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Chapter 2. Corporate Social Responsibility and NGO Directors on Corporate Boards¹²

2.1 Introduction

Resource dependence theory suggests that the board of directors serves functions beyond monitoring management on behalf of shareholders (Pfeffer & Salancik, 1978). By providing advice and counsel to management and linking the firm to external contingencies, directors play a critical role in strategic decision making (Adams et al., 2010; Baysinger & Butler, 1985; Daily, Dalton, & Cannella, 2003; Hillman & Dalziel, 2003). Moreover, the prestige of directors within the business and/or social world helps to enhance firm legitimacy by signifying the firm's stature or quality (Certo, 2003; Hambrick, Misangyi, & Park, 2015; Hillman, Cannella, & Paetzold, 2000; Zahra & Pearce, 1989).

In line with the resource dependence logic, prior research has examined what predicts who sits on the board of a firm and how board composition affects strategic outcomes, with a focus on the resources provided by CEOs of other firms (Dalton, Daily, Johnson, & Ellstrand, 1999; Kroll, Walters, & Le, 2007), bankers (Dittmann, Maug, & Schneider, 2009; Stearns & Mizruchi, 1993), lawyers (Agrawal & Knoeber, 2001; de Villiers, Naiker, & van Staden, 2011), politicians (Hillman, 2005; Lester, Hillman, Zardkoohi, & Cannella, 2008), and professors (Francis, Hasan, & Wu, 2015; White, Woidtke, Black, & Schweitzer, 2014).

Our study adds to this emerging stream of research in the corporate governance literature by focusing on directors with a professional background in NGOs (hereafter NGO directors). NGOs are private, not-for-profit organizations that “aim to serve particular societal interests by focusing advocacy and/or operational efforts on social, political and economic goals, including equity, education, health, environmental protection, and human rights”

¹² This paper is a joint work of Shili Chen, Niels Hermes, and Reggy Hooghiemstra.

(Teegen et al., 2004: 4). Examples of NGOs include the National Association for the Advancement of Colored People, the AmeriCares Foundation, the Bill & Melinda Gates Foundation, and the World Wildlife Fund. A better knowledge of what kind of firms are more likely to have NGO directors on their boards and what are the effect of NGO directors on firm strategic outcomes is crucial for understanding board effectiveness given the prevalence of this type of directors among large firms. According to our data, in the years 2012-2014, approximately 33% of S&P 500 firms had at least one NGO director in their boardrooms.

Our study consists of two related parts. First, we investigate what kind of firms are more likely to have NGO directors on their boards and, second, how NGO directors are associated with firm strategic outcomes. Both research questions are examined in the context of corporate social responsibility (CSR), which refers to firm actions to serve the interest of a broader set of stakeholders beyond its shareholders (Tang et al., 2015; Wang et al., 2016). We choose CSR because NGO directors are experts in CSR issues and they possess connections to various stakeholders in society that other directors may not have (Yaziji, 2004). In this regard, not only can NGO directors assist firms in making more effective CSR decisions, they also lend legitimacy to firms by signaling the firms' social awareness and credibility (Hillman et al., 2001; Krause et al., 2019; Mitchell, Agle, & Wood, 1997).

As a first step, we explore what predicts the presence of NGO directors on boards. Specifically, we expect firms with worse CSR performance records than their peers to be more likely to have NGO directors on their boards, because these firms face a higher risk of losing legitimacy, which makes them benefit more from the presence of NGO directors. Next, we examine the effects of the presence of NGO directors on CSR performance. We argue that NGO directors may not increase CSR performance as firms may appoint such directors merely for their symbolic value rather than for improving CSR decisions.

Our analysis is based on a sample of 157 S&P firms for the years 2012-2014. The results of our analysis support the predictions outlined above. We find that NGO directors are more prevalent in firms with lower CSR performance in the past than their peers. However, we find no evidence that the presence of NGO leaders on boards increases CSR performance.

Our paper makes three contributions to the literature. First, we add new insights to research on corporate governance and board composition by focusing on NGO directors. To our knowledge, ours is the first to study NGO directors as a separate group of directors. Our analysis suggests that firms have NGO directors on their boards primarily for symbolic reasons. This finding is important because CSR has become an essential avenue for firms to achieve sustained competitive advantages and firms ignoring CSR may experience difficulties in maintaining their success in the long run (Wang et al., 2016). Our findings should therefore be of interest to investors in general, and to socially responsible investors in particular, by demonstrating that investors should be cautious in interpreting the implications of NGO directors on boards.

