

# **The Effect of Creative Culture on Corporate Social Responsibility**

**Ekin Alakent**  
**California State University, East Bay**

**Mine Ozer**  
**SUNY Oneonta**

**Erdem Ucar**  
**California State University, Fullerton**

*We examine how creative culture affects the corporate social responsibility (CSR) records of companies. To measure local creative culture, we use the fraction of the local creative class—including intellectuals and artists—working in knowledge-intensive industries. We argue that companies located in areas densely populated by the creative class should exhibit better CSR records to maintain their legitimacy. Using data from the US Department of Agriculture Economic Research Service, which refines and revises Florida's (2002a,b) creative class measure, we find firms in areas with strong creative cultures have higher levels of CSR engagement, after controlling for alternative explanations and endogeneity concerns.*

*Keywords: creativity, creative culture, corporate social responsibility, KLD*

## **INTRODUCTION**

How does geography and local culture affect corporate strategies such as CSR? If a company is located in an area that attracts artistic, creative, and open-minded individuals, will it be more prone to adopting practices that are more equitable, sustainable, and socially responsible? We endeavor to answer this question by exploring the relationship between creative culture and the CSR records of companies. CSR refers to the actions of a company that “appear to further some social good, beyond the interests of the firm and that which is required by the law” (McWilliams & Siegel, 2001, p. 117). These actions can run parallel to progressive employment practices that support gender equality, fair wages, and parental leaves, producing products that are environmentally friendly, recyclable, and non-toxic, and community engagement practices that are aimed to improve the circumstances of socially disadvantaged groups (Wang & Bansal, 2012). CSR is no longer perceived as a marginal strategy. Most Fortune 500 companies publicly embrace CSR as a tool for improving their reputation and managing diverse stakeholder interests (Boli & Hartsuiker, 2001). Therefore, it is important to understand what motivates companies to adopt socially responsible policies.

There have been numerous studies that have explored institutional and firm-specific antecedents of corporate social performance (Margolis & Walsh, 2003). Most of these studies have focused on factors

such as firm financial performance (Campbell, 2007), national and regional laws and regulations (Reverte, 2009; Skinner & Mersham, 2008), competition levels (Bansal & Roth, 2000), existence of non-governmental organizations, and state and industry level regulations (Campbell, 2007), and legitimacy (Alakent & Ozer, 2014). Although local culture can provide important insights into the types of contexts that allow socially responsible practices to flourish, it has not received much attention in the CSR literature. Pressures from external stakeholders—such as governments and community organizations—can shape the CSR policies of companies (Zhao, 2012). According to Campbell (2007):

Corporations will be more likely to act in socially responsible ways if there are strong and well-enforced state regulations in place to ensure such behavior, particularly if the process by which these regulations and enforcement capacities were developed was based upon negotiation and consensus building among corporations, government and the other relevant stakeholders. (p. 955)

For example, with the launch of ISO26000 in Europe in 2010, apparel manufacturers that took CSR seriously and implemented the CSR requirements of retailers throughout their supply chain were predicted to receive more orders (Perry & Towers, 2009). Although past studies have explored the effect of country specific factors on CSR (Moon & Shen, 2010; Tian et al., 2011), the impact of local culture on CSR has not attracted similar attention. We introduce creative culture as a new measure and investigate the effect of local creative culture on the CSR policies of companies.

Firms located in areas with a strong creative culture have higher levels of risk exposure, investment, and growth. Studies from other disciplines have investigated and highlighted the relationship between creativity and risk-taking (e.g., Dewett, 2004, 2006; Fidler & Johnson, 1984; Jalan & Kleiner, 1995; Shalley et al., 2000; Tesluk et al., 1997; Zhou & George, 2001). Since creativity requires searching for the unknown and deviating from norms, it inherently embodies a high risk-taking propensity (Adams, 1986). Another stream of research has explored the effect of creativity on innovation (Ucar, 2018; Vakili & Zhang, 2018). Vakili and Zhang (2018) found that the enactment of liberal social policies—such as same sex marriage and the legalization of marijuana—significantly increased state-level patents. Thus, an important implication of this study is that since creative individuals value meritocracies, diversity, and openness, states and cities that wish to attract these types of individuals must devise social liberal policies promoting diversity, openness to different lifestyles, and ideas.

In previous studies, CSR practices have been positioned as risky strategies since they can have various effects on performance (Margolis & Walsh, 2003). Although some researchers have argued that CSR positively contributes to performance by satisfying multiple stakeholders, creating market value, preempting government regulations, reducing risk, developing business resources, and lowering capital costs (El Ghoul et al., 2011; Mackey et al., 2007; McWilliams & Siegel, 2001; Orlitzky et al., 2003; Pelozo, 2009; Waddock & Graves, 1997; Wang & Bansal, 2012), others have argued that—from a traditional economic standpoint—CSR distracts managers from acting in the best interests of shareholders. Most notably, Friedman (1970) argued that the sole responsibility of a corporation is the maximization of shareholder value. Therefore, managers act irresponsibly when money and resources are channeled into social and political actions rather than owners, employees, and customers. According to Reich (1998) “too much corporate interference in non-business activities that are normally under the responsibility of the state probably leads to a weakening of the political system and to a problematic politicization of the corporation” (p. 17).

Despite a vast literature that has explored the effects of CSR on firm performance, there is no consensus on whether this relationship is positive or negative. However, a widely accepted argument in the literature is that CSR does have a positive influence on financial performance when business strategies are aligned with CSR practices (Porter & Kramer, 2002, 2006). Further, CSR practices can be viewed as risky, given the uncertainty of how CSR policies impact overall financial performance. Consistent with these studies, we focus on the relationship between risk-taking and creative culture and examine the impact of this relationship on how companies engage in CSR practices.

