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# Corporate Social Responsibility and NGO Directors on Boards

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## Abstract

In the years 2009 to 2016, approximately 35% of Standard & Poor's (S&P) 500 firms had at least one director with a professional background in private, not-for-profit organizations (NGO director). Yet research provides little guidance on what kind of firms are more likely to have NGO directors on their boards, neither do we know these directors' effects on firm strategic outcomes. Our study examines the above two questions in the context of corporate social responsibility (CSR), taking the lens of resource dependence theory. Results from an analysis of all firms included in the S&P 500 index between 2010 and 2016 show that the number of NGO directors serving on a firm's board in a certain year is positively related to the extent to which the firm displays poor CSR performance in the prior year. We also find that NGO directors on boards are not associated with immediate improvements in CSR performance; rather, their positive influence on CSR performance takes hold after 3 years. Our findings suggest that whereas NGO directors may potentially be appointed to a firm's board for legitimization reasons, these directors are associated with enhanced CSR performance in the long term.

**Keywords** NGO directors · Corporate social responsibility · Resource dependence theory · Legitimacy

## Introduction

Resource dependence theory suggests that the board of directors serves functions beyond monitoring management on behalf of shareholders (Pfeffer and 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 and Butler 1985; Daily et al. 2003; Hillman and 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 et al. 2015; Hillman et al. 2000; Zahra and Pearce 1989).

In line with the resource dependence logic, prior research has examined not only the predictors of what types of directors sit on the firm's board, but also how board composition in general and how specific types of directors are associated with firm strategic outcomes. This research has focused on the resources provided by CEOs of other firms (Dalton et al. 1999; Kroll et al. 2007), bankers (Dittmann et al. 2009; Stearns and Mizruchi 1993), lawyers (Agrawal and Knoeber 2001; de Villiers et al. 2011), politicians (Hillman 2005; Lester et al. 2008), and professors (Cho et al. 2017; Francis et al. 2015; White et al. 2014). Our study adds to this emerging stream of research in the corporate governance literature by focusing on the so-called NGO directors. NGO directors are individuals who have served in top executive roles at 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” (Teegen et al. 2004, p. 4). Examples of these organizations include the National Association for the Advancement of Colored People, the American Cares 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 of the effects these NGO directors have on firm

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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 2009–2016, approximately 35% of the 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, what are the subsequent effects of these directors on 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 likely to be knowledgeable in CSR issues and they possess connections to various key stakeholders 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 et al. 1997).

In light of resource dependence theory (Pfeffer and Salancik 1978), we argue that firms with poor CSR performance records are 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 expertise, networks, and reputational capital of NGO directors.

In terms of the effect of NGO directors on CSR performance, resource dependence theory suggests that NGO directors on boards can lead to CSR performance improvements as they bring to the firm CSR-related expertise and networks (Dixon-Fowler et al. 2017; Hillman et al. 2001; Kock et al. 2012; Mallin and Michelon 2011). We argue, however, that NGO directors may not bring immediate improvements to their firms' CSR performance for at least two reasons. First, it is possible that NGO directors are appointed for symbolic reasons (Meyer and Rowan 1977; Oliver 1991). Second, as NGO directors frequently do not come from the "inner circle" of business elites (Oehmichen et al. 2017) and because of the traditional board culture to focus on shareholder values (Jensen and Zajac 2004; Kang 2016), NGO directors are very likely to encounter in-group resistance to change when first added to the board (Westphal and Milton 2000; Westphal and Khanna 2003). Specifically, incumbent directors may perceive the newly added NGO directors as out-group members and ignore their CSR proposals during board discussions. Over time, however, these directors are likely to accept NGO directors as being one of them, while at the same time, NGO directors may become more familiar with the customs prevailing in the boardroom (Brown et al. 2017). Therefore, we expect NGO directors to have a real influence over board decisions after some time,

thereby tweaking firm strategies to focus on CSR in the long run.

Our analysis is based on all firms included in the S&P 500 index for the years 2009–2016, and it supports the predictions outlined above. That is, we find that NGO directors are more prevalent in firms with poor prior CSR performance. Moreover, we show that NGO directors on boards are not associated with short-term CSR performance improvements; however, they are positively related to long-term CSR performance. In the additional analysis, we check for the increase in the number of NGO directors and demonstrate that firms with poor CSR performance are more likely to appoint NGO directors to their boards. The additional analysis also reports that although the increase of NGO directors does not lead to immediate CSR performance changes, their appointment does enhance CSR performance after 3 years.

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 the best of our knowledge, our study is the first to investigate NGO directors as a separate group of directors. We examine the role NGO directors play in CSR, which 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 analysis suggests that firms with poor CSR performance records are more likely to have NGO directors on their boards; however, our results also show that it takes time for NGO directors to improve the CSR performance of their firms. Accordingly, our study provides a more thorough understanding of the implications of NGO directors on boards. Our findings should be of interest to investors in general, and to socially responsible investors in particular, by demonstrating that NGO directors on boards may not promise greater CSR commitment in the short run.

Second, we introduce a time dimension into resource dependence theory. Previous studies have relied on resource dependence theory to predict that directors with CSR-related expertise/connections are able to improve their firms' CSR performance (e.g., Dixon-Fowler et al. 2017; Hillman et al. 2001; Kock et al. 2012; Mallin and Michelon 2011). Yet, these studies have provided mixed empirical findings, with some demonstrating a positive relationship between directors with CSR-related expertise/connections and CSR performance (Kock et al. 2012; Mallin and Michelon 2011) and some showing no relationships (Dixon-Fowler et al. 2017; Hillman et al. 2001). Our study suggests that possible explanations for the non-finding are that firms may appoint NGO directors to their boards for symbolic reasons and that it takes time before these directors' expertise and connections are actually used to improve CSR performance.

Third, this study enriches resource dependence research by offering 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 et al. 2010), legitimacy crises (Arthaud-Day et al. 2006), and institutional transitions (Peng 2004). These studies mostly focus on how directors' experience and reputation in the business world benefit corporate financial 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.

## Theory and Hypotheses

### 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) who control important resources (Hillman et al. 2009; Pfeffer and Salancik 1978). This perspective corresponds to stakeholder theory, which suggests that stakeholders contribute resources to firm operations, and that 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, that is, 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. In the summer of 2019, the Business Roundtable—an association of chief executive officers of leading U.S. companies—publicly announced to share “a fundamental commitment to all of our stakeholders.” Both anecdotal evidence and research indicate that it has become more and more risky for firms to neglect CSR (Campbell 2018; 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 and Powell 1983; Freeman 1984; Hawn and Ioannou 2016; Meyer and Rowan 1977; Pfeffer and Salancik 1978; Scott 1995; Suchman 1995; Zyglidopoulos et al. 2016).

A key insight of resource dependence theory is that firms take actions to manage their dependency on stakeholders (Hillman et al. 2009; Pfeffer and 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 and Dalziel 2003). First of all, directors can help their firms improve CSR performance and better satisfy stakeholder demands by providing two kinds of resources, namely 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. Indeed, this is also in line with prior research suggesting that the prime reasons why firms engage in CSR include being responsive to external pressures and out of a desire to be considered as legitimate (e.g., Bansal and Roth 2000; Bansal 2005).

