

Are CEOs Judged on Their Companies' Social Reputation?

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Abstract

How consequential is social reputation for a CEO's career? We find that the CEOs of those firms with greater strengths (controversies) on corporate social responsibilities (CSR) are more (less) likely to serve on external boards, and they hold more (fewer) outside directorships. CEOs lose board seats after the media expose their companies in negative environmental and social news. More nuanced analyses show that workplace diversity and supply-chain human rights are most consequential among the social and environmental dimensions of CSR. Our study demonstrates that CEOs are judged on their companies' social reputation in the director labor market. Our results also suggest that social reputation plays an important role in promoting CSR.

JEL Classification: G30, G34, J40, M14

Keywords: social reputation, stakeholders, corporate social responsibility (CSR), director labor market, CEO, outside directorship.

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How consequential is social reputation for a CEO's career? We find that the CEOs of those firms with greater strengths (controversies) on corporate social responsibilities (CSR) are more (less) likely to serve on external boards, and they hold more (fewer) outside directorships. CEOs lose board seats after the media expose their companies' in negative environmental and social news. More nuanced analyses show that workplace diversity and supply-chain human rights are most consequential among the social and environmental dimensions of CSR. Our study demonstrates that CEOs are judged on their companies' social reputation in the director labor market. Our results also suggest that social reputation plays an important role in promoting CSR.

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1 Introduction

In recent years, ever-increasing emphasis on corporate social and environmental responsibilities has taken business decisions beyond the conventional scope of capitalism. Together, these responsibilities are referred to as Corporate Social Responsibilities (CSR). CSR is becoming an integral part of corporate decision making. The Financial Times reported that, in 2014, U.S. and U.K. companies on the Fortune Global 500 list spent a total of \$15.2 billion on CSR activities.¹ Institutional investors have also begun to integrate CSR criteria into their investment processes (Edmans, 2011; Renneboog, Ter Horst and Zhang, 2008a,b), while activist groups emerged to pressurize companies to deliver better CSR (Barko, Cremers and Renneboog, 2017).

Despite the unprecedented attention being paid to CSR, little is known about the role of reputation in promoting CSR. A natural first step towards answering this broad question is to ask whether social reputation has any material impact, in the financial, labor, or product markets, on companies and those who manage company resources. In this paper, we aim to fill in this gap by studying whether a CEO bears any labor market consequence for her company's social reputation.² According to Fama and Jensen (1983), external directorships are important for company managers because external directorships signal the executive's business expertise. Moreover, a CEO's status on the director market is essential because it relates to compensation, prestige, resources, and experiences (Fama and Jensen, 1983; Mace, 1971; Kaplan and Reishus, 1990).

Companies do not appoint directors lightly, however. They place a huge emphasis on reputation when appointing directors (Kaplan and Reishus, 1990). Consistent with this view, several studies show that director appointment indeed relates to a director's prior reputation. In particular, companies appoint outside directors for their good reputation associated with delivering strong financial performance (Ferris, Jagannathan and Pritchard, 2003; Fich, 2005; Yermack, 2004), minimizing barriers to takeovers (Coles and

¹See <https://www.ft.com/content/95239a6e-4fe0-11e4-a0a4-00144feab7de>.

²For the sake of brevity, we use the term social reputation to refer to the reputation associated with both the environmental and social issues.

Hoi, 2003), and coordinating large acquisitions (Harford, 2003). In contrast, individuals lose outside directorships when they are known to have failed to sustain the level of dividends (Kaplan and Reishus, 1990), committed financial fraud (Fich and Shivdasani, 2007), restated earnings as a consequence of aggressive accounting policies (Desai, Hogan and Wilkins, 2006), made poor acquisitions (Lehn and Zhao, 2006) or failed to operate a firm successfully as an independent entity (Harford, 2003).

Maintaining a good social reputation for its company is an important task for the board. Contract theory views a company as a nexus of contracts between shareholders and stakeholders (Alchian and Demsetz, 1972; Coase, 1937; Cornell and Shapiro, 1987; Hill and Jones, 1992; Jensen and Meckling, 1976). The valuable resources held by the stakeholders are essential for shareholders' value maximization (Cornell and Shapiro, 1987; Hill and Jones, 1992). Violation of CSR has forced famous companies to pay heavy prices (e.g., the Volkswagen CO₂ emissions cover up, the anti-climate lobbying by Exxon Mobil, and the earnings overstatement of Toshiba due to its broken corporate culture).³ Relationships with stakeholders can be complicated – apart from those relationships that can be explicitly contracted upon, there are those that relate more to implicit commitments reflected in various sorts of social responsibilities. Tirole (1996) notes the importance of reputation due to the impossibility of writing complete contracts. Fukuyama (1995) and Shapiro (1983) postulate that reputation brings trust among economic agents and facilitates transactions. Therefore, an important board task is to govern the company's social reputation to engage the stakeholders. Given this reputational duty of the board, a company would place extra emphasis on its board members' social reputation. Consequently, companies prefer to appoint people as directors previously employed at firms that were good citizens with good social reputation. Put differently, companies would prefer not to suffer public relation damage among stakeholders by recruiting a director from a company with a poor social reputation. A CEO serving a company of poorer social reputation would find it harder to secure an outside directorship. Therefore, our

³The Guardian: <https://www.theguardian.com/sustainable-business/2015/dec/30/vw-exxon-lobbying-brazil-mining-tragedy-toshiba-corporate-scandals-greenwashing-climate-change>

baseline prediction is that CEOs working for companies with better social reputation are more popular as outside directors for other companies.

Following Deng, Kang and Low (2013), we adjusted the CSR scores provided by the MSCI ESG Stats (formerly KLD) database to measure a firm's CSR reputation. The MSCI ESG Stats database is widely used in the CSR literature and covers a comprehensive range of CSR dimensions (e.g., workplace diversity, human rights, environment). The comprehensiveness of this database provide it with a good advantage over alternative databases. MSCI ESG Stats produces CSR scores for both strengths in CSR (positive scores) and controversies (negative scores). The positive scores measure good CSR practice by companies, and the negative scores measure violations of national or international laws, regulations or commonly accepted global norms. We perform our baseline analysis using the *Net adjusted CSR score* (the strengths score net of the controversies score). We then proceed to analyze the effects of the strengths and controversies scores, and the scores of the sub-dimensions, separately.

Our baseline analysis reveals a strong positive relation between a firm's CSR reputation and its CEO's outside directorships. In particular, the CEOs of firms with higher *Net adjusted CSR scores* are more likely to serve on outside boards, and they hold significantly more outside directorships. A one-standard-deviation increase in the *Net adjusted CSR score* leads to a 1.6% increase in the probability of a CEO serving on an outside board and a 0.067 increase in the number of CEO outside directorships. This effect is economically significant, given that the proportion of CEOs holding outside directorships in our sample is 28.6% and the average number of a CEO's outside directorships is 0.376. When we analyze the strengths and the controversies scores separately, we find that the CEOs of the companies with more CSR controversies have fewer outside directorships. In contrast, a higher strengths score increases the likelihood and the number of CEO's outside directorships significantly. This result shows that the director labor market favors superior CSR reputation.

A concern with our baseline analysis is that there may be unobserved factors that

affect both company CSR reputation and CEO outside directorships. Such an endogeneity issue would bias our estimates. To examine the robustness of our baseline findings to this concern, we use a firms' initial *Net adjusted CSR score* measured in the first year of MSCI ESG Stats data coverage as an instrumental variable (IV) for the *Adjusted CSR score*, following Attig, El Ghouli, Guedhami and Suh (2013), Benlemlih and Bitar (2015), Bhandari and Javakhadze (2017), and Deng et al. (2013). Our results do not change qualitatively. We also employ an alternative instrumental variable, the county-level *Democratic votes*, and obtain qualitatively the same results. Apart from the IV approach, we employ exogenous negative environmental and social news covered by the Reprisk database and find that CEOs lose outside directorships after high-reach media expose their companies in negative news.⁴ Taken together, allowing for endogeneity does not change our baseline results.

Arguably, boards are heterogeneous in the level of importance they attach to CSR. Companies that are larger (Cowen, Ferreri and Parker, 1987; Adams and Hardwick, 1998; Amato and Amato, 2007; Udayasankar, 2008), more profitable (McGuire, Sundgren and Schneeweis, 1988; Scholtens, 2008), more visible (Adhikari, 2016), or already highly commended on CSR are more likely to treat social reputation seriously, and they are more likely to have the resources to do so. We expect that these boards scrutinize their director candidates more carefully on social reputation before inviting them on board. From the CEOs' perspective, assuming an external directorship requires both time and effort. CEOs trade off the costs and benefits when accepting outside directorships. Other things being equal, the CEO of a more socially reputable company would accept directorships on boards that offer greater CSR-related resources, prestige, or experiences (Mace, 1971). Consistent with the above arguments, we find that CEOs whose companies have higher *Net adjusted CSR scores* are more likely to serve on the boards of larger, more profitable (measured by return on assets, *ROA*), more visible (measured by *Analyst coverage*), or more socially responsible firms (measured by the *Net adjusted CSR score*). When we

⁴Reprisk is a Zurich based firm that tracks, synthesizes, and analyzes negative company news on Environmental, Social, and Governance (ESG) incidents. It covers companies globally.

analyze the strengths and controversies scores separately, we find the CEO of a company with a higher strengths score is more likely to be an outside director of a company that is larger, more profitable, more visible, or more socially responsible. The controversies score reduces a CEO's likelihood of serving on any outside boards, suggesting all companies are concerned about poor social reputation regardless of their size, profitability, visibility, and CSR status.

According to the MSCI ESG Stats database, CSR includes several dimensions related to workplace diversity, human rights, employee relations, environment, and community. Our *Net adjusted CSR score* aggregates these dimensions to form a comprehensive measure of company social profile. An interesting question is which dimensions are more important considerations in the director labor market? Ex-ante, there is no theory to guide us in this, and we rely on the data to tell us. In our extended analysis, we find that workplace diversity and human rights are the two most prominent CSR dimensions. Perhaps this additional finding is not surprising considering that workplace diversity and human rights issues frequently hit the headlines, and they may lead to serious regulatory penalty and lawsuits.⁵

A final question we ask is to what extent a firm benefits from appointing as a director the CEO of another company with a good social reputation. Answers to this question relate to a firm's incentives to hire directors of good social reputation. Specifically, we track both the stock market reaction to director appointment and the appointing firm's post-appointment financial and social performances. We find the appointing firm's share price responds more positively when the CEO firm has a better social reputation, conditioning on the appointing firm having at least one institutional blockholder. This result suggests that institutional investors with substantial shareholdings value social reputation more than other investors do. An alternative interpretation could be that the positive impact of director social reputation on the appointing firm is too complicated to understand for retail investors. Institutional shareholders are sophisticated and they

⁵Prominent examples include the #me too movement (<https://metoomvmt.org/>) and the child labor in the global supply chain (e.g., <https://www.hrw.org/topic/childrens-rights/child-labor>).

have the necessary resources and skills to evaluate the wealth effect of a director’s social reputation. In our further analysis, however, we do not find any tangible improvement in firm profitability, sales growth, or CSR, after the appointment of a director with good social reputation, even in the presence of block institutional holdings. This additional piece of evidence indicates that the positive market reaction is most likely attributable to the reputational effects. In a robustness test, we control for the sample self-selection issue associated with the sample of director appointments, and our results do not change qualitatively.⁶ We also estimate the stock market reaction to director appointment for the CEOs’ companies. The average Cumulative Abnormal Return is negative but statistically insignificant. It seems unlikely that the CEOs accept outside directorships for their shareholders’ interests. Rather, they seem to do so to burnish their private credentials, reputation, and labor market value, as is suggested by Bénabou and Tirole (2010).

In this study, we make two contributions. First and foremost, we take the first step to understanding the role of reputation in promoting CSR.⁷ We find that company social reputation has significant labor-market consequences on CEOs. Companies that need directors prefer to hire from firms that are good citizens to avoid reputation damage among stakeholders. Therefore, a better company social reputation enhances a CEO’s status on the director labor market, while negative social news relating to a company undermines the CEO’s status. Since outside directorships are associated with compensation, prestige, resources, and experiences (Fama and Jensen, 1983; Mace, 1971; Kaplan and Reishus, 1990), such a reputation effect can incentivize CEOs to be more socially conscious. Our results show that CEOs are judged on their companies’ social reputation externally on the director labor market. Further studies on how internal mechanisms, such as compensation, board monitoring, shareholder voting, motivate CEOs on social issues, can be fruitful (see, e.g., Flammer, Hong and Minor, 2019). Second, we add to the considerable literature that associates the possession of outside directorships with

⁶As we will explain in Section 6, the last set of analyses are based on small samples, and thus requires caution when we infer external validity of these results.

⁷A fully developed study relating reputational shocks to tangible company CSR activities can be fruitful but requires substantial additional analysis. For the sake of space, we delegate such a study to future works.

performance, skills, experiences, and misconducts (e.g., Ferris et al., 2003; Fich, 2005; Yermack, 2004; Kaplan and Reishus, 1990; Desai et al., 2006; Fich and Shivdasani, 2007; Desai et al., 2006; Harford, 2003; Coles and Hoi, 2003; Lehn and Zhao, 2006). Our results show that social reputation is an essential determinant of an individual's status on the director labor market.

The rest of the paper is organized as follows. Section 2 reviews the relevant literature and develops our main hypotheses. Section 3 describes the sample selection criteria and the variables of interest. Section 4 reports our main results about the effect of company CSR reputation on CEO outside directorships. Section 5 reports our results from the extended analysis based on the exogenous negative CSR news, the decomposed strengths and controversies scores, and the sub-dimensions of the aggregate CSR score. Section 6 investigates how director appointments affect appointing firms' share price (as well as the CEO firm's), financial performance, and social performance. Section 7 concludes.

2 Literature review and hypothesis development

2.1 Reputation, discipline, and the director labor market

The labor market for outside directors values the potential director's reputation, experience, and expertise and, at the same time, offer compensation, prestige, resources, and new experience that CEOs cherish. A sizable literature demonstrates that the director labor market rewards managers for their reputation and expertise. Fama and Jensen (1983) posit that outside directorships signal a CEO's reputation as decision experts. Those who hold or intend to hold outside directorships have strong incentives to develop and sustain their reputation. Kaplan and Reishus (1990) and Mace (1971) postulate that outside directorships bring top managers prestige and visibility, certify the scope and quality of their expertise and offer them extensive business networks, which in turn leads to further resources and career opportunities. Consistent with this recognition theory, Ferris et al. (2003) show that superior firm financial performance increases an individual's number of outside directorships significantly. Fich (2005) finds that the CEOs of better-performing

firms hold more outside directorships and are more likely to be outside directors of firms with high growth or more institutional ownership. Harford and Schonlau (2013) find that the labor market not only cares about merger performance but also about merger experiences – CEOs who have done more deals hold more directorships. Yermack (2004) finds evidence showing that company directors care about their reputation. His evidence suggests that the possibility of obtaining additional outside directorships is a significant performance incentive for company directors. Further, directors pro-actively abandon their posts in under-performing firms to protect their reputation.