We tested our hypothesis using a matched sample and an instrumental variable (IV) approach and found that the empirical findings held after addressing endogeneity concerns. Moreover, our findings were robust after controlling for local variations as well as alternative explanations that could have been driving the relationship. Our results were more pronounced for local firms versus geographically-dispersed firms that had operations in multiple locations. This finding revealed the local component of corporate risk-taking and decision-making, suggesting that a creative risk-taking effect emerged through interactions between local and corporate cultures. We also found that creative culture had a positive effect on CSR even after excluding areas with a well-known and strong creative culture. This result highlighted the power of a local risk-taking tendency and indicated that creative risk-taking not only affected companies located in areas with a well-known creative culture but also companies located in other areas.

This study contributes to the literature in several ways. First, it is the first to investigate the relationship between local culture and corporate social responsibility. Second, it positions “culture” as an important determinant of corporate social performance by focusing on the effect of a new risk-taking measure—creative culture. Third, although past studies have explored the effect of firm-specific factors on CSR, little is known about the impact of external actors on corporate social performance. This study contributes to this body of knowledge by investigating the impact of external actors such as the creative culture on internal CSR practices of local companies. Fourth, our empirical results suggest that the impact of creative culture on corporate social performance emerges through interactions between local and corporate cultures. As there is a growing body of literature that examines the relationship between geography and organizational decisions, this study therefore positions creative culture as a new factor that further reveals the role of geography in organizational decision-making.

## **LITERATURE REVIEW AND HYPOTHESIS**

### **Culture and CSR**

Culture is one of the most important determinants of how a firm treats its stakeholders and the level of social responsibility it demonstrates through its organizational practices and actions (Campbell, 2007; Galbreath, 2010; Wood, 1991). While there are several different definitions of culture employed in the social sciences literature, most researchers agree that culture refers to patterns of beliefs and values manifested in practices, behaviors, and artifacts shared by members of an organization or a nation (Hofstede, 1980; Pothukuchi et al., 2002; Trice & Beyer, 1993). According to Lindgreen et al. (2009), “organizations evolve in distinct contexts and face different constraints for which reason they need to develop CSR policies and implement CSR activities that fit their organizational culture, business rationale, and strategic goals” (p. 252). The expectations for CSR within a society are, therefore, neither universal nor absolute; meanings and implications shift according to the various stakeholder groups that define them (Wood, 1991). Since companies are embedded in societies, organizational culture reflects national culture. Organizational culture—like national culture—entails deep-seated and enduring values, beliefs, and shared behaviors (Daymon, 2000; Demirag & Tylecote, 1992; Sathe, 1983). A learned and shared set of responses to internal and external issues establishes cultural patterns in an organization (Schein, 1984). Explicit values and belief systems embedded in organizational culture, therefore, shape organizational decisions based on corporate goals, objectives, and beliefs about how the world works (Pralhad & Bettis, 1986; Simons & Ingram, 1997). One of the motivations behind adopting socially responsible practices is conforming to stakeholder norms that define appropriate behavior (Swanson, 1995). These norms are partly shaped by the culture.

A related stream of research recognizes the embeddedness of companies in their social context (Athanasopoulou & Selsky, 2015). Companies confront expectations emanating from three layers of this social context: institutional, organizational, and individual. Drawing from a network logic, this perspective views behavior as being shaped by external conditions. To understand the dynamics at one level, the dynamics of a more encompassing, higher level must also be taken into consideration. This creates a complex environment for firms that need to address conflicting stakeholder demands, market and regulatory failures, and changing social values.

## The Creative Class and CSR

Creative workers and entrepreneurs share many characteristics including work independence, the capability of producing high-value work, a sense of personal achievement, and high risk-taking tendencies (Menger, 1999). We argue that cities with a creative class establish norms and belief systems that prompt companies to adopt socially responsible practices. Even companies that may not be traditionally socially responsible may experience peer pressure to conform to these norms. Local governments in these cities also have high standards for companies, encouraging practices that value diversity, fairness, and social justice.

There is still a lack of research that addresses the nature of the relationship that exists between creative class and social dynamics (Hadida, 2015). Social influences impact corporate behavior and economic progression (Potts, 2011). Throsby (2010) stated that culture could influence efficiency, equity, economic decisions, and social aspirations. In turn, these cultural influences affect collective outcomes and macro-level factors such as GDP, innovation, employment, social structures, livelihoods, and social welfare plans.

CSR is often considered a long-term strategy with uncertain outcomes. According to Margolis and Walsh (2003), companies are not necessarily greatly rewarded by socially responsible behavior. Although wrongdoing has a clear negative impact on financial performance and CSR a positive one, the overall impact of CSR is not very high. Margolis, Elfenbein and Walsh (2007) concludes that “companies can do good *and* do well, even if companies do not always do well *by* doing good” (p. 22-23). Critics of CSR argue that social welfare is maximized when all firms in an economy maximize total firm value (Jensen, 2002). From this perspective, CSR should not be a company’s priority as it is a rather risky pursuit for executives. Therefore, it is important to highlight under which circumstances or external conditions executives are more likely to adopt socially responsible practices.

CSR adoption is driven by three major motivations: strategic, altruistic, and greenwashing (Bénabou and Tirole, 2010). A strategic approach is related to CSR practices that align with long term strategies and that increase competitive advantage. This approach is similar to the concept of “shared value” developed by Porter and Kramer (2006) who define it as creating economic value in a way that also creates value for society by addressing its needs and challenges. The altruistic approach is related to CSR practices that are adopted with the intent of doing the right thing and addressing a “moral dimension” (Etzioni, 2003). Finally, greenwashing refers to CSR practices that are adopted to convey a positive image of the firm. Drawing from the work of Carroll (1979, 1991), Maignan and Ferrell (2000) defines CSR as “the extent to which businesses meet the economic, legal, ethical and discretionary responsibilities imposed on them by their stakeholders” (p. 284). Thus, in all three approaches to CSR, a common theme is the effect of dynamic expectations of society on firm behavior.

More broadly, extant literature has also pointed to country specific factors as important determinants of CSR (Clarke & Gibson-Sweet, 1999; Doh & Guay, 2006; Maignan & Ralston, 2002; Perry & Towers, 2009; Skinner & Mersham, 2008). According to Campbell (2007), the creation and enforcement of effective state regulations—which emerged from consultations between businesses, environmental organizations, and communities—resulted in a greater acceptance of socially responsible practices. For example, regulations that granted citizens access to information about harmful practices of companies were effective in enabling citizens to sue these companies in court. Similarly, Cai et al. (2016) found that companies located in countries with high income-per-capita, strong civil liberties and political rights, and cultures oriented towards humanity and autonomy, had higher ratings of corporate social performance.