### The Benefits of NGO Directors on Boards

After having explained how the board of directors may reduce a firm's risk of losing legitimacy among stakeholders by helping it enhance CSR performance and/or by lending legitimacy to the firm, 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. The primary aim of NGOs is “to serve particular societal interests [...], including equity, education, health, environmental protection, and human rights” (Teegen et al. 2004, p. 4), which 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 about (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 et al. 2010).

Given their distinct expertise and networks, NGO directors also provide legitimacy that is particularly relevant for CSR (Hillman et al. 2000; Bansal and Roth 2000; Bansal 2005). 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).

Sitting on a firm's board potentially has important implications for NGO directors' reputation and credibility. A key argument in the literature on corporate directors is that directors' main asset is their personal reputation (Fama and Jensen 1983; Kang 2016) as it is "an important part of his or her social capital, which, in turn, affects the candidate's attractiveness" (Withers et al. 2012, p. 251). When an NGO director serves on the board of a firm that shows no improvement in CSR performance for a prolonged period of time, he or she risks reputation damages within the NGO community. Serving on a firm's board may also reduce an NGO director's discretion to freely express him- or herself because by serving on the board he or she becomes a representative of the firm (Hillman et al. 2000). To the extent that this affects personal credibility, potential NGO director candidates will be cautious not to join boards where they cannot exert influence to make a change. Indeed, in January 2020, the CEO of the German multinational conglomerate company Siemens AG offered climate activist Luisa Neubauer a seat on the supervisory board of its energy business while dealing with its role in a controversial coal mining project in Australia. However, Luisa Neubauer turned down the offer, stating that "If I were to take it up, I would be obliged to represent the company's interests and could never be an independent critic of Siemens... That is not compatible with my role as [a] climate activist."<sup>1</sup> In sum, the reputation and credibility implications of serving on corporate boards indicate that not only are NGO directors motivated to improve the CSR performance of their firms, their presence on boards also serves as a signal of the firms' greater CSR commitment.

### 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 these directors offer (Diestre et al. 2015; Hillman et al. 2007; Pfeffer and 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 poor CSR performance in a certain year are more likely to have NGO directors on their boards in a subsequent year because they face a higher risk of losing legitimacy.

Firms risk losing legitimacy if they do not meet stakeholder expectations (Bansal and Roth 2000; Hooghiemstra

2000; Suchman 1995; Zyglidopoulos et al. 2012). As discussed earlier, stakeholders are increasingly demanding firms to engage in CSR by managing the negative externalities of their operations and addressing broader social challenges actively (Wang et al. 2016). In this sense, firms with poor CSR performance are more likely to be perceived by stakeholders as "inappropriate." These firms are more likely to provoke stakeholder dissent and lose stakeholder support, which undermines the firm's access to critical external resources and may threaten the firms' long-term survival (Pfeffer and 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 (Bhattacharya et al. 2009; de Villiers et al. 2011; Hong and Kacperczyk 2009; Kölbel et al. 2017; Lange and Washburn 2012). In contrast, firms with better CSR performance enjoy better exchange relationships with their stakeholders (Aguinis and Glavas 2012; Cheng et al. 2014; Dorobantu and Odziemkowska 2017; Farooq et al. 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 and/or providing legitimacy. For firms with better CSR performance, the immediate value of NGO directors may be less clear as these firms are exposed to a lower risk of losing legitimacy. Accordingly, we arrive at the following hypothesis, stated in an alternative form:

**Hypothesis 1:** Firms with poor CSR performance are more likely to have NGO directors on their boards.

### Do NGO Directors Increase CSR Performance? Short- vs. Long-Term Effects

Previous studies frequently rely on resource dependence theory to argue that boards with relevant resources provide better advice and counsel, enhance information flows, and bring about stakeholder commitment, which ultimately results in superior strategic outcomes (Carpenter and Westphal 2001; Haynes and Hillman 2010; Hillman and Dalziel 2003; Kroll et al. 2008; McDonald et al. 2008). This logic implies that NGO directors should help their firms increase the effectiveness of CSR decisions and ensure stakeholder commitment, thereby improving their firms' CSR performance. Similarly, and as alluded to earlier in the paper, issues related to personal reputation and credibility within the NGO community may stimulate an NGO director to use his or her influence in the boardroom to increase the firm's attention to CSR, which ultimately may be beneficial to the firm's CSR performance.

However, research in the tradition of symbolic management suggests that NGO directors may be appointed to corporate boards mostly for their symbolic values rather than

<sup>1</sup> See: <https://www.theguardian.com/environment/2020/jan/13/climate-activist-turns-down-siemens-offer-of-seat-on-energy-board>; last accessed on 8 March 2020.



for improving CSR performance (Meyer and Rowan 1977; Oliver 1991). Even though CSR is vital for firms to gain legitimacy from stakeholders and ensure long-term success, improving CSR performance is expensive in terms of the resources and managerial attention needed and the opportunity costs (Barnett and Salomon 2006; Dorobantu and Odziemkowska 2017; Gupta and 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 (Peters et al. 2019). Whereas symbolic management can take many forms, a common one is using externally visible structures such as choosing a board composition that formally meets stakeholder demands (Westphal and Graebner 2010). Indeed, having an NGO director sitting on the firm's board may be an effective symbolic management tool by signaling the firm's willingness and ability to create responsible business.

Moreover, if NGO directors are appointed primarily for symbolic/legitimation reasons, their knowledge, experience, and values may not be immediately valued by other board members. The governance literature has traditionally depicted boards as a homogenous group of people with similar socio-economic backgrounds (Westphal and Milton 2000; Westphal and Khanna 2003). Possessing a similar social-economic background may lead to a common understanding of appropriate behaviors and generally implies that specific norms are prevailing (Oehmichen et al. 2017). In the context of this study, of particular importance is that until very recently directors serving on U.S. boards tend to focus on the creation of shareholder value (Jensen and Zajac 2004; Kang 2016) and that NGO directors frequently do not come from the "inner-circle" of corporate elites (Oehmichen et al. 2017). While an NGO director may be well positioned to offer "unique perspectives that change the conventional wisdom in the group by stimulating others to question assumptions that have implicitly guided their reasoning" (Westphal and Milton 2000, p. 368), these directors face barriers to actually exert influence in the boardroom. As demonstrated in Westphal and Milton's (2000) study and the literature on women on boards (King et al. 2010; Post and Byron 2015), it is not uncommon that directors who do not belong the majority or "in-group" have to deal with resistance, which "can extend beyond simple disagreement to include non-verbal signals that communicate disapproval of the minority and, in some cases, more extreme responses such as ostracism or derision" (Westphal and Milton 2000, p. 368). This suggests that the CSR-related concerns and suggestions on the proposed corporate strategies NGO directors bring to the fore may initially be ignored in board decisions. Therefore, the benefits of having NGO directors on corporate boards may be difficult to realize and probably take time to come to

fruition. Accordingly, we arrive at the following hypothesis, stated in an alternative form:

