy of Management Journal 27, 42-56.

Deng, X., Kang, J.-K., Low, B.S., 2013. Corporate social responsibility and stakeholder value maximization: evidence from mergers. Journal of Financial Economics 110, 87-109.

Dhaliwal, D.S., Li, O.Z., Tsang, A., Yang, Y.G., 2011. Voluntary nonfinancial disclosure and the cost of equity capital: the initiation of corporate social responsibility reporting. The Accounting Review 86, 59-100.

Dharmapala, D., Foley, C.F., Forbes, K.J., 2011. Watch what I do, not what I say: the unintended consequences of the Homeland Investment Act. The Journal of Finance 66, 753-787.

Di Giuli, A., Kostovetsky, L., 2014. Are red or blue companies more likely to go green? Politics and corporate social responsibility. Journal of Financial Economics 111, 158-180.

Dyck, A., Lins, K.-V., Roth, L., Wagner, H.F., 2018. Do institutional investors drive corporate social responsibility? International evidence. Journal of Financial Economics, forthcoming.

Dyreng, S., Hills, R., 2017. Evidence that corporate repatriations under the American Jobs Creation Act of 2004 benefited the domestic economy. Working paper, Duke University.

Edmans, A., 2011. Does the stock market fully value intangibles? Employee satisfaction and equity prices. Journal of Financial Economics 101, 621-640.

Faulkender, M., Petersen, M., 2012. Investment and capital constraints: repatriations under the American Jobs Creation Act. The Review of Financial Studies 25, 3351-3388.

Ferrell, A., Liang, H., Renneboog, L., 2016. Socially responsible firms. Journal of Financial Economics 122, 585-606.

Foley, C.F., Hartzell, J.C., Titman, S., Twite, G., 2007. Why do firms hold so much cash? A tax-based explanation. Journal of Financial Economics 86, 579-607.

Friedman, M., 1970. The social responsibility of business is to increase its profits. New York Times 9 122–126.

Godfrey, P.C., 2005. The relationship between corporate philanthropy and shareholder wealth: a risk management perspective. Academy of Management Review 30, 777-798.

Gompers, P., Ishii, J., Metrick, A., 2003. Corporate governance and equity prices. Quarterly Journal of Economics 118, 107-155.

Gompers, P.A., Ishii, J., Metrick, A., 2009. Extreme governance: an analysis of dual-class firms in the United States. The Review of Financial Studies 23, 1051-1088.

Graham, J.R., Hanlon, M., Shevlin, T., 2010. Barriers to mobility: the lockout effect of US taxation of worldwide corporate profits. National Tax Journal 63, 1111-1144.

Graham, J.R., Leary, M.T., 2018. The evolution of corporate cash. Review of Financial Studies, forthcoming.

Greening, D.W., Turban, D.B., 2000. Corporate social performance as a competitive advantage in attracting a quality workforce. Business & Society 39, 254-280.

Hong, H., Kostovetsky, L., 2012. Red and blue investing: values and finance. Journal of Financial Economics 103, 1-19.

Hong, H., Kubik, J.D., Scheinkman, J.A., 2012. Financial constraints on corporate goodness. National Bureau of Economic Research Working Paper #18476.

Jensen, M., 1986. Agency costs of free cash flow, corporate finance, and takeovers. The American Economic Review 76, 323-329.

Jensen, M., Meckling, W., 1976. Theory of the firm: managerial behavior, agency costs and ownership structure. Journal of Financial Economics 3, 305-360.

Kaplan, S.N., Zingales, L., 1997. Do investment-cash flow sensitivities provide useful measures of financing constraints? The Quarterly Journal of Economics 112, 169-215.

Krüger, P., 2015. Corporate goodness and shareholder wealth. Journal of Financial Economics 115, 304-329.

Larcker, D.F., Rusticus, T.O., 2010. On the use of instrumental variables in accounting research. Journal of Accounting and Economics 49, 186-205.

Lins, K.V., Servaes, H., Tamayo, A., 2017. Social capital, trust, and firm performance: the value of corporate social responsibility during the financial crisis. The Journal of Finance 72, 1785-1824.

Lys, T., Naughton, J.P., Wang, C., 2015. Signaling through corporate accountability reporting. Journal of Accounting and Economics 60, 56-72.

Macintosh, J.C., 1999. The issues, effects and consequences of the Berle–Dodd debate, 1931–1932. Accounting, Organizations and Society 24, 139-153.

Manchiraju, H., Rajgopal, S., 2017. Does corporate social responsibility (CSR) create shareholder value? evidence from the Indian Companies Act 2013. Journal of Accounting Research 55, 1257-1300.

Margolis, J.D., Elfenbein, H.A., Walsh, J.P., 2009. Does it pay to be good and does it matter? A meta-analysis of the relationship between corporate social and financial performance. Unpublished working paper, Harvard University.

Masulis, R.W., Reza, S.W., 2015. Agency problems of corporate philanthropy. The Review of Financial Studies 28, 592-636.

