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Ethnic Diversity and Corporate Interstate Investments

Ying Mao
Lingnan University Faculty of Business
yingmao@ln.edu.hk (corresponding author)

Zheng Wang
City University of Hong Kong College of Business
zwang22@cityu.edu.hk

Hong Zou
University of Hong Kong Faculty of Business and Economics
hongzou@hku.hk

Abstract

We document that firms prefer counties with higher ethnic diversity in locating their interstate investments, especially for those pursuing innovation, seeking to establish service centers, or managing a diverse workforce. We also find some evidence that interstate investment in high ethnic diversity locations results in increased patent applications, sales growth, positive media coverage, and overall operating performance. Taken together, we show that firms prefer to invest in ethnically diverse locations as they recognize the potential benefits of leveraging a diverse labor supply, such as enhancing problem-solving, innovation, and performance.

> We must recognize that difference is a reason for celebration and growth, rather than a reason for destruction. (Audre Lorde)

I. Introduction

U.S. firms often directly establish operations outside their headquarters states in the United States (hereafter referred to as "interstate investments").[1] The location choice for these direct investments plays a crucial role in determining the success of an investing firm. Previous studies have highlighted the quality of local workforce

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[1]According to the fDi Markets database, about 36% of S&P 1500 firms made at least one interstate investment (i.e., interstate greenfield investment in the database) between 2011 and 2021. We focus on interstate greenfield investments because for such investments, firms have greater flexibility in choosing their locations compared with mergers and acquisitions (M&As), which are constrained by the availability of potential acquisition targets (Coughlin and Segev (2000), Alcácer and Chung (2007)).

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as an important factor in firms' location choice among a variety of other local neoclassical and formal institutional factors (Coughlin, Terza, and Arromdee (1991), Friedman, Gerlowski, and Silberman (1992), Coughlin and Segev (2000), Alcácer and Delgado (2016), and Giroud and Rauh (2019)). In this study, we aim to provide large-sample evidence on whether and how firms consider the ethnic diversity of the local workforce in choosing where to locate their interstate investments.[2]

We predict that the presence of high ethnic diversity in a location positively influences companies' decisions to choose it as an interstate investment destination. Companies can benefit from high ethnic diversity in investment locations both directly—by accessing a diverse workforce to improve problem-solving and productivity—and indirectly—by enhancing their reputation for inclusivity. These advantages motivate firms to make interstate investments in highly diverse areas.[3] However, an ethnically diverse workforce may also entail various costs, potentially reducing a firm's preference for investing in high ethnic diversity locations. These costs revolve around potential preference and communication conflicts, as well as discrimination among people with different ethnic backgrounds, all of which can lower productivity and economic performance.[4]

We use a novel database from fDi Markets, containing project-level data on interstate investments in the United States, to examine the effect of county-level ethnic diversity on firms' destination choice for interstate investments. Following prior studies (e.g., Alesina and La Ferrara (2000), (2002), Costa and Kahn (2003)), we measure county-level ethnic diversity as 1 minus the Herfindahl index calculated across four basic Census tract ethnic categories: Hispanic, non-Hispanic Black, non-Hispanic white, and Asian in each county.

We first conduct analyses at the firm-project-county level to examine how a firm considers a county's ethnic diversity when choosing the locations of its interstate investment projects. For each interstate investment project, we generate three pools of alternative candidate counties: all non-chosen counties in the same state as the chosen county, 19 geographically closest counties to the chosen county, and all counties that ever-received interstate investments in the past 3 years. Our findings show that firms are more likely to choose a county with higher ethnic diversity for their interstate investment projects after controlling for a large set of county characteristics, project fixed effects, county fixed effects, and state-by-year

[2]We do not examine intrastate investments for two reasons. First, there is less variation in the social environment within the same state than across states. Therefore, we can better identify the effect of ethnic diversity on firms' investment decisions by focusing on interstate greenfield investments. Second, intrastate investments are not included in the fDi Markets database nor any other database to the best of our knowledge.

[3]Prior studies show that firm performance can be enhanced by having broader resources and diverse perspectives from ethnically diverse members within a workforce or management team (e.g., Herring (2009), Carter, D'Sourza, Simkins, and Simpson (2010), Bernile, Bhagwat, and Yonker (2018), and Giannetti and Zhao (2019)). There is also consistent evidence that in various context, group performance benefits from the ethnic diversity of team members (McLeod and Lobel (1992), Watson, Kumar, and Michaelsen (1993)). Moreover, diversity reputation matters in driving performance outcomes (e.g., Miller and del Carmen Triana (2009)).

[4]See, e.g., Williams and O'Reilly III (1998), Lazear (1999), Alesina and La Ferrara (2000), (2002), Cox (2001), Putnam (2007), and Herring (2009).

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fixed effects.[5] In addition, we show that the location choices of the interstate investments, on average, allow firms to potentially access a more ethnically diverse workforce.

Despite controlling for an extensive set of determinants of location choice and various fixed effects, our results are still subject to the endogeneity concern. We follow Card (2001) and Ottaviano and Peri (2006) to construct an instrument variable (IV) of local ethnic diversity based on the county's past ethnicity distribution that is distant from the beginning of our sample period and each ethnic group's national-level growth rate within the period to isolate the exogenous variation in diversity that is not subject to local-level shocks (see Section IV for detail). The coefficient estimates from the IV analysis show a robust and economically sizable effect for ethnic diversity across all three samples. For example, using the candidate pool comprising all counties in the same state as the destination county, a 1-standard-deviation increase in the instrumented ethnic diversity variable corresponds to a 0.23% increase in the probability of being chosen, about a 20% increase over the average probability for a county to be chosen as the destination of an interstate project.

The firm-project-county-level baseline analysis indicates that companies perceive it as advantageous to invest in counties with greater levels of ethnic diversity when expanding their investments beyond their home states. We hypothesize two potential mechanisms underlying the net benefits of investing in high-diversity locations: i) leveraging a diverse workforce to enhance problem-solving, productivity, and performance and ii) improving diversity reputation or image. We perform several cross-sectional analyses to comprehend the specific channels that contribute to the two mechanisms.

The first channel is firms' pursuit of innovation. A diverse working environment can foster innovation and technological advancements by offering varied perspectives for problem-solving. Consequently, firms active in innovation activities can reap greater benefits from a diverse local workforce. Our results are consistent with this prediction, demonstrating a stronger link between county-level ethnic diversity and firms' decision to select a county for investment for those operating in high-tech industries or having higher R&D intensity. In addition, we find that firms exhibit a higher likelihood of choosing ethnically diverse locations to set up R&D centers.

The second channel that supports the benefit of having an ethnically diverse workforce is our finding that firms exhibit a higher likelihood of choosing ethnically diverse locations to set up service centers. Like innovation activities, firms' sales activities can also benefit from diverse languages, skills, knowledge, and

[5]The county characteristics we control for include local economic conditions (GDP growth, average household income, Gini index, subsidies, and unemployment), local labor market conditions (workforce population growth, age diversity, local education level, and average wages), local political leaning, and the possible compatibility between an investing firm and the local county (geographic proximity, political congruence, agglomeration benefits, and the presence of clients or vendors). Project fixed effects help perfectly control for the characteristics of each unique investment project and those of the investing firm. County fixed effects and state-by-year fixed effects capture county-level time-invariant characteristics and any state-year-specific omitted variables, respectively.

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experience in dealing with customers from different ethnic backgrounds, and in developing creative solutions for better serving customers.[6]

The third specific channel we examine is firms' experience and ability to manage a diverse workforce and avoid conflicts among different ethnic groups (i.e., firms' ability to address the potential cost associated with ethnic diversity to enjoy the benefits of enhanced productivity and performance).[7] We capture a firm's experience and capability of managing a diverse workforce using i) its workforce diversity rating before the interstate investment, ii) the ethnic diversity of its headquarters location, iii) whether it is led by a pro-Democratic CEO, and iv) with at least the first syllable of "whether" it is headquartered in a county leaning toward the Democratic ideology.[8] We find that the positive link between a candidate county's ethnic diversity and a firm's decision to choose that county as its investment location is more pronounced when the investing firm is more capable of managing a diverse workforce based on the four proxies, suggesting that such firms perceive a higher net benefit of investing in locations with high ethnic diversity. The stronger result for firms with higher pre-existing workforce diversity suggests that improving diversity reputation may not be the primary mechanism underpinning our baseline finding. This is because the diversity reputation mechanism predicts that firms with lower pre-existing workforce diversity are more likely to choose locations with higher ethnic diversity due to the larger marginal benefit from improved diversity reputation for such firms.

We provide further evidence that investing firms perceive higher benefits of investing in ethnically diverse locations by analyzing their conference call discussions following their interstate investments. We define high ethnic diversity counties as those with the pre-investment ethnic diversity level in the top quartile of the sample distribution. We show that firms investing in those counties discuss more about the investment and workforce diversity in conference calls than those that invest in other counties after the investment.

To shed further light on the underlying mechanisms and specific channels, we examine the economic consequences of investing in locations with high ethnic diversity. We first show that the announcements of investing in a high ethnic

[6]When Affirm Holdings chose Chicago to set up its fourth office, a business service center classified by fDi markets, it said it was "building a team as diverse as the consumers it serves. Chicago's workforce allows Affirm to maintain its commitment to diversity…" (see Supplementary Material Table OA1). A recent *Wall Street Journal* article reports that in the proxy statement for a shareholder proposal, Costco defends its stance on diversity, equity, and inclusion (DEI), stating that customer feedback showed its diverse shoppers' satisfaction over the diversity reflected in Costco's workforce (see "Costco shareholders reject an anti-DEI measure, after Walmart and others end diversity programs," *CBS News*, Jan. 24, 2025, https://www.cbsnews.com/news/costco-dei-policy-board-statement-shareholder-meeting-vote/).

[7]Effectively managing a diverse workforce and handling the tension and conflicts between different ethnic groups requires experience and an inclusive corporate culture. Indeed, Ely and Thomas (2020) argue that for workforce diversity to generate economic gains, firms need to change their culture and take actions to create trust, dismantle systems of discrimination and subordination, and embrace a wide range of styles and voices.

[8]Democratic political leaning is associated with a stronger ability of managing a diverse workforce because Democrats are generally more liberal and inclusive than Republicans on ethnic/racial diversity and immigrants (Di Giuli and Kostovetsky (2014), Hajnal and Rivera (2014)).

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diversity location, on average, generate 0.4% higher three-day CARs compared with those of investing in other counties, suggesting that investors perceive the choice of high-diversity locations as more beneficial. We further employ a stacked difference-in-differences (DiD) design (Sun and Abraham (2021), Duchin, Gao, and Xu (2025)) and show that firms investing in high ethnic diversity counties experience an increase in the number of patent applications, annual sales growth, and overall operating performance, and receive more favorable media coverage, following their investments. However, we do not observe a significant increase in workforce diversity ratings for these firms.[9]

We further show that investing in high-diversity counties has a more pronounced effect on patent applications for firms active in R&D activities and those investing to establish R&D centers. However, we do not find that establishing service centers in high-diversity counties leads to a significantly higher sales growth in the near term. We find a significant increase in diversity ratings after firms with low pre-existing diversity ratings invest in high-diversity locations. This result suggests that although firms with low-diversity ratings may lack the capability to manage a diverse workforce as discussed earlier, their investment in high-diversity locations can allow them to enjoy improved diversity ratings. Collectively, the DiD results highlight the benefits of investing in high-diversity locations, as manifested by enhanced innovation and improved performance.

II. Links to Literature

Our study is mainly related to three streams of literature. First, our study is primarily motivated by the unsettled literature examining the economic implications of ethnic diversity, which documents evidence on both the benefits and costs of having an ethnically diverse workforce.

Regarding the benefits, prior studies argue that individuals from different ethnic backgrounds bring diverse skills, experience, culture, and perspectives to the table (e.g., Hoffman (1959), Lazear (1999)). Such variety can promote creative ideas, provide a wealth of resources for problem-solving, and contribute to a synergistic effect in production and services, ultimately enhancing innovation and productivity (e.g., Lazear (1999), Cox Jr. (1991), (2001), and Herring (2009)). Hong and Page (2004) develop a theoretical framework to show that groups of diverse problem solvers can outperform groups of high-ability problem solvers. Using field data/experiments, early management studies show that ethnically diverse work teams make better decisions than homogeneous teams (McLeod and Lobel (1992), Watson et al. (1993)).

Several studies have provided evidence on the benefits of leveraging a diverse workforce to enhance problem-solving and decision-making by linking workforce diversity to firm performance. Based on survey data, Herring (2009) finds that

[9]A potential reason is that, in our sample, companies that invest in highly diverse locations already have higher diversity ratings compared with control firms prior to the investments. Thus, they have less room to further improve their diversity ratings after making the investments. In addition, rating agencies may not update diversity ratings in a timely manner, or the ratings may fail to capture small improvements in workforce diversity.

workforce racial diversity is associated with better operating performance. More recent studies find that firms with greater board and management diversity exhibit better performance and more innovations (e.g., Carter et al. (2010), Bernile et al. (2018), and Giannetti and Zhao (2019)). Research in the public sector also shows that ethnic diversity of government bureaucracies is associated with optimal selection and efficient implementation of policies aimed at achieving specific objectives (Rasul and Rogger (2015)).[10]

Workforce diversity may also offer indirect benefits. By embracing ethnic diversity, firms have opportunities to build a reputation or image of promoting fairness and representation by investing in high ethnic diversity locations (Brennan (2023)). By aligning themselves with societal expectations on diversity and inclusivity in corporate operations, firms can avoid potential backlash and gain recognition. As a result, they may be rewarded with positive media coverage, more business opportunities, or more resources from stakeholders.