**Hypothesis 2:** NGO directors on boards are not associated with immediate improvements in the firm's CSR performance.

Even though potential symbolic management and in-group resistance to change may impede NGO director influence to improve CSR performance, we expect that NGO directors are likely to overcome these obstacles over time and ultimately lead to enhanced CSR performance.<sup>2</sup> First, if a firm with NGO directors shows no CSR performance improvement for a prolonged period of time, both the firm and NGO directors will lose credibility and reputational capital. Therefore, NGO directors may be less likely to tolerate symbolic management and the firm may be more willing to engage in substantive CSR as time passes and symbolic management becomes less viable. Furthermore, in-group resistance to change may diminish over time as NGO directors become familiar with their boards' culture and develop ties with other board members. Research on corporate governance suggests that as a director sits longer on a board, he or she accumulates knowledge about how decisions are made within the board (Brown et al. 2017). Such on-the-job learning enables NGO directors to find better ways to promote CSR initiatives during board discussions, thereby tweaking firm strategies to focus on CSR. Corporate governance research also suggests that directors' co-working experience with other board members develops a bond among them, which increases mutual trust and facilitates the recognition of individual expertise (Adler and Kwon 2002; Tian et al. 2011). In this sense, NGO directors may experience less resistance to their CSR initiatives from other board members as they share longer co-working experience over time. Taken together, we arrive at the following hypothesis, stated in an alternative form:

**Hypothesis 3:** NGO directors on boards are positively associated with the firm's long-term CSR performance.

## Methods

### Sample and Data Collection

Our financial data come from Standard and Poor's (S&P) COMPUSTAT Fundamental Annual database, our CSR performance data come from MSCI's ESG KLD STATS database (formerly KLD database), and our corporate

<sup>2</sup> We thank our anonymous reviewers for this insightful suggestion.

governance data were obtained from Thomson Reuters' ASSET4 database. We manually collected data on NGO directors using MSCI's GMI Ratings database (formerly Corporate Library's Board Analyst database), company proxy statements, Who's Who database, Bloomberg Profile & Biography, and LinkedIn. Specifically, one of the authors and eight research assistants identified NGO directors by reading the biographical profiles of individual directors provided by GMI Ratings. If a director's profile is missing in the GMI Ratings, we turned to other sources mentioned previously for more information. The authors set an initial guideline of coding and provided training to the research assistants. The first round of trial coding was followed by a discussion comparing, resolving, and documenting cases that the coders interpreted differently.<sup>3</sup>

Our sampling procedure started with all publicly traded firms included in the S&P 500 index from 2009 to 2016. Our sampling period begins in 2009 because it comprises the first year for which GMI Ratings database provides detailed director biographical profiles. Our sampling period ends in 2016 because it is the last year for which KLD provides CSR performance data.

Our sampling starts with the 686 unique firms that were included in the S&P 500 index for at least one year during 2009 to 2016. KLD covers 598 of these 686 firms. Subsequently, merging this set of firms with COMPUSTAT to get financial data left us with 494 firms. Our sample was further reduced to 484 firms after deleting firms without corporate governance data in the ASSET4 database. Then, we had to drop some observations due to missing data regarding the firm's initial public offering date,<sup>4</sup> resulting in a sample of 3197 firm-year observations from 478 firms. For all these 3197 observations we coded the biographical profiles of in total 6373 unique directors who served on these firms' boards for at least 1 year between 2009 and 2016. Lastly, the final sample size for testing Hypotheses 1 and 2 was reduced to 2653 firm-year observations representing 443 unique firms for the period 2010 to 2016, because we lag all right-hand-side variables by one year. In a similar vein,

the final sample size for testing Hypothesis 3 was reduced to 1788 firm-year observations representing 398 unique firms for the period 2012 to 2016, because we lag the independent variable (i.e., NGO directors on boards) by three years to test its long-term effect on CSR performance.

We realize that the focus on firms included in the S&P 500 index, which typically involves large U.S.-listed firms, may potentially limit the generalizability of the study's findings (discussed more in detail in the final section). However, we believe that this approach is appropriate given our focus on CSR and NGO directors. Focusing on CSR requires matching data included in KLD and ASSET4, which covers primarily large firms. Moreover, the abundant coverage of S&P 500 firms in databases and publicly accessible sources ensures that ample material is available to identify NGO directors successfully.

## Measures

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 measuring CSR performance of U.S.-listed firms (Chin et al. 2013; Godfrey et al. 2009; Hillman and Keim 2001; Kang 2016; Wowak et al. 2016). KLD evaluates 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 and Berman 2006; Strike et al. 2006), we measure CSR performance via three approaches: CSR strengths, CSR concerns, and overall CSR performance. Following prior research (e.g., Fu et al. 2020; Gupta and Misangyi 2018; Hillman and Keim 2001; Wang and Choi 2013; Wowak et al. 2016), we first create a net score for each category by subtracting the total number of concerns from the total number of strengths. Then, we standardize the strengths, concerns, and net scores for each category per year, indicating CSR performance relative to peers. Our measure of CSR strengths, CSR concerns, and

<sup>3</sup> For example, industry and business associations (e.g., Gas Processors Association and Chamber of Commerce), professional associations (e.g., American Institute of Aeronautics and Astronautics and Major League Baseball), or college foundations were not coded as NGOs because they do not represent societal interests. Non-profit museums (e.g., Crystal Bridges Museum of American Art and Children's Discovery Museum in San Jose) and non-profit public policy organizations (e.g., Committee for Economic Development and RAND Corporation) were coded as NGOs because they are not-for-profit and serve a social goal.

<sup>4</sup> There are a lot of missing values on the item "Company Initial Public Offering Date" in COMPUSTAT Fundamental Annual database. We make up the missing values by reading corporate history and the investor relations section on corporate websites.

overall CSR are obtained by taking the average of the standardized scores on the seven categories. The standardized approach makes our three CSR measures directly comparable across measures and over time (Mattingly and Berman 2006).

Our main variable of interest is NGO directors on boards. We measure this variable with both the presence of NGO directors on boards, which is a dummy variable that equals to 1 if one or more NGO directors sit on the firm's board and 0 otherwise (*NGO Dir Presence*), and the number of NGO directors on boards, which equals to the number of NGO directors sitting on the board (*NGO Dir Number*). A director who for some period of time at some stage of his/her career served as the executive of an NGO is considered an NGO director. We do not require a specific number of years of experience given the limited availability of data regarding this type of experience. Neither do we identify the areas of expertise NGO directors developed while being connected to an NGO because NGOs may have broad social goals.

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 to improve CSR performance (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 (Fu et al. 2020; Wang and 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 total assets minus the book value of common stock) to the book value of total assets (*Tobin's Q*). Financial slack is measured as the ratio of long-term debt to total assets (*Leverage*) and as the total cash flow from a firm's operations, financing, and investing activities, scaled by its total assets (*Slack*).