Second, this study enriches resource dependence research by providing additional evidence of directors' role in providing legitimacy. Prior studies have examined directors' legitimacy role in contexts such as initial public offerings (Certo, 2003; Kroll et al., 2007; Pollock, Chen, Jackson, & Hambrick, 2010), legitimacy crises (Arthaud-Day, Certo, Dalton, & Dalton, 2006), and institutional transitions (Peng, 2004). These studies mostly focus on how directors' experience and reputation in the business world benefit firm performance. We pay special attention to NGO directors, whose expertise and reputation stem from their experience in the not-for-profit sector, and extend research on directors' legitimacy role to the CSR context.

Third, we contribute to resource dependence theory by suggesting that what matters is not only what resources flow into a firm. Even though NGO directors can provide advice and

counsel and networks that will help the firm make more effective CSR decisions, our findings reveal that firms do not materialize the full capacity of NGO directors. Instead, they seem to appoint NGO directors mainly for symbolic reasons. Future research may integrate resource dependence theory with other theoretical perspectives to explore the boundary conditions of the relationship between board composition and corporate strategic outcomes.

2.2 Theory and Hypotheses

2.2.1 Resource Dependence Theory, CSR, and the Board of Directors

Resource dependence theory describes firms as an open system and stresses their interdependence on external and internal contingencies (stakeholders) that control important resources (Hillman, Withers, & Collins, 2009; Pfeffer & Salancik, 1978). This perspective corresponds to stakeholder theory, which suggests that stakeholders contribute resources to firm operations, and a firm's success and survival depend on how properly it responds to stakeholder demands (Freeman, 1984; Hillman et al., 2009).

Firms are facing growing demands from stakeholders to actively commit to CSR, namely the responsibility of firms to serve the interests of a broader set of stakeholders beyond their shareholders (Wang et al., 2016). Specifically, firms are increasingly expected to engage not only in managing the negative externalities they may cause in the process of achieving economic goals, but also in addressing larger societal challenges such as climate change, human rights violations, inequality, and poverty. Both anecdotal evidence and research indicate that it has become more and more risky for firms to neglect CSR (de Villiers et al., 2011). One of the major risks facing firms with poor CSR performance is the threat of losing legitimacy, that is, the ongoing acceptance of a firm's operations by its stakeholders, or the "social license to operate" (DiMaggio & Powell, 1983; Freeman, 1984; Hawn & Ioannou, 2016; Meyer & Rowan, 1977; Pfeffer & Salancik, 1978; Scott, 1995; Suchman, 1995).

A key insight of resource dependence theory is that firms take actions to manage their dependency on stakeholders (Pfeffer & Salancik, 1978). In this regard, the board of directors serves an important function of providing resources that help reduce the firm's risk of losing legitimacy among stakeholders (Hillman & Dalziel, 2003). First of all, directors can help firms improving CSR performance and better satisfy stakeholder demands by providing two kinds of resources. They are advice and counsel with respect to CSR issues and channels for communicating information or obtaining commitments from important stakeholders. Second, directors lend legitimacy to firms in the sense that their expertise, work experience, networks, and reputation send signals to stakeholders about the firms' willingness and ability to act responsibly and meet stakeholder expectations.

2.2.2 The Benefits of NGO Directors on Boards

After having explained how the board of directors may reduce the firms' risk of losing legitimacy among stakeholders by helping them enhance CSR performance and/or providing legitimacy, we next discuss how NGO directors may contribute to this board task.

NGO directors have the potential to increase CSR performance by virtue of their experience in managing the daily operations of NGOs. Aiming to serve societal interests, the mission of NGOs largely overlaps with the goals and content of CSR. In this sense, NGO directors accumulate specialized expertise and networks that may assist firms in making more effective CSR decisions. NGO directors are also likely to be better informed on (shifts in) social expectations and the newest technologies for improving CSR performance (Yaziji, 2004). Moreover, they are linked to a broader spectrum of stakeholders beyond the firm's immediate competitive environment, including other NGOs, benefactors, regulators, legislators, local communities, and public-interest lobbyists (Teegen et al., 2004). Such linkages are vital for enhancing CSR performance as they facilitate the firm's communication

with stakeholders and help in acquiring commitment and support from stakeholders (Bear, Rahman, & Post, 2010).