The labor market also disciplines managers through *ex post* settling up. The *extant* literature shows that poor on-the-job performance damages a CEO's reputation severely on the director labor market (Fama and Jensen, 1983; Lehn and Zhao, 2006). Kaplan and Reishus (1990) use dividend payment as a measure of performance and find executives who are not able to sustain the level of dividends lose outside directorships in the subsequent years. Gilson (1990) finds that directors who resign from bankrupt firms lose their directorships in other firms. Harford (2003) observes that executives and directors are rarely retained after their companies being taken over, and they rarely obtain outside directorships elsewhere subsequently. Fich and Shivdasani (2007) examine a sample of firms facing financial-fraud lawsuits and find outside directors of these firms lose their directorships in other firms. Coles and Hoi (2003) find that outside directors' poor decisions on opting out of state-level anti-takeover provisions lead to subsequent loss of their outside directorships.

Overall, the above evidence shows that the labor market for outside directors is an institution responsive to the candidate directors' reputation and performance. At the same time, CEOs care about their reputation and associated opportunities (Yermack, 2004; Coles and Hoi, 2003), and the labor market provides incentives and discipline for CEOs to deliver good performance and sustain good reputation.

In the current study, we examine whether and how CEOs are judged by their companies' social reputation on the director labor market.

2.2 Corporate social responsibility, company social reputation, and CEO CSR motives

Unlike the conventionally perceived scope of capitalism, contract theory and the theory of firms (Alchian and Demsetz, 1972; Coase, 1937; Cornell and Shapiro, 1987; Hill and Jones, 1992; Jensen and Meckling, 1976) suggest that companies can do well by doing good. According to this view, a company is a nexus of contracts among the shareholders and the stakeholders. The stakeholders possess the resources essential for the company's success. Having a good reputation among the stakeholders and being a good citizen can be essential for a modern company's prosperity. The relationships with the stakeholders are complicated and subtle. Some of the explicit relationships are reflected in the provisions of explicit contracts. Many other relationships, however, are complicated and implicit (for example, good faith from employees and robustness of the global supply chain). Tirole (1996) highlights the importance of reputation when explicit contracting is impossible. Fukuyama (1995) and Shapiro (1983) posit that reputation facilitates transactions by generating trust among economic agents. Through fulfilling their CSR commitments, companies establish a good reputation among stakeholders and receive their good faith in return. Consequently, the stakeholders are more willing to contribute key resources to a firm's success. For example, Lins, Servaes and Tamayo (2017) find that firms with higher CSR scores fare better during the 2008-2009 financial crisis. They conclude that good CSR reflects the trust between a firm and its stakeholders as well as shareholders, which benefits the firm when the overall level of trust in the markets is low.

Another strand of literature investigates the managers' motives behind CSR. There are two broad views: the shareholder value-maximizing view and the agency view. Friedman (1970) claims that the one and only one social responsibility of business is to increase its profits within the rules of the game. There is a broad scope for interpreting "the rules of the game", however. This shareholder-value-maximization view asserts that CEOs commit resources to CSR to enhance shareholders' value. Several studies provide evidence consistent with this view. Deng et al. (2013) find acquiring firms with better CSR

performance have better merger performance. Flammer (2015) uses a Regression Discontinuity Design (RDD) and find firms adopting closely-passed CSR proposals experience a positive stock market response at the announcement and superior operating performance subsequently. That said, some studies find that CSR impacts firm value only under certain conditions. Servaes and Tamayo (2013) find that the positive impact of CSR on firm value is conditioned on high customer awareness. They maintain that customer awareness provides a channel through which CSR is recognized by customers, which in turn impacts firm value. Edmans (2011) postulates that firm value, to a considerable extent, relies on employee satisfaction. Recent work by Bénabou and Tirole (2010) and Ferrell, Liang and Renneboog (2016) finds that CSR enhances firm value in well-governed firms. Contrary to the shareholder value-maximizing view, the agency view holds that managers invest in CSR to pursue their private benefits. They use CSR either to establish and strengthen their relationships with stakeholders or to enhance their public image and prestige. Under the agency view, managers commit to CSR not to maximize the shareholder value but to burnish their reputation, networks, and job market value. Bénabou and Tirole (2010) postulate that a firm is likely to have agency problems when the insiders' private benefits motivate its CSR commitment. Cheng, Hong and Shue (2016) and Masulis and Reza (2014) use the 2003 Tax Reform Act as a quasi-natural experiment to study the relation between CSR and corporate governance. This reform, which reduced the maximum personal dividend tax rate from 35% to 15%, considerably increased the after-tax dividend income from insider ownership and aligned insider interests better with those of other shareholders.⁸ They find that after the reform, firms with moderate levels of insider ownership (which are most likely to be affected by the tax reform) reduce their spending on CSR significantly. Their findings suggest corporate expenditure on CSR is related to agency costs – when CSR is more costly for insiders (i.e., after the 2003 tax reform), they reduce CSR spending. Adding to this, Krüger (2015) reports a negative stock market response to positive CSR news, showing shareholders are concerned about possible agency problems associated with CSR spending.

⁸See Chetty and Saez (2005) for a detailed discussion of the 2003 dividend tax cut and its impact on corporate behavior.

2.3 Hypotheses

If outside directorships are valuable for CEOs and companies are concerned about social reputation when hiring directors, there should be a positive relation between a CEO firm's social profile and the likelihood and number of outside directorships held by the CEO. Specifically,

H1 (a): *A CEO's probability of holding outside directorships is positively related to her company's CSR profile.*

H1 (b): *The number of outside directorships held by a CEO is positively related to her company's CSR profile.*

Booth and Deli (1996) and Kaplan and Reishus (1990) maintain that outside directorships reflect a CEO's status on the labor market as well as her willingness to serve as an outside director. Fahlenbrach, Low and Stulz (2010) also formulates a matching theory where better CEOs are matched to better firms. As is discussed in the introduction, company boards are heterogeneous in the level of importance they assign to CSR. We use size (*Total assets*), profitability (*ROA*), CSR profile (the *Net adjusted CSR score*), visibility (*Analyst coverage*), and consumer orientation (*Advertising expenses*) of the appointing firms' to measure the level of attention to CSR. We hypothesize that,

H1 (c): *The CEO of a company with stronger social profiles is more likely to hold directorships on boards that are more concerned about CSR.*

Appointing a director from a company with a strong social profile may have a reputational effect, where equity investors receive a positive message that the appointing company confirms its existing commitment to CSR. To the extent that a company can "do well by doing good" (Bénabou and Tirole, 2010), stock price should react positively even without actual improvement in subsequent operating performance. However, the appointment of a socially responsible director may also have tangible effects on the appointing company's subsequent financial or social performance, which leads to a positive stock market reaction. Therefore, we have the following hypotheses,

H2 (a): *The stock price react more positively when the appointed director is a CEO from a company with a stronger social profile.*

H2 (b) *The subsequent financial and social performance of the appointing company is better when the appointed director is a CEO from a company with a stronger social profile.*

3 Data and sample

3.1 The panel data

We use a panel data set to estimate the likelihood and the number of CEO outside directorships. We obtain information about CEOs and directors from the BoardEx database. The BoardEx database provides detailed information on individuals, such as age, education, employment history, and their roles on the board. Our initial sample consists of the firms that have ever been a constituent of the S&P 1500 index during the period 2000–2010 and have ever been included in the BoardEx database, excluding financial and utilities firms (SIC codes 6000–6999 and 4900–4999).⁹ We also require all the firm characteristics and stock price data used in our analyses to be available from Compustat and the Centre for Research in Security Prices (CRSP). This gives an initial sample of 9,211 firm-year observations. We then gather data on firm-level CSR performance from the MSCI ESG Stats (formerly KLD) database, which leaves 5,842 firm-year observations. Finally, we exclude the firms that are headquartered outside of the U.S. because we need U.S. Census data to construct our instrumental variables. Our final sample consists of 774 firms, 5,590 firm-year observations and 1,258 CEOs.

3.2 Data on outside director appointments

We collect a sample of events where firms appoint external CEOs as their outside directors. We use this sample to analyze the stock market reaction to the appointment

⁹Our sample ends in 2010 as we need to control for the effect of firm innovativeness on CEO outside directorships (Gao, Garrett and Xu, 2019). We rely on the patent data compiled by Kogan, Papanikolaou, Seru and Stoffman (2017), which, compared to alternative data sources, offers the neatest matching between the patents and the companies covered in CRSP. Their data ends in 2010.

of outside directors as well as the appointing firms' subsequent financial and social performance. We first use the director tenure information from the BoardEX database to find the appointment year. This procedure yields 448 director appointments during 2000–2010. We then require all data needed for our analyses to be available from the MSCI ESG Stats, BoardEx, Compustat and CRSP databases for the period covering three years before to three years after the appointment. The data required for the analysis include firm characteristics (CSR scores, total assets, return on assets, and patent count), board characteristics (committee composition, and director tenure), and CEO characteristics (age, education, and tenure). This step leaves 336 director appointments. We collect the exact announcement days from the BoardEx announcement database and Factiva.¹⁰ We eliminate those events in which the appointment day is neither in BoardEx nor in Factiva. We further exclude those appointment announcement days that coincide with other major corporate events such as mergers and acquisitions, seasoned equity offerings, dividend announcements, financial report announcements, and the appointment announcement of executives or other directors. This selection process offers a final sample of 95 appointments.

3.3 Measures of firm CSR profile

We measure a firm's CSR profile using the scores constructed from the MSCI ESG Stats database. This database provides ratings on environmental, social, and governance (ESG) matters for the (approximately) 3,000 largest U.S. firms. It has been widely used in academic studies on CSR (see, among others, Di Giuli and Kostovetsky (2014); Hong, Kubik and Scheinkman (2012); Krüger (2015); Lins et al. (2017); Servaes and Tamayo (2013); Deng et al. (2013)). MSCI ESG Stats evaluates a firm's CSR performance using seven major dimensions: workplace diversity, human rights, environment, community, employee relations, product, and corporate governance. We focus on the first five dimensions which can be treated as the social and environmental dimensions. Following Lins et al. (2017) and Servaes and Tamayo (2013), we exclude the “product” and “governance” dimensions

¹⁰The BoardEx announcement dataset contains the days on which the directors' appointments are announced.

because several elements in the product dimension (product quality, safety, and innovation) are outside the scope of CSR. The “governance” dimension is excluded because the governance measures provided by MSCI ESG Stats database do not closely relate to CSR issues. The “governance” measures also differ from the conventional concept of corporate governance (see Hong et al. (2012) and Krüger (2015)).¹¹

The five dimensions used in our analysis covers five distinct aspects of a company’s social profiles. The environment dimension covers issues such as waste management, natural resource use, climate change, biodiversity, etc. The dimension of community involves community engagement, support for local education and housing, donation to the local community, etc. Human rights cover overseas labor rights, child labor record, indigenous people relations, etc. Employee relations involve issues such as retirement benefits, compensation and benefits, professional development, and so on. Workplace diversity covers the issues such as workforce diversity (e.g., women, minority, and disabled), board diversity (e.g., gender, minority, disabled), respect and protection of women and minority employees.

MSCI ESG Stats provides both strengths scores and controversies scores for each CSR dimension.¹² As the number of strengths and controversies varies over time and across categories, it is difficult to compare the CSR performance over time or across categories. A simple sum of net scores (i.e., strengths minus controversies) across the five CSR dimensions, therefore, does not suit our purpose. Following Deng et al. (2013), Lins et al. (2017), and Servaes and Tamayo (2013), we construct an adjusted CSR measure that takes into account strengths, controversies, and the change in the maximum number of strengths and controversies of each dimension over time. In particular, as a first step, we scale the strengths and controversies scores for each of the five dimensions by their

¹¹As a robust check, we repeat our baseline analysis, including the “product” and “governance” dimensions. Our findings remain qualitatively the same. The results are not tabulated but available upon request.

¹²In addition to the seven major dimensions, ESG Stats also provides controversies scores on six industries that they consider controversial: alcohol, gambling, firearms, military, nuclear, and tobacco. We do not include these in our tests because they are industry-specific measures. However, we control for industry effects in all our tests. When we include these six additional controversies scores in our tests, our baseline findings remain qualitatively unchanged (results available upon request).

respective total number of strengths and controversies in a year. This approach gives equal weight to each dimension, allowing us to compare the CSR performance across years and categories. Then, to construct the net score (i.e., *Net adjusted CSR score*), we subtract the scaled controversies score from the scaled strengths score of each dimension and sum up the net scores of the five dimensions. We also use the sum of the adjusted strengths scores (*Adjusted CSR score (strengths)*) and the controversies scores separately (*Adjusted CSR score (controversies)*) to examine their respective impact on CEO directorships, which gives us more nuanced evidence about the reward and penalty imposed by the director labor market on CEOs' CSR performance.

3.4 Measures of a CEO's outside directorships

We use the count of outside directorships held by a CEO to measure her status on the director labor market. This data is from BoardEx. In the first step, we identify all the CEOs of U.S. firms that have ever appeared in the S&P 1500 index. If a CEO appears on the board of any other S&P 1500 firms as an outside director in a given year, we add one to the number of outside directorships for this CEO in that year. One possible issue is that BoardEx keeps adding new companies to the database. Thus, the number of outside directorships recorded in the database may increase because more firms are covered in the database rather than a CEO gaining more outside board seats. To overcome this problem, we only include a CEO's outside directorships with those firms that have ever appeared in the S&P 1500 index.

We also refine our measures of outside directorships by only including those outside boards whose companies have the above-sample-median value in a year, regarding size (*Total assets*), profitability (*ROA*), visibility (*Analyst coverage*), CSR (the *Net adjusted CSR score*), and consumer orientation (*Advertising expenses*). In Section 4.2, we fit a multinomial probit model to these refined data.