We also control for several corporate governance factors based on prior studies on governance and CSR (de Villiers et al. 2011; Hussain et al. 2018; Matten and 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 because they may 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 equals 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 (Fu et al. 2020), which is why we control for the presence of such a committee, measured as a dummy, which 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 and Post 2016). Therefore, we add the presence of female directors on boards as a control to our model coded as 1 if a firm has at least one female director on its board and 0 otherwise (*Female Dir Presence*).

In models that test whether NGO directors on boards affect CSR performance we control for the firm's CSR performance in the past year as CSR investment may be path dependent (Petrenko et al. 2016; Tang et al. 2018).

Finally, in all our analysis, we include year and industry fixed effects (industries are grouped based on the Fama–French 12-industry classification). We provide a summary of our measures in Appendix.

## 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 and number of NGO directors on boards are relatively stable over time. Population-averaged regression models help 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 performance on the presence of NGO directors on boards, we perform population-averaged logistic regressions to account for the binary nature of the presence of NGO directors. For models testing the effect of CSR performance on the number of NGO directors on boards, we utilize population-averaged Poisson regressions because the dependent variable is a count. For models testing whether NGO directors on boards affect CSR performance, we conduct population-averaged linear regressions.

As noted, in models testing Hypotheses 1 and 2, all right-hand-side variables are lagged by one year to reduce reverse causality concerns. This implies that to test Hypothesis 1, we match NGO directors on boards (the dependent variable in



**Table 1** Descriptive statistics

Panel A. NGO directors summarized by year			
Year	Percentage of firms with NGO directors		
2009	0.33		
2010	0.36		
2011	0.37		
2012	0.37		
2013	0.35		
2014	0.36		
2015	0.35		
2016	0.31		
Total	0.35		
Panel B. Tab the number of NGO directors			
Number of NGO directors	Frequency	Percentage	Cumulative percentage
0	2082	65.12	65.12
1	825	25.81	90.93
2	206	6.44	97.37
3	65	2.04	99.41
4	16	0.50	99.91
5	3	0.09	100.00
Total	3197	100.00	
Panel C. Tab change in the number of NGO directors			
Change in the number of NGO directors	Frequency	Percentage	Cumulative percentage
-3	1	0.04	0.04
-2	8	0.30	0.34
-1	131	4.94	5.28
0	2386	89.93	95.21
1	123	4.64	99.85
2	4	0.15	100.00
Total	2653	100.00	

3197 observations, 478 unique firms, 2009–2016

this analysis) in for instance 2016 with CSR strengths, CSR concerns, and overall CSR performance in 2015. Similarly, to test Hypothesis 2, we match CSR strengths (one of the dependent variables in this analysis) in 2016 with NGO directors on boards and control variables in 2015. In models testing Hypothesis 3, the main independent variable is lagged by three years, which indicates we match CSR strengths in 2016 with NGO directors on boards in 2013 and control variables in 2015. Huber–White robust standard errors are used in all models.

## Results

### Descriptive Statistics

Table 1 Panel A–C provides detailed descriptive statistics of NGO directors in our sample. Specifically, Panel A of Table 1 presents the percentage of firms with NGO directors. In total, between 2009 and 2016, 35% of our sample firms have a least one NGO director on their boards. Panel B of Table 1 details the number of NGO directors on boards. As shown in the table, 65.12% of our firm-year observations have zero NGO directors. The proportions of our firm-year observations with one, two, three, four, and five NGO directors on the firm's board are 25.81%, 6.44%, 2.04%, 0.50%, and 0.09%, respectively. Panel C of Table 1 describes the increase or decrease in the number of NGO directors and it reveals that the number of NGO directors on boards is relatively stable for our sample firms. During 2010–2016, only 140 of the 2653 firm-year observations have experienced a decrease in the number of NGO directors and only 127 firm-year observations have experienced an increase in the number of NGO directors. The relatively stable number of NGO directors on boards and the large amount of zero values in our NGO director measures indicate that fixed effects panel regression is not appropriate for estimating our models.

In Table 2, we report means, standard deviations, and minimum/maximum values for our variables along with the Pearson correlation matrix. The largest correlation coefficient across our right-hand-side variables is between *Firm Size* and *Board Size* (correlation coefficient = 0.51). Tests reveal a maximum variance inflation factor (VIF) of 1.30 across all our regression models, which is well below the rule-of-thumb cutoff of 10. These statistics suggest that multicollinearity is not a concern for our regression analysis.

### Regression Results

Table 3 presents the population-averaged logistic regression results for testing hypothesis 1, which predicts that firms with poor CSR performance are more likely to have NGO directors on their boards. The measure of NGO directors on boards is the presence of NGO directors for Models 1–3 and the number of NGO directors for Models 4–6. In Models 1–3, 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

**Table 2** Summary statistics and correlation matrix

		Mean	S.D	Min	Max	1	2	3	4	5	6
1	CSR Strengths <sup>a</sup>	0.00	0.54	-0.89	2.96						
2	CSR Concerns <sup>a</sup>	0.00	0.51	-0.74	4.40	0.34					
3	Overall CSR <sup>a</sup>	0.00	0.44	-2.00	1.98	0.75	-0.29				
4	NGO Dir Presence	0.35	0.48	0.00	1.00	0.14	0.09	0.07			
5	NGO Dir Number	0.47	0.76	0.00	5.00	0.18	0.12	0.09	0.85		
6	Firm Size	9.65	1.32	6.52	14.76	0.48	0.50	0.15	0.20	0.19	
7	Firm Age	3.22	0.88	0.00	5.41	0.24	0.10	0.17	0.06	0.08	0.17
8	ROA	0.06	0.09	-2.28	0.38	0.01	-0.05	0.04	-0.02	-0.01	-0.13
9	Tobin's Q	2.02	1.20	0.62	13.03	-0.06	-0.14	0.03	-0.08	-0.06	-0.39
10	Leverage	0.24	0.16	0.00	1.65	-0.09	0.02	-0.11	-0.06	-0.05	-0.06
11	Slack	0.01	0.05	-0.57	0.52	-0.01	-0.04	0.02	-0.01	-0.01	-0.06
12	Board Size	2.37	0.20	1.61	3.58	0.36	0.25	0.19	0.17	0.20	0.51
13	Board Independence	0.83	0.10	0.20	1.00	0.22	0.08	0.16	0.10	0.09	0.18
14	CEO Duality	0.73	0.44	0.00	1.00	0.06	0.05	0.03	0.09	0.09	0.05
15	Director Interlocks	1.12	0.63	0.00	7.45	0.21	0.08	0.16	0.03	0.03	0.20
16	CSR Committee	0.64	0.48	0.00	1.00	0.46	0.21	0.32	0.12	0.15	0.31
17	Female Dir Presence	0.92	0.27	0.00	1.00	0.21	-0.01	0.17	0.08	0.10	0.18
		7	8	9	10	11	12	13	14	15	16
1	CSR Strengths <sup>b</sup>										
2	CSR Concerns <sup>b</sup>										
3	Overall CSR <sup>b</sup>										
4	NGO Dir Presence										
5	NGO Dir Number										
6	Firm Size										
7	Firm Age										
8	ROA	-0.04									
9	Tobin's Q	-0.12	0.39								
10	Leverage	-0.07	-0.24	-0.09							
11	Slack	-0.04	0.07	0.09	-0.05						
12	Board Size	0.25	-0.05	-0.21	-0.02	-0.05					
13	Board Independence	0.22	-0.05	-0.08	0.05	-0.04	0.14				
14	CEO Duality	0.13	0.04	0.01	-0.08	-0.01	0.05	0.02			
15	Director Interlocks	0.05	-0.06	-0.09	0.01	0.01	0.13	0.12	-0.10		
16	CSR Committee	0.20	0.01	-0.14	0.00	-0.02	0.31	0.26	0.01	0.17	
17	Female Dir Presence	0.19	-0.03	-0.01	-0.03	-0.01	0.33	0.20	-0.01	0.08	0.21