Given their distinct expertise and networks, NGO directors also provide legitimacy that is particularly relevant for CSR (Hillman et al., 2000). Specifically, the presence of NGO directors on a firm's board signals the firm's social awareness, its goodwill to be responsive to stakeholders, and its ability to address CSR issues, thereby helping the firm garner acceptance from important stakeholders (Hillman et al., 2001; Krause et al., 2019; Mitchell et al., 1997).

2.2.3 Which Firms are More Likely to Have NGO Directors?

Viewing the board of directors as a mechanism for obtaining resources, resource dependence theory implies that NGO directors should be more prevalent among firms that benefit more from the resources they offer (Diestre, Rajagopalan, & Dutta, 2015; Hillman, Shropshire, & Cannella, 2007; Pfeffer & Salancik, 1978). In other words, board composition should reflect firm dependencies (Daily et al., 2003; Dalton et al., 1999; Hillman et al., 2000). Consistent with this logic, we theorize that firms with worse CSR performance records are more likely to have NGO directors on their boards because they face a higher risk of losing legitimacy.

Firms risk losing legitimacy if they do not meet stakeholder expectations (Bansal & Roth, 2000; Suchman, 1995). As discussed earlier, stakeholders are increasingly demanding firms to engage in CSR by actively managing the negative externalities of their operations and addressing broader social challenges (Wang et al., 2016). In this sense, firms with poor CSR performance are more likely to be perceived by stakeholders as inappropriate and unacceptable. These firms are more likely to provoke stakeholder dissent and lose stakeholder support, which undermines the flow of resources and threatens the firms' long-term survival

(Pfeffer & Salancik, 1978; Suchman, 1995). Prior research has shown that firms with poor CSR performance often incur negative media reports, activist campaigns, reduced customer loyalty, lower employee satisfaction, and legal sanctions (de Villiers et al., 2011; Hong & Kacperczyk, 2009; Kölbel, Busch, & Jancso, 2017; Lange & Washburn, 2012). In contrast, firms with better CSR performance enjoy better exchange relationships with their stakeholders (Aguinis & Glavas, 2012; Cheng, Ioannou, & Serafeim, 2014; Dorobantu & Odziemkowska, 2017; Farooq, Rupp, & Farooq, 2017; Flammer, 2018).

The higher risk of losing legitimacy implies that firms with poor CSR performance can benefit more from NGO directors' capability of increasing CSR performance or providing legitimacy. For firms with better CSR performance, NGO directors may be less valuable as these firms are exposed to a lower risk of losing legitimacy. Therefore,

Hypothesis 1. Ceteris paribus, firms with worse CSR performance records than their peers are more likely to have NGO directors on their boards.

2.2.4 Do NGO Directors Increase CSR Performance?

Previous studies frequently rely on resource dependence theory to argue that boards with relevant resources provide better advice and counsel, enhance information flows, and stakeholder support, which ultimately results in superior strategic outcomes (Carpenter & Westphal, 2001; Haynes & Hillman, 2010; Hillman & Dalziel, 2003; Kroll, Walters, & Wright, 2008; McDonald, Westphal, & Graebner, 2008). This logic implies that the presence of NGO directors on boards should help firms improve the effectiveness of CSR decisions and ensure stakeholder commitment, thereby increasing CSR performance.

However, research in symbolic management suggests that NGO directors may be appointed to corporate boards simply for their symbolic values rather than for improving CSR decisions (Meyer & Rowan, 1977; Oliver, 1991). Even though CSR is vital for firms to gain legitimacy from stakeholders and ensure the firms' long-term success, improving CSR

performance is expensive in terms of the resources and managerial attention needed and the opportunity costs (Barnett & Salomon, 2006; Dorobantu & Odziemkowska, 2017; Gupta & Misangyi, 2018; Surroca et al., 2013). The tension between conformity to stakeholder demands for CSR and profit maximization often leads firms to commit symbolic management, namely showing symbolic gestures of compliance without substantive commitment to CSR (Loughran, McDonald, & Yun, 2009). Whereas symbolic management can take many forms, a common one is using externally visible structures, such as board compositions, that formally meet stakeholder demands (Westphal & Graebner, 2010). We argue that having NGO directors sitting on a firm's board is an effective symbolic management tool to the extent that it can relieve stakeholder pressures for CSR by signaling the firm's willingness and ability to act responsibly (Krause et al., 2019; Yaziji, 2004).