At the same time, prior studies show that an ethnically diverse workforce may also entail various costs. These costs stem from preference mismatch, communication barriers, and intergroup discrimination, which can undermine productivity and economic performance (Williams and O'Reilly III (1998), Lazear (1999), Alesina and La Ferrara (2000), (2002), Cox Jr. (2001), Putnam (2007), and Herring (2009)). Hjort (2014), for example, finds that ethnic discrimination in team production of a plant in Kenya lowers job allocation efficiency and productivity, forcing firms to adopt suboptimal policies to mitigate discrimination distortions. In addition, diversity-induced cost might be more prominent in the public sector, as ethnic heterogeneity can decrease the efficiency of public policies and the provisions of productive public goods due to differing preferences among individuals from different ethnicities (Glaeser, Scheinkman, and Shleifer (1995), Easterly and Levine (1997), Alesina, Devleeschauwer, Easterly, Kurlat, and Wacziarg (2003), and Alesina and La Ferrara (2005)).

Our study contributes to this literature on the economic effect of having an ethnically diverse workforce by showing that within the United States, firms are more likely to choose regions with higher ethnic diversity as their interstate investment locations, suggesting that firms perceive ethnic diversity as offering net benefits in the context of interstate investment decisions that typically have a long-term nature. This result is consistent with the argument of Putnam (2007) that in the long run, ethnic diversity is likely to have important cultural, economic, and developmental benefits, but in the short run, it may reduce social connectedness and social capital. In addition, we provide evidence on the mechanisms for firms to benefit from investing in high ethnic diversity locations. Our evidence that firms prefer locations with high ethnic diversity for the benefits of leveraging a diverse workforce in problem-solving also

[10]Consistent with this view, a 2015 survey of Harvard Business School alumni indicates that 76% of those in senior executive positions believe that "a more diverse workforce improves the organization's financial performance" (Ely and Thomas (2020)). Another example is that when Amazon was selecting the location of its second headquarters, it highlighted a diverse population as a key selection criterion, stating, "The Project requires a compatible cultural and community environment for its long-term success. This includes the presence and support of a diverse population…."

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contributes to the current political debate over diversity, equity, and inclusion in the United States.[11]

Second, we contribute to the literature that aims at understanding firms' location choices for their investments. This research has important implications for entrepreneurs and policymakers because the choice of investment locations often crucially affects the financial outcome of business ventures and shapes the outlook of regional economies (Strotmann (2007)). A large literature has focused on the effects of local economic, political, and cultural factors on the location choices of cross-country foreign direct investments (FDIs) (e.g., Coughlin et al. (1991), Friedman et al. (1992), Loree and Guisinger (1995), Flores and Aguilera (2007), and Ang, Cheng, and Wu (2015)). Only several studies have examined the location choices of U.S. firms for their domestic investments, which also mainly focus on local neoclassical and formal institutional factors, such as state taxes, government subsidies, and proximity to existing operations (Alcácer and Delgado (2016), Giroud and Rauh (2019), and Gabe and Bell (2004)). We add to the literature on U.S. firms' interstate investment location choice by highlighting the importance of ethnic diversity as a factor influencing firms' interstate investment decisions.

Finally, our study is related to, but differs from, the growing literature on local culture and corporate decisions. Prior studies show that *countries* with higher levels of trust are more likely to receive FDIs (Flores and Aguilera (2007)) and multinational firms are more likely to enter culturally proximate countries when choosing foreign locations for new investments (Loree and Guisinger (1995), Flores and Aguilera (2007)). Other studies document that cultural factors, including social capital, corruption, and religion in the local environment, affect local firms' decisions such as risk-taking (Hilary and Hui (2009)), financial reporting, executive compensations (Hoi, Wu, and Zhang (2019)), cash holding, and leverage decisions (Smith (2016)). Our study differs from these studies in that ethnic diversity is a different construct that represents the *diversity* of culture, skills, knowledge, and others.

III. Data, Sample Selection, and Research Design

A. Measuring Ethnic Diversity and Other County-Level Macro Factors

Following Putnam (2007) and Hasan, Hoi, Wu, and Zhang (2017), we adopt the four basic categories of race and ethnicity identified by the U.S. Census: Hispanic, non-Hispanic Black, non-Hispanic white, and Asian. We measure local ethnic diversity as 1 minus the Herfindahl index calculated using the percentage of populations across the four ethnic groups in a county (e.g., Alesina and La Ferrara (2000), (2002), Costa and Kahn (2003), and Ottaviano and Peri (2006)). Specifically, our diversity measure is constructed as follows:

$$EthnicDiversity_{c,t} = 1 - \sum_{i=1}^{4} \left(Ethnicity_{i,c,t}\right)^2, \tag{1}$$

[11]See, e.g., Ellis, Nicquel Terry, "What is DEI, and why is it dividing America?" *CNN News*, Jan. 23, 2025, https://edition.cnn.com/2025/01/22/us/dei-diversity-equity-inclusion-explained/index.html.

where $Ethnicity_{i,c,t}$ represents the population percentage of ethnic group i in the total population of the four ethnic groups in county c in year t. This measure is larger when the population is less concentrated in specific ethnic groups and thus can capture ethnic diversity.

We control for a large set of county characteristics, including the economic conditions in a specific location proxied by GDP growth (*GDP Growth*), average household income (*Income*), the Gini index of income inequality (*Gini Index*), whether the local government provides subsidy to local firms (*Subsidy*), and unemployment rate (*Unemployment*) (Alesina and La Ferrara (2000), Putnam (2007)). Since labor force characteristics also affect firms' location choices (Coughlin and Segev (2000)), we use education attainment (*Education*), workforce population growth (*Workforce Growth*), age diversity (*Age Diversity*), and local average employment wage (*Wages*) to proxy for local labor market conditions. It is plausible that investing firms may be drawn to a location's specific political climate rather than its ethnic diversity. For example, a local Democratic-leaning political environment may be more conducive to ethnic diversity, whereas a Republican-leaning political environment tends to be more pro-business (Bartels (2008)). Therefore, we further control for the Democratic political leaning within a county (*Democratic County*).

We also control for several firm-county pair characteristics that capture the alignment between an investing firm and a potential candidate county for each investment project. First, prior studies show that agglomeration economies play an important role in affecting firm location decisions and firms tend to locate their operations close to peer firms or upstream/downstream firms to gain access to specialized labors and facilitate transactions (Glaeser and Kerr (2009), Delgado, Porter, and Stern (2014), Ang et al. (2015), and Alcácer and Delgado (2016)). We thus control for agglomeration economies in a candidate county using the ratio of the number of establishments from the investing firm's industry (defined using 2-digit NAICS codes) located in the candidate county to the total number of establishments operating in the same industry across the United States, multiplied by 100 (*Industry Concentration*). We also control for the existence of a focal firm's customers or suppliers headquartered in a candidate county (*Supplier-Customer*). Second, because firms may prefer locations near their existing operations to facilitate monitoring and information exchange (Henderson and Ono (2008), Giroud (2013)), we control for the geographic distance (*Distance*) between a firm's headquarters and a candidate county. Third, inspired by Duchin, Farroukh, Harford, and Patel (2021), we further control for the alignment of political leaning between a candidate county and the CEO of the investing firm (*Political Alignment*).[12] See the Appendix for detailed variable definitions.

B. Research Design

Following prior studies (e.g., Head, Ries, and Swenson (1995), Alcácer and Chung (2007), and Ang et al. (2015)), we estimate the following location choice model at the firm-project-county level to investigate the effect of local ethnic diversity on firms' location choices for interstate investments:

[12]Duchin et al. (2021) show that political polarization has led to a decrease in the occurrence, completion rate, and performance of M&As between politically divergent firms.

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$$Choose_{i,p,j,t} = \alpha + \beta_1 Ethnic\ Diversity_{j,t-1} + County\text{-}Level\ Characteristics_{j,t-1} + County\text{-}Firm\ Pair\ Characteristics_{i,j,t-1} + Project\ FE + County\ FE + state\text{-}by\text{-}year\ FE + \varepsilon_{i,p,j,t}, \quad (2)$$

where $Choose_{i,p,j,t}$ equals 1 if firm i chooses county j for its investment project p in year t, and 0 otherwise. Our test variable, $Ethnic\ Diversity_{j,t-1}$, and control variables are as defined in Section III.A. We include candidate county fixed effects to capture time-invariant county characteristics and candidate state-by-year fixed effects to control for any state-level year-specific attributes that may influence firms' location choices, such as unobserved state-year-specific economic shocks (e.g., infrastructure improvement, tax policies, labor market conditions, and other unobserved economic shocks). Since we have multiple counties as potential candidates for the location of each investment project, we can include project fixed effects to control for project characteristics and thus do not need to further control for firm-level characteristics or firm-by-year fixed effects in equation (2), as all firm-year-level variables would be perfectly subsumed by project fixed effects. Equation (2) is estimated using OLS regression.[13] The standard errors are clustered by projects.

C. Data and Sample

We obtain interstate greenfield investment data from Financial Times fDi Markets database, a comprehensive database covering both FDI around the world and interstate greenfield investments in the U.S. The fDi Markets database provides detailed information on each project, including the identity of the investing firm, the source and destination counties, and descriptions of the business activities. The data in fDi Markets are collected in real time from multiple sources, including media, press releases, industry organizations, investment agencies, and company websites. The information of each project recorded by fDi Markets goes through a rigorous quality control process and is cross-referenced against multiple sources (Burger, van der Knaap, and Wall (2013), Albino-Pimentel, Dussauge, and Shaver (2018)). The comprehensive coverage and reliability of fDi Markets make it a leading source of greenfield investment data used by large organizations, including the United Nations Conference on Trade and Development, the Economist Intelligence Unit, and the World Bank (Burger et al. (2013), Albino-Pimentel et al. (2018)).[14]

We first obtain 35,597 interstate greenfield investment projects from fDi Markets between 2011 and 2021. We start from 2011 due to the availability of data

[13]We use OLS models instead of conditional logit models to avoid the incidental coefficient estimate problem that arises when including a large number of fixed effects in nonlinear models such as the conditional logit model (Wooldridge (2010)). As discussed in Section IV.C, our results continue to hold if we estimate conditional logit models with only project fixed effects.

[14]One caveat about the fDi Markets data is that only about 19% of the investing companies disclose the information on investment amount, whereas about 38% reveal job creation, likely due to strategic considerations.

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on county-level control variables, which are collected from the Census Bureau's five-year American Community Survey. The sample period ends in 2021 because some of the key data items for measuring control variables, such as industry concentration and political alignment between the CEO and the candidate county, are not publicly available after 2020. From this initial sample, we first remove projects without county-level location information in fDi Markets, reducing to 35,485 projects. We then match this investment sample with Compustat data using firm names.[15] After dropping unmatched projects, our interstate investment sample comprises 8,539 investment projects by 1,411 firms.

We employ three pools of candidate counties that a firm may choose from to locate an interstate investment project (Kuhnen (2009), Bena and Li (2014)). First, for each project, we use all non-chosen counties in the same state where the chosen county is located as alternative candidates (the *Same State Sample*). This matching method effectively controls for any potential influence of state-level characteristics, such as state tax rates, minimum wages, investment tax credit, and job creation tax credit. Second, we choose 19 geographically closest counties to the destination county as alternative locations, resulting in a total of 20 location candidates, including the chosen location for each investment project (the *Neighboring County Sample*). Because neighboring counties are considered to share similar economic and business conditions, this control sample helps isolate the effects of regional characteristics on location choices. The third approach selects all other counties that have ever received an interstate investment project during the past three years as alternative candidate counties (*All County Sample*). This sample construction method considers the possibility that firms may have a wide range of candidate locations when making interstate investments.[16] For each project, there is one observation for the chosen destination county of the project and one observation for each of the alternative candidate counties.

The data on county characteristics come from various sources. We obtain data on ethnic distribution from the Census Annual County Resident Population Estimates, other population and workforce-related characteristics from the Census Bureau 5-year American Community Survey, local industry concentration from the Census Bureau's County Business Patterns dataset, local economic condition from the Bureau of Economic Analysis, local employment rate from the Bureau of

[15]The matching proceeds as follows: First, we match using exact names after standardizing firm names in both data sets by removing common suffixes, such as "Inc," "Incorporated," "Corporation," and "Company," as well as punctuation and spaces, and ignoring case sensitivity. Second, for the remaining unmatched firms, we calculate the "generalized edit distance score" between each pair of firm names, and manually verify all cases with scores lower than 300 to ensure the accuracy of our matching.

[16]While all counties outside the investing firm's home states could be considered as a potential candidate for the investment location, such a large candidate pool would include counties that are unlikely to be chosen as investment destinations, which may lead to small estimated standard errors and overstate the effect of ethnic diversity on firms' location decisions (Kuhnen (2009)). Therefore, we restrict the candidate counties to those that have ever received an interstate investment project in the past 3 years. This method results in, on average, 633 counties in 49 states that an interstate project can choose from as the destination county.