In addition to governments, other external actors—such as industry associations and competitors—can also create peer pressure to induce businesses to self-regulate and adopt socially responsible behaviors (Martin, 2003). Maignan and Ralston (2002) compared CSR practices in the US, the UK, France, and the Netherlands and found that codes of ethics were more likely to be used in the UK while philanthropic activities and volunteering were more commonly used in the US. French and Dutch companies emphasized their commitment to environmental sustainability. These examples highlighted variations in the understanding of CSR in different institutional contexts. In other words, companies based in different contexts had different perspectives on how important it was to be perceived as socially

responsible and which CSR issues carried more weight. In a similar vein, we argue that local cultural differences will impact how companies approach CSR.

Since it is difficult to define the boundaries of local culture, it is also difficult to compare various local cultures. We draw from Florida's (2002a; 2002b) creative class theory to investigate how clusters of highly educated and well-paid segments of society—working in a wide range of industries including high tech, entertainment, journalism, finance, high-end manufacturing, and the arts—located in some areas lead to greater economic growth. Cities wishing to attract these individuals create cultures that value creativity, diversity, and tolerance. We contend that areas that are densely populated by the creative class create an environment where CSR is deemed an important part of the legitimacy of a corporation. Legitimacy theory acknowledges a social contract that coerces companies to behave in socially acceptable ways. Companies that fail to conform to these socially acceptable norms run the risk of losing legitimacy and access to resources, ultimately undermining their long-term survival (DiMaggio & Powell, 1983; Reverte, 2009). Thus, we contend that the norms, values, and belief systems in areas densely populated by the creative class lead to companies acting in socially responsible ways.

**Hypothesis:** *Creative culture positively affects the CSR records of companies, such that companies located in areas that are densely populated by the creative class will have better CSR records.*

## METHODOLOGY

### Data, Sample Selection, and Summary Statistics

This study followed a sample selection and variable construction method consistent with prior literature (e.g., Jha & Cox, 2015; Ucar, 2018). The sampling frame consisted of publicly traded US firms. Accounting and firm-specific data was collected from COMPUSTAT, and stock information was collected from CRSP. The sample excluded utilities and financial categories (i.e., SIC codes 4900 to 4999 and SIC codes 6000 to 6999). These data were then matched with CSR data collected from the MSCI KLD 400 Social Index database. MSCI KLD is the leading social rating agency, and its increasing influence contributes to a standardization of social responsibility performance measures (Agle et al., 1999; Chen et al., 2007; Griffin & Mahon, 1997; Hillman & Keim, 2001; Rehbein et al., 2004; Waddock & Graves, 1997). The MSCI KLD 400 Social Index provides social performance records for more than 3,000 publicly traded companies in the US, across a range of social performance dimensions.

For all tests, the independent variable was local creative culture—as measured by *CreativeShare*—for a given year. *CreativeShare* was operationalized as the fraction of the creative class within a given firm county. Creative class data were gathered from the US Department of Agriculture Economic Research Service (USDA ERS) website, which provided county-level datasets for the years 1990, 2000, and 2007.<sup>1</sup> To account for missing years, a data interpolation method was employed to construct the *CreativeShare* variable for the years between 1990 and 2007. Therefore, the final sample consisted of company-year observations for the years 1990 to 2007. County-level *CreativeShare* information was also collected, as well as occupations of the creative class found in the ERS database. According to the ERS website, creative occupations—such as architecture, engineering, arts, design, entertainment, sports, media, computer, and mathematical—“involve a high level of creative thinking”.<sup>2</sup>

Richard Florida's (2002a, 2002b, 2005) creative class theory uses occupation as a measure of skill.<sup>3</sup> Occupational categories identified as belonging to the creative class include jobs in knowledge intensive industries that require the production of new ideas and problem-solving skills—e.g., design, entertainment, media, engineering, music, and mathematical sciences (Florida, 2002a, 2002b; Florida, 2005; McGranahan & Wojan, 2007). The ERS dataset provides an updated and revised version of Florida's original creative class measure.<sup>4</sup> The revised creative class measure “excludes many occupations with low creativity requirements and those involved primarily in services to the residential community (i.e., with numbers roughly proportional to population).”<sup>5</sup> From the O\*NET Content Model, the ERS database derives a BLS dataset that defines some skills as “Thinking Creatively”. These skills

are described as “developing, designing or creating new applications, ideas, relationships, systems or products, including artistic contributions”.<sup>6</sup>

Multivariate regressions were used to examine the impact of creative risk-taking behavior on the *CSR index*. A group of control variables was employed for financial, ownership, and local control dimensions. These variables measured county-level demographic, economic, and other socioeconomic factors that had a potentially significant effect on CSR. All firm variables were winsorized at the 1% and 99% levels. Local economic and demographic control variables were also taken from the US Censuses. These variables included population, education, income, and the fraction of local seniors (see Appendix A).

Table 1 reports summary statistics for the main variables in the empirical tests. Panel A presents the summary statistics for some variables used in the first set of corporate policy tests along with local creative culture, as measured by *CreativeShare*. On average, a sample firm was located in a county where approximately 31% of employed people were from the creative class. This point represented the mean value of local creative culture for the sample firms. The *CSR index* had an average value of 0, and its 75th and 25th percentile values were 1 and -2, respectively. The average M/B of companies in the sample was 2.78, and the average institutional ownership in these companies was 70%. These numbers—which are typically associated with larger companies—were expected, since the MSCI KLD 400 Social Index data includes 400 companies drawn from the 3,000 largest US companies.