3197 observations, 478 unique firms, 2009–2016

<sup>a</sup>We measure a firm's CSR profile by standardizing and averaging the seven KLD categories

positive effect; and an odds ratio smaller than 1 indicates negative effect.

Model 1 demonstrates that CSR strengths is not associated with the presence of NGO directors on boards (odds ratio 0.89,  $p = 0.216$ ). Model 2 reports a positive relationship between CSR concerns and the presence of NGO directors on boards (odds ratio 1.19,  $p = 0.069$ ), indicating that a one standard deviation increase of CSR concerns from the sample mean increases the likelihood of a firm to have NGO directors by ten percent ( $0.19 \times 0.51 = 0.10$ ).

Model 3 shows that overall CSR performance is negatively related to the presence of NGO directors on boards (odds ratio 0.80,  $p = 0.019$ ), implying that a one standard deviation decrease of overall CSR performance from the sample mean increases the likelihood of a firm to have NGO directors by nine percent ( $0.20 \times 0.44 = 0.09$ ). Models 4–6 reveal a negative relationship between CSR strengths and the number of NGO directors on boards ( $\beta = -0.11$ ,  $p = 0.073$ ), a positive relationship between CSR concerns and the number of NGO directors on boards

**Table 3** Regression results for the effect of CSR performance on NGO directors on boards

DV =	NGO Dir Presence <sub><i>t</i></sub> <sup>a</sup>					
	(1)		(2)		(3)	
	Odds ratio	<i>p</i> val	Odds ratio	<i>p</i> val	Odds ratio	<i>p</i> val
Constant	0.02***	0.000	0.03**	0.002	0.02***	0.000
Controls						
Firm Size <sub><i>t-1</i></sub>	1.21*	0.015	1.14	0.116	1.19*	0.029
Firm sge <sub><i>t-1</i></sub>	1.07	0.538	1.06	0.629	1.08	0.510
ROA <sub><i>t-1</i></sub>	1.52	0.403	1.69	0.310	1.52	0.406
Tobin's Q <sub><i>t-1</i></sub>	0.92 <sup>+</sup>	0.085	0.92 <sup>+</sup>	0.070	0.92 <sup>+</sup>	0.071
Leverage <sub><i>t-1</i></sub>	0.25**	0.006	0.25**	0.005	0.24**	0.005
Slack <sub><i>t-1</i></sub>	1.79	0.127	1.76	0.139	1.80	0.122
Board size <sub><i>t-1</i></sub>	1.18	0.615	1.16	0.654	1.19	0.608
Board Independence <sub><i>t-1</i></sub>	4.37*	0.030	4.24*	0.032	4.53*	0.027
CEO Duality <sub><i>t-1</i></sub>	1.07	0.633	1.08	0.621	1.07	0.629
Director Interlocks <sub><i>t-1</i></sub>	1.02	0.812	1.02	0.833	1.02	0.804
CSR Committee <sub><i>t-1</i></sub>	1.12	0.395	1.11	0.452	1.12	0.400
Female Dir Presence <sub><i>t-1</i></sub>	1.41	0.105	1.42 <sup>+</sup>	0.097	1.41 <sup>+</sup>	0.098
Year FE	Included		Included		Included	
Industry FE	Included		Included		Included	
Predictors						
CSR Strengths <sub><i>t-1</i></sub>	0.89	0.216				
CSR Concerns <sub><i>t-1</i></sub>			1.19 <sup>+</sup>	0.069		
Overall CSR <sub><i>t-1</i></sub>					0.80*	0.019
Wald $\chi^2$	82.31***	0.000	81.36***	0.000	83.13***	0.000
Number of Unique Firms	443		443		443	
Number of Observations	2653		2653		2653	
DV =	NGO Dir Number <sub><i>t</i></sub> <sup>b</sup>					
	(4)		(5)		(6)	
	Odds ratio	<i>p</i> val	Odds ratio	<i>p</i> val	Odds ratio	<i>p</i> val
Constant	-3.57***	0.000	-3.04***	0.000	-3.42***	0.000
Controls						
Firm Size <sub><i>t-1</i></sub>	0.16**	0.006	0.10 <sup>+</sup>	0.075	0.13*	0.010
Firm Age <sub><i>t-1</i></sub>	0.05	0.528	0.02	0.757	0.05	0.520
ROA <sub><i>t-1</i></sub>	0.11	0.737	0.21	0.517	0.11	0.730
Tobin's Q <sub><i>t-1</i></sub>	-0.05	0.174	-0.05	0.182	-0.06	0.130
Leverage <sub><i>t-1</i></sub>	-0.92*	0.025	-0.88*	0.029	-0.91*	0.024
Slack <sub><i>t-1</i></sub>	0.25	0.379	0.22	0.439	0.25	0.371
Board Size <sub><i>t-1</i></sub>	0.35 <sup>+</sup>	0.056	0.33 <sup>+</sup>	0.073	0.35 <sup>+</sup>	0.055
Board Independence <sub><i>t-1</i></sub>	1.00*	0.012	1.02*	0.011	1.05**	0.009
CEO Duality <sub><i>t-1</i></sub>	0.06	0.489	0.07	0.417	0.06	0.470
Director Interlocks <sub><i>t-1</i></sub>	-0.03	0.538	-0.03	0.571	-0.03	0.580
CSR Committee <sub><i>t-1</i></sub>	0.10	0.179	0.10	0.191	0.10	0.179
Female Dir Presence <sub><i>t-1</i></sub>	0.29*	0.023	0.29*	0.022	0.29*	0.020
Year FE	Included		Included		Included	
Industry FE	Included		Included		Included	
Predictors						
CSR Strengths <sub><i>t-1</i></sub>	-0.11 <sup>+</sup>	0.073				
CSR Concerns <sub><i>t-1</i></sub>			0.11*	0.034		
Overall CSR <sub><i>t-1</i></sub>					-0.19***	0.001