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Labor Statistics, county-level voting data from the MIT Election Data and Science Lab, and subsidy granted by local government from the Subsidy Tracker database. To construct measures related to county-firm pair characteristics, we obtain data on managers' political contribution from the Federal Election Commission for measuring CEOs' political leaning, customer and supplier data from the FactSet database, and headquarters locations from 10-K filings. After requiring non-missing data to estimate equation (2), we obtain 625,293, 141,210, and 4,461,011 firm-project-county-level observations in the *Same State Sample*, the *Neighboring County Sample*, and the *All County Sample*, respectively.

IV. Empirical Results

A. Summary Statistics

Panel A of Table 1 reports the total number of interstate investment projects in each year in the initial sample from fDi Markets after matching with the Compustat firms between 2011 and 2021. Panel B presents the industry distribution (based on the fDi Markets' industry classification system) of the projects. We provide specific examples of these interstate investment projects in Supplementary Material Table OA1. We observe an evenly distributed number of projects across years, and that the largest number of projects are in financial service industries (19.57%), followed

TABLE 1

Sample Distribution of Interstate Investment Projects

Table 1 presents the distribution of interstate investment projects by years (Panel A) and by project industries (Panel B). The sample consists of 8,539 interstate investment projects extracted from the fDi Markets database between 2011 and 2021.

Panel A. Yearly Distribution of Interstate Investment Projects

Year	No. of Projects	Percent (%)
2011	919	10.76
2012	679	7.95
2013	808	9.46
2014	749	8.77
2015	690	8.08
2016	760	8.90
2017	676	7.92
2018	657	7.69
2019	737	8.63
2020	894	10.47
2021	970	11.37
Total	8,539	100.00

Panel B. Industry Distribution of Interstate Investment Projects

Industry Sector	No. of Projects	Percent (%)
Financial services	1,671	19.57
Consumer products	936	10.96
Transportation and warehousing	616	7.21
Software and IT services	571	6.69
Communications	457	5.35
Business services	433	5.07
Real estate	422	4.94
Food and beverages	368	4.31
Health care	324	3.79
Industrial equipment	309	3.62
Others	2,432	28.49
Total	8,539	100.00

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TABLE 2

Summary Statistics

Table 2 presents the descriptive statistics of the variables used in estimating equation (2) for the Same State Sample in Panel A, the Neighboring County Sample in Panel B, and the All County Sample in Panel C. The sample period is from 2011 to 2021. See the Appendix for variable definitions

	No. of Obs.	Mean	*P*25	Median	*P*75	Std. Dev.
Panel A. The Same State Sample						
Choose	625,293	0.011	0.000	0.000	0.000	0.106
Ethnic Diversity	625,293	0.329	0.147	0.345	0.503	0.188
GDP Growth	625,293	0.015	−0.022	0.011	0.044	0.082
Income	625,293	10.759	10.601	10.747	10.904	0.245
Gini Index	625,293	0.445	0.421	0.443	0.467	0.034
Subsidy	625,293	0.083	0.000	0.000	0.000	0.276
Unemployment	625,293	0.065	0.043	0.060	0.082	0.028
Education	625,293	0.200	0.138	0.177	0.238	0.089
Workforce Growth	625,293	0.001	−0.009	−0.001	0.009	0.021
Age Diversity	625,293	0.937	0.936	0.938	0.940	0.004
Wages	625,293	10.585	10.443	10.565	10.703	0.205
Democratic County	625,293	0.184	0.000	0.000	0.000	0.388
Industry Concentration	625,293	0.029	0.000	0.004	0.017	0.081
Supplier-Customer	625,293	0.014	0.000	0.000	0.000	0.116
Distance	625,293	6.731	6.307	6.807	7.282	0.702
Political Alignment	625,293	0.506	0.000	1.000	1.000	0.500
Panel B. The Neighboring County Sample						
Choose	141,210	0.050	0.000	0.000	0.000	0.218
Ethnic Diversity	141,210	0.348	0.179	0.355	0.515	0.189
GDP Growth	141,210	0.015	−0.012	0.015	0.040	0.054
Income	141,210	10.874	10.684	10.851	11.040	0.270
Gini Index	141,210	0.442	0.418	0.440	0.463	0.034
Subsidy	141,210	0.128	0.000	0.000	0.000	0.334
Unemployment	141,210	0.067	0.044	0.061	0.084	0.030
Education	141,210	0.242	0.156	0.211	0.311	0.111
Workforce Growth	141,210	0.003	−0.006	0.001	0.010	0.015
Age Diversity	141,210	0.937	0.936	0.938	0.940	0.004
Wages	141,210	10.664	10.501	10.636	10.791	0.228
Democratic County	141,210	0.315	0.000	0.000	1.000	0.464
Industry Concentration	141,210	0.063	0.000	0.009	0.045	0.152
Supplier-Customer	141,210	0.036	0.000	0.000	0.000	0.186
Distance	141,210	6.677	6.208	6.767	7.346	0.825
Political Alignment	141,210	0.466	0.000	0.000	1.000	0.499
Panel C. The All County Sample						
Choose	4,461,011	0.002	0.000	0.000	0.000	0.040
Ethnic Diversity	4,461,011	0.355	0.194	0.362	0.518	0.183
GDP Growth	4,461,011	0.016	−0.009	0.015	0.038	0.047
Income	4,461,011	10.883	10.701	10.855	11.040	0.258
Gini Index	4,461,011	0.447	0.423	0.446	0.468	0.033
Subsidy	4,461,011	0.172	0.000	0.000	0.000	0.377
Unemployment	4,461,011	0.063	0.042	0.059	0.080	0.026
Education	4,461,011	0.267	0.183	0.249	0.331	0.108
Workforce Growth	4,461,011	0.005	−0.004	0.003	0.011	0.013
Age Diversity	4,461,011	0.937	0.936	0.938	0.939	0.004
Wages	4,461,011	10.709	10.548	10.685	10.839	0.217
Democratic County	4,461,011	0.372	0.000	0.000	1.000	0.483
Industry Concentration	4,461,011	0.076	0.000	0.018	0.075	0.155
Supplier-Customer	4,461,011	0.041	0.000	0.000	0.000	0.197
Distance	4,461,011	6.755	6.308	6.815	7.375	0.742
Political Alignment	4,461,011	0.437	0.000	0.000	1.000	0.496

by those in consumer products (10.96%), transportation and warehousing (7.21%), and Software and IT services (6.69%). In Supplementary Material Table OA2, we tabulate the destination state distribution of interstate investment projects and find that the number of projects is generally dispersed across states, except for Texas, Florida, California, North Carolina, and Ohio, which stand out as the five most popular

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TABLE 3

Baseline Results on the Location Choice of Corporate Interstate Investments

Panel A of Table 3 presents the estimation results of equation (2). The variable *Choose* is a dummy variable that equals 1 for the chosen investment destination county, and 0 for alternative destination counties. *Ethnic Diversity* equals 1 minus the Herfindahl index calculated across four ethnic categories—Hispanic, non-Hispanic Black, non-Hispanic white, and Asian—in a county. The sample period is from 2011 to 2021. The unit of observation is at the project-county level. In columns 1 and 2, we use all counties in the same state as alternative destination counties. In columns 3 and 4, we use 19 geographically closest counties to the selected county as alternative destinations. In columns 5 and 6, we use all counties that have received at least 1 interstate investment in the past 3 years as alternative destinations. See the Appendix for variable definitions. The *t*-statistics reported in parentheses are based on standard errors clustered by projects. In Panel B, we compare the estimated potential workforce diversity of a firm's operation portfolio before and after an interstate investment. The detailed definition of *Estimated Potential Workforce Diversity* is provided in the Appendix. Firms with low (high) pre-existing portfolio diversity are those with *Estimated Potential Workforce Diversity* in the bottom quartile (top 3 quartiles) of the sample distribution in the year before the interstate investments. ***, **, and * denote significance at the 1%, 5%, and 10% levels (2-tailed), respectively.

Panel A. Baseline Results

	Alternative Pool of Counties =					
	Same State		Neighboring County		All County	
Y = *Choose*	1	2	3	4	5	6
Ethnic Diversity	**0.056*****	**0.053*****	**0.238*****	**0.231*****	**0.011*****	**0.008*****
	(4.81)	**(4.54)**	**(3.83)**	**(3.69)**	**(3.65)**	**(2.83)**
GDP Growth		0.000		−0.001		0.000
		(0.05)		(−0.12)		(1.11)
Income		0.001		−0.003		−0.001
		(0.53)		(−0.26)		(−1.15)
Gini Index		0.006*		0.083***		0.004**
		(1.85)		(2.93)		(2.05)
Subsidy		0.000		0.003		−0.000
		(0.22)		(0.57)		(−1.00)
Unemployment		−0.005		−0.078		0.007*
		(−0.38)		(−1.10)		(1.75)
Education		0.002		0.007		0.004
		(0.38)		(0.18)		(1.43)
Workforce Growth		0.001		0.038		0.003
		(0.24)		(0.86)		(0.93)
Age Diversity		0.205***		1.590***		0.166***
		(3.50)		(2.79)		(3.61)
Wages		0.003		−0.006		0.002
		(1.52)		(−0.36)		(1.46)
Democratic County		0.003***		0.007		0.000**
		(3.06)		(1.55)		(2.28)
Industry Concentration		0.028***		0.026**		0.002***
		(4.97)		(2.54)		(5.94)
Supplier-Customer		0.013***		0.014**		0.001***
		(3.73)		(2.31)		(5.43)
Distance		−0.004***		−0.022***		−0.001***
		(−4.40)		(−5.60)		(−17.55)
Political Alignment		0.002***		0.005**		0.000***
		(4.19)		(2.47)		(4.94)
County FE	Yes	Yes	Yes	Yes	Yes	Yes
State-by-year FE	Yes	Yes	Yes	Yes	Yes	Yes
Project FE	Yes	Yes	Yes	Yes	Yes	Yes
No. of obs.	625,293	625,293	141,210	141,210	4,461,011	4,461,011
Adj. R^2	0.139	0.139	0.189	0.189	0.002	0.002

Panel B. Changes in Firms' Potential Access to Diverse Workforce

	Mean of *Estimated Potential Workforce Diversity* Before an Investment	Mean of *Estimated Potential Workforce Diversity* After an Investment	Difference: After − Before
Firms making interstate investments	0.529	0.534	0.005***
Firms with low pre-existing portfolio diversity	0.331	0.342	0.011***
Firms with high pre-existing portfolio diversity	0.592	0.595	0.003***

destination states. Supplementary Material Table OA3 lists the top 20 counties with the highest ethnic diversity in our sample. Table 2 presents the descriptive statistics of the key variables for our three matched samples.

B. Baseline Results on Location Choice for Corporate Interstate Investments

Panel A of Table 3 presents the results from estimating equation (2). All regressions include a constant. We do not tabulate its coefficient estimate for brevity. Columns 1 and 2 report the results from using the *Same State Sample.* Column 1 presents the results of controlling for only project, county, and state-by-year fixed effects. The coefficient on *Ethnic Diversity* is significantly positive (0.056, t = 4.81), suggesting that, on average, firms are more likely to choose counties with higher ethnic diversity as the location for an interstate investment project. In column 2, we further control for a large set of county characteristics and variables reflecting the alignment between the investing firm and a candidate county (i.e., *Industry Concentration*, *Supplier-Customer*, *Distance*, and *Political Alignment*). The magnitude and statistical significance of *Ethnic Diversity* remain similar (0.053, t = 4.54), indicating that local ethnic diversity is an important factor for firms' interstate investment location choice decisions after controlling for other factors identified by prior studies.

From columns 3–6, we estimate equation (2) using the *Neighboring County Sample* and the *All County Sample*, respectively. The results again show a positive and highly significant link between a county's ethnic diversity and firms' tendency to choose the county as the destination of their interstate investment projects.

The results presented in Panel A of Table 3 indicate that, on average, firms are more likely to place their interstate investments in counties with higher levels of ethnic diversity. Therefore, we expect that interstate investments, on average, enable investing firms to potentially access a more diverse workforce across their operations in different geographic locations, which we verify in Panel B.

We consider a firm's operations in different geographic locations as its operation portfolio, and take the following steps to estimate the change in the potential ethnic diversity level of the firm's operation portfolio following its interstate investment. First, we obtain the firm's operation locations and the number of employees at each operation from the LexisNexis database. Second, we estimate the number of employees in each ethnic group at each operation using the ethnic composition of the local population. This step assumes that the workforce diversity of each operation is representative of the diversity of the local population. Third, we aggregate the estimated number of employees in each ethnic group across all operations in different geographic locations at the firm level and calculate ethnic diversity using 1 minus the Herfindahl index across different ethnic groups. For each interstate investment project, we re-estimate an overall ethnic diversity level for the investing firm after adding this new operation into the firm's operation portfolio and compare it with the estimated level in the year prior to the investment.[17] In Panel B of Table 3, we observe

[17]This analysis is limited to investment projects with available data of job creations based on firms' disclosures in the fDi Markets' database.