If NGO directors are appointed merely for their symbolic values, the presence of NGO directors may not lead to increased CSR performance. Specifically, NGO directors' knowledge, experience, and values may not be valued by other board members. Their CSR-related concerns and suggestions on the proposed corporate strategies may be ignored in board decisions. This phenomenon has been discussed in the literature of women on boards, which suggests that the diversity benefits of having female directors on corporate boards are difficult to be realized because female directors are often appointed for symbolic rather than substantive reasons (King, Hebl, George, & Matusik, 2010; Post & Byron, 2015). In sum, although NGO directors possess resources that can help the firm improve CSR, the symbolic management argument indicates that firms may not utilize these resources. Simply put,

Hypothesis 2. Ceteris paribus, the presence of NGO directors on boards is not associated with subsequent improvement in CSR performance.

2.3 Methods

2.3.1 Sample and Data

Because of the need to manually collect biographical data on directors for this study, we limited our sample to 200 firms randomly selected from the S&P 500 index in 2012 (Haynes & Hillman, 2010; Hillman & Keim, 2001; Wowak, Mannor, Arrfelt, & McNamara, 2016). Two coders manually coded the professional backgrounds of directors sitting on the boards of our sample firms during 2012-2014 based on a number of data sources: MSCI GMI Ratings (formerly Corporate Library's Board Analyst database), BoardEx, proxy statements, Who's Who database, Bloomberg Profile & Biography, and LinkedIn (Haynes & Hillman, 2010; Hillman et al., 2000; Kroll et al., 2007). The authors set an initial guideline to help the coders identify NGO directors. The first round of trial coding was followed by a discussion comparing, resolving, and documenting cases that the coders interpreted differently.¹³

Data for the firms' CSR performance is collected from the MSCI ESG KLD STATS database (formerly KLD database) in the period 2011-2015 (Chin, Hambrick, & Treviño, 2013; Kang, 2016). Our annual financial and corporate data comes from COMPUSTAT Fundamental Annual databases. Information about the presence of a CSR committee is obtained from Thomson Reuters Asset4 database.

We drop observations if complete data are not available, resulting in a balanced final sample of 157 firms across three years (i.e. 471 firm-year observations). Sample t-tests reveal no significant differences between our final sample and the initial sample of S&P 500 firms in terms of firm size (measured by total assets, total sales, and total number of employees) and

¹³ Examples of controversial cases: We were confused about whether to classify a non-profit research organization like RAND as an NGO. In the end, we decided that RAND is an NGO because it is private and not-for-profit, and it serves a social purpose. In contrast, industry and business associations like Gas Processors Association and Chamber of Commerce are not classified as NGOs because they do not represent societal interests.

performance (measured by return on assets), suggesting that our sample well represents S&P 500 firms.

2.3.2 Measures

NGO directors are defined as directors with experience as executives of NGOs. The presence of NGO directors is a dummy, which takes the value “1” if a firm has at least one NGO director on its board, and “0” otherwise (*NGO Dir*).

We use KLD ratings to measure each firm’s CSR performance. The KLD ratings, now offered by the MSCI ESG KLD STATS database, have been widely used in the literature and are generally considered the best available data for comprehensively measuring CSR performance of US firms (Chin et al., 2013; Godfrey et al., 2009; Hillman & Keim, 2001; Kang, 2016; Wowak et al., 2016). KLD ratings evaluate all firms listed in the S&P 500 index along a number of categories pertaining to different stakeholder groups based on extensive research by independent analysts. These categories include product quality and safety, employee relations, community, human rights, environment, corporate governance, and diversity. Under each of these categories, KLD annually rates each firm for the presence (or absence, hence a binary indicator) of several specific “strengths” (exemplary qualities) and for the presence (or absence) of several specific “concerns” (problematic issues). For example, under the environmental category, one of the strengths items deals with renewable energy development, and one of the concerns items deals with toxic spills and releases.