Masulis, R.W., Wang, C., Xie, F., 2009. Agency problems at dual-class companies. The Journal of Finance 64, 1697-1727.

McWilliams, A., Siegel, D., 2000. Corporate social responsibility and financial performance: correlation or misspecification? Strategic Management Journal 21, 603-609.

Navarro, P., 1988. Why do corporations give to charity? The Journal of Business 61, 65-93.

Orlitzky, M., Benjamin, J.D., 2001. Corporate social performance and firm risk: a meta-analytic review. Business & Society 40, 369-396.

Peloza, J., 2006. Using corporate social responsibility as insurance for financial performance. California Management Review 48, 52-72.

Peterson, K., 2011. Report: repatriation tax holiday a 'Failed' policy. Wall Street Journal, October 10.

Preston, L.E., O'Bannon, D.P., 1997. The corporate social-financial performance relationship: a typology and analysis. Business & Society 36, 419-429.

Redmiles, M., 2008. The one-time received dividend deduction. Statistics of Income Bulletin 27, 103-117.

Servaes, H., Tamayo, A., 2013. The impact of corporate social responsibility on firm value: the role of customer awareness. Management Science 59, 1045-1061.

Shane, P.B., Spicer, B.H., 1983. Market response to environmental information produced outside the firm. Accounting Review 58, 521-538.

Teoh, S.H., Welch, I., Wazzan, C.P., 1999. The effect of socially activist investment policies on the financial markets: evidence from the South African boycott. The Journal of Business 72, 35-89.

Townsend, M., Meisler, L., 2017. These are the biggest overseas cash hoards Congress wants to tax. Bloomberg, November 2.

Videras, J.R., Owen, A.L., 2006. Public goods provision and well-being: empirical evidence consistent with the warm glow theory. The BE Journal of Economic Analysis & Policy 5, 1935-1682.

Appendix I: Variable definitions

Dependent variables	
CSR_Raw	Firm CSR scores, calculated as a firm's total strengths minus its total concerns, based on MSCI performance indicators, including community relations, diversity, employee relations, the environment, product characteristics, and human rights.
CSR_Adj	Adjusted firm CSR scores, calculated as a firm's total dimension-adjusted strengths minus its total dimension-adjusted concerns for the MSCI performance indicators. Dimension-adjusted strengths (concerns) are calculated by dividing the raw total strengths (concerns) for each MSCI performance indicator (including community relations, diversity, employee relations, the environment, product characteristics, and human rights) by the respective number of strengths (concerns) evaluated for the firm.
CSR_Str_Raw	Firm CSR strength scores, calculated as the total strengths for the six MSCI performance indicators, including community relations, diversity, employee relations, the environment, product characteristics, and human rights.
CSR_Con_Raw	Firm CSR concern scores, calculated as the total concerns for the six MSCI performance indicators, including community relations, diversity, employee relations, the environment, product characteristics, and human rights.
CSR_Str_Adj	Adjusted firm CSR strength scores, calculated as the total dimension-adjusted strengths for the six MSCI performance indicators, including community relations, diversity, employee relations, the environment, product characteristics, and human rights.
CSR_Con_Adj	Adjusted firm CSR strength scores, calculated as the total dimension-adjusted concerns for the six MSCI performance indicators, including community relations, diversity, employee relations, the environment, product characteristics, and human rights.
Control variables	
Repat_Predict	The possibility of the firm repatriating foreign earnings under the AJCA. It equals the estimated possibility using the firm repatriation prediction model of Faulkender and Petersen (2012) for the six-year horizon after the repatriation year and zero otherwise. The coefficients estimated from the prediction model are presented in Appendix II.
Repat_Predict_Early	Categorical variable that equals the firm repatriation possibility estimated using the firm repatriation prediction model of Faulkender and Petersen (2012) for the three-year horizon from year $t + 1$ to year $t + 3$, where year t is the repatriation year, and zero otherwise.
Repat_Predict_Late	Categorical variable that equals the firm repatriation possibility estimated using the firm repatriation prediction model of Faulkender and Petersen (2012) for the three-year horizon from year $t + 4$ to year $t + 6$, where year t is the repatriation year, and zero otherwise.
Repat_Residual	Measure of the AJCA shock. It equals the residual from the firm repatriation prediction model of Faulkender and Petersen (2012) for the six-year horizon after the repatriation year and zero otherwise.