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a significant increase in the potential level of overall ethnic diversity across an investing firm's operations in different locations. The increase is even more significant for investing firms with a low pre-existing operation portfolio diversity. These results demonstrate that, on average, firms have enhanced access to a diverse workforce after making interstate investment.

C. Robustness Checks for the Baseline Location Choice Model

We conduct several tests to check the robustness of the baseline results. First, we re-estimate equation (2) using McFadden's (1974) conditional logit regressions (e.g., Head et al. (1995), Alcácer and Chung (2007)). Due to the criticism of Greene (2004) and Wooldridge (2010) on the inclusion of a large number of fixed effects in nonlinear models, we only include project fixed effects in equation (2) for the conditional logit estimations. The results reported in Panel A of Supplementary Material Table OA4 are robust to this alternative estimation.

Second, we drop the 5 most popular destination counties that receive the largest number of interstate investment projects, including Maricopa County in Arizona, Harris County in Texas, New York City County in New York, Fulton County in Georgia, and Dallas County in Texas from our sample and re-estimate equation (2) to ensure that our results are not driven by the undue influence of the 5 most popular destination counties. We show robust results in Panel B of Supplementary Material Table OA4.

Third, a county's ethnic diversity might be correlated with the presence of a sizable minority group. To ensure that our results are attributable to the overall ethnic diversity of a destination county rather than the largest minority group in the county, we further control for the population percentage of the largest ethnic minority group (*Largest Ethnic Minority Group*) in a county.[18] Panel C of Supplementary Material Table OA4 reports that the coefficients on *Ethnic Diversity* remain significantly positive, whereas the coefficients on *Largest Ethnic Minority Group* are positive but insignificant across all three samples, suggesting that our results are primarily driven by the overall ethnic diversity in a county.

Fourth, in the main regressions, we control for project fixed effects to account for the effect of project-level characteristics on the location decisions for interstate investments. We also check the robustness of our results by replacing project fixed effects with firm-by-year fixed effects. Panel D of Supplementary Material Table OA4 reports robust results.[19]

D. IV Estimations

Despite controlling for a comprehensive set of location characteristics, the alignment between a candidate county and the investing firm, and various types of fixed effects, it remains challenging to rule out the possibility that unobservable factors—correlated with both a county's ethnic diversity and its likelihood

[18]The correlation between *Largest Ethnic Minority Group* and *Ethnic Diversity* is 0.63.

[19]Our results also hold if we replace project fixed effects with firm fixed effects and additionally control for firm-level characteristics, such as logged market value, market-to-book ratio, leverage, and cash holdings.

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of receiving interstate investments—could drive our results. To further mitigate the endogeneity concern, we implement an IV analysis based on the "shift-share" methodology, which is widely used in the economics literature to identify the causal effect of immigrants on local political and economic environments (e.g., Card (2001), Ottaviano and Peri (2006)). This methodology creates an instrument of immigration by combining the initial population share of each ethnic group at the *local* level and the growth of immigrants within each ethnic group at the *national* level during a period. The rationale of this instrument is that immigrants tend to settle where other immigrants from the same country already reside, which ensures the relevance of the instrument. Given that the national-level immigration growth is exogenous to economic conditions in a certain county, we can isolate the exogenous variation in immigration that is unrelated to current local-level shocks.

Specifically, we follow Ottaviano and Peri (2006) to construct the shift-share instrument for a county's ethnic diversity in year t as follows: We choose to measure the initial population share of each ethnic group in 2000, 10 years before the first year of our sample period, to ensure a sufficient gap between the measurement of the pre-existing ethnic distribution and interstate investment. Using the national-level growth rate of each ethnic group's population share from 2000 to year t, we then compute the predicted population share of ethnic group i that resides in county c in year t ($\widehat{Ethnicity}_{i,c,t}$) as:

$$\widehat{Ethnicity}_{i,c,t} = Ethnicity_{i,c,2000} \times \left(1 + g_{i,2000\text{to}t}\right), \tag{3}$$

where $Ethnicity_{i,c,2000}$ is the population share of ethnic group i in county c in 2000; $g_{i,2000\text{to}t}$ is the national-level growth rate for ethnic group i's population share from 2000 to year t. Based on the predicted population share of each ethnic group, we construct the predicted ethnic diversity for county c in year t ($\widehat{Diversity}_{c,t}$) as:

$$\widehat{Diversity}_{c,t} = 1 - \sum\nolimits_{i=1}^{4} \left(\widehat{Ethnicity}_{i,c,t}\right)^2. \tag{4}$$

Because the predicted level of ethnic diversity obtained from the above procedures is attributed to a county's ethnic distribution in 2000 and the ethnic group's national-level growth rate, this instrument is independent of any county-specific shock after 2000. In this respect, this shift-share instrument meets the exclusion requirement of a valid IV.

In the first stage of the IV estimation, we regress the actual ethnic diversity, *Ethnic Diversity*, on this shift-share instrument, $\widehat{Diversity}$. The results reported in Panel A of Table 4 show that the coefficient estimates on $\widehat{Diversity}$ are significantly positive for all three samples. Moreover, the Kleibergen–Paap rk statistics are well above the Stock–Yogo critical values for weak instruments for all three samples.

Panel B of Table 4 reports the results of the second-stage regressions for the three samples, in which we replace *Ethnic Diversity* with *Instrumented Ethnic Diversity* obtained from the first stage. As shown, the coefficient estimates on *Instrumented Ethnic Diversity* are positive and statistically significant across all

TABLE 4

Instrumental Variable Estimations

Table 4 presents the result of the shift-share instrumental variable analysis. Panel A presents the result of the first-stage regression, where the dependent variable *Ethnic Diversity* is regressed on the shift-share instrument, $\widehat{Diversity}$. $\widehat{Diversity}$ is estimated based on equations (3) and (4). Panel B presents the result of the second-stage regressions using *Instrumented Ethnic Diversity* as the testing variable. The sample period is from 2011 to 2021. See the Appendix for variable definitions. The *t*-statistics of the first-stage regression reported in parentheses are based on standard errors clustered by county. The *t*-statistics of the second-stage regression reported in parentheses are based on standard errors clustered by projects. ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively.

Panel A. First-Stage Regressions

	Same State	Neighboring County	All County
	1	2	3
	First-Stage Regression (Y = *Ethnic Diversity*)		
$\widehat{Diversity}$ (IV)	**0.692*** (10.55)**	**1.103*** (15.91)**	**1.001*** (9.67)**
Kleibergen–Paap rk statistic	494.80	555.62	392.29
Adj. R^2	0.458	0.686	0.668

Panel B. Second-Stage Regressions

	Second-Stage Regression (Y = *Choose*)		
Instrumented Ethnic Diversity	**0.018*** (3.49)**	**0.126*** (3.85)**	**0.004** (2.14)**
GDP Growth	0.000 (0.07)	−0.001 (−0.13)	0.000 (1.04)
Income	−0.000 (−0.08)	−0.008 (−0.74)	−0.001 (−1.13)
Gini Index	0.005 (1.40)	0.076*** (2.68)	0.004** (2.00)
Subsidy	0.000 (0.17)	0.003 (0.55)	−0.000 (−1.07)
Unemployment	−0.004 (−0.27)	−0.052 (−0.73)	0.008** (1.98)
Education	0.003 (0.66)	0.019 (0.52)	0.004* (1.69)
Workforce Growth	0.003 (0.76)	0.036 (0.82)	0.003 (0.94)
Age Diversity	0.212*** (3.60)	1.908*** (3.27)	0.182*** (3.96)
Wages	0.004* (1.69)	−0.005 (−0.30)	0.001 (1.27)
Democratic County	0.003*** (2.93)	0.006 (1.48)	0.000** (2.25)
Industry Concentration	0.028*** (4.97)	0.026** (2.53)	0.002*** (5.94)
Supplier-Customer	0.013*** (3.75)	0.015** (2.37)	0.001*** (5.44)
Distance	−0.004*** (−4.40)	−0.022*** (−5.53)	−0.001*** (−17.55)
Political Alignment	0.002*** (4.17)	0.004** (2.45)	0.000*** (4.92)
County FE	Yes	Yes	Yes
State-by-year FE	Yes	Yes	Yes
Project FE	Yes	Yes	Yes
No. of Obs.	625,293	141,210	4,661,011
Adj. R^2	0.139	0.189	0.002

three samples. Taken together, the result of the IV analysis confirms a positive link between local ethnic diversity and the likelihood of an investing firm choosing the county as the location of its interstate investment.

We follow prior studies (e.g., Ferrell, Liang, and Renneboog (2016), Bernile et al. (2018)) to rely on the IV estimates in interpreting the economic significance of

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ethnic diversity in explaining investing firms' location choices. The results reported in Panel B suggest that 1-standard-deviation increase in the instrumented ethnic diversity would increase a county's probability of being chosen as the location of an interstate investment by 0.23% (0.018 × 0.127 × 100), 1.98% (0.126 × 0.157 × 100), and 0.06% (0.004 × 0.150 × 100), for the *Same State*, *Neighboring County*, and *All County* samples, respectively.[20] Given that the unconditional average probabilities of being chosen as the investment location of an interstate investment are 1.1%, 5%, and 0.2% in the *Same State Sample, Neighboring County Sample*, and *All County Sample*, respectively, these results suggest that ethnic diversity has an economically sizable effect on firms' choices of their interstate investment locations. For example, an increase of 0.23% in the probability of being chosen as the destination county estimated for the *Same State Sample* is about 20% increase over the average probability (0.23%/1.1% × 100 = 20.9%). This magnitude is also comparable to that of another important factor of location choice, *Distance.* For *Distance*, a 1-standard-deviation increase can reduce the probability of the investing firm choosing the county as its investment location by 0.28% (−0.004 × 0.702 × 100), 1.82% (−0.022 × 0.825 × 100), and 0.07% (−0.001 × 0.742 × 100), for the three different samples, respectively.

E. Supplementary Analyses on the Characteristics of Investment Projects

We conduct several supplementary analyses related to project characteristics. First, we examine whether the investment scale could be influenced by the local ethnic diversity of the destination county, conditional on firms' decision to invest in the county. If firms expect to benefit from investing in high-diversity locations, they are also likely to place larger investments in these areas. To test this prediction, we conduct a project-level analysis to examine the effect of ethnic diversity on investment amount and job creation of the invested projects. The results presented in Panel A of Supplementary Material Table OA5 show that firms tend to place larger-scale projects in locations with high ethnic diversity, but the number of jobs created is not significantly associated with the level of local ethnic diversity. We note that the projects invested in high-diversity counties tend to be more technology intensive rather than labor intensive (as highlighted in the cross-sectional tests in Panel A of Table 5), and therefore, ex ante, we do not have a clear prediction on the link between ethnic diversity and the number of jobs created by the projects.

Second, the greenfield investment projects in the fDi Markets database include both brand new projects and projects that expand existing operations in other states (about 42%). Arguably, firms have more flexibility in choosing the locations of new establishments, and thus county-level ethnic diversity may play a more significant role in affecting their locations. In addition, it is interesting to examine whether our results hold for expansion projects. Results reported in Panel B of Supplementary Material Table OA5 indicate that while firms are more likely to invest in high-diversity counties for both new and expansion projects, the results are stronger for new projects.

[20]The standard deviation of *Instrumented Ethnic Diversity* in the *Same State Sample, Neighboring County Sample*, and *All County Sample* are 0.127, 0.157, and 0.150, respectively.

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F. Mechanisms

As discussed in Introduction, we propose two potential mechanisms that could drive firms' preference for high-diversity locations for interstate investments: i) the net benefit of leveraging a diverse workforce to enhance problem-solving, productivity, and performance and ii) the benefit of improving diversity reputation or image. Below, we conduct both cross-sectional and consequence analyses to shed light on these two mechanisms and their specific channels.

1. Cross-Sectional Analyses

In the cross-sectional analyses, we start by identifying the specific channels through which a firm can reap a net benefit from leveraging a diverse workforce (the first mechanism) from both the benefit and cost perspectives.

Channels Regarding the Benefits of Leveraging a Diverse Workforce

First, we argue that firms with a stronger focus on innovation can benefit more from operating an ethnically diverse workforce. This is because the diversity in skills, ideas, and knowledge among employees from different ethnic backgrounds can facilitate the identification of creative solutions and diverse perspectives for solving complex problems and generating innovative ideas (Niebuhr (2010), Parrotta, Pozzoli, and Pytlikova (2014)).

Second, a diverse workforce is likely to improve firms' service activities by allowing them to better interact with a wider and more diverse customer base. The ability to serve customers from different ethnic and cultural backgrounds can lead to improved customer satisfaction, increased customer loyalty, and, ultimately, greater business opportunities for the firm. In addition, a diverse workforce can provide a wider range of perspectives and offer more creative solutions to better cater to customers' needs.

To test these two channels, we examine whether ethnic diversity has a stronger effect on firms' location choice of their interstate investment projects for firms in high-tech industries, those active in innovation activities, and those undertaking investment projects to establish R&D and service centers.