We include all seven KLD categories to measure CSR performance. In addition, since previous research suggests that CSR strengths and concerns may be driven by different factors or lead to different outcomes (Mattingly & Berman, 2006; Strike, Gao, & Bansal, 2006), we measure CSR performance via three approaches: overall CSR performance is measured as the sum of all KLD strengths items minus the sum of all KLD concerns items (*Overall CSR*);

CSR strengths is the sum of all KLD strengths items (*CSR Strengths*); CSR concerns is the sum of all KLD concerns items (*CSR Concerns*). We mean center each measure of CSR by industry based on Fama-French's 12 industry classification for each year because stakeholders typically compare the CSR profile of firms within the same industry.

We control for an array of potentially confounding factors. At the firm level, we control for firm size using the natural log of total assets (*Firm Size*) since larger firms are under greater public scrutiny than their smaller counterparts (Godfrey et al., 2009). Older firms are more likely to possess the necessary infrastructure to manage CSR at a lower cost (de Villiers et al., 2011). Thus, we incorporate firm age as a control variable, measured as the natural log of the number of years a firm has been publicly traded (*Firm Age*). Firm profitability and financial slack are included in the regression because firms with higher profitability and larger slack have greater ability to divert resources toward CSR investments (Wang & Qian, 2011). Firm profitability is measured by return on assets calculated by dividing a firm's net income by its total assets (*ROA*), and by Tobin's Q, which is measured as the ratio of the market value of total assets (obtained by adding up the market value of common stock and the book value of liabilities) to the book value of total assets (*Tobin's Q*). Financial slack is measured as the total cash flow from a firm's operations, financing, and investing activities, scaled by its total assets (*Slack*). We control for industry by adding 11 industry dummies based on Fama-French's 12 industry classification. We control for time by including two year dummies.

We also control for several corporate governance factors based on prior studies on governance and CSR (de Villiers et al., 2011; Matten & Moon, 2008; Walls et al., 2012). We include board size, measured as the natural log of the total number of directors on the board (*Board Size*) because larger boards are more likely to have CSR experts. We control for board independence and CEO duality, which influence board monitoring capability, governance

effectiveness and hence CSR performance. Board independence is measured as the proportion of outside-unrelated directors (*Board Independence*). CEO duality is measured as a dummy, which is equal to 1 if the CEO is also the chairman and 0 otherwise (*CEO Duality*). Director interlocks, measured as the average number of directorships held by all board members (*Director Interlocks*), is added to the model because directors with more affiliations with external organizations are able to provide better strategic guidelines on how to manage the social impact of corporate activities. The presence of a CSR committee can assist the firm to better manage its CSR practices, which is why we control for the presence of such a committee, measured as a dummy that equals to 1 if the firm has a CSR committee and 0 otherwise (*CSR Committee*). Research has shown that female directors are associated with greater consideration of CSR in board discussions (Byron & Post, 2016). Therefore, we add the proportion of female directors on boards as a control to our model (*Female Dir*).

Finally, in models that test whether the presence of NGO directors affects CSR performance, we control for each company's CSR performance in the past year as CSR investment may be path dependent (Petrenko, Aime, Ridge, & Hill, 2016; Tang, Mack, & Chen, 2018).

2.3.3 Estimation Methods

Because of the longitudinal nature of our sample, we perform population-averaged regression models with firm as the cross-sectional and year as the temporal unit (Hillman et al., 2007). We do not use fixed effects model as the presence of NGO directors on boards is relatively stable over time. Population-averaged regression models help us control for unobserved differences across firms while taking into account intertemporal correlations among outcomes within firms (Hillman et al., 2007).

For models testing the effect of CSR on the presence of NGO directors, we perform population-averaged logistic regressions to account for the binary nature of the presence of NGO directors. For models testing whether the presence of NGO directors affects CSR, we conduct population-averaged linear regressions. All right-hand-side variables are lagged by one year to reduce reverse causality concerns. Huber–White robust standard errors are used in all models.

2.4 Results

2.4.1 Descriptive Statistics

We report means, standard deviations, and minimum/maximum values for our variables along with the Pearson correlation matrix in Table 2.1. As shown in the table, 33% of our sample firms have at least one NGO directors on their boards during 2012-2014. The largest correlation coefficient across all right-hand-side variables is between ROA and Tobin's Q (correlation coefficient = 0.69). The mean VIF of all right-hand-side variables is 1.40, well below the rule-of-thumb cutoff of 10 for regression models. These statistics suggest that multicollinearity is not a concern for our regression analysis.