**Table 3** (continued)

DV =	NGO Dir Number <sub><i>t</i></sub> <sup>b</sup>					
	(4)		(5)		(6)	
	Odds ratio	<i>p</i> val	Odds ratio	<i>p</i> val	Odds ratio	<i>p</i> val
Wald $\chi^2$	117.31***	0.000	119.88***	0.000	122.49***	0.000
Number of Unique Firms	443		443		443	
Number of Observations	2653		2653		2653	

<sup>a</sup>Population-averaged Logistic regression is used for Models 1–3

<sup>b</sup>Population-averaged Poisson regression is used for Models 4–6. The results do not change if we control for the number of female directors instead of its presence on boards

\*\*\* $p < 0.001$ , \*\* $p < 0.01$ , \* $p < 0.05$ , + $p < 0.1$ ,  $t = 2010$ – $2016$ . Robust standard errors are used to calculate  $p$  values

( $\beta = 0.11$ ,  $p = 0.034$ ), and a negative relationship between overall CSR performance and NGO directors on boards ( $\beta = -0.19$ ,  $p = 0.001$ ). These findings are in line with Hypothesis 1.

Table 4 demonstrates the population-averaged linear regression results for testing Hypothesis 2, which predicts that NGO directors on boards are not associated with the firm's immediate improvements in CSR performance. CSR Strengths, CSR Concerns, and Overall CSR performance are the dependent variables of Models 1–2, 3–4, and 5–6, respectively. Consistent with our prediction, NGO directors on boards are not associated with any of the CSR measures.

The results for the control variables in Table 4 do report some predictors of CSR that echo previous studies. For example, not only are larger firms more likely to engage in CSR strengths ( $\beta = 0.05$ ,  $p = 0.000$ ), they are also more likely to be involved in CSR concerns ( $\beta = 0.11$ ,  $p = 0.000$ ). Firm size may be positively related to both CSR strengths and CSR concerns because larger firms are more visible and thus more scrutinized (Strike et al. 2006). This means there is more information about not only their responsible, but also their irresponsible actions. Closely related to this argument, larger firms may be more transparent about their operations, resulting in them to score high on both CSR strengths and CSR concerns (Strike et al. 2006). Finally, both the presence of a CSR committee and the presence of female directors improve overall CSR performance ( $\beta = 0.11$ ,  $p = 0.000$  and  $\beta = 0.07$ ,  $p = 0.002$ ).

Table 5 reports the regression results for testing the long-term effect of NGO directors on CSR performance (i.e., Hypothesis 3). CSR Strengths, CSR Concerns, and Overall CSR performance are the dependent variables of Models 1–2, 3–4, and 5–6, respectively. In Model 2, the coefficient for the number of NGO directors is significantly positive ( $\beta = 0.02$ ,  $p = 0.081$ ), supporting the prediction of Hypothesis 3 that NGO directors on boards enhance long-term CSR performance.

## Additional Analysis

### Tests for the Increase of NGO Directors

One concern of our empirical analysis may be that we only test for correlations between NGO directors on boards and CSR performance by measuring NGO directors on boards with the presence/number of NGO directors. Moreover, the insignificant relationship between the presence/number of NGO directors and short-term CSR performance may be caused by the fact that we did not distinguish between the addition and reduction of NGO directors on the board.<sup>5</sup>

To enhance the rigor of our analysis, we retest all the hypotheses using the increase of NGO directors, measured as a dummy variable that equals to 1 if there is an increase in the number of NGO directors from the prior year ( $t-1$ ) to the current year ( $t$ ) and 0 otherwise (*NGO Dir Increase*). The increase of NGO directors equals to 1 means one or more NGO directors are newly appointed to the board. This measure allows us to examine (1) whether firms with poor CSR performance are more likely to appoint NGO directors subsequently, (2) whether the appointment of NGO directors improves short-term CSR performance, and (3) whether the appointment of NGO directors contributes positively to long-term CSR performance.

Tables 6, 7, and 8 demonstrates regression results for the above three questions. The results in these tables are qualitatively similar to the main results. As shown in Table 6, firms involved in more CSR concerns in a certain year are more likely to appoint NGO directors in the next year (odds ratio 1.44,  $p = 0.088$ ). The statistics indicate that a one standard deviation increase of CSR concerns from the sample mean increases the likelihood of a firm to appoint NGO directors by 22 percent ( $0.44 \times 0.51 = 0.22$ ). Table 7 reports no relationship between the appointment of NGO directors and short-term CSR performance. Table 8 reveals that the increase of NGO directors enhances both CSR strengths and overall CSR performance after three years ( $\beta = 0.09$ ,  $p = 0.004$  and  $\beta = 0.09$ ,  $p = 0.007$ ).

<sup>5</sup> We thank our anonymous reviewers for this insightful suggestion.