3.5 Data on negative environmental and social news events

In an extended analysis and robustness test, we retrieve the number of exogenous environmental and social news events for a firm in each year from the Reprisk database.¹³ Reprisk gathers this negative news globally from a comprehensive range of media, using a combination of artificial intelligence and human curation. To each piece of news, Reprisk assigns a rank based on its severity and reach (i.e., readership) respectively. Severity measures the extent, consequence, and degree of human cause of an incident. Reprisk gives each news a rank of either low severity, medium severity, or high severity. Reach indicates the influence or readership of the media source covering the news. Reprisk ranks the sources into low-reach sources, medium-reach sources and high-reach sources. The sample period covers 2007–2010. Since Reprisk keeps backfilling their data, we use the vintage of data for April 2019. In untabulated checks, we find a sample firm has an average of 0.4633 (median 0) high-reach news and an average of 0.4951 (median 0) high-severity news in a year. Among the total 1321 firm-years in our sample, there are 1184 (1159) firm-years without high-reach (high-severity) news.

4 Company CSR profiles and CEO outside directorships: the baseline results

4.1 Main analysis

In hypotheses H1(a) and H1(b), we predict a positive relation between company CSR profile and the likelihood and number of the CEO’s outside directorships. This positive relation builds on the argument that social reputation is valued in the director labor market. Since the stakeholders possess valuable resources that a firm requires for its success, companies prefer to hire directors from other companies that stand out in their social profiles.

¹³Apart from environmental and social news, Reprisk also covers governance and cross-cutting issues. However, the governance and cross-cutting category include issues that are not strictly related to CSR, e.g., executive compensation, anti-competitive practices, tax evasion, and so on. Our results are qualitatively largely the same if we include the governance and cross-cutting issues.

In Table 2, we present the summary statistics for the variables used in our analysis. Our univariate tests show that 36.3% of the CEOs from the firms with a positive *Net adjusted CSR score* hold outside directorships and, on average, each CEO holds 0.463 outside directorships. In contrast, only 25.3% of the CEOs from those firms with a zero or negative *Net adjusted CSR score* hold outside directorships, which is significantly lower, and these CEOs on average hold only 0.339 outside directorships, also significantly less. This preliminary univariate result is in line with our hypothesis. In Table 2, we further show that the firms with better CSR profiles are larger, more mature, with more growth opportunities, and less financially distressed (with more cash holdings and lower leverage). This is similar to the findings of Ferrell et al. (2016), Hong et al. (2012) and Liang and Renneboog (2017), among others. Similar to Borghesi, Houston and Naranjo (2014), we observe that younger and more-educated CEOs have better CSR profiles. The firms with positive *Net adjusted CSR scores* also have smaller boards and a higher incidence of CEO duality, hinting the association between CSR and shareholders' interests can be complicated (Bénabou and Tirole, 2010; Cheng et al., 2016; Masulis and Reza, 2014; Krüger, 2015).

To quantify the relation between company CSR profile and the CEOs' outside directorships, we estimate the following baseline model:

$$\begin{aligned}
 \text{CEO outside directorships}_{i,t+1} = & \\
 & \alpha + \beta_1 \text{Net adjusted CSR score}_{i,t} + \beta_2 \text{Controls}_{i,t} \quad (1) \\
 & + \sigma \text{INDDUM}_i + \gamma \text{YDUM}_i + \varepsilon_{i,t},
 \end{aligned}$$

where i indexes firms and t indexes years. The dependent variable is a measure of a CEO's outside directorships. We use both Probit and Tobit models to estimate equation (1). We use the Probit model to estimate the likelihood of a CEO holding outside directorships. The dependent variable is a binary variable, which is one if a CEO holds at least one outside directorship in a year and zero otherwise. Following Booth and Deli (1996), we

also use the Tobit model to estimate the number of outside directorships held by a CEO, because the distribution of the dependent variable is left-censored.¹⁴ *Controls* is a vector of control variables, *YDUM* is a vector of year dummy variables, with each element indicating a year during the period 2000–2010, and *INDDUM* is a vector of industry dummy variables defined using the Fama-French 12-industry classification. Definitions of all the variables can be found in Table 1.

We control for a variety of variables that previous studies have identified as important factors affecting a CEO’s outside directorships. Booth and Deli (1996) find that the CEOs from larger firms or those firms with fewer growth opportunities hold more outside directorships. They postulate that larger firms benefit more from building well-bonded relationships through their CEOs’ service on outside boards. The CEOs of larger firms are also more attractive in the labor market because they are in a better position to certify the quality of the appointing firms, or supply resources or information to outside boards. The CEOs of firms with fewer growth opportunities hold more outside directorships because they have lower opportunity costs attached to devoting their effort elsewhere.

Other firm characteristics such as firm age, location, and governance structure have also been shown to influence outside directorships. Fahlenbrach et al. (2010) argue that the CEOs of more mature firms have delegated more of their authority to younger managers and, therefore, are more likely to accept outside directorships. This is because they have lower opportunity costs regarding their time. Knyazeva, Knyazeva and Masulis (2013) observe that the number of relevant local firms has a strong impact on a firm’s board appointment process. It is less costly for a CEO to serve on the board of a local firm because lower costs are involved in information acquisition, commuting, and coordination. For the same reasons, the costs for a firm are also lower when it has outside directors from the local areas. Therefore, the CEO of a firm located close to a larger pool of qualified firms are likely to have more outside directorships. Regarding the corporate governance structure, Booth and Deli (1996) suggest that board size, CEO duality, and

¹⁴We cannot use Poisson regressions or negative binomial regressions in this case because the number of outside directorships held by a CEO in each year is not independent over time.

the number of board interlocks play important roles in deciding a CEO's outside directorships. Board size and CEO duality (i.e., the CEO also serves as the chairman) are measures of monitoring intensity and the strength of shareholder rights. The number of board interlocks reflects a firm's tendency to build bonded relationships with other firms.

The extant literature also underscores the impact of expertise on a CEO's outside directorships (Coles, Daniel and Naveen, 2008; Dalton, Daily, Johnson and Ellstrand, 1999; Hermalin and Weisbach, 1988). Studies show that those CEOs with special expertise are particularly sought after as outside directors who provide monitoring or counseling. For instance, recent literature highlights the importance of industrial expertise (Dass, Kini, Nanda, Onal and Wang, 2014; Faleye, Hoitash and Hoitash, 2018; Masulis, Ruzzier, Xiao and Zhao, 2012; Wang, Xie and Zhu, 2015), innovation leadership (Gao et al., 2019), financial expertise (Güner, Malmendier and Tate, 2008), and political experience (Goldman, Rocholl and So, 2009).

In Panel A of Table 3, we report our regression estimates based on Equation (1). Models 1 and 2 present the estimates from the Probit model and the Tobit model, respectively. We find the coefficient on the *Net adjusted CSR score* is positive and significant at the 1% level in both models. The estimates show that a one standard deviation increase in the *Net adjusted CSR score* leads to a 1.6 percentage points increase in a CEO's probability of holding outside directorships and a 0.067 increase in the number of outside directorships held by a CEO. This effect is economically significant given that the proportion of CEOs holding outside directorships in our sample is 28.6% and the average number of outside directorships held by a CEO is 0.376.

A firm's CSR profile may be related to unobserved variables that also affect its CEO's outside directorships, leading to a spurious correlation. To address this possible endogeneity issue, we adopt an instrumental variable approach. Following several previous studies (e.g., Attig et al., 2013; Benlemlih and Bitar, 2015; Bhandari and Javakhadze, 2017), we instrument the *Net adjusted CSR score* by the initial level of a firm's *Net adjusted CSR Score* calculated in the first year of data coverage. This initial level of CSR is

relevant because firms invest in CSR with a long-term perspective (Bénabou and Tirole, 2010), and most firms' social profiles evolve slowly over time. Krüger (2015) finds the CSR score constructed from the MSCI ESG Stats database are autocorrelated over time. This score not only incorporates the latest CSR profile but also contains CSR information from previous years. Consequently, a firm's initial level of *Net adjusted CSR score* should be positively correlated with the current *Net adjusted CSR score*. Our statistical test in Table 3 verifies the relevance of the initial CSR level – in Model 3 of Panel A in Table 3 where we estimate the first stage of the IV regression, the initial *Net adjusted CSR score* has a positive coefficient of 0.657 and is significant at the 1% level. The Pseudo R^2 of Model 3 is as high as 0.443. At the bottom of Panel A of Table 3, we use the Cragg-Donald Wald F -test to test for the weak instrument. The test statistic is 2340.66 for the initial *Net adjusted CSR score*, which is above the critical value of 16.38 for the conventional 10% maximal IV relative bias recommended by Stock and Yogo (2005) and rejects the null hypothesis that the initial *Net adjusted CSR score* is a weak instrument. Regarding the exclusion criteria, it is unlikely that the director labor market emphasizes a firm's initial CSR profile, given the current CSR score is available for the CEO firm. The initial CSR profile is most likely to affect a CEO's outside directorships only through the current *Net adjusted CSR score*. Further, when we add the instrument to the second stage of regression (untabulated), we find its coefficient is statistically insignificant.

In Models 3 through 5 of Table 3, Panel A, we report the results from the Probit model and the Tobit model estimated using the IV approach. We find that the positive relation between company CSR profiles and the measures of CEO outside directorships is robust to controlling for the potential endogeneity bias discussed above. In Models 4 and 5, the magnitudes of the coefficient on the *Net adjusted CSR score* is similar to those reported under Models 1 and 2, respectively. The significance levels of the coefficients are at 1%.

To further validate our results, we repeat our IV procedure using an alternative IV, *Democratic votes*. We define *Democratic votes* as the percentage of votes for Democrats

during the previous presidential elections of the counties that host a firm’s headquarters. We obtain the county-level presidential election data from the United States Census Bureau website.¹⁵ The *Democratic votes* is a possible valid IV because, as suggested by Di Giuli and Kostovetsky (2014) and Rubin (2008), firms located in Democratic-leaning counties or states tend to have a higher commitment to CSR. We measure the *Democratic votes* at the county level because companies’ attitude towards CSR is more likely to be influenced by the voters and politicians around them than by those further away. Also, the county-level data offers good variation in the *Democratic votes* which in turn enhances the power of our tests. In Panel B of Table 3, we present the results based on this alternative IV. In the first-stage regression (column 6), *Democratic votes* has a significantly (at the 1% level) positive coefficient of 0.129. In the second-stage regressions (columns 7 and 8), we obtain the results that are qualitatively the same as those reported in Models 4 and 5 of Panel A.

It is notoriously difficult to find an excellent IV. Our IVs are not without any caveat either. A firm’s CSR profile is auto-correlated over time and can be determined jointly with a CEO’s outside directorships by firm or CEO characteristics. Being in a more Democratic county may relate to more outside directorships through channels unrelated to a firm’s CSR, such as policies on labor mobility or corporate governance. That said, previous literature has provided reasonable justifications for these IVs (e.g., Attig et al., 2013; Benlemlih and Bitar, 2015; Bhandari and Javakhadze, 2017; Di Giuli and Kostovetsky, 2014; Rubin, 2008), which allow us to use them with an acceptable level of confidence.

One way to further address the endogenous issue is to use firm or CEO fixed effects to control for the time-invariant factors that influence both CSR and CEO outside directorships. In untabulated results, we find our baseline result becomes statistically insignificant when controlling for firm or CEO fixed effects in linear probability and

¹⁵We also use the state-level *Democratic votes*, but did not obtain any significant result. The absence of significance could be due to the weak power of test because the state-level votes imposes uniform variations on company CSR scores in a state.

weighted least squares estimations. We use the linear models because non-linear models such as Probit and Tobit yield biased estimates when the number of fixed effects is large and the group size is small (e.g., Hsiao, 1996; Kalbfleisch and Sprott, 1970). Prabhala and Li (2007, p56) point out that fixed-effects models often have limited power when the underlying variables change slowly over time. They posit that, in such a case, causal effects are primarily due to the cross-section rather than the time series. They suggest that it is important to consider the lack of power as an explanation for insignificant results when using fixed effects. Also, in Section 5.1, we exploit exogenous negative news events to address the concern about endogeneity further.

Overall, the results discussed in this section support our hypothesis that a good company social reputation impacts a CEO's labor-market status positively. Arguably, a company's social profile is the joint outcome of the company as well as CEO attributes. However, our IV results show that company social reputation is likely to be more important than the CEO social expertise because our two IVs do not bear on a CEO's attributes directly.

4.2 Does the CEO of a firm with a stronger social profile hold outside directorships on more socially-conscious boards?

As is explained earlier in the introduction, the CEO of a socially more responsible company is more likely to be matched to a board that is socially more conscious. In this section, we use the appointing firm's size (*Total assets*), profitability (*ROA*), visibility (*Analyst coverage*), CSR performance (*Net adjusted CSR score*), and consumer orientation (*Advertising expenses*) to proxy for the level of a board's social consciousness. We use a set of multinomial Probit regressions to estimate the relation between the CEO firms' social profiles and the outside boards' social consciousness. The dependent variable is zero if a CEO does not hold any outside directorships (the base case), one if the CEO serves on one or more outside boards and the average *Total assets* (*ROA*, *Analyst coverage*, *Net adjusted CSR score*, or *Advertising expenses*) of the appointing firm(s) is less than the sample median, and two if the average is above the sample median. We report

the results in Table 4 where Panel A (B) contains the uninstrumented (instrumented) results. In Models 1 through 4 of Panel A, we show that the CEOs of those firms with a higher *Net adjusted CSR score* tend to hold outside directorships on the boards of larger, better performing, more visible, or socially more responsible firms, instead of holding no outside directorships. For example, in Model 1, the coefficient on the *Net adjusted CSR score* is 0.321 in the regression of $Y = 2$ (i.e., holding directorships with large firms), and statistically significant at the 1% level ($p = 0.000$). A one standard deviation increase in the *Net adjusted CSR score* leads to an increase of 2.38% in the probability that a CEO serves on the board of a large firm relative to holding no directorships. This effect is economically large, given that only 13.54% of our sample CEOs serve on large firms' boards. The coefficient on the *Net adjusted CSR score* in the regression of $Y = 1$ (i.e., holding directorships with small firms) is positive but statistically insignificant. Therefore, the tendency for the CEO of a socially more responsible firm to hold directorships with small firms is not significantly higher than the probability of her holding no directorships. We can interpret the results in Models 2, 3 and 4 in a similar fashion. In column 5, we find the coefficient on the *Net adjusted CSR score* is positive and significant (at the 5% level) in both the low and high *Advertising expenses* regressions, suggesting that the appointing firms are equally concerned about CSR no matter they are more consumer-oriented or business-oriented. In Panel B, we re-estimate these multinomial Probit models using the IV approach, where the initial level of *Net adjusted CSR score* is the instrument. Our findings remain qualitatively the same. Overall, these results show that the CEOs of those companies with stronger social profiles tend to hold directorships on those boards that are socially more conscious.