**TABLE 1**  
**SUMMARY STATISTICS OF MAIN VARIABLES**

<b>Variable</b>	<b>Mean</b>	<b>Std. Dev.</b>	<b>p25</b>	<b>Median</b>	<b>p75</b>
CSR index	-0.19	2.30	-2	0	1
CreativeShare	0.31	0.07	0.26	0.30	0.36
Logarithm of assets	7.03	1.62	5.84	6.91	8.07
Cash	0.22	0.28	0.04	0.12	0.31
EBITDA	0.12	0.14	0.08	0.13	0.19
Leverage	0.21	0.22	0.02	0.18	0.32
M/B	3.25	3.99	1.52	2.38	3.91
KZ index	-8.52	31.02	-6.39	-1.69	0.43
Dividend dummy	0.48	0.50	0	0	1
Institutional ownership	0.70	0.22	0.56	0.73	0.86
Log of population	13.71	1.07	13.16	13.73	14.35
Local Education	32.91	9.32	26.15	31.22	39.31
Local Income	55,865	15,156	44,085	52,595	66,147
CP Ratio	1.96	1.79	0.60	1.39	2.77
Republican	40.24	13.57	31.60	39.93	49.20

## EMPIRICAL RESULTS

### Main Corporate Risk-taking and Policy Tests

The empirical model in Table 2 was similar to the one used by Ucar (2018), with empirical tests that controlled for as *Logarithm of Assets*, *Cash*, *EBITDA*, *Leverage*, and *M/B*. The model also included a *Dividend Dummy* as well as *Year* and *Industry* dummy variables. The empirical model also controlled for the *KZ Index*, which was a measure of the reliance on external financing and institutional ownership. The main variable was *CreativeShare*, which measured the local creative culture as a proxy for creative risk-taking. The dependent variable was the *CSR index* (see Appendix A for definitions of the dependent

variable and control variables). Year and industry dummies were not reported for brevity. Two-digit industry categories were used for industry fixed effects, and standard errors were adjusted for heteroskedasticity and clustered at the firm level. T-statistics were reported in parentheses.

According to our results presented in Table 2, larger companies—that were more profitable, valuable, and had more cash—were more likely to invest in CSR policies. This was consistent with findings in extant literature since CSR investment was more likely with companies that were more established and that had slack resources to invest in costly CSR policies. The main variable of interest—*CreativeShare*—was positive and statistically significant at the 1% level. This result was consistent with our hypothesis and showed a positive relationship between risk-taking induced by local creative culture and the *CSR index*.

**TABLE 2**  
**BASELINE TESTS FOR THE EFFECT OF LOCAL CREATIVE CULTURE ON CSR INDEX**

<b>Dependent Variable</b>	<b>CSR Index</b>
CreativeShare	1.874*** (2.89)
Logarithm of assets	0.343*** (7.38)
Cash	0.439*** (4.00)
EBITDA	0.955*** (3.97)
Leverage	-0.355** (-2.40)
M/B	0.038*** (5.35)
KZ Index	0.001* (1.71)
Dividend Dummy	0.107 (1.37)
Institutional Ownership	-0.283 (-1.48)
Constant	-4.155*** (-6.21)
Year and Industry Fixed Effects	Yes
Observations	19,616
R-squared	0.162

Note: \*\*\*, \*\*, and \* indicate significance at the 1%, 5%, and 10% level respectively.

Table 3 presents the same relationship with additional control variables that address further factors that might have been driving the positive relationship between creative culture and the *CSR index*. Local control variables included *Logarithm of Population*, *Local Education*, and *Local Income*, as well as local demographic and religious factors—i.e., *Republican Voter Percentage* and *C/P Ratio*—that could have been affecting the relationship between local culture and CSR policies. The dependent variable was the *CSR index*. Year and industry dummies were not reported for brevity. Two-digit industry categories were used for industry fixed effects. Standard errors were adjusted for heteroskedasticity and clustered at the firm level. T-statistics were reported in parentheses.

Consistent with prior studies (Ucar, 2018), we observed that smaller counties—with less population and less education—and those that tended to vote Republican were less likely to invest in CSR policies. These local characteristics could have also been correlated with the local creativity measure, impacting

CSR engagement through channels other than risk-taking behavior. After controlling for these alternative motives, we observed that local creative culture was still significant at the 10% level and that there was a positive relationship between *CreativeShare* and the *CSR index*.

**TABLE 3**  
**BASELINE TESTS FOR THE EFFECT OF LOCAL CREATIVE CULTURE ON CSR INDEX**  
**WITH LOCAL CONTROLS**

<b>Dependent Variable</b>	<b>CSR Index</b>
CreativeShare	3.437*
	(1.90)
Logarithm of Assets	0.340***
	(7.33)
Cash	0.373***
	(3.42)
EBITDA	1.016***
	(4.23)
Leverage	-0.328**
	(-2.24)
M/B	0.037***
	(5.24)
KZ Index	0.001*
	(1.72)
Dividend Dummy	0.132*
	(1.68)
Institutional Ownership	-0.281
	(-1.48)
Logarithm of Population	-0.108**
	(-2.55)
Local Education	-0.028**
	(-2.14)
Local Income	0.000*
	(1.85)
CP Ratio	0.030
	(1.18)
Republican Voter Percentage	-0.013***
	(-3.56)
Constant	-2.116**
	(-2.35)
Year and Industry Fixed Effects	Yes
Observations	19,590
R-squared	0.168

Note: \*\*\*, \*\*, and \* indicate significance at the 1%, 5%, and 10% level respectively.

Table 4 again presents the same relationship but after controlling for research and development (R&D). The dependent variable was the *CSR index*. The local controls were *Logarithm of Population*, *Local Education*, *Local Income*, *CP Ratio*, and *Republican Voter Percentage*. *Year* and *Industry* dummies were not reported for brevity. Two-digit industry categories were used for industry fixed effects. Standard errors were adjusted for heteroskedasticity and clustered at the firm level. T-statistics were reported in parentheses. One could have argued that *CreativeShare* was capturing the propensity for *R&D* in the workforce, and, thus, the positive effect of creative culture was not due to the risk-taking dimension of the



creative culture measure but rather the propensity of high R&D investing companies that are typically associated with better CSR records. In other words, companies that were R&D intensive might have been better aligned with CSR initiatives compared to their counterparts.