**Table 4** Regression results for the effect of NGO directors on short-term CSR performance

DV =	CSR strengths <sub><i>t</i></sub>				CSR concerns <sub><i>t</i></sub>			
	(1)		(2)		(3)		(4)	
	Coef	<i>p</i> val	Coef	<i>p</i> val	Coef	<i>p</i> val	Coef	<i>p</i> val
Constant	-0.70***	0.000	-0.70***	0.000	-0.94***	0.000	-0.94***	0.000
Controls								
CSR Strengths <sub><i>t-1</i></sub>	0.70***	0.000	0.70***	0.000				
CSR Concerns <sub><i>t-1</i></sub>					0.58***	0.000	0.58***	0.000
Overall CSR <sub><i>t-1</i></sub>								
Firm Size <sub><i>t-1</i></sub>	0.05***	0.000	0.05***	0.000	0.11***	0.000	0.11***	0.000
Firm Age <sub><i>t-1</i></sub>	0.01	0.201	0.01	0.194	0.00	0.728	0.00	0.734
ROA <sub><i>t-1</i></sub>	0.09	0.276	0.09	0.274	-0.10	0.102	-0.10	0.104
Tobin's <i>Q</i> <sub><i>t-1</i></sub>	0.02***	0.000	0.02***	0.000	0.02***	0.000	0.02***	0.000
Leverage <sub><i>t-1</i></sub>	-0.04	0.211	-0.04	0.220	0.05	0.237	0.05	0.250
Slack <sub><i>t-1</i></sub>	0.08	0.431	0.08	0.435	0.08	0.373	0.08	0.374
Board Size <sub><i>t-1</i></sub>	0.09**	0.005	0.09*	0.006	-0.00	0.962	-0.00	0.961
Board Independence <sub><i>t-1</i></sub>	0.03	0.586	0.03	0.594	0.14*	0.046	0.14*	0.044
CEO Duality <sub><i>t-1</i></sub>	-0.01	0.559	-0.01	0.538	-0.02	0.355	-0.02	0.367
Director Interlocks <sub><i>t-1</i></sub>	0.02 <sup>+</sup>	0.059	0.02 <sup>+</sup>	0.058	-0.01	0.207	-0.01	0.204
CSR Committee <sub><i>t-1</i></sub>	0.09***	0.000	0.09***	0.000	-0.02	0.297	-0.02	0.299
Female Dir Presence <sub><i>t-1</i></sub>	0.01	0.624	0.01	0.624	-0.12***	0.000	-0.12***	0.000
Year FE	Included		Included		Included		Included	
Industry FE	Included		Included		Included		Included	
Predictor								
NGO Dir Presence <sub><i>t-1</i></sub>	-0.00	0.932			0.01	0.556		
NGO Dir Number <sub><i>t-1</i></sub>			0.00	0.674			0.00	0.760
Wald $\chi^2$	11,114.18***	0.000	11,023.57***	0.000	1842.43***	0.000	1865.42***	0.000
Number of Unique Firms	443		443		443		443	
Number of Observations	2653		2653		2653		2653	
DV =		Overall CSR <sub><i>t</i></sub>				(6)		
		(5)						
		Coef	<i>p</i> val			Coef	<i>p</i> val	
Constant		-0.58***	0.000			-0.58***	0.000	
Controls								
CSR Strengths <sub><i>t-1</i></sub>								
CSR Concerns <sub><i>t-1</i></sub>								
Overall CSR <sub><i>t-1</i></sub>		0.58***	0.000			0.58***	0.000	
Firm Size <sub><i>t-1</i></sub>		0.01 <sup>+</sup>	0.064			0.01 <sup>+</sup>	0.069	
Firm Age <sub><i>t-1</i></sub>		0.02*	0.028			0.02*	0.028	
ROA <sub><i>t-1</i></sub>		0.12 <sup>+</sup>	0.078			0.12 <sup>+</sup>	0.078	
Tobin's <i>Q</i> <sub><i>t-1</i></sub>		0.01	0.241			0.01	0.248	
Leverage <sub><i>t-1</i></sub>		-0.07 <sup>+</sup>	0.056			-0.07 <sup>+</sup>	0.057	
Slack <sub><i>t-1</i></sub>		0.03	0.727			0.03	0.729	
Board Size <sub><i>t-1</i></sub>		0.12**	0.003			0.12**	0.003	
Board Independence <sub><i>t-1</i></sub>		-0.02	0.708			-0.03	0.702	
CEO Duality <sub><i>t-1</i></sub>		0.00	0.751			0.00	0.772	
Director Interlocks <sub><i>t-1</i></sub>		0.02*	0.019			0.02*	0.019	
CSR Committee <sub><i>t-1</i></sub>		0.11***	0.000			0.11***	0.000	
Female Dir Presence <sub><i>t-1</i></sub>		0.07**	0.002			0.07***	0.002	
Year FE		Included				Included		



**Table 4** (continued)

DV =	Overall CSR <sub><i>t</i></sub>		(6)	
	(5)			
	Coef	<i>p</i> val	Coef	<i>p</i> val
Industry FE	Included		Included	
Predictor				
NGO Dir Presence <sub><i>t-1</i></sub>	0.00	0.978		
NGO Dir Number <sub><i>t-1</i></sub>			0.00	0.664
Wald $\chi^2$	2762.59***	0.000	2761.97***	0.000
Number of Unique Firms	443		443	
Number of Observations	2653		2653	

Population-averaged linear regression is used for all models. The results do not change if we control for the number of female directors instead of its presence on boards

\*\*\* $p < 0.001$ , \*\* $p < 0.01$ , \* $p < 0.05$ , + $p < 0.1$ ,  $t = 2010\text{--}2016$ . Robust standard errors are used to calculate *p* values

### What Happens if One or More NGO Directors Leave the Firm

Our previous analysis shows that even though newly appointed NGO directors may not improve their firms' CSR performance immediately, their positive impacts may come to fruition in the long run. In this section, we perform additional tests for the role of NGO directors in CSR by investigating how a firm's CSR performance changes if the number of NGO directors decreases, that is, if one or more NGO directors leave the firm. We operationalize the decrease of NGO directors as a dummy variable that equals to 1 if there is a decrease in the number of NGO directors at the firm from the prior year ( $t - 1$ ) to the current year ( $t$ ) and 0 otherwise (*NGO Dir Decrease*).

As shown in Table 9, the decrease of NGO directors is associated with an increase in CSR concerns and a decrease in overall CSR performance in the subsequent year ( $\beta = 0.08$ ,  $p = 0.023$  and  $\beta = -0.06$ ,  $p = 0.088$ ). These results suggest that a firm tends to be involved in more CSR concerns if one or more of its NGO directors leave, which may be an indication that NGO directors do play a role in CSR by preventing their firms from being involved in irresponsible practices.

### Do NGO Directors Contribute to CSR Reporting?

We have shown that the positive effect of NGO directors on CSR performance requires time to take hold and argued that this may be attributed to two reasons. Specifically, firms may appoint NGO directors initially for symbolic reasons and NGO directors may encounter in-group resistance to change. In this section, we inquire into the question whether NGO directors enhance a firm's

CSR reporting by increasing the firm's likelihood to issue standalone CSR reports.

CSR reporting has increasingly become a tool used by firms to obtain legitimacy and manage stakeholder relationships. As shown in Table 10, the percentage of our sample firms voluntarily publishing standalone CSR reports is growing over time from 49% in 2009 to 68% in 2016. Previous studies have found evidence that firms with better CSR reporting, for example by initiating standalone CSR reports, are able to attract long-term investors (Serafeim 2015) and access capital at a lower cost (Dhaliwal et al. 2011). Therefore, we expect NGO directors to increase the likelihood of a firm to publish standalone CSR reports as they bring expertise on CSR-related issues to the firm. Moreover, to the extent that publishing standalone CSR reports requires fewer resources and causes fewer shocks to the firm's current strategies, we expect NGO directors to experience less in-group resistance in this regard. Hence, even though NGO directors may encounter difficulties in improving CSR performance when first added to the board, they may be able to increase the firm's likelihood to issue standalone CSR reports in the short run.

This idea is tested in Table 11, where the dependent variable Standalone CSR Report is measured as a dummy that equals to 1 if the firm publishes standalone CSR reports and 0 otherwise. Table 11 shows that the number of NGO directors is positively related to standalone CSR report (odds ratio 1.22,  $p = 0.080$ ). This implies that increasing the number of NGO directors by one will increase the likelihood of a firm to initiate standalone CSR reports by 22%. The finding that NGO directors on boards increase a firm's likelihood to issue standalone CSR reports in the short term while it takes time for them to enhance the firm's CSR performance