5 Extended analyses and robustness

5.1 Negative exogenous social news and CEO outside directorships

In this section, we report the results from our extended analysis based on the negative exogenous CSR news. Since the news announcements are largely unexpected, the analysis

herein also helps us to verify further that causality runs from a company’s social profile to its CEO’s status on the director labor market. Specifically, we estimate the following equation using the ordinary least square regression,

$$\begin{aligned} \Delta \text{Outside directorships}_{i,t:t+2} = & \\ & \alpha + \beta_1 \text{High-reach news}_{i,t} + \beta_2 \text{High-severity news}_{i,t} \\ & + \beta_3 \text{Total news count}_{i,t} + \gamma \text{Controls}_{i,t} + \sigma YDUM_t + \lambda IDUM_{i,t} + \varepsilon_{i,t}, \end{aligned} \quad (2)$$

where i indexes firm and t indexes year. $\Delta \text{Outside directorships}_{i,t:t+2}$ is the change in the number of CEO’s outside directorships over two years after year t . *High-reach news* is either the logarithm of the number of high-reach news in a year or a dummy variable indicating the existence of at least one high-reach news event in a year (0 otherwise). *High-severity news* is either the logarithm of the number of high-severity news events in a year or a dummy variable indicating the existence of at least one high-severity news event in a year (0 otherwise). *Total news count* is the logarithm of the number of all news events. *Controls* is a vector of control variables specified under Equation 1. *YDUM* indicates year fixed effects and *IDUM* indicates industry fixed effects.

We report our results in Table 5. In column 1, the coefficient on the High-reach news dummy is -0.132 and statistically significant at the 5% level. This coefficient means, when a company has at least one negative CSR news event reported by high-reach media sources, the number of its CEO’s outside directorships on average decline by 0.132. In the same regression, we find *Return on assets* and *Sales growth* both have positive and significant coefficients (0.410 and 0.144 respectively, and both are significant at the 5% level), which is consistent with the findings in the previous literature that superior financial performance leads to more outside directorships (Ferris et al., 2003; Fich, 2005). Capital expenditure (CAPEX) has a significantly negative coefficient (-0.424), perhaps because larger capital expenditure in the current year requires a CEO to spend more time in the following years in her firm. The logarithm of patent counts has a significantly (at

the 1% level) positive coefficient of 0.033, indicating the CEOs of more innovative firms are more popular on the director labor market. The logarithm of CEO age has a negative coefficient of -0.373 and is significant at the 1% level, indicating more elderly CEOs are less keen to take on additional outside directorships. In column 2, we replace the *High-reach news dummy* with $\log(1 + \text{High-reach news count})$. The coefficient on $\log(1 + \text{high-reach news count})$ is -0.076 and significant at the 5% level. In column 3 and 4, we repeat our regressions in column 1 and 2, controlling for the *High-severity news dummy* and $\log(1 + \text{High-severity news count})$ respectively. We find the coefficients on the *High-reach news dummy* and $\log(1 + \text{High-reach news count})$ remain qualitatively unchanged. Neither the coefficient on the *High-severity news dummy* nor that on $\log(1 + \text{High-severity news count})$ is statistically significant, although they are positive. Therefore, it is likely the firms in need of director services care about media influence and reputation more than they care about the actual severity of the social incidents. It is also possible that, without the coverage of high-reach media, negative social news does not catch the attention of outside boards who hire on the director market. In columns 5 and 6, we repeat our regressions in column 1 and 2 respectively, controlling for $\log(1 + \text{Total news count})$. Our results in columns 1 and 2 do not change qualitatively. In column 7 and 8, we repeat the regression in column 5 and 6 respectively, further controlling for the *High-severity news dummy* and $\log(1 + \text{High-severity news count})$ in column 7 and 8 respectively. Our results in columns 5 and 6 persist. Overall, we find that negative CSR news covered by high-reach media sources reduces a CEO's outside directorships significantly in the following years, consistent with hypothesis H1 (b).

5.2 The effects of strengths and controversies scores

We have shown that the CEOs from firms with a higher *Net adjusted CSR score* are more popular on the director labor market. In this section, we proceed to examine whether it is the strengths or the controversies that cause our previous results. To this end, we decompose the *Net adjusted CSR score* into the *Adjusted CSR score (strengths)* and the *Adjusted CSR score (controversies)*, and re-estimate our models in section 4.1 and 4.2.

The only change here is that we use the *Adjusted CSR score (strengths)* and the *Adjusted CSR score (controversies)* instead of the *Net adjusted CSR score*. Table 6 reports the results from these Probit and Tobit regressions.

In Panel A and B of Table 6, we include *Adjusted CSR score (strengths)* and *Adjusted CSR score (controversies)* separately in the regressions as our variable of interest while in Panel C we include them together. The results in Panel B indicate that the CEOs of those firms with more CSR controversies receive reputational penalties on the labor market – a higher *Adjusted CSR score (controversies)* is associated with a lower likelihood of a CEO holding outside directorships (the Probit model) or less outside directorships (the Tobit model). Specifically, the coefficient on *Adjusted CSR score (controversies)* is negative and significant at the 1% level in both the Probit model (-0.165) and the Tobit model (-0.270). These coefficients do not change qualitatively when we use the IV approach (-0.477 in the instrumented Probit model and -0.763 in the instrumented Tobit model). In Panel A, The coefficient on the *Adjusted CSR score (strengths)* is positive but insignificant. When we use the IV approach, with the initial level of *Adjusted CSR score (strengths)* being the instrument, the coefficient on the *Adjusted CSR score (strengths)* is 0.265 and significant at the 5% level in the Probit model (Model 3). The coefficient is 0.234 and marginally significant at the 10% in the instrumented Tobit model (Model 4). In Panel C, we note the coefficient on the *Adjusted CSR score (strengths)* is 0.321 under the instrumented Probit model and 0.311 under the instrumented Tobit model, both being significant at the 1% level. At the same time, the coefficient on the *Adjusted CSR score (Controversies)* is -0.534 and -0.815 under the instrumented Probit and instrumented Tobit model respectively, both being significant at the 1% level. Taken together, the results in Table 6 confirm the view that the labor market for outside directors rewards superior CSR reputation and penalizes poor CSR profiles.

In Table 7, we present the results from the multinomial Probit regressions. Again, we use the appointing firm's size (*Total assets*), profitability (*ROA*), CSR profiles (*Adjusted CSR score (strengths)* and *Adjusted CSR score (controversies)*), visibility (Analyst

coverage), and consumer orientation (*Advertising expenses*) as the proxies for a board's social consciousness. We estimate both the uninstrumented models in Panel A and the instrumented models in Panel B. A careful inspection of the results reveals several differences in the statistical significance between the instrumented and uninstrumented results, although the coefficients have largely the same signs. For example, in Model 1 of Panel A1 (the uninstrumented Probit model based on size), the coefficient on the *Adjusted CSR score (strengths)* is positive (0.191) for large appointing firms but statistically insignificant at the conventional level; the same coefficient is positive (0.573) and statistically significant at the 1% level in Model 1 of Panel B1 (the instrumented Probit model). This result confirms our earlier concern that endogeneity may bias our estimates. To make inference robust to the potential endogeneity bias, we focus on the results from the instrumented multinomial Probit regressions. In Model 1 of Panel B, we find the *Adjusted CSR score (strengths)* significantly and positively impact CEO outside directorships on the boards of large firms and the *Adjusted CSR score (controversies)* has a significantly negative impact. These results persist whether or not we include the strengths scores and controversies scores separately or jointly in the regressions. To see this, take Model 1 (the regression based on size) in Panel B3 for example. The coefficient on the *Adjusted CSR score (strengths)* is 0.646 and statistically significant at the 1% level while the coefficient on the *Adjusted CSR score (controversies)* is -0.800 and significant at the 1% level. In Models 2–4, we find similar results for the appointing firms with higher profitability, higher CSR performance, and higher visibility. The coefficient on the *Adjusted CSR score (controversies)* is significantly negative in all regressions except in the one for firms with high advertising expenses, which suggests almost all firms are concerned about CSR controversies.

The results based on consumer orientation are somewhat different. For example, in model 5 Panel B1, we find the *Adjusted CSR score (strengths)* has a significant (at the 1%) positive coefficient of 0.468 in the regression for $Y = 2$ (i.e., the appointing firms have high advertising expenses) and a statistically insignificant coefficient (0.046; p -value = 0.799) in the regression for $Y = 1$ (i.e., the appointing firms have low advertising expenses). In

model 5 Panel B2, the *Adjusted CSR score (controversies)* has a significantly (at the 1% level) negative coefficient (-1.011) in the regression for $Y = 1$ and a statistically insignificant coefficient (-0.265 ; p -value = 0.250) in the regression for $Y = 2$. In model 5 Panel B3, the above results do not change qualitatively when we include both the strengths and the controversies jointly in the regression. It seems that companies with high advertising expenses emphasize the CSR strengths while those with low advertising expenses emphasize CSR controversies when appointing directors.

In summary, the results reported in this section show that both the CSR strengths and the controversies are important considerations on the director labor market. Moreover, socially concious firms are more sensitive to a CEO firm's strengths in CSR when appointing outside directors. CSR controversies seem to concern all firms.

5.3 Which dimensions of social reputation matter: an extended analysis based on the decomposed social scores

In this section, we extend our analysis to examine how the five separate dimensions of a company's social profile (see Section 3.3) relate to a CEO's outside directorships. Ex-ante, the relative importance of each dimension is undetermined. We are not aware of any theory suggesting one dimension is more important than another. Therefore, we rely on our empirical analysis to tell which dimension is emphasized more on the director labor market. These dimensions can be influenced by certain common factors, e.g., a firm's social awareness or social consciousness of the local community around a firm's headquarters. To isolate the effect of an individual dimension, we adopt a two-step procedure. We estimate the following regression in the first step,

$$S_{i,t} = \alpha + \beta AmS_{i,t} + \mu_{i,t}, \quad (3)$$

where i and t indicate firm and year respectively. S is the score of an individual social

dimension. AmS is the aggregate adjusted social score minus the corresponding individual social score. μ captures the variation of the individual social score purged of the common variation among all the subscores.

In the second step, we replace the *Net Adjusted CSR Score* in Equation 1 with both μ and AmS . Specifically,

$$\begin{aligned}
 CEO \text{ outside directorships}_{i,t+1} = & \\
 & \alpha + \beta_1 \mu_{i,t} + \beta_2 AmS_{i,t} + \beta_3 Controls_{i,t} \\
 & + \sigma IDUM_{i,t} + \gamma YDUM_t + \varepsilon_{i,t},
 \end{aligned} \tag{4}$$

In Table 8, we report our regression results on how the five individual company social dimensions relate to CEO outside directorships. We find that workforce diversity determines a CEO's likelihood and number of outside directorships significantly. In column 3, the Probit regression, the coefficient on *Diversity* is positive at 0.373 and statistically significant at the 1% level. In column 4, the Tobit regression, the coefficient is also significantly (at the 1% level) positive at 0.531. Another social dimension that impacts a CEO's outside directorships significantly is *Human rights*. In column 9, the Probit regression, the coefficient on *Human rights* is 0.721 and statically significant at the 1% level. In column 10, the Tobit regression, *Human rights* has a positive coefficient of 0.850 which is statistically significant at the 1% level too. In neither column 1 nor column 2, is the coefficient on *Community* statistically significant, indicating *Community* alone does not impact a CEO's outside directorships. It is somewhat surprising that *Environment* does not significantly impact a CEO's outside directorship either (columns 7 and 8), considering the increasing awareness of the environment and climate issues. *Employee relations* also has an insignificant role in determining a CEO's outside directorships (columns 5 and 6).

6 Director appointment, stock market reaction, and subsequent performance

The evidence uncovered so far suggests that a company's superior social profile enhances its CEO's status on the director labor market, which is in line with the view that firms prefer to hire directors from other companies that are good citizens and have good social reputations. Poor social reputation may lead to a public relations downturn and damage the good faith of essential stakeholders. By hiring a CEO on board from a socially reputable company, the appointing firm confirms its existing commitment to CSR, which can generate a positive reputation effect. By appointing a socially responsible director, a company may also receive better advice on balancing the relationships among stakeholders and shareholders, generating tangible benefits for shareholders.

In this section, we examine how director appointment impacts the appointing firm's share price and subsequent financial and social performance. We compute the cumulative abnormal returns (*CARs*) on the appointing firm over a 3-day event window $(-1, +1)$ around the appointment day (day 0). We estimate the market model parameters using daily returns over an estimation period from 250 days to 20 days before day 0.¹⁶ We require there to be no missing returns in the event window $(-1, +1)$ and at least 100 non-missing returns in the parameter estimation window.

Panel B of Table 2 presents the mean and median of the 3-day $(-1, +1)$ *CARs* for the appointing firms and the CEO firms. The sample contains only 95 appointments because of the restrictions explained in Section 3.2. For the sub-sample where the CEO firms have a *Net adjusted CSR score* greater than zero, the mean *CAR* is 0.591% (median 0.789%) on the appointing firm, which is much greater than the mean of 0.000 (median 0.114) on the sub-sample where the CEO firm has a *Net adjusted CSR score* no greater than zero. The average *CAR* on the CEO firms is negative at -0.403% but statistically insignificant, which indicates that the CEO's shareholders do not benefit from her outside

¹⁶Our results are robust to using a $(-2, +2)$ event window and to using the value-weighted CRSP all-share index as the benchmark.

directorships. The non-positive CEO firms' *CAR* is in line with the agency view of CSR that CEOs obtain outside directorships to burnish their credentials, reputation, and job prospects (Bénabou and Tirole, 2010; Cheng et al., 2016; Masulis and Reza, 2014; Krüger, 2015).

In Panel A of Table 9, we report the results from the multivariate regressions, controlling for a comprehensive set of determinants of *CAR*. Among the control variables are the CEO firms' characteristics, namely, profitability (measured by *ROA*), size (measured by $\log(\text{Total assets})$; Fahlenbrach et al. (2010)), and innovativeness (measured by $\log(1 + \text{Patent Count})$; Gao et al. (2019)). We also include the appointing firm's size (Booth and Deli, 1996) and *ROA* (Hermalin and Weisbach, 1988), as well as the CEO's tenure and education. We estimate these regressions using weighted-least-squares (WLS) because we find evidence of heteroscedasticity in the variance of the *CARs*, which is a concern for a small sample. The weights are the reciprocals of the variance of the residuals from the market model used to compute the *CARs*. In column 1 of Panel A, the coefficient on the *Net adjusted CSR score* of the CEO's firm is -0.022 and statistically insignificant. In column 2 of Panel A, we add an interaction term between the *Net adjusted CSR score* and a *Institutional blockholder dummy* variable (which is 1 if the appointing firm has at least one institutional shareholder holding 5% of the firm or more, and zero otherwise). Neither the *Net adjusted CSR Score* nor the interaction term has a statistically significant coefficient however.