We first construct two dummy variables, *High-tech Industry* and *High_R&D Intensity*, to identify innovation-intensive firms. *High-tech Industry* takes the value of 1 for firms operating in a high-tech industry, and 0 otherwise. We define high-tech industries as the computer, electronics, pharmaceuticals, and telecommunications industries (Francis and Schipper 1999). *High_R&D Intensity* takes the value of 1 if an investing firm's ratio of R&D expenses over total sales is in the top quartile of the sample distribution in the year before the investment, and 0 otherwise. We then separately interact each indicator variable with *Ethnic Diversity* and include the interaction term in equation (2). Panel A of Table 5 reports the results, showing that the coefficient estimates on *Ethnic Diversity* × *High-tech Industry* and *Ethnic Diversity* × *High_R&D Intensity* are all positive and statistically significant at the 5% level or better.[21]

[21]Note that all the firm-level conditioning variables in the cross-sectional analyses discussed in Section IV.F.1 are measured in the year prior to the investment. Therefore, these variables and all project-level conditioning variables in cross-sectional analyses are absorbed by project fixed effects.

TABLE 5

Cross-Sectional Analyses of Location Choices

Table 5 presents the results of cross-sectional tests based on investing firms operating in high-tech industries or not, and R&D intensity (Panel A), project nature (Panel B), home county ethnic diversity and investing firms' diversity ratings (Panel C), and the political leaning of investing firms' CEOs and home counties (Panel D). *High-tech Industry* is a dummy variable that equals 1 for firms in high-tech industries, and 0 otherwise. *High_R&D Intensity* is a dummy variable that equals 1 if an investing firm's R&D expenditures scaled by total sales are in the top quartile of the sample distribution in the year prior to the investment, and 0 otherwise. *R&D Center* is a dummy variable that equals 1 if a project is established as an R&D center, and 0 otherwise. *Service Center* is a dummy variable that equals 1 if a project is established as a service center, and 0 otherwise. *Manuf Plant* is a dummy variable that equals 1 if a project is established as a manufacturing plant, and 0 otherwise. *High_Diversity Ratings* is a dummy variable that equals 1 if an investing firm's MSCI KLD diversity rating is in the top quartile of the sample distribution in the year prior to the investment, and 0 otherwise. *High_Home County Diversity* is a dummy variable that equals 1 if a firm's home county ethnic diversity is in the top quartile of the sample distribution in the year prior to the investment, and 0 otherwise. *Democratic CEO* is a dummy variable that equals 1 if a CEO's financial contribution made to the Democratic candidates in the Senate, House, or Presidential elections is greater than his/her contribution to the Republican candidates in such elections, and 0 otherwise. *Democratic Home County* is a dummy variable that equals 1 if the majority of votes in an investing firm's home county go to democratic candidates in the Presidential election, and 0 otherwise. The sample period is from 2011 to 2021. See the Appendix for variable definitions. The *t*-statistics reported in parentheses are based on standard errors clustered by projects. ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively.

Panel A. The Moderating Effect of Investing Firms' Innovation Activities

	Same State	Neighboring County	All County	Same State	Neighboring County	All County
Y = *Choose*	1	2	3	4	5	6
Ethnic Diversity	0.052***	0.223***	0.008***	0.048***	0.213***	0.007**
	(4.43)	(3.56)	(2.79)	(4.07)	(3.40)	(2.49)
Ethnic Diversity × High-tech_Industry	**0.012*** **	**0.063*** **	**0.001*** **			
	(3.79)	**(4.83)**	**(3.35)**			
Ethnic Diversity × High_R&D Intensity				**0.009*** **	**0.023** **	**0.002*** **
				(4.25)	**(2.54)**	**(8.27)**
Controls in Table 3	Yes	Yes	Yes	Yes	Yes	Yes
County FE	Yes	Yes	Yes	Yes	Yes	Yes
State-by-year FE	Yes	Yes	Yes	Yes	Yes	Yes
Project FE	Yes	Yes	Yes	Yes	Yes	Yes
No. of obs.	625,293	141,210	4,461,011	625,293	141,210	4,461,011
Adj. R^2	0.139	0.189	0.002	0.139	0.189	0.002

Panel B. The Moderating Effect of Project Types

	Same State	Neighboring County	All County
Y = *Choose*	1	2	3
Ethnic Diversity	0.048***	0.188***	0.009***
	(4.10)	(2.99)	(2.88)
Ethnic Diversity × R&D Center	**0.016*** **	**0.065*** **	**0.002*** **
	(4.28)	**(3.69)**	**(3.92)**
Ethnic Diversity × Service Center	**0.017*** **	**0.080*** **	**0.001*** **
	(8.05)	**(8.41)**	**(5.53)**
Ethnic Diversity × Manuf Plant	**−0.037*** **	**−0.115*** **	**−0.004*** **
	(−11.36)	**(−7.35)**	**(−14.60)**
Controls in Table 3	Yes	Yes	Yes
County FE	Yes	Yes	Yes
State-by-year FE	Yes	Yes	Yes
Project FE	Yes	Yes	Yes
No. of obs.	625,293	141,210	4,461,011
Adj. R^2	0.140	0.190	0.002

Panel C. The Moderating Effect of Investing Firms' Diversity Orientation and Home County Diversity (continued)

	Same State	Neighboring County	All County	Same State	Neighboring County	All County
Y = *Choose*	1	2	3	4	5	6
Ethnic Diversity	0.069***	0.280***	0.013***	0.049***	0.210***	0.008***
	(4.25)	(3.37)	(3.37)	(4.12)	(3.35)	(2.69)
Ethnic Diversity × High_Diversity Ratings	**0.011*** **	**0.039*** **	**0.001*** **			
	(4.73)	**(3.56)**	**(4.07)**			
Ethnic Diversity × High_Home County Diversity				**0.014*** **	**0.053*** **	**0.002*** **
				(6.47)	**(5.36)**	**(7.15)**

(continued on next page)

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TABLE 5 (continued)
Cross-Sectional Analyses of Location Choices

Panel C. The Moderating Effect of Investing Firms' Diversity Orientation and Home County Diversity

Y = *Choose*	Same State 1	Neighboring County 2	All County 3	Same State 4	Neighboring County 5	All County 6
Controls in Table 3	Yes	Yes	Yes	Yes	Yes	Yes
County FE	Yes	Yes	Yes	Yes	Yes	Yes
State-by-year FE	Yes	Yes	Yes	Yes	Yes	Yes
Project FE	Yes	Yes	Yes	Yes	Yes	Yes
No. of obs.	476,660	108,018	3,388,762	624,749	141,110	4,457,686
Adj. R^2	0.140	0.190	0.002	0.139	0.189	0.002

Panel D. The Moderating Effect of the Political Leaning of Investing Firms' CEOs and Home Counties

Ethnic Diversity	0.050***	0.224***	0.008***	0.043***	0.188***	0.007**
	(4.28)	(3.58)	(2.79)	(3.58)	(2.93)	(2.48)
Ethnic Diversity × Democratic CEO	**0.009*** **	**0.017***	**0.001****			
	(4.34)	**(1.68)**	**(2.34)**			
Ethnic Diversity × Democratic Home County				**0.012*** **	**0.050*** **	**0.001*** **
				(4.12)	**(3.55)**	**(3.74)**
Controls in Table 3	Yes	Yes	Yes	Yes	Yes	Yes
County FE	Yes	Yes	Yes	Yes	Yes	Yes
State-by-year FE	Yes	Yes	Yes	Yes	Yes	Yes
Project FE	Yes	Yes	Yes	Yes	Yes	Yes
No. of obs.	625,293	141,210	4,461,011	624,452	140,910	4,451,402
Adj. R^2	0.139	0.189	0.002	0.139	0.189	0.002

We next delve into the specific details of the project's purposes and explore the types of projects that are more likely to benefit from the high ethnic diversity in a target county. We code the purpose of the projects based on whether they seek to build R&D centers (*R&D Center*), service centers (*Service Center*), or manufacturing plants (*Manuf Plant*). We include the interaction terms of these indicator variables with *Ethnic Diversity* in equation (2). The other project purpose categories are omitted from the regression model as the reference group.

Panel B of Table 5 reports the results. We observe positive and significant coefficients on *Ethnic Diversity* × *R&D Center*, suggesting that the tendency to invest in high ethnic diversity counties is more pronounced for projects that aim at building R&D centers. This finding and those in the cross-sectional tests based on high-tech industry and R&D intensity in Panel A collectively indicate that the benefit of leveraging an ethnically diverse workforce to enhance firms' innovation activities could be one specific channel that motivates them to locate interstate investments in high ethnic diversity locations.

In Panel B of Table 5, we also find significantly positive coefficients on *Ethnic Diversity* × *Service Center*, indicating that firms aiming at establishing service centers place a higher value on local ethnic diversity. This finding suggests that investing firms may view an ethnically diverse workforce as more capable of catering to a diverse customer base and generating creative ideas to better serve customers, potentially leading to improved customer service and enhanced sales activities.[22] This argument is consistent with the anecdotal evidence in

[22]Alternatively, firms may be motivated to locate service operations in ethnically diverse areas to expand their customer bases to include different ethnic groups if there is growing consumer demand from minority groups in high diversity locations. The control for local economic conditions in our regressions, to some extent, mitigates the concern that local ethnic diversity is correlated with local economic growth

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Supplementary Material Table OA1, showing the motive of Affirm Holdings in making interstate investment in Chicago.

In contrast to the results observed for R&D and service centers, the positive effect of local ethnic diversity on firms' selection of investment locations is weaker when the investment projects are for building manufacturing plants. It is plausible that manufacturing jobs are more labor-intensive and involve a higher proportion of repetitive routine tasks compared with creativity, interactions, and communications required in innovation and service activities.

Channels Related to Firms' Capability to Leverage a Diverse Workforce

Operating with a diverse workforce is also associated with certain costs arising from potential preference and communication conflicts, as well as potential discrimination among people with different ethnic backgrounds. Effectively managing a diverse workforce and addressing the tension and conflicts between different ethnic groups require experience and an inclusive corporate culture. Firms possessing such experience and ability are subject to lower costs of operating an ethnically diverse workforce and thus can potentially reap a greater net benefit from investing in high-diversity locations.

To capture a firm's experience and capability of managing a diverse workforce, we consider the following factors: i) its pre-investment workforce diversity rating, ii) the ethnic diversity of its headquarters location, iii) whether it has a pro-Democratic CEO, and iv) whether it is headquartered in a Democratic-leaning county. The first two factors capture a firm's experience in operating in an ethnically diverse environment. The latter two factors could be related to a firm's ability to manage a diverse workforce because Democrats generally exhibit more liberal and inclusive attitudes toward ethnic/racial diversity than Republicans (Di Giuli and Kostovetsky (2014), Hajnal and Rivera (2014)). We conduct cross-sectional analyses based on these four factors to examine whether ethnic diversity has a more pronounced positive impact on firms' interstate investment location choices for firms with more experience or greater capability in managing a diverse workforce.

It is worth noting that the cross-sectional analysis based on workforce diversity ratings can also offer insights into whether the positive influence of ethnic diversity on firms' location choices primarily stems from the benefit of enhancing a firm's diversity reputation (the second mechanism). If this is the case, we would expect ethnic diversity to have a more pronounced positive effect on firms with lower (rather than higher) ex ante diversity ratings, as these firms have a greater need to enhance their diversity image.

We measure the first proxy of an investing firm's workforce diversity rating using data from the MSCI KLD database (*Diversity Ratings*). Following prior studies (e.g., Servaes and Tamayo (2013), Cao, Liang, and Zhan (2019), and Gao, He, and Wu (2024)), we measure *Diversity Ratings* as the total number of strengths scaled by the maximum possible number of strengths in that year minus

and customer demand and that this positive correlation contributes to the result. However, we admit that we cannot completely rule out this alternative explanation.

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the total number of concerns scaled by the maximum possible number of concerns in that year from all diversity-related categories. The second proxy, the ethnic diversity level of a firm's headquarters location (*Home County Diversity*), is calculated in the same way as *Ethnic Diversity* for the candidate counties of the investment project. We then create an indicator variable *High_Diversity Ratings* (*High_Home County Diversity*) that equals 1 for firms with the value of *Diversity Ratings* (*Home County Diversity*) in the top quartile of the distribution of the respective variable in the year before the investment, and 0 otherwise. We define two other indicator variables, *Democratic CEO* and *Democratic Home County*, to capture the political orientation of an investing firm's CEO and its home county. Specifically, *Democratic CEO* equals 1 if the CEO's financial contribution made to the Democratic candidates in the Presidential, Senate, and House elections is greater than his/her contribution to the Republican candidates in such elections, and 0 otherwise. *Democratic Home County* equals 1 if most votes in an investing firm's home county support the Democratic rather than the Republican candidates in the Presidential election in the year before the interstate investment, and 0 otherwise. If the year does not have a Presidential election, we use the interpolated value of the share of votes for each Party between the two nearest elections to define this variable. We interact each indicator variable with *Ethnic Diversity* and include the interaction term in equation (2).

The results based on the first two proxies are reported in Panel C of Table 5. In columns 1–3, we report the results based on firms' workforce diversity ratings. We find that the coefficients on *Ethnic Diversity* × *High_Diversity Ratings* are all significantly positive at the 1% level. In columns 4–6, we report the results based on the diversity level of a firm's home county. Across all three columns, the coefficient estimates on *Ethnic Diversity* × *High_Home County Diversity* are significantly positive at the 1% level.