2.4.2 Regression Results

Table 2.2 presents the population-averaged logistic regression results for testing hypothesis 1, which predicts that firms with lower CSR performance in the past are more likely to have NGO directors on their boards. We report odds ratios, which represent the change in the likelihood of the dependent variable arising from a one-unit change in the independent variable. An odds ratio of 1 indicates no effect; an odds ratio greater than 1 indicates positive effect; and an odds ratio smaller than 1 indicates negative effect.

Table 2. 1 Descriptive statistics

	Mean	S.D.	Min	Max	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1 Overall CSR	0.00	3.55	-11.60	15.26														
2 CSR Strengths	0.00	3.70	-8.60	16.20	0.88													
3 CSR Concerns	0.00	1.81	-4.38	8.90	-0.17	0.32												
4 NGO Dir	0.33	0.47	0.00	1.00	-0.06	0.05	0.21											
5 Firm Size	9.87	1.35	7.18	13.75	0.24	0.44	0.45	0.15										
6 Firm Age	3.53	0.78	0.00	5.21	0.14	0.16	0.06	-0.02	0.00									
7 ROA	0.07	0.06	-0.27	0.35	0.01	0.00	-0.04	-0.04	-0.39	0.01								
8 Tobin's Q	2.00	1.17	0.69	8.55	0.00	-0.07	-0.14	-0.07	-0.49	-0.04	0.69							
9 Slack	0.00	0.05	-0.38	0.52	-0.02	-0.03	-0.02	-0.03	0.00	-0.06	0.08	0.09						
10 Board Size	2.37	0.21	1.61	3.53	0.24	0.29	0.12	0.23	0.44	0.12	-0.21	-0.27	-0.01					
11 Board Independence	0.75	0.17	0.07	1.00	0.10	0.13	0.08	-0.02	0.14	0.11	-0.02	-0.01	0.07	0.05				
12 CEO Duality	0.56	0.50	0.00	1.00	0.00	0.05	0.12	-0.05	0.16	0.16	-0.03	-0.01	0.00	-0.02	0.15			
13 Board Interlocks	1.95	0.46	1.00	6.15	0.13	0.18	0.13	-0.08	0.15	-0.04	-0.09	-0.15	-0.02	-0.02	0.22	0.12		
14 CSR Committee	0.66	0.47	0.00	1.00	0.39	0.44	0.15	0.10	0.21	0.16	-0.07	-0.13	-0.01	0.20	0.15	0.00	0.19	
15 Female Dir	0.17	0.10	0.00	0.64	0.32	0.29	-0.03	-0.04	0.15	0.23	-0.07	0.08	0.00	0.12	0.22	0.17	0.12	0.28

Table 2. 2 Population-averaged logistic regression results for the presence of NGO directors on boards

Dependent variable = NGO Dir _t	(1)		(2)		(3)		(4)	
	odds ratio	p-value	odds ratio	p-value	odds ratio	p-value	odds ratio	p-value
Constant	0.01*	0.025	0.00**	0.010	0.00**	0.010	0.01*	0.031
Control Variables								
Firm Size _{t-1}	1.45*	0.020	1.50*	0.011	1.56**	0.007	1.38+	0.055
Firm Age _{t-1}	1.09	0.723	1.15	0.581	1.14	0.604	1.10	0.695
ROA _{t-1}	0.18	0.135	0.18	0.109	0.19	0.118	0.17	0.123
Tobin's Q _{t-1}	1.14	0.368	1.17	0.298	1.16	0.328	1.15	0.329
Slack _{t-1}	0.85	0.668	0.82	0.604	0.82	0.589	0.86	0.689
Board Size _{t-1}	2.25+	0.097	2.51+	0.063	2.32+	0.088	2.48+	0.069
Board Independence _{t-1}	1.36	0.389	1.34	0.402	1.36	0.380	1.33	0.415
CEO Duality _{t-1}	0.52*	0.012	0.50**	0.008	0.50**	0.008	0.51*	0.010
Board Interlocks _{t-1}	0.72**	0.009	0.74*	0.013	0.74*	0.015	0.73**	0.008
CSR Committee _{t-1}	1.36	0.138	1.50+	0.064	1.49+	0.064	1.37	0.137
Female Dir _{t-1}	0.34	0.353	0.42	0.424	0.38	0.385	0.39	0.416
Year Fixed Effects	Included		Included		Included		Included	
Industry Fixed Effects	Included		Included		Included		Included	
Predictors								
Overall CSR _{t-1}			0.95*	0.021				
CSR Strengths _{t-1}					0.95*	0.042		
CSR Concerns _{t-1}							1.07	0.140
Wald χ^2	36.66*	0.047	39.56*	0.032	38.66*	0.040	40.31*	0.027
Number of Unique Firms	157		157		157		157	
Number of Observations	471		471		471		471	