Our estimation in columns 1 and 2 may suffer from the omitted variable problem where unmeasured variables impact both the CEO firm's *Net adjusted CSR score* and the appointing firm's *CAR*. In column 3, we instrument the *Net adjusted CSR score* using its initial level at the beginning of data coverage as is described in Section 4 (we do not tabulate the first-stage result here for the sake of brevity). The coefficient on the *Net adjusted CSR score* is -0.175 and statistically insignificant. The coefficient on the interaction term between the *Net adjusted CSR score* and the *Institutional blockholder dummy* is significantly (at the 5% level) positive at 0.284. It can be argued that our

sample of director appointments is non-random, which may bias our estimates. Following Wooldridge (2010), we correct the sample selection bias of Model 2 using the *Inverse Mills Ratio (IMR)* (Wooldridge, 2010, Section 19.6.2). The approach is similar to a Heckman two-stage analysis, but the *Net adjusted CSR score* in stage two is instrumented with the initial *Net adjusted CSR score*. We model the probability that a CEO is appointed by a sample firm using a Probit model. Following Bouwman (2011), we include in our director-selection sample not only those CEOs who were selected but also those who could have been selected but were not. For each of the 95 appointed CEOs, we use all the remaining CEOs of the S&P 1500 firms as potential matches.¹⁷ We report the first-stage result in column 5. The variable excluded from the second stage, and included in the first stage, is (*Distance*), the geographical distance between the appointing firm’s headquarter and that of a CEO firm’s headquarter (measured in kilometers between the two ZIP codes obtained from Compustat). We select this variable as an instrument following Knyazeva et al. (2013) who find firms tend to appoint director from local areas because a smaller distance facilitates interaction among people and reduces travel costs. As is predicted, the coefficient on the logarithm of *Distance* is negative (-0.170) and statistically significant at the 1% level. In column 4, we report the second-stage estimates where we add the *Inverse Mills Ratio* calculated using the first stage estimates. We note that the *Inverse Mills Ratio* has a coefficient of -0.036 which is statistically insignificant, indicating self-selection is unlikely to bias our estimates. The coefficients on the *Net adjusted CSR score* is -0.174 and statistically insignificant. The coefficient on the interaction term between the *Net adjusted CSR score* and the *Institutional blockholder dummy* is significantly (at the 5% level) positive at 0.300 . The sum of the coefficients on the *Net adjusted CSR score* and the interaction term is 0.126 , and statistically significant at the 5% level according to a one-tailed *F* test (not tabulated), suggesting the *Net adjusted CSR score* has a significant positive effect on the announcement *CAR* in the presence of institutional blockholders.

In a nutshell, the above results suggest that the institutional block shareholders are

¹⁷In column 5, the number of observations is lower than 95×1500 due to the missing values of firm and CEO characteristics (e.g., CSR score, CEO characteristics, Zip code).

more concerned about social reputation. They respond positively to the appointment of a director who is the CEO of another firm with better social reputation. Alternatively, it could also be that the appointment of a director with better social reputation has tangible benefits on the appointing firm. Institutional block holders are sophisticated investors who have high stakes in the appointing firm. They have both the ability and the incentive to analyse the wealth effect of the tangible benefits, trade on their analysis, and boost the appointing firm's share price. In Panel B of Table 9, we further examine how the appointment of a socially reputable director impacts the appointing firm's subsequent financial and social performance, which we discuss in the next paragraph.

In Panel B of Table 9, we use the change in *ROA*, *Sales growth*, and the change in *Net adjusted CSR score* as the dependent variables, all measured for the appointing firm from the year of director appointment to the third year post appointment. The specifications are the same as those in Panel A. In none of these three sets of regressions, is the coefficient significant on the CEO firm's *Net adjusted CSR score* or on the interaction term between the CEO firm's *Net adjusted CSR score* and the *Institutional block holder dummy*. These results show that the CEO firm's social profile does not have any subsequent tangible impact on the appointing firm's financial or social performance, even in the presence of institutional blockholders. Combined with our results in Panel A, the positive stock market reaction to the appointment of a director from a socially reputable firm most likely reflects a reputational effect where the director appointment confirms that the appointing firm has been doing well on social responsibilities. As is mentioned earlier, we want to bring to the readers' attention the small sample size in this part of the analysis — 95 observations in Panel A and between 135–223 observations in Panel B. These results are, therefore, more of a suggestive nature than being definitive.

7 Conclusion

In this paper, we show that a company's social profile has important labor-market consequences for its CEOs. A company's good (poor) social reputation enhances (undermines)

its CEO's status on the director labor market. Establishing the consequence of social reputation is the first step towards understanding the role of reputation in motivating managers to be socially more responsible. As far as we are aware, the literature offers little knowledge of how a CEO's prestige and career rely on the social reputation of her company, and our study fills this gap. In this study, however, we do not investigate to what extent a CEO's CSR commitment works for or against shareholders in the agency framework (e.g., Bénabou and Tirole, 2010). We postulate that the social reputation *per se* matters more on the director labor market than the reasons behind it.

On policy implications, our results show that the director labor market can be an effective market-based institution to incentivize a CEO to commit to CSR. Such a market-based institution parallels those institutions based on investor pressure, legislation, or regulation. The authorities may want to focus on encouraging accurate and timely CSR disclosure, reducing the searching costs on the director labor market, and safeguarding the fairness of the director-hiring process, which in turn will enhance the effectiveness of the director labor market as an institution to promote CSR.

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Table 1: Variable Definitions

Variable	Definition	Source
CSR related variables		
Net adjusted CSR score	The sum of the adjusted scores across the five CSR dimensions from MSCI ESG Stats (i.e., community, diversity, employee relations, environment, and human rights.) For each dimension, we construct an adjusted score by adding the adjusted number of strengths and subtracting the adjusted number of controversies. The adjusted score of strengths (controversies) for each category is computed by scaling the actual strengths (controversies) by the total number of strengths (controversies) for that dimension in the same year.	MSCI ESG Stats
Adjusted CSR score (strengths/controversies)	The sum of adjusted strengths/controversies over the five CSR dimensions from MSCI ESG Stats (i.e., community, diversity, employee relations, environment, and human rights.) For each dimension, the adjusted strengths/controversies is computed by scaling the actual number of strengths/controversies by the total number of strengths/controversies for that dimension in the same year.	MSCI ESG Stats
CEO characteristics		
CEO age	—	BoardEx
CEO-Chairman duality	A dummy variable taking the value of one if a CEO is also the chairman of the board and zero otherwise.	BoardEx
CEO education	A CEO's number of qualifications at the undergraduate level and above.	BoardEx
Major committee dummy	A dummy variable taking the value of one if a CEO is appointed as an outside director serving on the audit or compensation committees, and zero otherwise.	BoardEx
Outside directorships dummy	A dummy variable taking the value of one if a CEO holds outside directorship(s) in at least one of the S&P 1500 firms in a year, and zero otherwise.	BoardEx
Number of outside directorships	The total number of outside directorships held by a CEO in one or more S&P 1500 firms during the year.	BoardEx
CEO tenure	The number of years a CEO has worked as the CEO in the current firm.	BoardEx
Firm characteristics		
Board size	The number of directors on the CEO firm's board.	BoardEx
CAPEX	Capital expenditures/lagged total assets.	Compustat
Capital intensity	Net property, plant, and equipment/sales.	Compustat
Cash	Cash and marketable securities/total assets.	Compustat
Dividends	Dividends paid to common and preferred shareholders/operating income before depreciation.	Compustat
<i>E</i> -index	The entrenchment index defined in Bebchuk, Cohen and Ferrell (2009).	RiskMetrics
Firm age	The number of years a firm is covered in the CRSP-Compustat merged database.	Compustat
Patent count	The natural logarithm of one plus the number of eventually granted patents applied by the firm in a year (Kogan et al., 2017).	
The Fraction of independent directors	The number of independent directors to the total number of directors on a board.	BoardEx
Interlock	The number of board interlocks a firm has with other firms.	BoardEx
Leverage	(Long-term debt + short-term debt)/total assets.	Compustat
Market-to-book	(Total assets – book equity + market value of equity – deferred taxes) / total assets.	Compustat
The number of local firms	The number of U.S. nonfinancial and nonutility firms headquartered within sixty miles of a firm's headquarters, excluding the firms in the same 4-digit SIC industry (Knyazeva et al., 2013).	Compustat
Return on assets (ROA)	Operating income before depreciation/lagged total assets.	Compustat
Sales growth	(Current sales/lagged sales) – 1.	Compustat
Total assets	The book value of total assets.	Compustat
Institutional blockholder dummy	A dummy variable equal to one if a firm has at least one institutional shareholder holding 5% of the firm or more, and zero otherwise.	Thomson Reuters 13f
Analyst coverage	The total number of analysts issuing earnings forecasts for a firm.	I/B/E/S
High reach news	The high-reach news count of a company in a year, related to community, environment, and employee.	RepRisk Issue
High severity news	The high-severity news count of a company in a year, related to community, environment, and employee.	RepRisk Issue
Total news count	The total news count of a company in a year, related to community, environment, and employee.	RepRisk Issue
Distance	The geographical distance in kilometers between the headquarters of two companies. It is calculated based on companies' zip code. The longitude/latitude of a zip code is converted using the U.S. Census Bureau's database.	Compustat and U.S. Census Bureau
Advertising expenses	Advertising expenses/sales	Compustat

Table 1 (Continued)

Instrumental variables		
Democratic votes	The percentage of votes that the Democratic party received in the previous presidential elections from the county where a firm's headquarters is located.	US Census Bureau
The initial level of the <i>Net adjusted CSR score</i>	The <i>Net adjusted CSR score</i> of a firm in the first year recorded in the database.	MSCI ESG Stats

Table 2: Summary statistics

This table reports summary statistics for the variables used in our analyses. In Panel A, we present the summary statistics of the variables used in the baseline panel regressions. In Panel B, we report the summary statistics of the 3-day (-1,+1) cumulative abnormal returns associated with the events in which the firms appoint external CEOs as their outside directors. The announcement day is day 0. Sub-sample A includes all firm-years with a zero or negative *Net adjusted CSR score*, while sub-sample B includes all firm-years with a positive *Net adjusted CSR score*. Variable definitions are in Table 1. A *t*-test (Wilcoxon-Mann-Whitney test) is conducted to test whether the mean (median) of sub-sample B is significantly different from that of sub-sample A. Statistical significance at the 1%, 5%, and 10% level is indicated by ***, **, and *, respectively.

Panel A: Summary statistics for the variables used in the panel data models								
	Full sample (<i>N</i> = 5,590)		Subsample A: <i>Net Adjusted CSR Score</i> ≤ 0 (<i>N</i> = 3,935)		Subsample B: <i>Net Adjusted CSR Score</i> > 0 (<i>N</i> = 1,655)		Difference (B - A)	
	Mean	Median	Mean	Median	Mean	Median	Mean	Median
Outside directorships dummy	0.286	0.000	0.253	0.000	0.363	0.000	0.109***	0.000***
Number of outside directorships	0.376	0.000	0.339	0.000	0.463	0.000	0.124***	0.000***
Net Adjusted CSR Score	-0.112	-0.100	-0.301	-0.286	0.338	0.250	0.638***	0.536***
Total assets (Mil.)	6164.370	1591.920	4436.750	1265.390	10272.040	2950.500	5835.290***	1685.110***
Market-to-book	2.128	1.718	2.029	1.642	2.364	1.933	0.335***	0.292***
Return on assets	0.170	0.158	0.165	0.153	0.183	0.167	0.018***	0.014***
Sales growth	0.120	0.093	0.126	0.099	0.108	0.083	-0.018***	-0.016***
Cash	0.159	0.093	0.156	0.089	0.167	0.108	0.011**	0.019***
Dividend	0.077	0.011	0.070	0.000	0.094	0.051	0.024***	0.051***
Leverage	0.197	0.187	0.199	0.190	0.195	0.177	-0.004	-0.013
Capital intensity	0.378	0.179	0.409	0.181	0.305	0.176	-0.104***	-0.005**
CAPEX	0.059	0.038	0.060	0.038	0.056	0.038	-0.004**	0.001
Firm age	26.537	21.000	24.888	19.000	30.458	27.000	5.570***	8.000***
Patent count	22.399	0.000	9.544	0.000	52.963	1.000	43.418***	1.000***
CEO tenure	10.568	7.800	10.920	8.200	9.731	7.200	-1.189***	-1.000***
CEO age	55.865	56.000	55.880	56.000	55.828	56.000	-0.052	0.000
CEO education	1.887	2.000	1.849	2.000	1.979	2.000	0.130***	0.000***
Number of local firms	157.313	117.000	147.274	115.000	181.182	135.000	33.908***	20.000***
Interlock	0.069	0.000	0.060	0.000	0.092	0.000	0.032***	0.000***
Board size	9.281	9.000	8.960	9.000	10.045	10.000	1.086***	1.000***
CEO-Chairman duality	0.689	1.000	0.674	1.000	0.726	1.000	0.051***	0.000***

Panel B: Summary statistics for CARs of appointing firms								
	Full sample (<i>N</i> = 95)		Subsample A: <i>Net Adjusted CSR Score</i> ≤ 0 (<i>N</i> = 59)		Subsample B: <i>Net Adjusted CSR Score</i> > 0 (<i>N</i> = 36)		Difference (B - A)	
	Mean	Median	Mean	Median	Mean	Median	Mean	Median
Appointing firm CAR(-1, +1) (%)	0.224	0.444	0.000	0.114	0.591	0.789	0.591	0.675
<i>p</i> -value	(0.571)	(0.691)	(0.999)	(0.821)	(0.352)	(0.814)	(0.470)	(0.659)
CEO firm CAR(-1, +1) (%)	-0.403	0.218	-0.575	0.357	-0.122	0.139	0.452	-0.219
<i>p</i> -value	(0.292)	(0.550)	(0.301)	(0.496)	(0.785)	(0.800)	(0.567)	(0.895)

Table 3: Company CSR profiles and CEO outside directorships: panel regressions

This table reports the results from the Probit and Tobit estimations, with and without using the IV approach. In Panel A, we report both the un-instrumented results and the results instrumented by the initial level of the *Net adjusted CSR score* measured in the first year of data coverage. In Panel B, we report the results instrumented by *Democratic Votes*. In Models (1) and (4), the dependent variable is one if a CEO holds at least one outside directorship in year $t + 1$ and zero if not. In Models (2) and (5), the dependent variable is the number of outside directorships held by a CEO in the year $t + 1$. All independent variables are lagged by one year relative to the dependent variable. The dependent variable in Model (3) is the *Net adjusted CSR score* in year t . A Cragg-Donald Wald test is used to test the null hypothesis that the instrumental variable is weakly correlated with the endogenous regressor. The instrumented second-stage results are reported in Models (4) and (5) of Panel A and Models (7) and (8) of Panel B. The variable definitions are in Table 1. The standard errors are robust to heteroskedasticity and within industry and year clustering. The industry classification is based on the Fama-French 12-industry specification. The p -values are in parentheses. Statistical significance at the 1%, 5%, and 10% level is indicated by ***, **, and *, respectively.

