CEO Hometown Favoritism in Corporate Environmental Policies

Discussion by

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Main findings

- **Paper examines**
  - » Whether CEOs reducing pollution at plants near their hometowns

- **Main findings**
  1. Pollution is 20% lower for plants near CEOs' hometowns
  2. Reduction is facilitated by waste management and energy recovery
  3. Effects are strong around CEO turnovers
     - When CEOs leave hometown plants pollute more
     - When CEOs arrive hometown plants pollute less
  4. Stronger effects for weakly governed firms and weaker effects following the 2003 dividend tax reform

Research Question

- Do CEOs reduce pollution at plants near their hometown?

- To answer the research question we need
  1. Plausibly exogenous variation in location of plants and CEOs
  2. Variation in plant level pollution across time

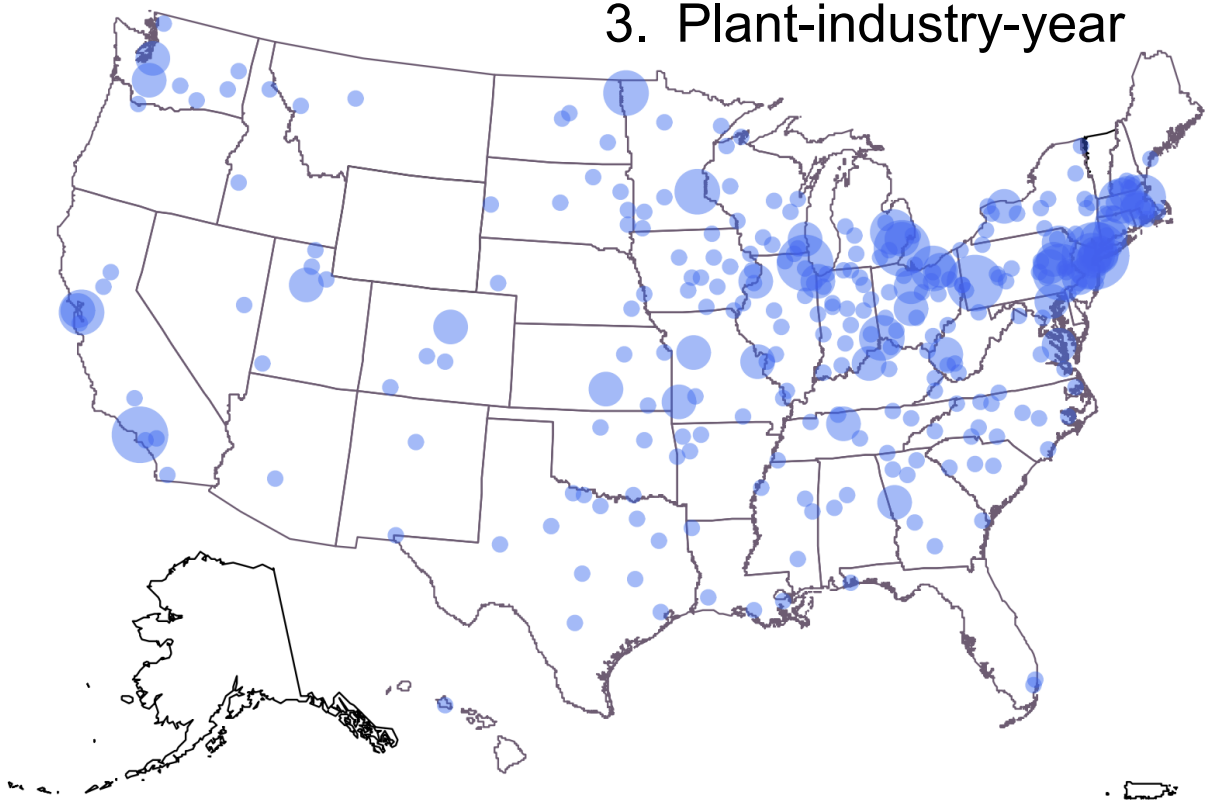
- Main concerns with the current research design
  1. High-dimensional fixed effects
  2. Log(1+y) transformation of dependent variable
  3. Location of firms & CEOs
  4. Interpretation of results

Research Design

Figure **3**: CEO's hometown counties

This figure shows the geographical distribution of the hometown counties where CEOs in our sample are born. The sample includes 680 unique CEOs from 300 counties. The size of the circle corresponds to the number of CEOs in a given county.

- Fixed effects
  1. Parent-year
  2. Plant-state-year
  3. Plant-industry-year



Suggestions

- Add details about the identification strategy
  - Number of plants in the CEO's home state
  - Variation in distance to plants in the CEO's home state
  - Possible to control for plant fixed effects
  - Entry and exit of plants?

- Dependent variable: Total release
  - Use of log(1+y) is problematic
  - How many plants have zero total release and zero harmful release?

Suggestions

- "*Don't bide the hand that feeds you*"
  … or less poetic: "*Don't s**t in your own backyard*"

- Helpful to distinguish between
  - HQ state vs. CEO home state
  - HQ town vs. CEO hometown

- At the moment state effects are absorbed by the inclusion of state-year fixed effects

- Main specification controls for HQ state and find a positive effect. Plants that are located in the HQ have *higher* pollution
  - HQ state effect disappears once controls for number of employees and chemical counts are added to the regression

- Again it would be helpful to understand how often firms and CEOs are from the same location

Interpretation & policy

- Empirical tests document a clear CEO hometown effect on pollution
  - Through waste reduction and recycling
  - Consistent results around CEO turnovers
- Interpretation is less clear
  - Additional tests show that reductions are stronger for poorly governed firms and weaker after the 2003 dividend tax cut
  - Low pollution is good for society, but might be costly for shareholders
    - No direct test of agency problems
  - Regressions control for the level of pollution at the firm level, and time trends
    - Difficult to make conclusion about whether the results are driven by agency problems
- Policy implications ?

Conclusion

- Study finds a CEO hometown effect on corporate pollution
  - Pollution increases after departure of hometown CEOs, and declines after appointments of hometown CEOs

- Easy fixes – add plots of data and provide descriptive statistics to help the reader understand the identification strategy and the results

- More challenging to interpretate the results and given guidance for public policies

- **Looking forward to reading the next draft !**