Note: This table presents the population-averaged logistic regression results for the presence of NGO executives on boards (NGO Dir). Stata command: xtlogit, pa. Odds ratios are reported. Huber-White standard errors are used to calculate p-values. ***, **, *, and + represent significance levels at 0.1%, 1%, 5%, and 10%, respectively.

Table 2. 3 Population-averaged regression results for CSR

Dependent Variable =	(1) Overall CSR _t		(2) CSR Strengths _t		(3) CSR Concerns _t	
	coef.	p-value	coef.	p-value	coef.	p-value
Constant	-0.53	0.672	-4.60***	0.001	-2.13***	0.000
Control Variables						
Overall CSR _{t-1}	0.76***	0.000				
CSR Strengths _{t-1}			0.70***	0.000		
CSR Concerns _{t-1}					0.82***	0.000
Firm Size _{t-1}	0.08	0.318	0.32***	0.001	0.10*	0.019
Firm Age _{t-1}	-0.21*	0.023	-0.09	0.337	0.09+	0.053
ROA _{t-1}	3.44*	0.018	4.62**	0.003	0.69	0.306
Tobin's Q _{t-1}	-0.06	0.545	0.02	0.841	0.04	0.138
Slack _{t-1}	-4.71*	0.040	-2.61	0.210	2.04**	0.006
Board Size _{t-1}	-0.21	0.562	0.29	0.425	0.39*	0.041
Board Independence _{t-1}	-0.26	0.656	0.06	0.911	0.23	0.352
CEO Duality _{t-1}	-0.19	0.183	-0.28*	0.049	-0.06	0.375
Board Interlocks _{t-1}	0.12	0.466	0.10	0.563	-0.02	0.782
CSR Committee _{t-1}	0.46**	0.007	0.55***	0.001	-0.07	0.401
Female Dir _{t-1}	1.76*	0.019	2.34***	0.001	0.39	0.207
Year Fixed Effects	Included		Included		Included	
Industry Fixed Effects	Included		Included		Included	
Predictor						
NGO Dir _{t-1}	0.01	0.934	-0.09	0.590	-0.08	0.263
Wald χ^2	1465.92***	0.000	1798.75***	0.000	1196.56***	0.000
Number of Unique Firms	157		157		157	
Number of Observations	471		471		471	

Note: This table presents the population-averaged regression results for CSR, measured by overall CSR, CSR strengths, and CSR concerns. Stata command: xtreg, pa. Huber-White standard errors are used to calculate p-values. ***, **, *, and + represent significance levels at 0.1%, 1%, 5%, and 10%, respectively.

Model 1 includes only control variables. Model 2-4 examine the effects of overall CSR, CSR strengths, and CSR concerns respectively. Model 2 reports a negative relationship between overall CSR and the presence of NGO directors on boards (*odds ratio*=0.95, $p=0.021$), indicating that one unit decrease in a firm's CSR performance as compared to the industry mean increases the likelihood of the firm to have NGO directors by five percent. Model 3 reports a negative relationship between CSR strengths and the presence of NGO directors on boards (*odds ratio*=0.95, $p=0.042$), suggesting that one unit decrease in a firm's CSR strengths as compared to the industry mean increases the likelihood of the firm to have NGO directors by five percent. Model 4 shows no effect between CSR concerns and the presence of NGO directors (*odds ratio*=1.07, $p=0.140$). Overall, these results support hypothesis 1. In particular, the results reveal that only (the absence of) CSR strengths affect(s) the likelihood of a firm to have NGO directors.