Panel A: Uninstrumented results and results instrumented with initial CSR score.					
	Probit	Tobit		IV-Probit	IV-Tobit
	(1)	(2)	First stage (3)	Second stage (4)	Second stage (5)
Net Adjusted CSR Score	0.166*** (0.003)	0.214*** (0.004)		0.442*** (0.000)	0.579*** (0.000)
Initial Net Adjusted CSR Score			0.657*** (0.000)		
ln(Total assets)	0.232*** (0.000)	0.327*** (0.000)	0.010 (0.242)	0.224*** (0.000)	0.318*** (0.000)
Market-to-book	-0.034 (0.150)	-0.037 (0.313)	0.005 (0.256)	-0.038 (0.116)	-0.042 (0.257)
Return on assets	0.108 (0.693)	-0.055 (0.887)	0.236*** (0.000)	0.013 (0.962)	-0.184 (0.635)
Sales growth	-0.074 (0.480)	-0.079 (0.609)	-0.047*** (0.007)	-0.052 (0.611)	-0.054 (0.721)
Cash	0.010 (0.955)	0.012 (0.961)	0.066* (0.052)	0.007 (0.966)	0.008 (0.974)
Dividends	-0.231 (0.189)	-0.467* (0.067)	-0.065** (0.032)	-0.242 (0.174)	-0.484* (0.062)
Leverage	-0.329** (0.013)	-0.525*** (0.007)	-0.121*** (0.000)	-0.299** (0.023)	-0.495** (0.012)
Capital intensity	-0.125** (0.021)	-0.155** (0.046)	0.005 (0.608)	-0.131*** (0.009)	-0.165** (0.022)
CAPEX	0.573 (0.209)	0.668 (0.317)	0.085 (0.319)	0.502 (0.269)	0.585 (0.385)
ln(Firm age)	0.260*** (0.000)	0.345*** (0.000)	-0.001 (0.911)	0.258*** (0.000)	0.344*** (0.000)
ln(1 + Patent count)	0.014 (0.490)	0.002 (0.952)	0.032*** (0.000)	-0.001 (0.954)	-0.020 (0.459)
ln(CEO tenure)	0.069*** (0.002)	0.106*** (0.000)	0.004 (0.302)	0.067*** (0.002)	0.104*** (0.000)
ln(CEO age)	0.678*** (0.001)	1.001*** (0.001)	-0.013 (0.648)	0.693*** (0.001)	1.022*** (0.000)
CEO education	0.118*** (0.000)	0.168*** (0.000)	0.003 (0.605)	0.118*** (0.000)	0.169*** (0.000)
ln(1 + Number of local firms)	0.023 (0.135)	0.032 (0.147)	-0.002 (0.408)	0.020 (0.189)	0.029 (0.200)
Interlock	1.154*** (0.000)	1.236*** (0.000)	-0.003 (0.826)	1.149*** (0.000)	1.234*** (0.000)
Board size	-0.020 (0.131)	-0.025 (0.168)	0.012*** (0.000)	-0.025** (0.050)	-0.032* (0.071)
CEO-Chairman duality	0.001 (0.985)	-0.008 (0.904)	-0.016* (0.057)	0.004 (0.930)	-0.005 (0.944)
Industry effects	Yes	Yes	Yes	Yes	Yes
Year effects	Yes	Yes	Yes	Yes	Yes
Observations	5,590	5,590	5,590	5,590	5,590
Pseudo R^2	0.181	0.116	0.443	-	-
Cragg-Donald Wald F statistic	-	-	2340.655	-	-

Table 3 (Continued)

Panel B: Results instrumented by Democratic votes			
		IV-Probit	IV-Tobit
	First stage (6)	Second stage (7)	Second stage (8)
Net Adjusted CSR Score		2.010*** (0.000)	3.168* (0.066)
Democratic votes	0.129*** (0.000)		
ln(Total assets)	0.027** (0.013)	0.116 (0.101)	0.237*** (0.002)
Market-to-book	0.011** (0.026)	-0.049** (0.019)	-0.074* (0.081)
Return on assets	0.334*** (0.000)	-0.545* (0.074)	-1.032 (0.176)
Sales growth	-0.081*** (0.001)	0.098 (0.357)	0.161 (0.477)
Cash	0.025 (0.530)	-0.067 (0.608)	-0.107 (0.672)
Dividend	0.036 (0.342)	-0.245 (0.125)	-0.583* (0.068)
Leverage	-0.137*** (0.000)	0.026 (0.889)	-0.099 (0.770)
Capital intensity	0.015 (0.471)	-0.117*** (0.002)	-0.191*** (0.003)
CAPEX	0.248** (0.027)	-0.043 (0.910)	-0.074 (0.918)
ln(Firm age)	0.007 (0.428)	0.176*** (0.000)	0.316*** (0.000)
ln(1 + Patent counts)	0.054*** (0.000)	-0.086** (0.021)	-0.149 (0.122)
ln(CEO tenure)	0.006 (0.205)	0.041 (0.114)	0.090*** (0.010)
ln(CEO age)	-0.049 (0.188)	0.580*** (0.001)	1.119*** (0.001)
CEO education	-0.002 (0.742)	0.092*** (0.001)	0.174*** (0.000)
ln(1 + Number of local firms)	0.000 (0.912)	0.006 (0.687)	0.015 (0.609)
Interlock	0.004 (0.799)	0.855*** (0.000)	1.225*** (0.000)
Board size	0.020*** (0.000)	-0.053*** (0.000)	-0.085** (0.019)
CEO-Chairman duality	-0.022** (0.046)	0.040 (0.322)	0.052 (0.502)
Industry effects	Yes	Yes	Yes
Year effects	Yes	Yes	Yes
Observations	5,590	5,590	5,590
Pseudo R ²	0.209	-	-
Cragg-Donald Wald F statistic	9.102	-	-

Table 4: Company CSR profiles and CEO outside directorships: multinomial Probit regressions

This table reports the results of multinomial Probit regressions, with (in panel B) and without (in panel A) using the IV approach. The dependent variable is zero if a CEO doesn't hold any outside directorship in year $t + 1$, one if the average *total assets* (in Models 1), *ROA* (in Models 2), the *Net adjusted CSR score* (in Models 3), the *Analyst coverage* (in Models 4), or the *Advertising expenses* (in Models 5) of the appointing firms is lower than the sample median, and two if it is higher than the sample median. All independent variables are lagged by one year relative to the dependent variable. In panel B, the *Net adjusted CSR score* is instrumented by its initial level measured in the first year of data coverage. The variable definitions are in Table 1. The standard errors are robust to heteroskedasticity and within industry and year clustering. The industry classification is based on the Fama-French 12-industry specification. The p -values are in parentheses. Statistical significance at the 1%, 5%, and 10% level is indicated by ***, **, and *, respectively.

Panel A: Uninstrumented results										
	Size (1)		ROA (2)		CSR (3)		Analyst coverage (4)		Advertising expenses (5)	
	Small Y=1	Large Y=2	Low Y=1	High Y=2	Low Y=1	High Y=2	Low Y=1	High Y=2	Low Y=1	High Y=2
Net adjusted CSR score	0.015 (0.858)	0.321*** (0.000)	0.091 (0.293)	0.209** (0.012)	0.132 (0.106)	0.240*** (0.007)	0.084 (0.387)	0.295*** (0.001)	0.185** (0.037)	0.193** (0.035)
ln(Total assets)	0.120*** (0.000)	0.531*** (0.000)	0.284*** (0.000)	0.293*** (0.000)	0.271*** (0.000)	0.359*** (0.000)	0.096** (0.011)	0.425*** (0.000)	0.299*** (0.000)	0.221*** (0.000)
Market-to-book	-0.042 (0.262)	-0.078 (0.118)	-0.091** (0.049)	-0.036 (0.374)	-0.047 (0.221)	-0.033 (0.468)	-0.065 (0.129)	-0.030 (0.495)	-0.107** (0.016)	0.003 (0.940)
Return on assets	-0.532 (0.223)	1.408** (0.012)	0.018 (0.971)	0.220 (0.636)	-0.481 (0.296)	1.009** (0.039)	0.415 (0.336)	-0.195 (0.692)	0.383 (0.359)	0.082 (0.862)
Sales growth	-0.045 (0.786)	-0.229 (0.248)	-0.104 (0.558)	0.008 (0.964)	0.036 (0.829)	-0.328* (0.091)	-0.105 (0.509)	0.004 (0.986)	-0.007 (0.969)	-0.180 (0.355)
Cash	-0.155 (0.568)	0.086 (0.808)	-0.030 (0.921)	-0.048 (0.873)	0.068 (0.800)	-0.242 (0.481)	-0.059 (0.837)	0.238 (0.477)	-0.526* (0.080)	0.600* (0.061)
Dividends	-0.794*** (0.010)	0.169 (0.575)	-0.447 (0.128)	-0.198 (0.508)	-0.350 (0.206)	-0.485 (0.128)	-0.379 (0.199)	-0.062 (0.834)	-0.067 (0.833)	-0.415 (0.207)
Leverage	-0.670*** (0.003)	-0.065 (0.810)	-0.222 (0.349)	-0.578** (0.018)	-0.654*** (0.004)	-0.329 (0.216)	-0.225 (0.307)	-0.423* (0.081)	-0.622*** (0.002)	-0.203 (0.425)
Capital intensity	-0.062 (0.422)	-0.366*** (0.000)	-0.135 (0.137)	-0.123* (0.099)	-0.062 (0.420)	-0.379*** (0.000)	-0.090 (0.234)	-0.167** (0.043)	-0.176** (0.038)	-0.080 (0.322)
CAPEX	1.115* (0.098)	0.977 (0.275)	-0.609 (0.452)	2.273*** (0.001)	0.450 (0.511)	1.855** (0.023)	-0.049 (0.937)	1.288 (0.128)	0.912 (0.153)	-0.045 (0.956)
ln(Firm age)	0.336*** (0.000)	0.365*** (0.000)	0.383*** (0.000)	0.277*** (0.000)	0.339*** (0.000)	0.374*** (0.000)	0.392*** (0.000)	0.279*** (0.000)	0.443*** (0.000)	0.249*** (0.000)
ln(1 + Patent counts)	0.026 (0.292)	-0.035 (0.186)	0.006 (0.800)	0.049* (0.056)	-0.001 (0.969)	0.036 (0.175)	-0.055* (0.092)	0.039 (0.178)	-0.035 (0.245)	0.081*** (0.004)
ln(CEO tenure)	0.019 (0.573)	0.138*** (0.001)	0.107*** (0.003)	0.026 (0.450)	0.061* (0.070)	0.110*** (0.004)	0.002 (0.946)	0.171*** (0.000)	0.081** (0.039)	0.088** (0.029)
ln(CEO age)	1.016*** (0.000)	0.973*** (0.003)	1.011*** (0.001)	0.867*** (0.003)	1.260*** (0.000)	0.357 (0.258)	1.398*** (0.000)	0.418 (0.190)	1.086*** (0.000)	0.959*** (0.001)
CEO education	0.144*** (0.000)	0.157*** (0.000)	0.191*** (0.000)	0.110*** (0.000)	0.174*** (0.000)	0.116*** (0.000)	0.177*** (0.000)	0.124*** (0.000)	0.192*** (0.000)	0.108*** (0.002)
ln(1 + Number of local firms)	0.035 (0.140)	0.003 (0.914)	0.019 (0.428)	0.034 (0.163)	0.010 (0.650)	0.033 (0.217)	0.000 (0.988)	0.019 (0.533)	0.051** (0.035)	-0.034 (0.112)
Interlock	1.610*** (0.000)	1.568*** (0.000)	1.450*** (0.000)	1.535*** (0.000)	1.550*** (0.000)	1.585*** (0.000)	1.595*** (0.000)	1.311*** (0.000)	1.439*** (0.000)	1.509*** (0.000)
Board size	-0.044** (0.012)	-0.001 (0.954)	-0.011 (0.550)	-0.017 (0.344)	-0.049*** (0.004)	0.013 (0.521)	-0.059*** (0.002)	0.003 (0.844)	-0.066*** (0.001)	0.015 (0.374)
CEO-Chairman duality	-0.076 (0.292)	0.186** (0.026)	0.077 (0.316)	-0.094 (0.216)	-0.107 (0.133)	0.189** (0.026)	-0.028 (0.712)	0.131 (0.144)	-0.049 (0.586)	0.106 (0.137)
Industry effects	Yes		Yes		Yes		Yes		Yes	
Year effects	Yes		Yes		Yes		Yes		Yes	
Observations	5,590		5,590		5,590		5,590		5,590	

Table 4 (Continued)