Repat_Residual_Early	Categorical variable for the AJCA shock. It takes the value of the residual from the firm repatriation prediction model of Faulkender and Petersen (2012) for the three-year horizon from year $t + 1$ to year $t + 3$, where year t is the repatriation year, and zero otherwise.
Repat_Residual_Late	Categorical variable for the AJCA shock. It takes the value of the residual from the firm repatriation prediction model of Faulkender and Petersen (2012) for the three-year horizon from year $t + 4$ to year $t + 6$, where year t is the repatriation year, and zero otherwise.
Size	The logarithm of total assets (AT).
MB	The market value of assets divided by firm book assets (AT). The market value of assets is calculated as the total book value of assets (AT) plus the market value of equity (CSHO*PRCC_F) minus the book value of common equity (CEQ) and the deferred tax balance (TXDB).
ROA	Income before extraordinary items (IB) divided by total assets (AT).
Leverage	Long-term debt (DLTT) plus debt in current liabilities (DLC), divided by total assets (AT).
CFO	Operating cash flow (OANCF) divided by total assets (AT).
Cash	Cash balance (CH) divided by total assets (AT).
Advertise	Advertising expenses (XAD) divided by sales (SALE) and equal to zero if missing.
RD	R&D expenses (XRD) divided by total assets (AT) and equal to zero if missing.
Litigation	After-tax settlement (SETA) divided by sales (SALE) and equal to zero if missing.
Political_Tendency	A dummy variable that takes value of one if the firm is headquartered in a state that changed from red to blue in the 2004 presidential election and zero otherwise. The blue/red state information is from https://en.wikipedia.org/wiki/Red_states_and_blue_states.
Religiosity_Tendency	A dummy variable that takes the value of one if a firm is headquartered in a state where religiosity is more prominent and zero otherwise. The prominence of religiosity is measured by the difference in the ratio of the number of religious adherents in the state between 2010 and 2000 to the state's total population. A state is classified as a high-religiosity state if the difference in religious adherent ratios is above the median.
KZ Index	The average KZ index over a four-year horizon starting from year $t - 3$ to year t, where year t is the repatriation year. The KZ index is calculated as $-1.002*(IB+DP)/PPENT + 0.283*(MVA/AT) + 3.189*((DLTT + DLC)/(DLTT + DLC + SEQ)) - 39.368*((DVC + DVP)/PPENT) - 1.315*(CHE/PPENT)$, where MVA is calculated as the total book value of assets plus the market value of equity minus the book value of common equity and deferred tax balance.
InternalCashFlow	An indicator variable for capital constraint, from Faulkender and Petersen (2012). It takes the value of one if firm internal cash flow is insufficient to finance firm investments and zero otherwise. Insufficiency refers to when firm earnings after taxes but prior to interest are less than capital expenditures (EBIT + XINT - CAPX).

CreditRating	An indicator variable for capital constraint. It takes the value of one if the firm has an S&P long- or short-term debt rating and zero otherwise.
Dual Class	An indicator variable that takes the value of one is the firm has a dual class structure and zero otherwise.
CEO–Chair Duality	An indicator variable that takes the value of one if a CEO also holds the chairperson position and zero otherwise.
Low (High) CSR change portfolio return	The median return of the low–CSR change (high–CSR change) portfolio, adjusted by the risk-free rate and multiplied by 100. A firm is classified as a low–CSR change (high–CSR change) firm if the change in CSR performance between the post-repatriation period (years $t + 4$ to $t + 6$) and the pre-repatriation period (years t - 3 to t) is in the lowest (highest) tercile, where t is the repatriation year. The low–CSR change (high–CSR change) portfolio is rebalanced every month to retain the low–CSR change (high–CSR change) firms in the same calendar month and the same post-event year. The post-event year is defined relative to the four months after the repatriation fiscal year-end.

Faulkender and Petersen's (2012) prediction model

Repat	A categorical variable that equals two if the firm repatriated foreign income under the AJCA, one if the firm only discussed repatriation under the AJCA in the firm 10-K filing but did not repatriate, and zero otherwise.
MVA	The total book value of assets (AT) plus the market value of equity (CSHO*PRCC_F) minus the book value of common equity (CEQ) and the deferred tax balance (TXDB).
Preinvest_Earn	Earnings before interest (EBITDA) plus advertising expenses (XAD) and R&D expenses (XRD), divided by total assets (AT).
PRE	The logarithmic value of one plus permanent reinvested earnings and zero if missing. Permanent reinvested earnings are collected from firm 10-K disclosures before the repatriation year.
PRE_Dummy	A dummy variable that takes the value of one if *PRE* is positive and zero otherwise.
Foreign_Earn	The logarithmic value of one plus the three-year sum of foreign earnings (PIFO) before the repatriation year and zero if missing.
Foreign_Earn_Dummy	A dummy variable that takes the value of one if *Foreign_Earn* is positive and zero otherwise.
RepatTax	Foreign earnings (PIFO) in the year before repatriation multiplied by the corporate income tax rate (35%) minus foreign income tax expenses (TXFO) paid that year, divided by *MVA*.
TaxLoss	Tax loss carried forward divided by *MVA*. The tax loss carried forward is either taken from Compustat (TLCF) if not missing or collected from firm 10-K filings if available and is assigned as zero otherwise.

Appendix II. Faulkender and Petersen's (2012) prediction model

This table presents the results for the ordered logit estimation for the predicted possibility of firm repatriation under the AJCA, following Faulkender and Petersen (2012). The variable *Repat* represents the firm repatriation decision and takes the value of two if the firm repatriated foreign income under the AJCA, one if the firm only discussed repatriation under the AJCA but did not repatriate, and zero otherwise. All other variables are as defined in Appendix I. The superscripts ***, **, and * indicate significance at the 1%, 5%, and 10% confidence levels, respectively.