With this argument in mind, we observed that while R&D was positively and significantly related to CSR, the positive and significant effect of creative culture still remained significant. This result further strengthened our argument that the measure of creative culture was directly related to CSR through greater risk-taking and not through other factors indirectly represented by the creative culture measure. Finally, we also controlled for the state and two digit-SIC dummies in all regressions. Thus, our results were not driven by a particular state or industry.

**TABLE 4**  
**BASELINE TESTS FOR THE EFFECT OF LOCAL CREATIVE CULTURE ON CSR INDEX**  
**WITH LOCAL CONTROLS AND ADDED R&D VARIABLE**

<b>Dependent Variable</b>	<b>CSR Index</b>
CreativeShare	3.275*
	(1.85)
R&D	0.002***
	(6.45)
Logarithm of Assets	0.113***
	(2.85)
Cash	0.215**
	(2.02)
EBITDA	0.853***
	(3.69)
Leverage	-0.142
	(-1.00)
M/B	0.028***
	(3.91)
KZ Index	0.001
	(1.27)
Dividend Dummy	0.184**
	(2.43)
Institutional Ownership	0.203
	(1.28)
Logarithm of Population	-0.093**
	(-2.21)
Local Education	-0.023*
	(-1.84)
Local Income	0.000
	(0.96)
CP Ratio	0.020
	(0.85)
Republican Voter Percentage	-0.011***
	(-3.00)
Constant	-1.403
	(-1.48)
Year and Industry Fixed Effects	Yes
Observations	19,590
R-squared	0.208

Note: \*\*\*, \*\*, and \* indicate significance at the 1%, 5%, and 10% level respectively.

To shed more light on the local risk-taking effect induced by creative culture and to take a further step in addressing endogeneity concerns, an instrumental variable (IV) approach was employed to re-examine the effect of creative culture on CSR. The earlier OLS regression analysis of the *CSR index* was repeated using a 2SLS analysis with an IV approach (see Table 5, columns 1 and 2). *CreativeShare<sub>t-10</sub>* was used as an IV for the *CreativeShare* (Table 5, column1) and *ArtShare* as an IV for *CreativeShare* (Table 5, column 2). Although *ArtShare* is part of the ERS dataset and defined similarly to *CreativeShare*, it included only the fraction of the people employed in the arts and art-related jobs. The dependent variable was the *CSR index*. The local controls are the *Logarithm of Population*, *Local Education*, *Local Income*, *CP Ratio*, and *Republican Voter Percentage*. Year and industry dummies were not reported for brevity. Two-digit industry categories were used for industry fixed effects. Standard errors were adjusted for heteroskedasticity and clustered at the firm level. T-statistics were reported in parentheses.

**TABLE 5**  
**EFFECT OF LOCAL CREATIVE CULTURE ON CSR INDEX USING 2SLS WITH**  
**IV APPROACH**

	(1)	(2)
<b>Dependent Variable</b>	<b>CSR Index</b>	<b>CSR Index</b>
<b>IV</b>	<b><i>CreativeShare<sub>t-10</sub></i></b>	<b><i>ArtShare</i></b>
Creative Share	5.168** (2.07)	6.754* (1.81)
Logarithm of Assets	0.389*** (8.78)	0.337*** (7.20)
Cash	0.348*** (3.31)	0.362*** (3.29)
EBITDA	0.900*** (3.89)	1.037*** (4.35)
Leverage	-0.363** (-2.52)	-0.308** (-2.05)
M/B	0.034*** (5.03)	0.036*** (5.28)
KZ Index	0.001 (1.46)	0.001* (1.79)
Dividend Dummy	0.147** (1.97)	0.146* (1.81)
Institutional Ownership	-0.205 (-1.13)	-0.288 (-1.52)
Logarithm of Population	-0.104** (-2.42)	-0.135*** (-2.66)
Local Education	-0.040** (-2.47)	-0.049** (-2.14)
Local Income	0.000 (1.62)	0.000 (0.99)
CP Ratio	0.039 (1.58)	0.041 (1.39)
Republican Voter Percentage	-0.013*** (-3.64)	-0.012*** (-3.08)
Constant	-3.284*** (-3.57)	-1.987** (-2.20)
Year and Industry Fixed Effects	Yes	Yes
Observations	17,088	19,590
R-squared	0.162	0.167

Note: \*\*\*, \*\*, and \* indicate significance at the 1%, 5%, and 10% level respectively.

Following Ucar (2018), we employed *ArtShare* as an instrumental variable (IV). *ArtShare* is operationalized as the fraction of people employed in the arts in a county. As stated by Ucar (2018):

ArtShare is a part of CreativeShare—the creative class and it is part of the ERS dataset. The CreativeShare—creative class—definition includes a large group of occupations in addition to the people employed in the arts. One can expect ArtShare and CreativeShare to be correlated regarding creativity and risk-taking aspects. One can easily suggest that ArtShare is expected to be closely related to creative culture in a local environment, whereas ArtShare is not expected to be correlated with any omitted factors affecting corporate decisions in the area. (p. 67)

Therefore, we considered *ArtShare* a strong IV. Similarly, *CreativeShare*<sub>*t-10*</sub>—a lagged *CreativeShare* measure from ten years ago—was considered as being correlated with a current *CreativeShare*. It was expected to be highly correlated with current firm variables and any omitted current firm characteristics. After using IVs, the coefficient of *CreativeShare* was—as expected—positive and statistically significant. Overall, these results provided support for the earlier findings and showed that local creative culture and creative risk-taking had a positive effect on CSR after addressing endogeneity concerns.

## CONCLUSION

Prior literature highlighted the need for further research in identifying factors that could motivate companies to be socially responsible. Although broader institutional and country specific factors were previously explored (Campbell, 2007), local culture had not received much attention. In this study, we highlight a new local factor—creative culture—and investigate how it might affect corporate decisions in different geographic locations. Similarly, recent literature also suggested that the creative industries are still emerging as an industry and are, therefore, still under development. As such, there is lack of literature addressing various social and economic implications of creative culture (Hou et al., 2017). Studies in the social sciences have defined culture as the sum of values, norms, and mindsets common to a group, a nation, or a geographic location, and have suggested that culture is an important factor that influences decision-making. To contribute to the literature examining the effect of culture on various corporate decisions, this study introduced the role of a new cultural dimension—creative culture—on CSR policies and shed additional light on the relationship between culture and CSR.