Panel B: Instrumented results (instrumented by the initial CSR score)										
	Size (1)		ROA (2)		CSR (3)		Analyst coverage (4)		Advertising expenses (5)	
	Small Y=1	Large Y=2	Low Y=1	High Y=2	Low Y=1	High Y=2	Low Y=1	High Y=2	Low Y=1	High Y=2
Net adjusted CSR score	0.080 (0.549)	0.639*** (0.000)	0.257* (0.069)	0.409*** (0.003)	0.181 (0.179)	0.606*** (0.000)	0.361** (0.028)	0.712*** (0.000)	0.607*** (0.000)	0.479** (0.012)
ln(Total assets)	0.118*** (0.000)	0.524*** (0.000)	0.281*** (0.000)	0.289*** (0.000)	0.270*** (0.000)	0.350*** (0.000)	0.090** (0.019)	0.414*** (0.000)	0.288*** (0.000)	0.214*** (0.000)
Market-to-book	-0.043 (0.254)	-0.084* (0.098)	-0.093** (0.045)	-0.038 (0.347)	-0.048 (0.218)	-0.036 (0.437)	-0.069 (0.108)	-0.037 (0.413)	-0.114** (0.011)	-0.002 (0.968)
Return on assets	-0.549 (0.210)	1.313** (0.019)	-0.034 (0.946)	0.154 (0.742)	-0.489 (0.291)	0.873* (0.075)	0.325 (0.458)	-0.336 (0.488)	0.240 (0.570)	-0.001 (0.999)
Sales growth	-0.039 (0.817)	-0.223 (0.260)	-0.090 (0.611)	0.017 (0.922)	0.039 (0.816)	-0.307 (0.114)	-0.081 (0.609)	0.027 (0.892)	0.023 (0.895)	-0.158 (0.420)
Cash	-0.154 (0.572)	0.114 (0.747)	-0.033 (0.913)	-0.048 (0.873)	0.067 (0.805)	-0.250 (0.467)	-0.065 (0.820)	0.242 (0.472)	-0.526* (0.084)	0.597* (0.064)
Dividends	-0.791** (0.010)	0.157 (0.603)	-0.457 (0.120)	-0.204 (0.496)	-0.353 (0.202)	-0.502 (0.115)	-0.390 (0.188)	-0.065 (0.823)	-0.085 (0.791)	-0.429 (0.194)
Leverage	-0.661*** (0.004)	-0.045 (0.868)	-0.207 (0.384)	-0.559** (0.023)	-0.648*** (0.004)	-0.306 (0.253)	-0.195 (0.378)	-0.391 (0.111)	-0.578*** (0.006)	-0.176 (0.495)
Capital intensity	-0.061 (0.426)	-0.373*** (0.000)	-0.137 (0.132)	-0.129* (0.081)	-0.062 (0.421)	-0.389*** (0.000)	-0.093 (0.212)	-0.180** (0.023)	-0.185** (0.024)	-0.084 (0.287)
CAPEX	1.090 (0.105)	0.897 (0.321)	-0.667 (0.413)	2.248*** (0.001)	0.439 (0.520)	1.754** (0.034)	-0.118 (0.849)	1.198 (0.174)	0.804 (0.216)	-0.124 (0.882)
ln(Firm age)	0.335*** (0.000)	0.364*** (0.000)	0.384*** (0.000)	0.275*** (0.000)	0.338*** (0.000)	0.374*** (0.000)	0.391*** (0.000)	0.276*** (0.000)	0.445*** (0.000)	0.246*** (0.000)
ln(1 + Patent counts)	0.023 (0.357)	-0.055** (0.046)	-0.003 (0.900)	0.037 (0.156)	-0.003 (0.917)	0.013 (0.646)	-0.069** (0.033)	0.015 (0.612)	-0.058* (0.074)	0.065** (0.016)
ln(CEO tenure)	0.019 (0.570)	0.136*** (0.001)	0.106*** (0.004)	0.026 (0.462)	0.062* (0.068)	0.110*** (0.005)	0.000 (0.995)	0.170*** (0.000)	0.078** (0.050)	0.087** (0.031)
ln(CEO age)	1.020*** (0.000)	0.964*** (0.004)	1.027*** (0.000)	0.875*** (0.003)	1.261*** (0.000)	0.363 (0.251)	1.419*** (0.000)	0.426 (0.177)	1.123*** (0.000)	0.972*** (0.001)
CEO education	0.144*** (0.000)	0.163*** (0.000)	0.192*** (0.000)	0.112*** (0.000)	0.174*** (0.000)	0.122*** (0.000)	0.177*** (0.000)	0.128*** (0.000)	0.193*** (0.000)	0.109*** (0.001)
ln(1 + Number of local firms)	0.034 (0.146)	0.003 (0.917)	0.018 (0.453)	0.033 (0.181)	0.010 (0.657)	0.031 (0.251)	-0.002 (0.950)	0.017 (0.570)	0.050** (0.046)	-0.036* (0.087)
Interlock	1.613*** (0.000)	1.571*** (0.000)	1.453*** (0.000)	1.540*** (0.000)	1.554*** (0.000)	1.588*** (0.000)	1.596*** (0.000)	1.312*** (0.000)	1.441*** (0.000)	1.510*** (0.000)
Board size	-0.046*** (0.010)	-0.007 (0.727)	-0.014 (0.441)	-0.021 (0.243)	-0.050*** (0.004)	0.005 (0.787)	-0.065*** (0.001)	-0.005 (0.777)	-0.074*** (0.000)	0.009 (0.565)
CEO-Chairman duality	-0.076 (0.296)	0.191** (0.023)	0.079 (0.306)	-0.091 (0.228)	-0.107 (0.133)	0.194** (0.023)	-0.024 (0.757)	0.134 (0.141)	-0.045 (0.622)	0.109 (0.130)
Industry effects	Yes		Yes		Yes		Yes		Yes	
Year effects	Yes		Yes		Yes		Yes		Yes	
Observations	5,590		5,590		5,590		5,590		5,590	

Table 5: Negative exogenous CSR news and CEO outside directorships

This table reports the results from the ordinary least square regressions. The dependent variable is the change in a CEO's number of outside directorships from year t to year $t + 2$. All independent variables are measured at year t . The variable definitions are in Table 1. The standard errors are robust to heteroskedasticity and within industry and year clustering. The industry classification is based on the Fama-French 12-industry specification. The p -values are in parentheses. Statistical significance at the 1%, 5%, and 10% level is indicated by ***, **, and *, respectively.

	Δ Outside directorships							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
High-reach news dummy	-0.132** (0.024)		-0.148** (0.022)		-0.168** (0.028)		-0.168** (0.027)	
High-severity news dummy			0.032 (0.574)				0.012 (0.884)	
ln(1+High-reach news count)		-0.076** (0.013)		-0.127** (0.012)		-0.130** (0.022)		-0.133** (0.024)
ln(1+High-severity news count)				0.072 (0.182)				0.064 (0.458)
ln(1+Total news count)					0.026 (0.341)	0.050 (0.241)	0.022 (0.595)	0.011 (0.885)
ln(Total assets)	-0.012 (0.430)	-0.014 (0.360)	-0.014 (0.406)	-0.018 (0.275)	-0.015 (0.350)	-0.017 (0.268)	-0.015 (0.368)	-0.018 (0.254)
Market-to-book	-0.018 (0.269)	-0.018 (0.267)	-0.018 (0.262)	-0.019 (0.250)	-0.018 (0.262)	-0.019 (0.255)	-0.019 (0.262)	-0.019 (0.250)
Return on assets	0.410** (0.016)	0.417** (0.016)	0.409** (0.017)	0.413** (0.018)	0.408** (0.016)	0.420** (0.015)	0.408** (0.016)	0.414** (0.018)
Sales growth	0.144** (0.011)	0.144** (0.012)	0.146** (0.011)	0.149** (0.010)	0.146** (0.010)	0.146** (0.011)	0.146** (0.012)	0.149** (0.010)
Cash	-0.142 (0.154)	-0.139 (0.163)	-0.142 (0.152)	-0.140 (0.155)	-0.145 (0.144)	-0.142 (0.156)	-0.145 (0.144)	-0.141 (0.156)
Dividend	0.168 (0.127)	0.168 (0.127)	0.167 (0.128)	0.163 (0.132)	0.166 (0.128)	0.168 (0.123)	0.166 (0.128)	0.164 (0.129)
Leverage	0.044 (0.670)	0.043 (0.678)	0.047 (0.651)	0.051 (0.627)	0.046 (0.656)	0.045 (0.662)	0.047 (0.653)	0.050 (0.630)
Capital intensity	0.028 (0.164)	0.026 (0.203)	0.028 (0.169)	0.026 (0.202)	0.029 (0.139)	0.027 (0.189)	0.029 (0.146)	0.026 (0.199)
CAPEX	-0.424** (0.034)	-0.443** (0.028)	-0.426** (0.033)	-0.454** (0.024)	-0.415** (0.036)	-0.438** (0.029)	-0.417** (0.036)	-0.452** (0.026)
ln(Firm age)	0.025 (0.332)	0.024 (0.361)	0.026 (0.322)	0.025 (0.331)	0.025 (0.344)	0.022 (0.391)	0.025 (0.345)	0.025 (0.346)
ln(1 + Patent counts)	0.033*** (0.001)	0.031*** (0.001)	0.033*** (0.001)	0.031*** (0.001)	0.032*** (0.001)	0.031*** (0.001)	0.032*** (0.001)	0.031*** (0.001)
ln(CEO tenure)	0.011 (0.540)	0.010 (0.569)	0.011 (0.538)	0.010 (0.580)	0.011 (0.528)	0.010 (0.562)	0.011 (0.529)	0.010 (0.577)
ln(CEO age)	-0.373*** (0.003)	-0.363*** (0.003)	-0.375*** (0.003)	-0.366*** (0.003)	-0.373*** (0.003)	-0.358*** (0.004)	-0.374*** (0.003)	-0.365*** (0.004)
CEO education	-0.000 (0.978)	0.000 (0.988)	-0.001 (0.946)	-0.001 (0.958)	-0.000 (0.971)	0.000 (0.989)	-0.001 (0.961)	-0.001 (0.964)
ln(1 + Number of local firms)	0.012 (0.201)	0.013 (0.191)	0.012 (0.201)	0.012 (0.193)	0.012 (0.211)	0.012 (0.203)	0.012 (0.210)	0.012 (0.197)
Interlock	-0.000 (0.997)	-0.000 (0.995)	0.001 (0.989)	0.002 (0.973)	0.001 (0.986)	0.001 (0.983)	0.001 (0.984)	0.003 (0.972)
Board size	-0.010 (0.238)	-0.009 (0.256)	-0.010 (0.238)	-0.009 (0.254)	-0.010 (0.235)	-0.009 (0.257)	-0.010 (0.235)	-0.009 (0.254)
CEO-chairman duality	0.008 (0.732)	0.006 (0.776)	0.007 (0.755)	0.005 (0.825)	0.007 (0.768)	0.004 (0.868)	0.007 (0.770)	0.005 (0.847)
Industry effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
N	1321	1321	1321	1321	1321	1321	1321	1321
Pseudo R ²	0.033	0.032	0.033	0.034	0.033	0.033	0.033	0.033

Table 6: The effects of CSR strengths and controversies on CEO outside directorships: Probit and Tobit regressions

This table reports the results from the Probit and Tobit estimates of the effects of the *Adjusted CSR score (strengths)* and *Adjusted CSR score (controversies)*, with and without using the IV approach. In Models (1) and (3), the dependent variable is a dummy variable that is one if a CEO holds at least one outside directorship in year $t + 1$ and zero if not. In Models (2) and (4), the dependent variable is the number of outside directorships held by a CEO in the year $t + 1$. All the independent variables are lagged by one year relative to the dependent variable. In Models (3) and (4), the *Adjusted CSR score (strengths)* or the *Adjusted CSR score (controversies)* is instrumented by its initial level measured in the first year of data coverage. The variable definitions are in Table 1. The standard errors are robust to heteroskedasticity and within industry and year clustering. The industry classification is based on the Fama-French 12-industry specification. The p -values are in parentheses. Statistical significance at the 1%, 5%, and 10% level is indicated by ***, **, and *, respectively.

	Probit (1)	Tobit (2)	IV-Probit (3)	IV-Tobit (4)
			Instrumented by the initial CSR scores	
Panel A: CSR strengths				
Adjusted CSR score (strengths)	0.082 (0.294)	0.030 (0.743)	0.265** (0.014)	0.234* (0.077)
Pseudo R^2	0.180	0.115	-	-
Panel B: CSR controversies				
Adjusted CSR score (controversies)	-0.165*** (0.008)	-0.270*** (0.002)	-0.477*** (0.000)	-0.763*** (0.000)
Pseudo R^2	0.181	0.116	-	-
Panel C: CSR strengths and controversies				
Adjusted CSR score (strengths)	0.105 (0.181)	0.066 (0.476)	0.321*** (0.005)	0.311** (0.021)
Adjusted CSR score (controversies)	-0.177*** (0.005)	-0.278*** (0.002)	-0.534*** (0.000)	-0.815*** (0.000)
Pseudo R^2	0.181	0.116	-	-
Control variables	Yes	Yes	Yes	Yes
Industry effects	Yes	Yes	Yes	Yes
Year effects	Yes	Yes	Yes	Yes
Observations	5,590	5,590	5,590	5,590

Table 7: The effects of CSR strengths and controversies on CEO outside directorships: multinomial Probit regressions

This table reports the results from the multinomial regression estimates of the effects of the *Adjusted CSR score (strengths)* and the *Adjusted CSR score (controversies)* on CEO outside directorships, with (in panel B) and without (in panel A) using the IV approach. The dependent variable is zero if a CEO doesn't hold any outside directorship in year $t + 1$, one if the average total assets (in Models 1), *ROA* (in Models 2), the *Net adjusted CSR score* (in Models 3), the *Analyst coverage* (in Models 4), or the *Advertising expenses* (in Models 5) of the appointing firms is less than the sample median, and two if it is higher than the sample median. All the independent variables are lagged by one year relative to the dependent variable. In panel B, the *Adjusted CSR score (strengths)* or the *Adjusted CSR score (controversies)* is instrumented by its initial level measured in the first year of data coverage. The variable definitions are in Table 1. The standard errors are robust to heteroskedasticity and within industry and year clustering. The industry classification is based on the Fama-French 12-industry specification. The p -values are in parentheses. Statistical significance at the 1%, 5%, and 10% level is indicated by ***, **, and *, respectively.