Dependent	(1) *Repat*
MVA	0.174***
	(6.91)
MB	0.04
	(-1.27)
Preinvest_Earn	2.258***
	(6.28)
PRE	0.141***
	(3.54)
PRE_Dummy	3.382***
	(18.34)
Foreign_Earn	0.234***
	(4.57)
Foreign_Earn_Dummy	1.221***
	(6.59)
RepatTax	51.366***
	(2.84)
TaxLoss	0.03
	(0.52)
Constant1	-6.035***
	(-28.81)
Constant1	-3.604***
	(-19.18)
Observations	4941
Pseudo-R^2	0.409

Table 1. Summary Statistics

This table presents descriptive statistics for the main regression sample. Detailed variable definitions are presented in Appendix I.

	Mean	SD	Q1	Median	Q3
CSR_Raw	-0.113	2.346	-1.000	0.000	1.000
CSR_Adj	-0.152	0.537	-0.433	-0.167	0.050
CSR_Str_Raw	1.407	2.376	0.000	0.000	2.000
CSR_Con_Raw	1.520	1.701	0.000	1.000	2.000
CSR_Str_Adj	0.256	0.501	0.000	0.000	0.292
CSR_Con_Adj	0.408	0.455	0.000	0.333	0.583
Repat_Predict	0.069	0.166	0.000	0.000	0.013
Repat_Residual	0.008	0.202	-0.010	0.000	0.000
Size	7.434	1.691	6.209	7.327	8.460
MB	1.872	1.190	1.106	1.449	2.146
ROA	0.022	0.123	0.006	0.037	0.077
Leverage	0.218	0.200	0.040	0.187	0.330
CFO	0.083	0.099	0.035	0.084	0.136
Cash	0.113	0.123	0.023	0.071	0.161
Advertise	0.011	0.024	0.000	0.000	0.011
RD	0.033	0.066	0.000	0.000	0.037
Litigation	0.000	0.005	0.000	0.000	0.000

Table 2. Firm repatriation and subsequent CSR performance

This table presents the results for the regressions estimating the effects of the AJCA on firm CSR performance. Firm CSR performance is measured by *CSR_Raw* and *CSR_Adj*, where *CSR_Raw* is calculated as a firm's total strengths minus its total concerns for the six MSCI performance indicators—community relations, diversity, employee relations, the environment, product characteristics, and human rights—and *CSR_Adj* is the dimension-adjusted firm CSR performance following Deng, Kang, and Low (2013). Columns (1) and (2) present the main results: *Repat_Residual* takes the value of the residual from the firm repatriation prediction model of Faulkender and Petersen (2012) for the six-year post-repatriation period and zero otherwise. Columns (3) and (4) separate the post-repatriation period into two subperiods by replacing *Repat_Residual* with *Repat_Residual_Early* and *Repat_Residual_Late*. The variable *Repat_Residual_Early* takes the value of the residual from the firm repatriation prediction model of Faulkender and Petersen for the three-year period from the year after repatriation and zero otherwise and *Repat_Residual_Late* takes the value of the residual from the same prediction model for the three-year period starting from the fourth year after the repatriation year and zero otherwise. Columns (5) and (6) present the results when the post-repatriation period is restricted to only the three-year period from the fourth year after the repatriation year. The repatriation year refers to the year a firm disclosed its repatriation decision and is assigned as the year 2004 if the firm did not discuss the AJCA in annual filings between 2004 and 2007. All the other variables are as defined in Appendix I. Each regression contains a dummy variable for each firm and each year. Firm-clustered heteroskedasticity-robust t-statistics are reported in parentheses. The superscripts ***, **, and * indicate significance at the 1%, 5%, and 10% confidence levels, respectively.

Dependent	(1) CSR_Raw	(2) CSR_Adj	(3) CSR_Raw	(4) CSR_Adj	(5) CSR_Raw	(6) CSR_Adj
Repat_Residual	0.262* (1.94)	0.067** (2.05)				
Repat_Residual_Early			0.140 (1.17)	0.027 (1.05)		
Repat_Residual_Late			0.503*** (2.66)	0.146*** (2.75)	0.541*** (2.65)	0.152*** (2.67)
Repat_Predict	1.424*** (7.24)	0.289*** (6.19)				
Repat_Predict_Early			0.855*** (4.75)	0.119*** (3.16)		
Repat_Predict_Late			2.439*** (8.84)	0.603*** (7.60)	2.636*** (8.24)	0.640*** (7.07)