We used a novel measure of a local risk-taking tendency—i.e., risk-taking induced by creative culture—and examined the role of local risk-taking characteristics on the CSR records of companies located in areas densely populated by the creative class. Previous studies in the social sciences suggested that creativity was associated with higher degrees of risk-taking and that creative people were risk-takers. By using a fraction of the local creative class employed in occupations that required creative thinking as a measure of local creative culture, we found that firms located in areas with a strong creative culture had higher levels of CSR engagement, which is typically regarded as a discretionary corporate strategy. Given that CSR is considered a long-term strategy with uncertain outcomes (Wang & Bansal, 2012), these findings were consistent with risk-taking behavior induced by creativity and creative culture. Further, our results were robust after controlling for possible alternative explanations and endogeneity concerns. Overall, we introduced the impact of creative culture on CSR by demonstrating how local risk-taking tendency induced by local culture influenced corporate culture and corporate risk-taking behavior.

## ENDNOTES

1. <https://www.ers.usda.gov/data-products/creative-class-county-codes/>
2. <https://www.ers.usda.gov/data-products/creative-class-county-codes/documentation/>
3. <https://www.ers.usda.gov/data-products/creative-class-county-codes/documentation/>

4. As stated in Ucar (2018), “The ERS website (<https://www.ers.usda.gov/amber-waves/2007/april/the-creative-class-a-key-to-rural-growth/#box>) provides the details in the following way: “... Florida’s measure of creative class... included occupations that he judged to entail high levels of creativity. In practice, this turned out to be virtually all occupations where incumbents tend to have high levels of schooling. ERS analysts refined the creative class measure in two ways. First, they used O\*NET, a Bureau of Labor Statistics data set on skills generally used in occupations, to identify occupations in Florida’s list that typically involve “thinking creatively.” This skill element is defined as “developing, designing, or creating new applications, ideas, relationships, systems, or products, including artistic contributions.” Second, the analysts screened out as many occupations as possible that typically require high levels of creativity (such as schoolteachers, judges, and medical doctors) but whose numbers are proportional to the residential population they serve.”
5. <https://www.ers.usda.gov/data-products/creative-class-county-codes/documentation/>
6. As stated in Ucar (2018) “<https://www.ers.usda.gov/data-products/creative-class-county-codes/documentation/>. ERS states that their “measure conforms more closely to the concept of creative class and proves to be more highly associated with regional development than the original Florida measure.”

## REFERENCES

- Adams, J. L. (1986). *The care and feeding of ideas*. Reading, MA: Addison-Wesley.
- Agle, B. R., Mitchell, R. K., & Sonnenfeld, J. A. (1999). Who matters to CEOs? An investigation of stakeholder attributes and salience, corporate performance, and CEO values. *Academy of Management Journal*, 42(5), 507–525.
- Alakent, E., & Ozer, M. (2014). Can companies buy legitimacy? Using corporate political strategies to offset negative corporate social responsibility records. *Journal of Strategy and Management*, 7(4), 318–336.
- Athanasopoulou, A., & Selsky, J. W. (2015). The social context of corporate social responsibility: Enriching research with multiple perspectives and multiple levels. *Business & Society*, 54(3), 322–364.
- Bansal, P., & Roth, K. (2000). Why companies go green: A model of ecological responsiveness. *Academy of Management Journal*, 43(4), 717–736.
- Becker, B., Ivkovic, Z., & Weisbenner, S. (2011). Local dividend clienteles. *Journal of Finance*, 66(2), 655–683.
- Bénabou, R., & Tirole, J. (2010). Individual and corporate social responsibility. *Economica*, 77(305), 1–19.
- Boli, J., & Hartsuiker, D. (2001, May). *World culture and transnational corporations: Sketch of a project*. International Conference on Effects of and Responses to Globalization, Istanbul.
- Cai, Y., Pan, C. H., & Statman, M. (2016). Why do countries matter so much in corporate social performance? *Journal of Corporate Finance*, 41, 591–609.
- Campbell, J. L. (2007). Why would corporations behave in socially responsible ways? An institutional theory of corporate social responsibility. *Academy of Management Review*, 32(3), 946–967.
- Carroll, A. B. (1979). A three-dimensional conceptual model of corporate performance. *Academy of Management Review*, 4(4), 497-505.
- Carroll, A. B. (1991). The pyramid of corporate social responsibility: Toward the moral management of organizational stakeholders. *Business Horizons*, 34(4), 39-48.
- Chen, J. C., Patten, D. M., & Roberts, R. W. (2007). Corporate charitable contributions: A corporate social performance or legitimacy strategy? *Journal of Business Ethics*, 82(1), 131–144.
- Clarke, J., & Gibson-Sweet, M. (1999). The use of corporate social disclosures in the management of reputation and legitimacy: a cross sectoral analysis of UK Top 100 Companies. *Business Ethics: A European Review*, 8(1), 5-13.
- Daymon, C. (2000). Culture formation in a new television station: A multi-perspective analysis. *British Journal of Management*, 11(2), 121–135.