We report the results based on the two proxies related to political leaning in Panel D of Table 5. In columns 1–3, the coefficient estimates on *Ethnic Diversity* × *Democratic CEO* are significantly positive across all three samples at the 10% level or better. In columns 4–6, we also report positive coefficient estimates on *Ethnic Diversity* × *Democratic Home County* that are statistically significant at the 1% level.

Overall, the results suggest that firms' experience and ability to manage a diverse workforce and avoid conflicts among different ethnic groups could motivate them to locate interstate investments in ethnically diverse counties. We note that the finding regarding the positive moderating effect of pre-existing diversity is not consistent with the notion that the positive effect of ethnic diversity on firms' location choice is primarily due to their intention to improve the reputation for diversity and inclusion. Otherwise, we would expect to observe that firms with lower diversity ratings or operating in low-diversity environments are more inclined to invest in high-diversity locations.[23]

[23]In Table 5, the coefficients on *Ethnic Diversity* are positive and significant across all panels. Such a result is consistent with our baseline analysis reported in Table 3, showing that ethnic diversity has a significant overall effect on firms' location choice.

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2. Conference Call Discussions Following Interstate Investments

Based on the analyses above, firms expect to derive more benefits from investing in high-diversity locations by either leveraging a more diverse workforce for problem-solving or improving their diversity reputation. If this is the case, we expect firms to discuss more about their interstate investments and workforce diversity when communicating with investors in conference calls held shortly after their investments in high-diversity counties.

To test this prediction, we obtain investing firms' conference call transcripts from the Capital IQ database within 1 year from each interstate investment's announcement month provided by fDi Markets. We focus on management presentations rather than Q&A sections to capture managers' voluntary disclosure of interstate investments and workforce diversity. For discussions of interstate investments, we extract sentences mentioning both the specific investment location and at least one keyword indicating investment, such as *invest*, *establish*, or *build.* After manually verifying all extracted sentences, we define a variable, *Nmentions_Investment*, as the total number of sentences referring to the interstate investment in the presentation sections of the conference calls. To measure management discussions of workforce diversity, we extract sentences containing at least one of the keywords, *diversity* or *diverse.* We manually check all extracted sentences to verify that they contain discussions about workforce diversity and define a variable, *Nmentions_Diversity*, as the number of sentences referencing workforce diversity in the presentation sections of the conference calls. We estimate the following Poisson model to test conference call discussions:

$$(5)\quad Nmentions_Investment\,(\text{or}\,Nmentions_Diversity) = \beta_0 + \beta_1 High\ Diversity\ Investment + \sum\nolimits_{k=2} \beta_k Controls + Firm\,FE + Year\,FE + \varepsilon,$$

where *High Diversity Investment* is a dummy variable that equals 1 for firms that make interstate investments in counties with the level of ethnic diversity in the top quartile of the sample distribution, and 0 for firms that invest in other counties. The control variables include lagged market value (*Ln(Market Value)*), lagged financial leverage (*Leverage*), lagged cash holdings (*Cash Holding*), and lagged market-to-book ratio of equity (*Market-to-Book*). The Appendix provides detailed definitions of all variables.

The results reported in Table 6 show that the coefficients on *High Diversity Investment* are significantly positive in both columns 1 and 2.[24] These findings support our prediction that firms investing in high-diversity locations discuss more about their investments and workforce diversity compared with those investing in other counties within the year following the investments (about 38.26% (=exp(0.324) − 1) and 7.57%(=exp(0.073) − 1) more, respectively).

[24]Some singleton observations (i.e., firms never mentioning interstate investments or workforce diversity in conference calls in our sample) are automatically dropped from the Poisson regression due to the lack of variations. For the same reason, the sample size in columns 1 and 2 of Panel A of Table 8 is smaller compared with that in other columns of the table.

TABLE 6

Analyses for Conference Call Discussions Following Interstate Investments

Table 6 presents the Poisson estimation results of equation (5). *Nmentions_Investment* equals the total number of sentences referring to the interstate investment in the presentation sections of the conference calls held within 1 year from the announcement of the interstate investment. *Nmentions_Diversity* equals the total number of sentences referencing workforce diversity in the presentation sections of the conference calls held within 1 year from the announcement of the interstate investment. *High Diversity Investment* is a dummy variable that equals 1 for firms that make interstate investments in high-diversity counties, and 0 for firms that make interstate investments in other counties. A county is classified as a high-diversity county if its ethnic diversity in the year before the investment is in the top quartile of the sample distribution. See the Appendix for variable definitions. The *z*-statistics reported in parentheses are based on standard errors clustered by firm. ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively.

	Nmentions_Investment	*Nmentions_Diversity*
	1	2
High Diversity Investment	**0.324****	**0.073***
	(2.45)	**(1.86)**
Ln(Market Value) (lagged)	−0.124	1.205***
	(−0.94)	(3.04)
Leverage (lagged)	−0.784	2.152
	(−1.40)	(0.80)
Cash Holding (lagged)	0.856	2.995
	(1.08)	(1.45)
Market-to-Book (lagged)	0.007	−0.068**
	(0.66)	(−2.20)
Firm FE	Yes	Yes
Year FE	Yes	Yes
No. of obs.	5,202	4,128
Pseudo-R^2	0.400	0.410

3. Analyses of the Economic Consequences of Investing in Counties with High Diversity

So far, we find that companies tend to favor counties with greater ethnic diversity as their destinations for interstate investments. This preference is particularly noticeable when businesses can potentially benefit more from a diverse workforce for innovation and service activities and when they are experienced in operating a diverse workforce. There is also evidence that firms advertise their interstate investments and workforce diversity in high ethnic diversity locations in conference calls. We can further understand these channels by examining the economic consequences of investing in high-diversity locations in terms of investor reaction, and ex post changes in innovation activities, sales growth, diversity ratings, the frequency of positive news coverage, and firms' overall operating performance.

Market Reactions to Announcements of Investments in Counties with Higher Ethnic Diversity

We manually collect the announcement dates of interstate investment projects using the news sources of each project provided by the fDi Markets database, including news articles, press releases, industry organizations, investment agencies, and company websites. As the fDi Markets database only provides information sources for projects invested after 2018, our market reaction analysis focuses on interstate investments made after 2018.[25] We examine how stock market reactions

[25]The fDi Markets database only provides the announcement month for each interstate investment project. After 2018, it started providing the source link for each project announcement, which we can use

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to project announcements vary with the ethnic diversity of destination counties by estimating the following model:

$$(6)\quad CAR_{[-1,+1]} = \beta_0 + \beta_1 High\ Diversity\ Investment + \beta_2 Ln(Market\ Value) + \beta_3 Market\text{-}to\text{-}Book + Year\ FE + Industry\ FE + \varepsilon,$$

where $CAR_{[-1,+1]}$ denotes one of the two measures of cumulative abnormal returns (CARs, in decimal form) over the [−1, +1] window surrounding the investment announcement date. Specifically, $CAR_Market\ Model_{[-1,+1]}$ is estimated using the market model, and $CAR_Fama\ French_{[-1,+1]}$ is estimated using the Fama–French 3-factor model. The parameters of both models are estimated with daily stock returns from trading days −240 to −41 relative to the investment announcement date (Gokkaya, Liu, and Stulz (2023)). *High Diversity Investment* is defined in the same way as that in equation (5). In equation (6), we control for firms' logged market value and Market-to-Book ratio measured at the fiscal year end before the investment announcement.

In Table 7, we report the result from estimating equation (6) with and without control variables. We observe significantly positive coefficients on *High Diversity Investment* across all columns, suggesting that the announcements of interstate investments in high ethnic diversity locations, on average, elicit higher CARs (e.g., by 0.4% as reported in column 2). In other words, investors perceive a higher net benefit for firms to invest their interstate projects in high ethnic diversity locations.

TABLE 7

Market Reactions to Announcements of Investments in Counties with Higher Ethnic Diversity

Table 7 presents the estimation results of equation (6). The dependent variable in columns 1 and 2 is $CAR_Market\ Model_{[-1,+1]}$, which is the cumulative abnormal return estimated using the market model over the event window of [−1, +1] surrounding the announcement date of an investment. The dependent variable in columns 3 and 4 is $CAR_Fama\ French_{[-1,+1]}$, which is the cumulative abnormal return estimated using the Fama–French 3-factor model over the event window of [−1, +1] surrounding the investment announcement date. The parameters of both models are estimated using daily returns from trading days −240 to −41 relative to the investment announcement date. *High Diversity Investment* is a dummy variable that equals 1 for firms that make interstate investments in high-diversity counties, and 0 for firms that make interstate investments in other counties. A county is classified as a high-diversity county if its ethnic diversity in the year before the investment is in the top quartile of the sample distribution. See the Appendix for variable definitions. The *t*-statistics reported in parentheses are based on standard errors clustered by firms. ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively.

Y =	$CAR_Market\ Model_{[-1,+1]}$		$CAR_Fama\ French_{[-1,+1]}$	
	1	2	3	4
High Diversity Investment	**0.004***	**0.004***	**0.003***	**0.004***
	(1.80)	**(1.90)**	**(1.82)**	**(1.96)**
Ln(Market Value)		−0.000		−0.000
		(−0.38)		(−0.63)
Market-to-Book		−0.000**		−0.000***
		(−2.52)		(−2.77)
Year FE	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes
No. of obs.	1,355	1,355	1,355	1,355
Adj. R^2	0.015	0.018	0.008	0.016

to collect the exact announcement date. However, some source links recorded in fDi Markets are either invalid or inaccessible. Therefore, our sample in this analysis is limited to projects with a valid source link for their announcements.

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Ex Post Economic Consequences

In this section, we examine the longer-term economic consequences of investing in high-diversity locations in terms of innovation activities, sales growth, workforce diversity ratings, positive media coverage, and overall operating performance. Following Gormley and Matsa (2011) and Sun and Abraham (2021), we employ a stacked DiD research design over a fixed window of [−3, +3] around each interstate investment event. A relatively short window ([−3, +3]) can avoid confounding events or firm decisions that are likely to arise in a long window. Such a short-window DiD research design is often adopted by prior studies (e.g., Chen, Harford, and Lin (2015), Dobbie, Goldsmith-Pinkham, Mahoney, and Song (2020), Kim, Lin, Mao, and Wang (2023), and Cao, Xuan, Yuan, and Zou (2025)).

Specifically, for each year in our sample period of 2011–2021, we create a cohort that includes all firms investing in high-diversity counties in the same year as treatment firms. For these treatment firms in a cohort, we include firms that make interstate investments *outside* the high-diversity counties in the *same* year, but never make any interstate investments in the high-diversity counties throughout the entire sample period as potential control firms. By selecting control firms that make interstate investments in other locations in the same year, we can focus on the effect of firms' decision to invest in high-diversity locations rather than their decision to make interstate investments. For both treatment firms and control firms of each cohort, we use firm-year observations within a [−3, +3] window and then stack the data across different cohorts. Additionally, we require treatment firms not to make any investments in high-diversity counties in a 3-year pre-event window to identify a clean treatment effect. All treatment and control firms are required to have at least one observation in both the pre- and post-event periods.

As interstate investments in high-diversity counties are not exogenous events, we employ an entropy balancing approach to achieve covariate balance between treatment and control firms (Hainmueller (2012), Gao et al. (2024), and Raleigh (2024)). We balance treatment and control firms using the first moment of the control variables in equation (7) in the year prior to the investment. We then estimate the average treatment effect using the following DiD model:

$$\begin{aligned} (7) \qquad Outcomes_{i,c,t} = {} & \beta_0 + \beta_1 High\ Diversity\ Investment_{i,c} \times Post_{i,c,t} \\ & + \textstyle\sum_{k=2} \beta_k Controls_{i,t-1} + Cohort-by-Firm\ FE \\ & + Cohort-by-Year\ FE + \varepsilon_{i,t}, \end{aligned}$$

where $High\ Diversity\ Investment_{i,c}$ is a dummy variable indicating firms that make interstate investment in a high ethnic diversity county (based on the top quartile of sample distribution) in cohort *c*. $Post_{i,c,t}$ is a dummy variable that equals 1 for the year of investment and subsequent years, and 0 otherwise for treatment and control firms in cohort *c*. $Outcomes_{i,c,t}$ is one of the five dependent variables capturing the economic consequences of investing in high-diversity counties, including *Npatent, Sales Growth, Diversity Ratings, Freq Positive News*, and *ROA*. *Npatent* is measured as the number of patent applications filed by a firm. *Sales Growth* is measured by the year-on-year difference in the natural logarithm of sales. *Diversity Ratings* is

a firm's workforce diversity rating as defined earlier for the cross-sectional analyses in Section IV.F.1. *Freq Positive News* is calculated as the frequency of positive media news about a firm with a relevance score of 100 in the RavenPack database, where the positive media news are the news stories with a Composite Sentiment Score (CSS) above 50. *ROA* proxies for the overall operating performance of a firm, which is the pre-tax income divided by the average level of total assets in a year. We control for firm characteristics, including lagged market value (*Ln(Market Value)*), lagged financial leverage (*Leverage*), lagged cash holdings (*Cash Holding*), and lagged market-to-book ratio of equity (*Market-to-Book*). The Appendix provides detailed definitions of all variables. Following Gormley and Matsa (2011), we include Cohort-by-Firm fixed effects and Cohort-by-Year fixed effects to allow the firm and year fixed effects to vary across cohorts and thereby provide more conservative inference than imposing constant firm and year fixed effects.[26] We estimate Poisson regressions for *Npatent* and *Freq Positive News*, and OLS regressions for other outcome variables.