40

Size	-0.009	-0.018	-0.003	-0.015	-0.021	-0.022
	(-0.13)	(-1.00)	(-0.05)	(-0.87)	(-0.24)	(-0.96)
MB	-0.062**	-0.020***	-0.058**	-0.018***	-0.076**	-0.027***
	(-2.43)	(-3.07)	(-2.31)	(-2.92)	(-2.25)	(-3.03)
ROA	0.103	0.017	0.129	0.026	0.033	0.001
	(0.59)	(0.41)	(0.75)	(0.61)	(0.14)	(0.02)
Leverage	0.142	0.062	0.125	0.057	0.117	0.076
	(0.81)	(1.34)	(0.72)	(1.26)	(0.49)	(1.15)
CFO	0.149	0.023	0.178	0.032	-0.073	-0.042
	(0.64)	(0.40)	(0.77)	(0.56)	(-0.22)	(-0.48)
Cash	0.031	0.004	-0.041	-0.018	-0.101	-0.048
	(0.16)	(0.09)	(-0.22)	(-0.39)	(-0.39)	(-0.70)
Advertise	0.118	0.028	0.190	0.064	-1.810	-0.489
	(0.06)	(0.05)	(0.09)	(0.12)	(-0.68)	(-0.68)
RD	-0.640	-0.271*	-0.501	-0.227	-0.984	-0.347
	(-0.97)	(-1.70)	(-0.77)	(-1.47)	(-1.11)	(-1.54)
Litigation	2.967	1.131	2.920	1.117	4.362	1.636
	(0.99)	(1.32)	(0.98)	(1.32)	(1.03)	(1.30)
Firm Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Observations	16,887	16,773	16,887	16,773	11,199	11,085
R^2	0.6997	0.5597	0.7039	0.5681	0.6436	0.4935

Table 3. Firm repatriation and subsequent CSR performance: financial constraints

This table presents the results for the regressions estimating the cross-sectional effects of the AJCA on firm CSR performance, conditional on firm financial constraints. Firm CSR performance is measured by *CSR_Raw* and *CSR_Adj*, where *CSR_Raw* is calculated as a firm's total strengths minus its total concerns for the six MSCI performance indicators—community relations, diversity, employee relations, the environment, product characteristics, and human rights—and *CSR_Adj* is dimension-adjusted firm CSR performance following Deng, Kang, and Low (2013). The variable *Repat_Residual_Late* takes the value of the residual from the firm repatriation prediction model of Faulkender and Petersen (2012) for the three-year period starting from the fourth year after the repatriation year and zero otherwise. The repatriation year refers to the year when a firm disclosed its repatriation decision and it is assigned the year 2004 if the firm did not discuss the AJCA in annual filings between 2004 and 2007. The variable *Constrain* is a dummy variable that takes value of one if the firm is considered financially constrained using different measures separately and zero otherwise and *NoConstrain* is defined as one minus *Constrain*. Columns (1) and (2) present the results using *KZ Index* as the financial constraint measure and *Constrain* takes the value of one if *KZ Index* is ranked above (below) the median and zero otherwise. Columns (3) and (4) present the results using the internal cash flow sufficiency of Faulkender and Petersen as the financial constraint measure. The variable *Constrain* takes the value of zero if the firm's internal cash flow is sufficient to finance firm investments every year during the four-year period starting three years before the repatriation year and one otherwise. Columns (5) and (6) present the results using the availability of credit ratings (*CreditRating)* as a financial constraint measure. The variable *Constrain* takes the value of one if the firm has no S&P long- or short-term debt rating during the four-year period starting three years before the repatriation year and zero otherwise. Columns (7) and (8) present the results combining internal cash flow sufficiency and *CreditRating* as the financial constraint measure, following Faulkender and Petersen. The variable *Constrain* takes the value of one if the firm has no S&P long- or short-term debt rating and insufficient internal cash flow during at least one year during the four-year period starting three years before the repatriation year and zero otherwise. All the other variables are as defined in Appendix I. Each regression contains a dummy variable for each firm and each year. Firm-clustered heteroskedasticity-robust t-statistics are reported in parentheses. The superscripts ***, **, and * indicate significance at the 1%, 5%, and 10% confidence levels, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	KZ Index		InternalCashFlow		CreditRating		InternalCashFlow + CreditRating	
Dependent	CSR_Raw	CSR_Adj	CSR_Raw	CSR_Adj	CSR_Raw	CSR_Adj	CSR_Raw	CSR_Adj
*Repat_Residual_Late*Constrain*	0.097	0.037	0.162	0.070	0.211	0.022	0.441	0.071
	(0.36)	(0.49)	(0.33)	(0.56)	(0.80)	(0.30)	(0.83)	(0.51)
*Repat_Residual_Late*NoConstrain*	0.979***	0.265***	0.627***	0.171***	0.717**	0.221***	0.549**	0.159***
	(3.24)	(3.07)	(2.79)	(2.66)	(2.57)	(2.83)	(2.53)	(2.61)
Repat_Predict_Late	2.608***	0.628***	2.618***	0.636***	2.645***	0.644***	2.633***	0.638***
	(8.16)	(6.99)	(8.18)	(7.01)	(8.31)	(7.16)	(8.22)	(7.05)
Size	-0.012	-0.020	-0.021	-0.022	-0.021	-0.022	-0.021	-0.023