- Demirag, I., & Tylecote, A. (1992). The effects of organizational culture, structure and market expectations on technological innovation: A hypothesis. *British Journal of Management*, 3(1), 7–20.
- Dewett, T. (2004). Employee creativity and the role of risk. *European Journal of Innovation Management*, 7(4), 257–266.
- Dewett, T. (2006). Exploring the role of risk in employee creativity. *The Journal of Creative Behavior*, 40(1), 27–45.
- DiMaggio, P. J., & Powell, W. W. (1983). The iron cage revisited: Institutional isomorphism and collective rationality in organizational fields. *American Sociological Review*, 48, 147-160.
- Doh, J. P., & Guay, T. R. (2006). Corporate social responsibility, public policy, and NGO activism in Europe and the United States: An institutional-stakeholder perspective. *Journal of Management Studies*, 43(1), 47-73.
- El Ghoul, S., Guedhami, O., Kwok, C. C., & Mishra, D. R. (2011). Does corporate social responsibility affect the cost of capital? *Journal of Banking & Finance*, 35(9), 2388-2406.
- Etzioni, A. (2003). Toward a new socio-economic paradigm. *Socio-Economic Review*, 1(1), 105–118.
- Fidler, L. A., & Johnson, J. D. (1984). Communication and innovation implementation. *Academy of Management Review*, 9(4), 704–711.
- Florida, R. (2002a). Bohemia and economic geography. *Journal of Economic Geography*, 2(1), 55–71.
- Florida, R. (2002b). *The rise of the creative class: And how it's transforming work, leisure, community, and everyday life*. New York, NY: Basic Books.
- Florida, R. (2005). *Cities and the creative class*. New York, NY: Routledge.
- Friedman, M. (1970). A Friedman doctrine: The social responsibility of business is to increase its profits. *The New York Times Magazine*, 13, 32-33.
- Galbreath, J. (2010). Drivers of corporate social responsibility: The role of formal strategic planning and firm culture. *British Journal of Management*, 21(2), 511–525.
- Griffin, J. J., & Mahon, J. F. (1997). The corporate social performance and corporate financial performance debate: Twenty-five years of incomparable research. *Business & Society*, 36(1), 5–31.
- Hadida, A. L. (2015). Performance in the creative industries. In C. Jones, M. Lorenzen, & J. Sapsed (Eds.), *The Oxford handbook of creative industries* (pp. 219–225). Oxford, UK: Oxford University Press.
- Hilary, G., & Hui, K. W. (2009). Does religion matter in corporate decision making in America? *Journal of Financial Economics*, 93(3), 455–473.
- Hillman, A. J., & Keim, G. D. (2001). Shareholder value, stakeholder management, and social issues: What's the bottom line? *Strategic Management Journal*, 22(2), 125–139.
- Hofstede, G. (1980). Motivation, leadership, and organization: do American theories apply abroad? *Organizational Dynamics*, 9(1), 42-63.
- Hou, C. E., Lu, W. M., & Hung, S. W. (2017). Does CSR matter? Influence of corporate social responsibility on corporate performance in the creative industry. *Annals of Operations Research*, 1, 255–279.
- Jalan, A., & Kleiner, B. H. (1995). New developments in developing creativity. *Journal of Managerial Psychology*, 10(8), 20–23.
- Jensen, M. C. (2002). Value maximization, stakeholder theory, and the corporate objective function. *Business Ethics Quarterly*, 12, 235-256.
- Jha, A., & Cox, J. (2015). Corporate social responsibility and social capital. *Journal of Banking & Finance*, 60, 252–270.
- Lindgreen, A., Swaen, V., & Maon, F. (2009). Introduction: Corporate social responsibility implementation. *Journal of Business Ethics*, 85, 251–256.
- Mackey, A., Mackey, T. B., & Barney, J. B. (2007). Corporate social responsibility and firm performance: Investor preferences and corporate strategies. *Academy of Management Review*, 32(3), 817-835.

- Maignan, I., & Ferrell, O. C. (2000). Measuring corporate citizenship in two countries: The case of the United States and France. *Journal of Business Ethics*, 23(3), 283-297.
- Maignan, I., & Ralston, D. A. (2002). Corporate social responsibility in Europe and the US: Insights from businesses' self-presentations. *Journal of International Business Studies*, 33(3), 497-514.
- Margolis, J. D., Elfenbein, H. A., & Walsh, J. P. (2007). Does it pay to be good? A meta-analysis and redirection of research on the relationship between corporate social and financial performance. *Ann Arbor*, 1001, 48109-1234.
- Margolis, J. D., & Walsh, J. P. (2003). Misery loves companies: Rethinking social initiatives by business. *Administrative Science Quarterly*, 48(2), 268-305.
- Martin, R. L. (2003). Matrix: Calculating the virtue the return on corporate responsibility. *Harvard Business Review*, 80(3), 83-104.
- McGranahan, D., & Wojan, T. (2007). Recasting the creative class to examine growth processes in rural and urban counties. *Regional Studies*, 41(2), 197-216.
- McWilliams, A., & Siegel, D. (2001). Corporate social responsibility: A theory of the firm perspective. *Academy of Management Review*, 26(1), 117-127.
- Menger, P. M. (1999). Artistic labor markets and careers. *Annual Review of Sociology*, 25, 541-574.
- Moon, J., & Shen, X. (2010). CSR in China research: Salience, focus and nature. *Journal of Business Ethics*, 94(4), 613-629.
- Orlitzky, M. (2011). Institutional logics in the study of organizations: The social construction of the relationship between corporate social and financial performance. *Business Ethics Quarterly*, 21(3), 409-444.
- Peloza, J. (2009). The challenge of measuring financial impacts from investments in corporate social performance. *Journal of Management*, 35(6), 1518-1541.
- Perry, P., & Towers, N. (2009). Determining the antecedents for a strategy of corporate social responsibility by small-and medium-sized enterprises in the UK fashion apparel industry. *Journal of Retailing and Consumer Services*, 16(5), 377-385.
- Porter, M. E., & Kramer, M. R. (2002). The competitive advantage of corporate philanthropy. *Harvard Business Review*, 80(12), 57-68.
- Porter, M. E., & Kramer, M. R. (2006). The link between competitive advantage and corporate social responsibility. *Harvard Business Review*, 84(12), 78-92.
- Pothukuchi, V., Damanpour, F., Choi, J., Chen, C. C., & Park, S. H. (2002). National and organizational culture differences and international joint venture performance. *Journal of International Business Studies*, 33(2), 243-265.
- Potts, J. (2011). *Creative industries and economic evolution*. Cheltenham, UK: Edward Elgar Publishing.
- Prahalad, C. K., & Bettis, R. A. (1986). The dominant logic: A new linkage between diversity and performance. *Strategic Management Journal*, 7(6), 485-501.
- Rehbein, K., Waddock, S., & Graves, S. B. (2004). Understanding shareholder activism: Which corporations are targeted? *Business & Society*, 43(3), 239-267.
- Reich, R. (1998). The new meaning of corporate social responsibility. *California Management Review*, 40(2), 8-17.
- Reverte, C. (2009). Determinants of corporate social responsibility disclosure ratings by Spanish listed firms. *Journal of Business Ethics*, 88(2), 351-366.
- Sathe, V. (1983). Implications of corporate culture: A manager's guide to action. *Organizational Dynamics*, 12(2), 4-23.
- Schein, E. H. (1984). Coming to a new awareness of organizational culture. *Sloan Management Review*, 25(2), 3-16.
- Shalley, C. E., Gilson, L. L., & Blum, T. C. (2000). Matching creativity requirements and the work environment: Effects on satisfaction and intentions to leave. *Academy of Management Journal*, 43(2), 215-223.
- Simons, T. L., & Ingram, P. (1997). Organization and ideology: Kibbutzim and hired labour, 1951-1965. *Administrative Science Quarterly*, 42(4), 784-813.