With respect to the control variables, the likelihood of a firm to have NGO directors on their boards is positively related to firm size (*odds ratio*=1.45, $p=0.020$) and board size (*odds ratio*=2.25, $p=0.097$), whereas it is negatively related to CEO duality (*odds ratio*=0.52, $p=0.012$) and board interlocks (*odds ratio*=0.72, $p=0.009$).

Table 2.3 demonstrates the population-averaged logistic regression results for testing hypothesis 2, which predicts that the presence of NGO directors on boards does not increase CSR performance. Overall CSR is the dependent variable of Model 1, and CSR strengths and CSR concerns of Model 2-3 respectively. Consistent with our prediction, the presence of NGO directors is not associated with overall CSR, CSR strengths, or CSR concerns. These results support hypothesis 2, suggesting that firms have NGO directors on their boards merely for symbolic reasons.

The results for the control variables do report some predictors of CSR that echo previous studies. For example, not only are larger firms more likely to engage in CSR

strengths ($\beta=0.32, p=0.001$), they are also more likely to be involved in CSR concerns ($\beta=0.10, p=0.019$). In addition, both CSR committees and female directors improve CSR through enhancing CSR strengths ($\beta=0.55, p=0.001$ and $\beta=2.34, p=0.001$).

2.5 Discussion

NGO directors are prevalent on the boards of large firms. However, we know little about what type of firms are more likely to have NGO directors on their boards, nor do we know how these directors affect firm strategic outcomes. Our study explores these questions in the context of CSR. We find that firms with inferior CSR performance in the past as compared to peers are more likely to have NGO directors on their boards, and that performing bad in terms of CSR strengths is the main driver of having NGO directors. Furthermore, we show that the presence of NGO directors on boards does not improve CSR, suggesting that NGO directors may be appointed to corporate boards mainly for symbolic reasons.

Our study enriches the literature on board composition by focusing on NGO directors. The increasing corporate scandals and the introduction of the 2002 Sarbanes Oxley Act have held the board of directors more accountable for cultivating responsible corporate behavior (Adams et al., 2010; de Villiers et al., 2011; Walls et al., 2012). To date, most studies focus on the importance of board independence or board diversity in enhancing CSR (e.g. Byron & Post, 2016; Johnson & Greening, 1999), emphasizing the broader perspectives brought about by board independence or diversity. NGO directors are special in that their experience, expertise, and reputation are particularly relevant for CSR. Nevertheless, our analysis suggests that NGO directors are not associated with better CSR. Rather, they are sitting on corporate boards primarily because of their symbolic values.

We also provide additional evidence on the difference between CSR strengths and CSR concerns. Our results reveal that whereas firms engaging in less CSR strengths are more

likely to have NGO directors on their boards, those involving in more CSR concerns are not more likely to have NGO directors. A possible explanation may be that NGO directors tend to distance themselves from firms with considerable CSR concerns to avoid reputation deterioration (Boivie, Graffin, & Pollock, 2012). Thus, our findings highlight the importance of distinguishing between CSR strengths and CSR concerns.

This study offers important practical implications to analysts, investors, employees, regulators, NGOs, and other stakeholders. Research has shown that firms engage in symbolic legitimization tactics to manage stakeholder impressions of CSR (Berrone & Gomez-Mejia, 2009; Crilly, Hansen, & Zollo, 2016). In the face of such symbolic management behavior, stakeholders are tasked with the challenge of evaluating a firm's actual CSR engagement (Peters, Romi, & Sanchez, 2019). Whereas the presence of NGO directors on boards may appear to be a commitment to future CSR performance, our results indicate that NGO directors on boards are largely ceremonial. Furthermore, the presence of NGO directors may impede a firm's improvements in CSR performance by helping the firm reduce the threat of losing legitimacy.

Future research may investigate the roles of NGO directors in other strategic contexts. For example, because NGO directors may have knowledge about the social expectations of the countries they have worked in, they may contribute to a firm's foreign direct investment, purchasing, or sale activities in those countries (Teegen et al., 2004). As another example, NGO directors with experience in international NGOs may bring value to a firm's global CSR strategy. In addition, it may be interesting for future research to establish a stronger causal link between NGO directors and CSR by considering the addition of NGO directors rather than the presence of NGO directors on boards. Studies on who are willing to sit on the boards of firms involved in CSR scandals can be another fruitful direction of future research.