The Main DiD Analysis

In Panel A of Table 8, we report the results of estimating equation (7). The results are presented in an order consistent with the three channels discussed in the cross-sectional tests in Section IV.F.1. As shown in columns 1 and 2, the coefficients on *High Diversity Investment* × *Post* are positive and statistically significant at the 5% level, suggesting that after investing in high ethnic diversity locations, firms exhibit an increase in patent applications relative to their control firms within 3 years after the investments. The DiD estimate in column 2 represents an 8.98% (=exp(0.086) − 1) increase in the number of patent applications for firms investing in high-diversity locations relative to those investing in other locations. Columns 3 and 4 also report positive and statistically significantly coefficients on *High Diversity Investment* × *Post.* Since *Sales Growth* is measured as the difference in logged sales, the result in column 4 suggests that investing in locations with high ethnic diversity on average increases the sales revenue by 2.33% (=exp(0.023) − 1) relative to control firms, which is economically meaningful.

We report the results for diversity ratings in columns 5 and 6. Both columns report positive but insignificant coefficients on *High Diversity Investment* × *Post*, implying no significant change in firms' diversity ratings after they make interstate investments in high-diversity locations. These results imply that enhancing diversity ratings may not be a primary motive/mechanism in our setting. In Panel B of Table 3, we demonstrate that firms have enhanced potential access to a diverse workforce following their interstate investment. However, this effect does not appear to be captured by investing firms' diversity ratings. Our finding in Panel C of Table 5 shows that firms with high-diversity ratings are more likely to continue to invest in high-diversity locations.[27] As a result, there is limited scope for these companies to further enhance their diversity ratings. In addition, it is

[26]Note that the stand-alone terms of *High Diversity Investment* and *Post* are absorbed by Cohort-by-Firm fixed effects and Cohort-by-Year fixed effects, respectively.

[27]Based on an untabulated student *t*-test of the mean workforce diversity ratings in the year before interstate investments, companies making interstate investments in highly diverse locations, on average, have higher-diversity ratings compared with control firms.

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TABLE 8

Ex Post Economic Consequences of Investing in High Ethnic Diversity Locations

Panel A of Table 8 presents the DiD estimation results of equation (7). *High Diversity Investment* is a dummy variable set to 1 for firms that make interstate investments in high-diversity counties, and 0 for firms that make interstate investments in other counties. A county is classified as a high-diversity county if its ethnic diversity in the year before the investment is in the top quartile of the sample distribution. *Post* is a dummy variable set to 1 for the year of investment and thereafter. *Npatent* equals the number of patent applications filed by the firm. *Sales Growth* equals the natural logarithm of sales in the current year minus the natural logarithm of sales in the prior year. *Diversity Ratings* is a firm's MSCI KLD diversity ratings. *Freq Positive News* is the frequency of positive media news pertaining to a firm with a relevance score of 100 in the RavenPack database, where the positive media news are the news stories with a CSS above 50. *ROA* is the pre-tax income divided by the average level of total assets in a year. The cohort years of investments in the sample are from 2011 to 2021. Panel B presents the results of the dynamic DID analysis. *Pre2* and *Pre1* are dummy variables set to 1 for 2 years and 1 year before a cohort year, respectively. *Post0*, *Post1*, *Post2*, and *Post3* are dummy variables set to 1 for the year of, 1 year after, 2 years after, and 3 years after the cohort year, respectively. See the Appendix for variable definitions. We use Poisson regression for *Npatent* and *Freq Positive News*, and OLS estimation for other outcome variables. The *t*-statistics for OLS estimations (*z*-statistics for Poisson estimations) reported in parentheses are based on standard errors clustered by cohorts. ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively.

Panel A. Average DiD Results

	Npatent		*Sales Growth*		*Diversity Ratings*		*Freq Positive News*		*ROA*	
	1	2	3	4	5	6	7	8	9	10
High Diversity Investment × Post	**0.079****	**0.086****	**0.026***	**0.023***	**0.002**	**0.003**	**0.045****	**0.036****	**0.008***	**0.006***
	(2.07)	**(2.09)**	**(2.19)**	**(2.01)**	**(0.11)**	**(0.15)**	**(2.27)**	**(2.05)**	**(2.16)**	**(1.83)**
Ln(Market Value) (lagged)		0.063		0.013		0.046**		0.228***		0.023***
		(1.11)		(1.17)		(2.50)		(11.40)		(8.80)
Leverage (lagged)		−0.543**		0.031		0.113		0.137**		−0.074***
		(−2.51)		(0.90)		(1.84)		(2.34)		(−5.70)
Cash Holding (lagged)		0.291*		0.178***		−0.180**		0.134		−0.006
		(1.85)		(5.92)		(−2.75)		(1.42)		(−0.32)
Market-to-Book (lagged)		−0.003		0.004***		−0.004		−0.002		0.003***
		(−0.44)		(3.96)		(−1.77)		(−0.51)		(4.00)
Cohort-by-Firm FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Cohort-by-Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
No. of obs.	4,130	4,130	9,272	9,272	5,620	5,620	9,192	9,192	9,338	9,338
Adj./Pseudo-R^2	0.951	0.951	0.229	0.237	0.563	0.564	0.707	0.714	0.771	0.782

Panel B. Dynamic DiD Results

	Npatent	*Sales Growth*	*Diversity Ratings*	*Freq Positive News*	*ROA*
	1	2	3	4	5
High Diversity Investment	0.011	−0.003	0.002	0.013	−0.000
× *Pre2*	(0.24)	(−0.22)	(0.13)	(0.66)	(−0.17)
High Diversity Investment	−0.072	0.005	−0.002	0.034	0.001
× *Pre1*	(−1.04)	(0.23)	(−0.15)	(0.96)	(0.28)
High Diversity Investment	**−0.042**	**0.016**	**0.025**	**0.041***	**−0.001**
× Post0	**(−0.55)**	**(1.09)**	**(1.57)**	**(1.74)**	**(−0.12)**
High Diversity Investment	**0.107**	**0.031**	**−0.005**	**0.045****	**0.005**
× Post1	**(1.40)**	**(1.17)**	**(−0.24)**	**(2.24)**	**(1.15)**
High Diversity Investment	**0.091**	**0.018**	**−0.021**	**0.079****	**0.012***
× Post2	**(1.29)**	**(0.74)**	**(−0.82)**	**(2.54)**	**(2.20)**
High Diversity Investment	**0.127***	**0.036***	**−0.009**	**0.064****	**0.014****
× Post3	**(1.79)**	**(1.87)**	**(−0.21)**	**(2.10)**	**(2.24)**
Controls in Panel A of Table 8	Yes	Yes	Yes	Yes	Yes
Cohort-by-firm FE	Yes	Yes	Yes	Yes	Yes
Cohort-by-year FE	Yes	Yes	Yes	Yes	Yes
No. of obs.	4,130	9,272	5,620	9,192	9,338
Adj./Pseudo-R^2	0.951	0.236	0.564	0.714	0.782

plausible that rating agencies may not update diversity ratings in a timely manner, or the diversity ratings may fail to capture small improvements in workforce diversity.

In columns 7 and 8, we report the results for the frequency of positive news coverage, which show positive and significant coefficients on *High Diversity Investment* × *Post* at the 5% level, suggesting that firms receive more frequent positive media coverage after making interstate investments in high-diversity locations. The result in column 8 implies a 3.67% (=exp(0.036) − 1) increase in the frequency of positive news coverage for firms investing in high-diversity locations relative to those investing in other locations. Therefore, investing in locations with high ethnic diversity does help firms garner positive media coverage.

We report the result on overall operating performance proxied by ROA in columns 9 and 10, and both columns report positive and marginally significant

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coefficients on *High Diversity Investment* × *Post.* Specifically, the result in column 10 suggests that firms experience a 0.6% increase in ROA after investing in high-diversity locations relative to control firms. Given that the mean value of ROA for firms investing in high ethnic diversity counties in the pre-event window is 4.23%, this result is economically meaningful. Overall, the results of the DiD analyses suggest that firms appear to benefit from investing in high ethnic diversity locations for enhancing innovation and sales activities, positive media coverage, and operating performance, although it does not significantly improve diversity ratings on average.

We next conduct a dynamic DiD analysis to check the parallel trend assumption and the timing of the consequences. Specifically, we modify equation (7) by replacing *High Diversity Investment* × *Post* with *High Diversity Investment* × *Pre2*, *High Diversity Investment* × *Pre1*, *High Diversity Investment* × *Post0*, *High Diversity Investment* × *Post1*, *High Diversity Investment* × *Post2*, and *High Diversity Investment* × *Post3*. *Pre2* and *Pre1* equal 1 for 2 years and 1 year before the event year, respectively, and 0 otherwise. *Post0*, *Post1*, *Post2*, and *Post3* equal 1 for the year of, 1 year after, 2 years after, and 3 years after the event year, respectively, and 0 otherwise. The reference year is the third year before the investment. As reported in Panel B of Table 8, the coefficients on *High Diversity Investment* × *Pre2* and *High Diversity Investment* × *Pre1* are not significant across all columns, confirming the existence of a parallel trend between the treatment and control groups in the pre-investment period. In addition, the results indicate that firms experience a significant increase in the frequency of positive media coverage starting from the event year. This significant increase persists throughout the post-event window. Regarding the number of patent applications, sales growth, and ROA, we observe an increase in the second year or the third year following the investment, suggesting that the improvements in innovation, sales growth, and operating performance take more time. On average, we do not observe a significant change in workforce diversity ratings in the post-event window.[28]

We next conduct cross-sectional analyses to provide further evidence to corroborate the mechanisms that drive firms to choose high-diversity locations as their investment destinations. We first examine whether firms focusing on innovation activities exhibit a greater increase in patent applications after they invest in counties with high ethnic diversity. Consistent with Section IV.F.1, we identify firms with a strong innovation focus as those operating in high-tech industries, those intensively investing in R&Ds, and those undertaking projects to establish R&D centers. We conduct cross-sectional analyses for these three proxies as follows: First, we separate *High Diversity Investment* into *High Diversity Investment_Hightech* and *High Diversity Investment_Other Industries* to indicate firms from high-tech industries investing in high-diversity counties and firms from other industries investing in high-diversity counties, respectively. We then estimate equation (7) by replacing *High Diversity Investment* × *Post* with *High Diversity Investment_Hightech* × *Post* and *High Diversity Investment_Other Industries* × *Post*,

[28]We check the robustness of our DiD results by using an alternative cutoff (i.e., the top quintile of the sample distribution) to define high ethnic diversity counties in the year prior to the interstate investment and reconstruct the stacked sample to re-estimate equation (7). The results reported in Supplementary Material Table OA6 are qualitatively similar to those reported in Panel A of Table 8.

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TABLE 9

Cross-Sectional Analyses for DiD Results

Table 9 presents the results of cross-sectional analyses based on high-tech industries, R&D intensity, establishment of R&D centers, establishment of service centers, and pre-existing diversity ratings. *High Diversity Investment_Hightech (High Diversity Investment_Other Industries)* is a dummy variable set to 1 for firms investing in high-diversity locations and operating (not operating) in high-tech industries. *High Diversity Investment_High R&D Intensity* (*High Diversity Investment_Low R&D Intensity*) is a dummy variable set to 1 for firms investing in high-diversity counties with the pre-event average R&D expenses over total sales being in the top quartile (bottom 3 quartiles) of the sample distribution. *High Diversity Investment_R&D Center* (*High Diversity Investment_Non-R&D Center*) is a dummy variable set to 1 for firms investing in high-diversity counties and establishing at least 1 R&D center (not establishing any R&D center) in high-diversity counties from the cohort year. *High Diversity Investment_Service Center* (*High Diversity Investment_Non-Service Center*) is a dummy variable set to 1 for firms investing in high-diversity counties and establishing at least 1 service center (not establishing any service center) in high-diversity counties from the cohort year. *High Diversity Investment_Low Pre-Diversity* (*High Diversity Investment_High Pre-Diversity*) is a dummy variable set to 1 for firms investing in high-diversity counties with the pre-event average MSCI KLD diversity ratings being in the bottom quartile (top 3 quartiles) of the sample distribution. The *t*-statistics in columns 4 and 5 (*z*-statistics in columns 1–3) reported in parentheses are based on standard errors clustered by cohorts. ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively.