- Skinner, C., & Mersham, G. (2008). Corporate social responsibility in South Africa: Emerging trends. *Society and Business Review*, 3(3), 239–255.
- Swanson, D. L. (1995). Addressing a theoretical problem by reorienting the corporate social performance model. *Academy of Management Review*, 20(1), 43–64.
- Tesluk, P. E., Farr, J. L., & Klein, S. R. (1997). Influences of organizational culture and climate on individual creativity. *The Journal of Creative Behavior*, 31(1), 27–41.
- Throsby, D. (2010). *The economics of culture policy*. Cambridge, UK: Cambridge University Press.
- Tian, Z., Wang, R., & Yang, W. (2011). Consumer responses to corporate social responsibility (CSR) in China. *Journal of Business Ethics*, 101(2), 197–212.
- Trice H. M., & Beyer, J. M. (1993). *The cultures of work organizations*. Englewood Cliffs, NJ: Prentice Hall.
- Ucar, E. (2016). Local culture and dividends. *Financial Management*, 45(1), 105–140.
- Ucar, E. (2018). Local creative culture and corporate innovation. *Journal of Business Research*, 91, 60–70.
- Vakili, K., & Zhang, L. (2018). High on creativity: The impact of social liberalization policies on innovation. *Strategic Management Journal*, 39(7), 1860–1886.
- Waddock, S. A., & Graves, S. B. (1997). The corporate social performance-financial performance link. *Strategic Management Journal*, 18(4), 303–319.
- Wang, T., & Bansal, P. (2012). Social responsibility in new ventures: profiting from a long-term orientation. *Strategic Management Journal*, 33(10), 1135–1153.
- Wood, D. J. (1991). Corporate social performance revisited. *Academy of Management Review*, 16(4), 691–718.
- Zhao, M. (2012). CSR-based political legitimacy strategy: Managing the state by doing good in China and Russia. *Journal of Business Ethics*, 111(4), 439–460.
- Zhou, J., & George, J. M. (2001). When job dissatisfaction leads to creativity: Encouraging the expression of voice. *Academy of Management Journal*, 44(4), 682–696.

## APPENDIX A

### DEFINITIONS OF VARIABLES

The following variables were defined following Hilary and Hui (2009), Becker et al. (2011), Jha and Cox (2015), Ucar (2016), and Ucar (2018):

*The CSR index* was measured by using the Kinder, Lydenberg, and Domini (KLD) score. The CSR index was the total corporate social responsibility score in one year. It was calculated as the sum of the individual CSR scores (i.e., dummy variable that equals 1 or 0) of the following CSR components: Human Rights, Community, Diversity, Employee Relations, Environment, and Product. For each individual component, the individual component score was calculated by subtracting the number of concerns from the number of strengths.

*Leverage* was calculated by using COMPUSTAT variables. The sum of DLTT and DLC was divided by the sum of DLTT, DLC, and CEQ.

*Cash* was calculated using COMPUSTAT variables. It was calculated as CHE divided by AT.

*M/B* was the market-to-book ratio taken from COMPUSTAT.

*EBITDA* was EBITDA divided by AT using COMPUSTAT variables.

*Dividend Dummy* was a binary variable that took a value of one if the total amount of dividends was greater than zero for a given year, and a value of zero if otherwise.

*Logarithm of Assets* was measured as the logarithm of total assets taken from COMPUSTAT.

*CreativeShare* measured the fraction of the creative class within a given county. It was taken from the USDA ERS dataset.

*CP Ratio* was the ratio of Catholics to Protestants in the county. Local religion information was taken from the ARDA dataset.

The following local socioeconomic control variables were taken from US Censuses and the US Census website:

*Logarithm of Population* was the logarithm of the population in a county.

*Republican Voter Percentage* was the percentage of Republican voters in a county.

*Local Education* was the fraction of individuals 25 years and over having a bachelor's, graduate, professional, or some other college degree.

*Local Income* was the median household income for a county. Interpolations of both the Census and ARDA datasets were used to construct local variables for years without available data. Similar interpolations were used for *CreativeShare*.

*KZ Index* (Kaplan-Zingales Index) measured a company's reliance on external financing. It was calculated as  $-1.002 \times \text{cash flow} + 0.283 \times Q + 3.139 \times \text{leverage} - 39.368 \times \text{dividends} - 1.315 \times \text{cash holdings}$ . The variables for construction were taken from COMPUSTAT where cash flow was  $(\text{IB} + \text{DP}) / \text{lag}(\text{PPENT})$ ,  $Q$  was  $(\text{AT} - \text{CEQ} - \text{TXDB} + (\text{PRCC\_F} \times \text{CSHO})) / \text{AT}$ , leverage was  $(\text{DLC} + \text{DLTT}) / (\text{DLC} + \text{DLTT} + \text{SEQ})$ , dividend was  $(\text{DVC} + \text{DVP}) / \text{lag}(\text{PPENT})$ , and cash holdings value was  $\text{CHE} / \text{lag}(\text{PPENT})$ .

*Institutional Ownership* was the fraction of average annual institutional ownership based on Thomson-Reuters 13F filings.