	(-0.14)	(-0.84)	(-0.23)	(-0.96)	(-0.23)	(-0.95)	(-0.24)	(-0.97)
MB	-0.080**	-0.028***	-0.076**	-0.027***	-0.076**	-0.027***	-0.076**	-0.027***
	(-2.38)	(-3.13)	(-2.25)	(-3.03)	(-2.24)	(-3.01)	(-2.25)	(-3.02)
ROA	0.050	0.009	0.028	-0.000	0.032	0.001	0.030	0.000
	(0.21)	(0.15)	(0.12)	(-0.00)	(0.14)	(0.01)	(0.13)	(0.00)
Leverage	0.142	0.082	0.129	0.079	0.122	0.078	0.118	0.077
	(0.60)	(1.24)	(0.55)	(1.20)	(0.52)	(1.19)	(0.50)	(1.16)
CFO	-0.087	-0.052	-0.079	-0.043	-0.069	-0.040	-0.073	-0.042
	(-0.26)	(-0.59)	(-0.24)	(-0.49)	(-0.21)	(-0.46)	(-0.22)	(-0.48)
Cash	-0.082	-0.043	-0.094	-0.046	-0.100	-0.047	-0.099	-0.047
	(-0.32)	(-0.63)	(-0.37)	(-0.68)	(-0.39)	(-0.70)	(-0.38)	(-0.69)
Advertise	-1.673	-0.459	-1.812	-0.490	-1.881	-0.513	-1.818	-0.495
	(-0.63)	(-0.65)	(-0.68)	(-0.69)	(-0.71)	(-0.71)	(-0.68)	(-0.69)
RD	-0.860	-0.314	-0.998	-0.351	-0.972	-0.343	-0.991	-0.350
	(-0.97)	(-1.40)	(-1.12)	(-1.56)	(-1.09)	(-1.53)	(-1.11)	(-1.56)
Litigation	3.918	1.481	4.339	1.625	4.424	1.662	4.340	1.625
	(0.91)	(1.17)	(1.02)	(1.30)	(1.04)	(1.33)	(1.02)	(1.30)
Firm Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	10,902	10,791	11,193	11,081	11,199	11,085	11,193	11,081
R^2	0.6402	0.4944	0.6438	0.4938	0.6439	0.4944	0.6436	0.4937

Table 4. Firm repatriation and subsequent CSR performance: Corporate governance

This table presents the results for the regressions estimating the cross-sectional effects of the AJCA on firm CSR performance, conditional on firm corporate governance. Firm CSR performance is measured by *CSR_Raw* and *CSR_Adj*, where *CSR_Raw* is calculated as a firm's total strengths minus its total concerns for the six MSCI performance indicators—community relations, diversity, employee relations, the environment, product characteristics, and human rights—and *CSR_Adj* is dimension-adjusted firm CSR performance following Deng, Kang, and Low (2013). The variable *Repat_Residual_Late* takes the value of the residual from the prediction model of Faulkender and Petersen (2012) for the three-year period starting the fourth year after the repatriation year and zero otherwise. The repatriation year refers to the year when a firm disclosed its repatriation decision and is assigned the year 2004 if the firm did not discuss the AJCA in annual filings during the period from 2004 to 2007. The variable *WeakGovern* is a dummy variable that takes the value of one if corporate governance is weak and zero otherwise and *StrongGovern* is defined as one minus *WeakGovern*. Columns (1) and (2) present the results using a dual-class structure as a corporate governance proxy. The variable *WeakGovern* takes the value of one if the firm has a dual class structure in at least one year during the four years starting from three year before the repatriation year and zero otherwise. Columns (3) and (4) present the results using CEO–chair duality as the corporate governance proxy. The variable *WeakGovern* takes the value of one if the CEO holds chairpersonship at least one year during the four years starting from three years before the repatriation year and zero otherwise. All the other variables are as defined in Appendix I. Each regression contains a dummy variable for each firm and each year. Firm-clustered heteroskedasticity-robust t-statistics are reported in parentheses. The superscripts ***, **, and * indicate significance at the 1%, 5%, and 10% confidence levels, respectively.

	(1)	(2)	(3)	(4)
	Dual Class		CEO–Chair Duality	
Dependent	CSR_Raw	CSR_Adj	CSR_Raw	CSR_Adj
Repat_Residual_Late*WeakGovern	0.642***	0.183***	0.758**	0.214**
	(2.76)	(2.81)	(2.46)	(2.53)
Repat_Residual_Late*StrongGovern	0.029	-0.002	0.294	0.086
	(0.08)	(-0.02)	(0.90)	(0.89)
Repat_Predict_Late	2.634***	0.639***	2.686***	0.659***
	(8.25)	(7.09)	(7.53)	(6.49)
Size	-0.020	-0.022	-0.185	-0.064*
	(-0.22)	(-0.95)	(-1.49)	(-1.93)
MB	-0.075**	-0.026***	-0.118**	-0.040***
	(-2.22)	(-3.00)	(-2.16)	(-2.76)
ROA	0.034	0.002	0.163	0.054
	(0.15)	(0.03)	(0.44)	(0.57)
Leverage	0.113	0.075	0.273	0.150
	(0.48)	(1.14)	(0.79)	(1.50)
CFO	-0.065	-0.039	0.711	0.095
	(-0.20)	(-0.45)	(1.40)	(0.69)
Cash	-0.107	-0.049	-0.498	-0.135
	(-0.41)	(-0.73)	(-1.27)	(-1.25)
Advertise	-1.822	-0.494	0.196	0.087