	Npatent	*Npatent*	*Npatent*	*Sales Growth*	*Diversity Ratings*
	1	2	3	4	5
High Diversity Investment_Hightech × Post	**0.404*** (4.64)**				
High Diversity Investment_Other Industries × Post	0.409*** (3.41)				
High Diversity Investment_High R&D Intensity × Post		**0.122** (2.24)**			
High Diversity Investment_Low R&D Intensity × Post		−0.016 (−0.26)			
High Diversity Investment_R&D Center × Post			**0.138** (2.36)**		
High Diversity Investment_Non-R&D Center × Post			0.074* (1.70)		
High Diversity Investment_Service Center × Post				**0.026 (1.58)**	
High Diversity Investment_Non-Service Center × Post				0.022* (2.16)	
High Diversity Investment_Low Pre-Diversity × Post					**0.165*** (5.23)**
High Diversity Investment_High Pre-Diversity × Post					−0.033 (−1.17)
Testing the equality of coefficients on 2 interaction terms (*p*-value)	0.951	0.106	0.283	0.725	0.007
Controls in Panel A of Table 8	Yes	Yes	Yes	Yes	Yes
Cohort-by-firm FE	Yes	Yes	Yes	Yes	Yes
Cohort-by-year FE	Yes	Yes	Yes	Yes	Yes
No. of obs.	1,508	4,126	4,130	9,272	5,520
Adj./Pseudo-R^2	0.950	0.951	0.951	0.236	0.569

and report the results in column 1 of Table 9. We find that the coefficients on *High Diversity Investment_Hightech* × *Post* and *High Diversity Investment_Other Industries* × *Post* are both significantly positive with similar magnitudes.

Second, we define two dummy variables, *High Diversity Investment_High R&D Intensity* and *High Diversity Investment_Low R&D Intensity*, to indicate treatment firms whose ratios of pre-event average of R&D expenses over total sales fall into the top quartile of the distribution and the rest, respectively. We then estimate equation (7) after replacing *High Diversity Investment* × *Post* with the interaction terms between these two variables and *Post*. The results reported in column 2 of Table 9 show a significantly positive coefficient on *High Diversity Investment_High R&D Intensity* × *Post* (0.122, t = 2.24) and a negative and insignificant coefficient on *High Diversity Investment_Low R&D Intensity* × *Post*

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(−0.016, t = −0.26). The difference between the two coefficients is marginally significant (p-*value* = 0.106).

Third, we create two dummy variables, *High Diversity Investment_R&D Center* and *High Diversity Investment_Non-R&D Center*, to indicate firms that invest in high ethnic diversity counties to establish R&D centers and those that invest in high-diversity counties for other purposes, respectively. We re-estimate equation (7) by replacing *High Diversity Investment* × *Post* with the interaction terms between these two dummy variables and *Post.* Column 3 of Table 9 reports that the coefficients on both interaction terms are significantly positive, but the coefficient on *High Diversity Investment_R&D Center* × *Post* (0.138, t = 2.36) almost doubles that of *High Diversity Investment_Non-R&D Center* × *Post* (0.074, t = 1.70), although their difference is not statistically significant. Taken together, the results of the cross-sectional analyses provide some evidence that firms active in innovation activities have a larger increase in patent applications after they invest in high ethnic diversity counties.

Next, we examine whether the increase in sales growth is more pronounced for firms establishing service centers in high ethnic diversity locations. We define two dummy variables, *High Diversity Investment_Service Center* and *High Diversity Investment_Non-Service Center*, to indicate firms investing in high-diversity counties to establish service centers and those investing in such locations for other purposes, respectively. In column 4 of Table 9, we report the result of re-estimating equation (7) by replacing *High Diversity Investment* × *Post* with the interaction terms between these two variables and *Post.* Column 4 reports a positive albeit insignificant coefficient on *High Diversity Investment_Service Center* × *Post* (0.026, t = 1.58) and a smaller, but significantly positive coefficient for *High Diversity Investment_Non-Service Center* × *Post* (0.022, t = 2.16). The lack of statistical significance for the former interaction may stem from a larger standard error, resulting in a noisier estimate.

Finally, we generate two dummy variables, *High Diversity Investment_Low Pre-Diversity* and *High Diversity Investment_High Pre-Diversity*, to indicate firms with diversity ratings in the bottom quartile and the rest, respectively, prior to investing in high-diversity counties. We then estimate equation (7) by replacing *High Diversity Investment* × *Post* with the interaction terms between these two variables and *Post.* The results reported in column 5 of Table 9 show a significantly positive coefficient on *High Diversity Investment_Low Pre-Diversity* × *Post* and an insignificant coefficient on *High Diversity Investment_High Pre-Diversity* × *Post.* These results suggest that firms with low pre-existing diversity ratings experience improved diversity ratings after investing in high-diversity locations, even though they may face more challenges in managing a diverse workforce as discussed earlier.

V. Conclusion

Using a novel database from fDi Markets that contains project-level interstate investment data, we show that a county's ethnic diversity is positively and significantly related to the likelihood of an investing firm choosing it as the location for interstate investment. This finding, robust to the IV estimation and other sensitivity checks, suggests that firms may perceive a net benefit from investing in high ethnic diversity locations. We further show stronger results for innovation-active firms and

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projects involving R&D or service centers, supporting the view that a diverse workforce is expected to enhance problem-solving, innovation, and customer service. The results are also more pronounced for firms with better workforce diversity ratings, headquartered in high-diversity or Democratic-leaning counties, or led by pro-Democratic CEOs, suggesting that inclusive cultures are better equipped to manage diverse workforces.

Consequence analyses further highlight the potential benefits of investing in high-diversity locations. Investors react more positively to such announcements, and firms investing in high-diversity counties see increased patent applications, sales growth, favorable media coverage, and improved operating performance compared to other interstate investments.

The findings of our study contribute to the ongoing debate on DEI in the United States. Amid the current political climate, many large corporations have scaled back their support for DEI initiatives. However, many other CEOs and boards remain committed to their DEI efforts, emphasizing the benefits of workplace diversity in fostering a variety of perspectives and innovative solutions, and in improving overall performance. This sentiment was echoed by CEOs of Nasdaq, Pinterest, Cisco, and others during the 2025 World Economic Forum annual meeting in Davos (see https://www.cnbc.com/2025/01/24/heres-what-ceos-are-saying-about-dei-at-davos.html). Our findings are consistent with their views, showing that access to a diverse workforce serves as the underlying mechanism of driving firms to choose high-diversity locations for their interstate investments.

We acknowledge the limitation that our research findings for interstate greenfield investments may not be generalizable to other investment contexts such as M&As and strategic alliances. For greenfield investments, firms face fewer constraints compared with M&As, such as the availability of potential acquisition targets, allowing for a broader range of location choices (Coughlin and Segev (2000), Alcácer and Chung (2007)). When setting up new businesses in unfamiliar locations, a diverse workforce is critical for enhancing problem-solving and decision-making processes to tackle challenges in the initial stages. In contrast, firms pursuing growth through acquisitions may prioritize target firms with proven strengths, such as acquired innovation capabilities or an established customer base. In such cases, ethnic diversity may play a less significant role in target selections. Moreover, post-deal integration that often presents greater challenges than the deal completion itself may be further complicated by a higher level of ethnic diversity in the workforce.

Appendix. Variable Definitions

Variables Used in the Location Choice Analyses

Choose: A dummy variable that equals 1 for the chosen county for an interstate investment project, and 0 for alternative counties.

Ethnic Diversity: One minus the Herfindahl index calculated across four basic Census tract ethnic categories—Hispanic, non-Hispanic Black, non-Hispanic white, and Asian—in a county in a year.

GDP Growth: The year-on-year GDP growth of a county.

Income: The natural logarithm of the median household income in a county.

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Gini Index: A measure of income inequality ranging from 0 to 1, which is based on the difference between the Lorenz curve (the observed cumulative income distribution) and a perfectly equal income distribution.

Subsidy: A dummy variable that equals 1 if the local government provides subsidies for local firms, and 0 otherwise.

Unemployment: The unemployment rate in a county.

Education: The percentage of people who are 25 years old or above possessing a bachelor's degree or above in a county.

Workforce Growth: The year-on-year working-age population growth of a county. The working-age population is defined as people between 15 years old and 64 years old.

Age Diversity: One minus the Herfindahl index calculated across different age groups defined by the Census Bureau. The Census Bureau defines seventeen age groups for people below 85 years old and one group for people above 85 years old.

Wages: The natural logarithm of the average wages and salaries in a county.

Democratic (Home) County: A dummy variable set to 1 if the majority of the votes in a candidate (the home) county go to the Democratic candidates rather than the Republican candidates in the Presidential election in the year before the interstate investment, and 0 otherwise. If the year does not have a Presidential election, we use the interpolated value of the share of votes going to each Party between two adjacent elections to define this variable.

Industry Concentration: The ratio of the number of establishments in the investing firm's industry in a county to the total number of establishments in the whole industry across the United States, multiplied by 100. The ratio proxies for agglomeration economies.

Supplier-Customer: A dummy variable that equals 1 if an investing firm has at least one supplier or customer headquartered in a county, and 0 otherwise.

Distance: The natural logarithm of the distance (in miles) between a county and an investing firm's home county.

Political Alignment: A dummy variable set to 1 if the political orientation of a county matches that of the CEO of an investing firm, and 0 otherwise. We identify Democratic-leaning CEOs as those who make greater financial contributions to the Democratic candidates in the Senate, House, or Presidential elections than to the Republican candidates in such elections. We identify Republican-leaning CEOs in the same way. The financial contribution to a certain party is calculated using the method employed by Hutton, Jiang, and Kumar (2014) and Christensen, Dhaliwal, Boivie, and Graffin (2015). A county is classified as a Democratic (Republican) county if the majority of votes go to Democratic (Republican) candidates in the Presidential election.

Democratic CEO: A dummy variable set to 1 for Democratic CEOs, and 0 otherwise.

Estimated Potential Workforce Diversity: One minus the Herfindahl index calculated based on the estimated number of employees in four basic Census tract ethnic categories—Hispanic, non-Hispanic Black, non-Hispanic white, and Asian—within a firm in a given year. The estimated number of employees in each ethnic

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group is aggregated across a firm's all operating entities. An operating entity's estimated number of employees in an ethnic group is calculated by multiplying the entity's total number of employees by the population percentage of the ethnic group in the county where the operating entity is located. Firms' potential ethnic diversity after each interstate investment is estimated by adding the new operation to all existing operating entities in the year before the investment.

High-tech_Industry: A dummy variable set to 1 for firms in high-tech industries. We follow Francis and Schipper (1999) to define high-tech industries as the computer, electronics, pharmaceuticals, and telecommunications industries.

High_R&D Intensity: A dummy variable set to 1 if a firm's R&D expense scaled by total sales is in the top quartile of the sample distribution in the year before the investment.

R&D Center: A dummy variable set to 1 if a project is established as an R&D center.

Service Center: A dummy variable set to 1 if a project is established as a service center. A service center can serve the function of providing business service, customer contact, technical support, shared service, sales and marketing, and maintenance and servicing.

Manuf Plant: A dummy variable set to 1 if a project is set up as a manufacturing plant.

High_Diversity Ratings: A dummy variable set to 1 if a firm's MSCI KLD diversity rating is in the top quartile of the sample distribution in the year prior to the investment, and 0 otherwise. The MSCI KLD diversity rating is defined as a firm's number of diversity strengths divided by the maximum possible number of strengths in that year minus the firm's number of diversity concerns divided by the maximum possible number of concerns in the same year.

High_Home County Diversity: A dummy variable set to 1 if a firm's home county ethnic diversity is in the top quartile of the sample distribution in the year before the investment.

Variables Used in Conference Call Analyses

Nmentions_Investment: Total number of sentences referencing a focal interstate investment in the presentation sections of the conference calls held within 1 year from the investment announcement.

Nmentions_Diversity: Total number of sentences referencing workforce diversity in the presentation sections of the conference calls held within 1 year from the investment announcement.

High Diversity Investment: A dummy variable set to 1 for firms making interstate investments in high-diversity counties, and 0 for firms making interstate investments in other counties. A county is classified as a high-diversity county if its ethnic diversity in the year before the investment is in the top quartile of the sample distribution.

Ln(Market Value): The natural logarithm of market capitalization.

Leverage: (Long-term debt + debt in current liabilities) scaled by total assets.

Cash Holding: Cash and cash equivalents divided by total assets.

Market-to-Book: Market value of equity divided by the book value of equity.

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Additional Variables Used in Consequence Analyses

CAR_Market Model$_{[-1,+1]}$: The cumulative abnormal return (in decimal) estimated using the market model over the event window of [−1, +1] surrounding an investment announcement date. The parameters of the market model are estimated based on daily stock returns from trading days −240 to −41 relative to the investment announcement date (Gokkaya et al. (2023)).

CAR_Fama French$_{[-1,+1]}$: The cumulative abnormal return (in decimal) estimated using the Fama–French model over the event window of [−1, +1] surrounding an investment announcement date. The parameters of the Fama–French 3-factor model are estimated based on daily stock returns from trading days −240 to −41 relative to the investment announcement date (Gokkaya et al. (2023)).

Post: A dummy variable that equals 1 for the year of investment (i.e., the cohort year) and beyond, and 0 otherwise.

Npatent: The number of patent applications filed by the firm.

Sales Growth: The natural logarithm of sales in the current year minus the natural logarithm of sales in the prior year.

Diversity ratings: A firm's MSCI KLD diversity rating, which is defined as a firm's number of diversity strengths divided by the maximum possible number of strengths in that year minus the firm's number of diversity concerns divided by the maximum possible number of concerns in the same year.

Freq Positive News: The frequency of positive media news pertaining to a firm with a relevance score of 100 in the RavenPack database, where the positive media news are the news stories with a CSS above 50.

ROA: Pre-tax income divided by the average level of total assets in a year.

Supplementary Material

To view supplementary material for this article, please visit http://doi.org/10.1017/S0022109025102202.

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