Panel A: Uninstrumented results										
	Size (1)		ROA (2)		CSR (3)		Analyst coverage (4)		Advertising expenses (5)	
	Small Y=1	Large Y=2	Low Y=1	High Y=2	Low Y=1	High Y=2	Low Y=1	High Y=2	Low Y=1	High Y=2
Panel A1: CSR strengths										
Adjusted CSR Score (Strengths)	-0.255** (0.031)	0.191 (0.121)	-0.095 (0.408)	0.149 (0.193)	0.129 (0.269)	0.018 (0.887)	-0.108 (0.375)	0.132 (0.223)	-0.054 (0.647)	0.180* (0.096)
Panel A2: CSR controversies										
Adjusted CSR Score (Controversies)	-0.170 (0.117)	-0.298*** (0.002)	-0.186** (0.048)	-0.186* (0.055)	-0.102 (0.248)	-0.310*** (0.009)	-0.189** (0.039)	-0.290*** (0.009)	-0.304*** (0.001)	-0.105 (0.322)
Panel A3: CSR strengths and controversies										
Adjusted CSR Score (Strengths)	-0.236** (0.048)	0.237* (0.056)	-0.072 (0.535)	0.178 (0.124)	0.144 (0.229)	0.062 (0.617)	-0.086 (0.493)	0.177* (0.095)	-0.007 (0.952)	0.198* (0.072)
Adjusted CSR Score (Controversies)	-0.153 (0.171)	-0.333*** (0.001)	-0.179* (0.064)	-0.211** (0.032)	-0.119 (0.202)	-0.316*** (0.006)	-0.185* (0.055)	-0.316*** (0.004)	-0.301*** (0.001)	-0.128 (0.232)
Industry effects	Yes		Yes		Yes		Yes		Yes	
Year effects	Yes		Yes		Yes		Yes		Yes	
Observations	5,590		5,590		5,590		5,590		5,590	

Table 7 (Continued)

Panel B: Instrumented results (instrumented by the initial CSR scores)										
	Size (1)		ROA (2)		CSR (3)		Analyst coverage (4)		Advertising expenses (5)	
	Small Y=1	Large Y=2	Low Y=1	High Y=2	Low Y=1	High Y=2	Low Y=1	High Y=2	Low Y=1	High Y=2
Panel B1: CSR strengths										
Adjusted CSR Score (Strengths)	-0.171 (0.394)	0.573*** (0.000)	0.174 (0.304)	0.481*** (0.007)	0.217 (0.257)	0.443*** (0.002)	-0.198 (0.360)	0.489*** (0.001)	0.046 (0.799)	0.468*** (0.006)
Panel B2: CSR controversies										
Adjusted CSR Score (Controversies)	-0.441** (0.017)	-0.692*** (0.000)	-0.403** (0.027)	-0.439** (0.016)	-0.374** (0.015)	-0.716*** (0.001)	-0.761*** (0.000)	-0.660*** (0.001)	-1.011*** (0.000)	-0.265 (0.250)
Panel B3: CSR strengths and controversies										
Adjusted CSR Score (Strengths)	-0.127 (0.534)	0.646*** (0.000)	0.218 (0.205)	0.532*** (0.004)	0.261 (0.179)	0.515*** (0.001)	-0.122 (0.579)	0.566*** (0.000)	0.156 (0.375)	0.508*** (0.004)
Adjusted CSR Score (Controversies)	-0.423** (0.022)	-0.800*** (0.000)	-0.441** (0.017)	-0.527*** (0.006)	-0.419*** (0.008)	-0.803*** (0.000)	-0.756*** (0.000)	-0.765*** (0.000)	-1.039*** (0.000)	-0.346 (0.149)
Industry effects	Yes		Yes		Yes		Yes		Yes	
Year effects	Yes		Yes		Yes		Yes		Yes	
Observations	5,590		5,590		5,590		5,590		5,590	

Table 8: The effects of CSR sub-dimensions on CEO outside directorships: Probit and Tobit regressions

This table reports the estimates of the effects of CSR sub-dimensions on CEO outside directorships from the Probit and Tobit regressions. In Models (1), (3), (5), (7) and (9), the dependent variable is one if a CEO holds at least one outside directorships in year $t + 1$ and zero if not. In Models (2), (4), (6), (8) and (10), the dependent variable is the number of outside directorships held by a CEO in year $t + 1$. All independent variables are lagged by one year relative to the dependent variable. AmS is the *Adjusted CSR score* minus the respective individual CSR sub-dimension score. Each individual dimension used in the regression captures the variation of the individual social score purged of the common variation among all the scores (see Section 5.3). The variable definitions are in Table 1. The standard errors are robust to heteroskedasticity and within industry and year clustering. The industry classification is based on the Fama-French 12-industry specification. The p -values are in parentheses. Statistical significance at the 1%, 5%, and 10% level is indicated by ***, **, and *, respectively.

	Probit (1)	Tobit (2)	Probit (3)	Tobit (4)	Probit (5)	Tobit (6)	Probit (7)	Tobit (8)	Probit (9)	Tobit (10)
Community	-0.113 (0.490)	-0.202 (0.259)								
Diversity			0.373*** (0.000)	0.531*** (0.000)						
Employee relations					-0.108 (0.386)	-0.171 (0.293)				
Environment							-0.086 (0.665)	-0.193 (0.436)		
Human rights									0.721*** (0.006)	0.850*** (0.006)
AmS	0.177*** (0.007)	0.221*** (0.010)	0.018 (0.845)	-0.031 (0.783)	0.218*** (0.001)	0.264*** (0.001)	0.177*** (0.003)	0.221*** (0.005)	0.098* (0.098)	0.111 (0.149)
Control Variables	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Obs	5590	5590	5590	5590	5590	5590	5590	5590	5590	5590
Pseudo R^2	0.184	0.119	0.185	0.120	0.185	0.120	0.184	0.119	0.185	0.119

Table 9: Director appointment, stock market reaction, and subsequent performance

This table reports the effects of the CEO firms' social profile on the appointing firms' abnormal returns upon director appointment and the appointing firms' subsequent social and financial performance. In panel A, the dependent variable is the appointing firm's cumulative abnormal returns (CARs) measured over the event window $(-1, +1)$. In Panel A, we use the Weighted Least Squares (WLS) regressions where the weights are the inverse of the variance of the residuals from the market models used to estimate the abnormal returns. In Model (3) and Model (4), the *Net adjusted CSR score* is instrumented using its initial level measured in the first year of data coverage, and the interaction term, the *Net adjusted CSR score* \times *Institutional blockholder dummy*, is instrumented by the initial *Net adjusted CSR score* \times *Institutional blockholder dummy*. In Model (4), the *Inverse Mills Ratio* is calculated from the first-stage regression estimates of the Heckman sample self-selection model reported in Model (5) (details in Section 6). We do not report the first-stage estimates of IV regressions for the sake of brevity. In Panel B, we report the estimates of ordinary least squares regressions. The dependent variable is the change in *ROA* (in Model 1 – 3), *Sales growth* (in Model 5 – 7), and the change in *CSR* (in Model 9 – 11) measured for the appointing firms in the three years following director appointment. In Model (4), Model (8), and Model (12), we report the estimates from the first-stage Probit regressions of the Heckman self-selection model. The variable definitions are in Table 1. We indicate in the parentheses whether the variables belong to the CEO firms or to the appointing firms. The standard errors are robust to heteroskedasticity. The industry classification is based on the Fama-French 12-industry specification. The *p*-values are in parentheses. Statistical significance at the 1%, 5%, and 10% level is indicated by ***, **, and *, respectively.

Panel A: Stock market returns					
	(1)	(2)	(3)	(4)	(5)
	CAR(-1, +1)	CAR(-1, +1)	Instrumented CAR(-1, +1)	Heckman Stage 2 CAR(-1, +1)	Heckman Stage 1 Selected
			Instrumented by the initial CSR score		
Net Adjusted CSR Score (CEO firms)	-0.022 (0.338)	-0.019 (0.851)	-0.175 (0.161)	-0.174 (0.149)	
Net Adjusted CSR Score (CEO firms)*		-0.003 (0.974)	0.284** (0.031)	0.300** (0.027)	
Institutional Blockholder Dummy (appointing firms)					
Institutional Blockholder Dummy (appointing firms)		0.010 (0.759)	0.020 (0.496)	0.009 (0.703)	0.041 (0.681)
Initial Net Adjusted CSR Score (CEO firms)					0.270** (0.027)
Initial Net Adjusted CSR Score (CEO firms)*					-0.260** (0.037)
Institutional Blockholder Dummy (appointing firms)					
ln(1+Distance)					-0.170*** (0.000)
Inverse Mills Ratio				-0.036 (0.194)	
Strong Governance Dummy (Sender)	-0.060** (0.027)	-0.060** (0.026)	-0.077*** (0.005)	-0.066*** (0.007)	-0.143* (0.071)
ln(Total Asset) (appointing firms)	-0.001 (0.898)	-0.001 (0.900)	0.009 (0.179)	0.012* (0.085)	-0.008 (0.704)
ln(Total Asset) (CEO firms)	0.027** (0.014)	0.027** (0.019)	0.028** (0.039)	0.016* (0.083)	0.145*** (0.000)
ROA (CEO firms)	0.083 (0.520)	0.079 (0.558)	-0.092 (0.558)	-0.116 (0.464)	0.600** (0.022)
ROA (appointing firms)	-0.134 (0.266)	-0.139 (0.271)	-0.165 (0.262)	-0.188 (0.225)	-0.083 (0.855)
ln(CEO age)	0.053 (0.580)	0.054 (0.580)	-0.026 (0.785)	0.027 (0.779)	0.250 (0.350)
ln(CEO tenure)	0.017 (0.287)	0.016 (0.351)	0.021 (0.204)	0.021 (0.246)	-0.248*** (0.000)
CEO education	0.022* (0.068)	0.023* (0.089)	0.026** (0.040)	0.021* (0.078)	0.066* (0.057)
ln(1+Patent counts) (CEO firms)	0.008 (0.811)	0.009 (0.796)	-0.032 (0.355)	-0.025 (0.476)	-0.107*** (0.000)
Major committee membership dummy	0.013 (0.444)	0.013 (0.441)	0.012 (0.545)	0.010 (0.586)	
Same industry dummy	0.013 (0.658)	0.013 (0.694)	0.035 (0.136)	0.038 (0.119)	-0.148 (0.191)
Industry effects	Yes	Yes	Yes	Yes	Yes
Year effects	Yes	Yes	Yes	Yes	Yes
Obs	95	95	95	95	60143
Pseudo R ²	0.446	0.430	0.464	0.477	0.146

Table 9 (Continued)

Panel B: Subsequent performance												
	(1)	Change in <i>ROA</i>		(4) Heckman stage 1	(5)	<i>Sales growth</i>		(8) Heckman stage 1	(9)	Change in <i>CSR</i>		(12) Heckman stage 1
		(2) Instrumented	(3) Heckman stage 2			(6) Instrumented	(7) Heckman stage 2			(10) Instrumented	(11) Heckman stage 2	
		Instrumented by the initial <i>CSR</i> score				Instrumented by the initial <i>CSR</i> score				Instrumented by the initial <i>CSR</i> score		
Net Adjusted <i>CSR</i> Score (CEO firms)	-0.003 (0.818)	-0.041 (0.270)	-0.013 (0.731)		-0.008 (0.940)	-0.256 (0.415)	-0.190 (0.556)		0.298 (0.141)	-0.807 (0.247)	-0.334 (0.617)	
Net Adjusted <i>CSR</i> Score (CEO firms)*	0.008 (0.623)	0.051 (0.211)	0.011 (0.735)		0.014 (0.926)	0.132 (0.720)	-0.009 (0.976)		-0.404 (0.123)	0.684 (0.336)	-0.237 (0.740)	
Institutional Blockholder Dummy (appointing firms)	0.011 (0.314)	0.012 (0.288)	0.015 (0.192)	-0.004 (0.950)	-0.209* (0.099)	-0.214 (0.104)	-0.258* (0.091)	-0.004 (0.950)	-0.189 (0.513)	-0.328 (0.262)	0.260 (0.448)	0.046 (0.680)
Initial Net Adjusted <i>CSR</i> Score (CEO firms)				0.218** (0.015)				0.218** (0.015)				0.325** (0.027)
Initial Net Adjusted <i>CSR</i> Score (CEO firms)*				-0.228** (0.021)				-0.228** (0.021)				-0.305** (0.046)
In(1+Distance)				-0.171*** (0.000)				-0.171*** (0.000)				-0.186*** (0.000)
Inverse Mills Ratio			0.010 (0.559)				-0.030 (0.862)				-0.138 (0.358)	
Strong Governance Dummy (Sender)	-0.011 (0.313)	-0.013 (0.251)	-0.015 (0.200)	-0.136** (0.013)	-0.097 (0.215)	-0.099 (0.224)	-0.081 (0.395)	-0.136** (0.013)	-0.073 (0.615)	-0.089 (0.547)	-0.028 (0.863)	-0.176** (0.015)
In(Total Asset) (appointing firms)	-0.013*** (0.004)	-0.012*** (0.009)	-0.012** (0.011)	-0.008 (0.537)	-0.077* (0.057)	-0.075* (0.068)	-0.077* (0.070)	-0.008 (0.537)	0.048 (0.337)	0.067 (0.193)	0.089* (0.086)	-0.006 (0.785)
In(Total Asset) (CEO firms)	0.003 (0.517)	0.004 (0.441)	0.004 (0.436)	0.165*** (0.000)	0.031 (0.380)	0.040 (0.319)	0.029 (0.540)	0.165*** (0.000)	0.076 (0.261)	0.096 (0.221)	0.097 (0.273)	0.210*** (0.000)
ROA (CEO firms)	0.024 (0.744)	0.029 (0.719)	0.030 (0.708)	0.540*** (0.003)	-0.715 (0.203)	-0.528 (0.481)	-0.614 (0.407)	0.540*** (0.003)	0.223 (0.784)	0.310 (0.762)	0.937 (0.389)	0.679*** (0.005)
ROA (appointing firms)	-0.593*** (0.000)	-0.587*** (0.000)	-0.590*** (0.000)	-0.147 (0.476)	-0.878 (0.305)	-0.909 (0.295)	-0.960 (0.271)	-0.147 (0.476)	0.183 (0.717)	0.130 (0.817)	0.360 (0.474)	0.025 (0.936)
In(CEO age)	-0.035 (0.492)	-0.046 (0.386)	-0.030 (0.560)	-0.018 (0.928)	-0.385 (0.646)	-0.426 (0.612)	-0.446 (0.604)	-0.018 (0.928)	-0.168 (0.828)	-0.355 (0.643)	-0.427 (0.570)	0.042 (0.866)
In(CEO tenure)	-0.009 (0.147)	-0.007 (0.334)	-0.011 (0.121)	-0.175*** (0.000)	0.058 (0.563)	0.072 (0.477)	0.081 (0.502)	-0.175*** (0.000)	0.098 (0.275)	0.167* (0.094)	0.165 (0.109)	-0.173*** (0.000)
CEO education	0.000 (0.995)	0.001 (0.869)	0.000 (0.994)	0.074*** (0.001)	-0.094** (0.038)	-0.091** (0.044)	-0.090** (0.043)	0.074*** (0.001)	0.030 (0.707)	0.026 (0.730)	0.044 (0.546)	0.070** (0.016)
In(1+Patent counts)(CEO firms)	0.007* (0.086)	0.008* (0.061)	0.006 (0.167)	-0.039*** (0.000)	-0.001 (0.985)	0.013 (0.795)	0.014 (0.800)	-0.039*** (0.000)	-0.061 (0.267)	-0.015 (0.828)	-0.011 (0.864)	-0.043*** (0.000)
Major committee membership dummy	0.005 (0.733)	0.005 (0.701)	0.006 (0.693)		-0.003 (0.982)	0.003 (0.979)	-0.019 (0.882)		-0.140 (0.433)	-0.082 (0.651)	-0.090 (0.606)	
Same industry dummy	0.013 (0.322)	0.016 (0.250)	0.014 (0.328)	0.195*** (0.003)	0.242** (0.025)	0.246** (0.026)	0.228** (0.042)	0.195*** (0.003)	0.046 (0.797)	0.113 (0.533)	0.047 (0.797)	0.114 (0.223)
Industry effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Obs	223	223	217	138688	223	223	217	138688	137	137	135	75161
Pseudo <i>R</i> ²	0.491	0.493	0.484	0.153	0.136	0.138	0.136	0.153	0.049	0.044	0.020	0.180