	(-0.69)	(-0.69)	(0.05)	(0.08)
RD	-0.980	-0.346	-3.408*	-0.922**
	(-1.10)	(-1.55)	(-1.94)	(-2.04)
Litigation	4.183	1.582	4.801	2.173
	(0.99)	(1.26)	(0.81)	(1.24)
Firm Fixed Effects	Yes	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes	Yes
Observations	11,199	11,087	7,260	7,196
R^2	0.6438	0.494	0.6731	0.5255

Table 5. Firm repatriation and subsequent CSR performance: Stakeholder preferences

This table presents the results for the regressions estimating the cross-sectional effects of the AJCA on firm CSR performance, conditional on stakeholder preferences. Firm CSR performance is measured by *CSR_Raw* and *CSR_Adj*, where *CSR_Raw* is calculated as a firm's total strengths minus its total concerns for the six MSCI performance indicators—community relations, diversity, employee relations, the environment, product characteristics, and human rights—and *CSR_Adj* is dimension-adjusted firm CSR performance following Deng, Kang, and Low, Kang, and Low (2013). The variable *Repat_Residual_Late* takes the value of the residual from the prediction model of Faulkender and Petersen (2012) for the three-year period starting from the fourth year after the repatriation year and zero otherwise. The repatriation year refers to the year when a firm disclosed its repatriation decision and it is assigned the year 2004 if the firm did not discuss the AJCA in annual filings during the period from 2004 to 2007. The variable *HighPrefer* is a dummy variable that takes the value of one if the firm is headquartered in a state with increasing preference for CSR performance and zero otherwise. The variable *LowPrefer* is defined as one minus *HighPrefer*. Columns (1) and (2) present the results using political tendency as a proxy for stakeholder preferences. The variable *HighPrefer* takes the value of one if the firm is headquartered in a state that was classified as red in the 2000 presidential election and blue in the 2004 presidential election and zero otherwise. Columns (3) and (4) present the results using the tendency toward religiosity as the measure of stakeholder preference. The variable *HighPrefer* takes the value of one if the firm is headquartered in a state where the difference in the ratios of the number of religious adherents to the total population between 2010 and 2000 is above (below) the median and zero otherwise. All other variables are as defined in Appendix I. Each regression contains a dummy variable for each firm and each year. Firm-clustered heteroskedasticity-robust t-statistics are reported in parentheses. The superscripts ***, **, and * indicate significance at the 1%, 5%, and 10% confidence levels, respectively.

| | (1) | (2) | (3) | (4) |
| | *Political Tendency* | | *Religiosity Tendency* | |
Dependent	CSR_Raw	CSR_Adj	CSR_Raw	CSR_Adj
*Repat_Residual_Late*HighPrefer*	0.701**	0.171**	0.716***	0.183**
	(2.44)	(2.08)	(2.63)	(2.32)
*Repat_Residual_Late*LowPrefer*	0.377	0.133	0.304	0.110
	(1.28)	(1.63)	(0.97)	(1.30)
Repat_Predict_Late	2.621***	0.638***	2.628***	0.639***
	(8.18)	(7.05)	(8.23)	(7.07)
Size	-0.023	-0.023	-0.021	-0.022
	(-0.25)	(-0.97)	(-0.24)	(-0.95)
MB	-0.076**	-0.027***	-0.077**	-0.027***
	(-2.25)	(-3.03)	(-2.27)	(-3.04)
ROA	0.031	0.001	0.035	0.001
	(0.13)	(0.01)	(0.15)	(0.02)
Leverage	0.108	0.075	0.112	0.075
	(0.46)	(1.13)	(0.47)	(1.14)
CFO	-0.076	-0.042	-0.070	-0.040
	(-0.23)	(-0.48)	(-0.21)	(-0.45)
Cash	-0.094	-0.047	-0.110	-0.050
	(-0.36)	(-0.69)	(-0.42)	(-0.73)

Advertise	-1.822	-0.491	-1.723	-0.466
	(-0.69)	(-0.69)	(-0.65)	(-0.65)
RD	-0.993	-0.349	-0.941	-0.338
	(-1.11)	(-1.55)	(-1.06)	(-1.50)
Litigation	4.395	1.637	4.252	1.618
	(1.04)	(1.31)	(1.00)	(1.29)
Firm Fixed Effects	Yes	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes	Yes
Observations	11,199	11,085	11,155	11,043
R^2	0.6439	0.4937	0.6442	0.494

Table 6. Firm repatriation and subsequent CSR performance: Changes in CSR strengths and concerns

This table presents the results for the regressions estimating the differential effects of the AJCA on firm CSR strengths and concerns. Columns (1) and (2) present the results for the strength score and Columns (3) and (4) present the results for the concern score. The variable *CSR_Str_Raw* (*CSR_Con_Raw*) is measured as the total strengths (concerns) for the six MSCI performance indicators, namely, community relations, diversity, employee relations, the environment, product characteristics, and human rights. The variable *CSR_Str_Adj* (*CSR_Con_Adj*) is measured as total dimension-adjusted strengths (concerns) for the six MSCI performance indicators following Deng, Kang, and Low (2013). The variable *Repat_Residual_Late* takes the value of the residual from the prediction model of Faulkender and Petersen (2012) for the three-year period starting from the fourth year after the repatriation year and zero otherwise. The repatriation year refers to the year when a firm disclosed its repatriation decision and it is assigned the year 2004 if the firm did not discuss the AJCA in annual filings during the period from 2004 to 2007. All other variables are as defined in Appendix I. Each regression contains a dummy variable for each firm and each year. Firm-clustered heteroskedasticity-robust t-statistics are reported in parentheses. The superscripts ***, **, and * indicate significance at the 1%, 5%, and 10% confidence levels, respectively.

	(1)	(2)	(3)	(4)
Dependent	CSR_Str_Raw	CSR_Str_Adj	CSR_Con_Raw	CSR_Con_Adj
Repat_Residual_Late	0.446**	0.127***	-0.095	-0.027
	(2.52)	(2.68)	(-0.79)	(-0.75)
Repat_Predict_Late	2.932***	0.801***	0.297*	0.161***
	(10.30)	(10.08)	(1.68)	(3.06)
Size	0.106	0.004	0.127**	0.022
	(1.52)	(0.21)	(2.20)	(1.37)
MB	-0.035	-0.011	0.041**	0.014**
	(-1.20)	(-1.51)	(2.10)	(2.53)
ROA	-0.234	-0.060*	-0.266	-0.069
	(-1.56)	(-1.67)	(-1.53)	(-1.48)
Leverage	0.307	0.131**	0.190	0.055
	(1.57)	(2.54)	(1.24)	(1.29)
CFO	0.088	0.002	0.161	0.050
	(0.36)	(0.04)	(0.72)	(0.79)
Cash	0.171	0.010	0.271	0.061
	(0.86)	(0.21)	(1.64)	(1.34)
Advertise	-0.253	0.067	1.559	0.540
	(-0.11)	(0.11)	(1.07)	(1.29)
RD	-0.986	-0.365**	0.002	-0.039
	(-1.48)	(-2.30)	(0.00)	(-0.27)
Litigation	1.777	1.161	-2.565	-0.414
	(0.58)	(1.18)	(-0.93)	(-0.52)
Firm Fixed Effects	Yes	Yes	Yes	Yes

Year Fixed Effects	Yes	Yes	Yes	Yes
Observations	11,199	11,087	11,199	11,197
R^2	0.7891	0.6622	0.721	0.6823

Table 7. Subsequent stock performance

This table reports results from Fama–French (1993) calendar time regressions of monthly returns to CSR hedge portfolios on returns to the factors listed. The CSR hedge portfolio is constructed by the firms that only repatriated under the AJCA. A firm is assigned to a low–CSR change (high–CSR change) portfolio if the change in CSR performance between the post- and pre-repatriation periods is in the lowest (highest) tercile. The portfolio's return is calculated as its median return, adjusted by risk-free rate and multiplied by 100. The post-repatriation period is a three-year period starting from the fourth year after the repatriation year and pre-repatriation is a four-year period starting from the third year before the repatriation year. The repatriation year refers to the year when a firm disclosed its repatriation decision and it is assigned the year 2004 if the firm did not discuss the AJCA during the period from 2004 to 2007. The CSR hedge portfolio is formed every calendar month by buying (selling) low–CSR change (high–CSR change) firms in the same post-event year. The post-event year is defined relative to the four months after the repatriation fiscal year-end. The regressions are estimated for six post-event years and require at least 20 stocks in the portfolio every month. The variable MKT is market excess return, SMB and HML are the Fama–French (1993) size and book-to-market factors, and UMD is the Carhart (1997) momentum factor. We multiply the dependent variable by 100 for presentation purposes. The superscripts ***, **, and * indicate significance at the 1%, 5%, and 10% confidence levels, respectively.

	Alpha	MKT	SMB	HML	UMD	Observations	R^2
Low CSR change	0.234	1.086***	0.532***	-0.061	-0.081**	73	0.957
	(1.47)	(28.97)	(6.79)	(-1.00)	(-2.61)		
High CSR change	-0.013	1.041***	0.273***	-0.029	-0.091***	73	0.969
	(-0.10)	(35.92)	(4.50)	(-0.62)	(-3.80)		
Hedge	0.247*	0.045	0.259***	-0.032	0.01	73	0.205
	(1.71)	(1.32)	(3.66)	(-0.57)	-0.37		