**Table 5** Regression results for the effect of NGO directors on long-term CSR performance

DV =	CSR Strengths <sub>t</sub>				CSR Concerns <sub>t</sub>			
	(1)		(2)		(3)		(4)	
	Coef	<i>p</i> val	Coef	<i>p</i> val	Coef	<i>p</i> val	Coef	<i>p</i> val
Constant	-1.45***	0.000	-1.44***	0.000	-0.63***	0.000	-0.63***	0.000
Controls								
CSR Strengths <sub>t-1</sub>	0.38***	0.000	0.38***	0.000				
CSR Concerns <sub>t-1</sub>					0.75***	0.000	0.75***	0.000
Overall CSR <sub>t-1</sub>								
Firm Size <sub>t-1</sub>	0.10***	0.000	0.10***	0.000	0.07***	0.000	0.07***	0.000
Firm Age <sub>t-1</sub>	0.02 <sup>+</sup>	0.090	0.02 <sup>+</sup>	0.097	0.01	0.379	0.01	0.369
ROA <sub>t-1</sub>	0.03	0.777	0.03	0.789	-0.03	0.672	-0.03	0.687
Tobin's Q <sub>t-1</sub>	0.03***	0.000	0.03***	0.000	0.02***	0.000	0.02***	0.000
Leverage <sub>t-1</sub>	-0.09 <sup>+</sup>	0.080	-0.09 <sup>+</sup>	0.072	0.05	0.188	0.05	0.178
Slack <sub>t-1</sub>	0.05	0.578	0.05	0.559	0.13	0.189	0.13	0.186
Board Size <sub>t-1</sub>	0.12*	0.018	0.11*	0.021	0.03	0.519	0.03	0.522
Board Independence <sub>t-1</sub>	0.08	0.353	0.08	0.331	-0.04	0.518	-0.04	0.511
CEO Duality <sub>t-1</sub>	0.01	0.739	0.01	0.751	-0.00	0.991	-0.00	0.966
Director Interlocks <sub>t-1</sub>	0.04*	0.022	0.04*	0.022	-0.02*	0.021	-0.02*	0.021
CSR Committee <sub>t-1</sub>	0.11***	0.000	0.11***	0.000	0.02 <sup>+</sup>	0.073	0.02 <sup>+</sup>	0.078
Female Dir Presence <sub>t-1</sub>	0.02	0.473	0.02	0.475	-0.08**	0.009	-0.08**	0.009
Year FE	Included		Included		Included		Included	
Industry FE	Included		Included		Included		Included	
Predictors								
NGO Dir Presence <sub>t-3</sub>	0.03	0.189			-0.01	0.684		
NGO Dir Number <sub>t-3</sub>			0.02 <sup>+</sup>	0.081			-0.00	0.974
Wald $\chi^2$	2088.08***	0.000	2074.71***	0.000	2781.43***	0.000	2782.28***	0.000
Number of Unique Firms	398		398		398		398	
Number of Observations	1788		1788		1788		1788	
DV =	Overall CSR <sub>t</sub>							
	(5)				(6)			
	Coef		<i>p</i> val		coef		<i>p</i> val	
Constant	-0.72***		0.000		-0.72***		0.000	
Controls								
CSR Strengths <sub>t-1</sub>								
CSR Concerns <sub>t-1</sub>								
Overall CSR <sub>t-1</sub>	0.36***		0.000		0.36***		0.000	
Firm Size <sub>t-1</sub>	0.02*		0.034		0.02*		0.038	
Firm Age <sub>t-1</sub>	0.02		0.160		0.02		0.170	
ROA <sub>t-1</sub>	0.03		0.592		0.03		0.605	
Tobin's Q <sub>t-1</sub>	0.02*		0.024		0.02*		0.027	
Leverage <sub>t-1</sub>	-0.10 <sup>+</sup>		0.051		-0.11*		0.047	
Slack <sub>t-1</sub>	-0.00		0.974		0.00		0.997	
Board Size <sub>t-1</sub>	0.09 <sup>+</sup>		0.086		0.09 <sup>+</sup>		0.098	
Board Independence <sub>t-1</sub>	0.06		0.544		0.06		0.522	
CEO Duality <sub>t-1</sub>	0.00		0.871		0.00		0.890	
Director Interlocks <sub>t-1</sub>	0.04**		0.009		0.04**		0.009	
CSR Committee <sub>t-1</sub>	0.10***		0.000		0.10***		0.000	
Female Dir Presence <sub>t-1</sub>	0.08*		0.016		0.08*		0.016	
Year FE	Included				Included			

**Table 5** (continued)

DV =	Overall CSR <sub>t</sub>			
	(5)		(6)	
	Coef	<i>p</i> val	coef	<i>p</i> val
Industry FE	Included		Included	
Predictors				
NGO Dir Presence <sub>t-3</sub>	0.02	0.301		
NGO Dir Number <sub>t-3</sub>			0.02	0.102
Wald $\chi^2$	789.71***	0.000	787.20***	0.000
Number of Unique Firms	398		398	
Number of Observations	1788		1788	

Population-averaged linear regression is used for all models. The results do not change if we control for the number of female directors instead of its presence on boards

\*\*\**p* < 0.001, \*\**p* < 0.01, \**p* < 0.05, +*p* < 0.1, *t* = 2012–2016. Robust standard errors are used to calculate *p* values

**Table 6** Regression results for the effect of CSR performance on a firm’s likelihood to increase the number of NGO directors

DV = NGO Dir increase <sub>t</sub> <sup>a</sup>	(1)		(2)		(3)		(4)	
	Odds ratio	<i>p</i> val	Odds ratio	<i>p</i> val	Odds ratio	<i>p</i> val	Odds ratio	<i>p</i> val
Constant	0.00***	0.000	0.00**	0.001	0.00**	0.002	0.00***	0.000
Controls								
Firm Size <sub>t-1</sub>	1.11	0.313	1.11	0.361	0.99	0.913	1.10	0.314
Firm Age <sub>t-1</sub>	0.94	0.635	0.95	0.653	0.94	0.591	0.95	0.673
ROA <sub>t-1</sub>	3.82	0.461	3.85	0.459	4.11	0.437	3.94	0.455
Tobin’s Q <sub>t-1</sub>	0.88	0.425	0.88	0.439	0.86	0.355	0.89	0.438
Leverage <sub>t-1</sub>	0.57	0.379	0.57	0.379	0.55	0.330	0.56	0.358
Slack <sub>t-1</sub>	0.47	0.678	0.47	0.679	0.50	0.702	0.48	0.688
Board Size <sub>t-1</sub>	2.76	0.151	2.77	0.154	2.85	0.140	2.85	0.144
Board Independence <sub>t-1</sub>	4.56	0.147	4.59	0.146	4.62	0.141	4.75	0.135
CEO Duality <sub>t-1</sub>	1.13	0.607	1.13	0.607	1.14	0.557	1.13	0.590
Director Interlocks <sub>t-1</sub>	1.11	0.385	1.11	0.383	1.12	0.340	1.11	0.360
CSR Committee <sub>t-1</sub>	0.90	0.658	0.91	0.690	0.90	0.637	0.93	0.747
Female Dir Presence <sub>t-1</sub>	0.89	0.800	0.89	0.801	0.97	0.944	0.90	0.816
Year FE	Included		Included		Included		Included	
Industry FE	Included		Included		Included		Included	
Predictors								
CSR Strengths <sub>t-1</sub>			0.98	0.933				
CSR Concerns <sub>t-1</sub>					1.44 <sup>+</sup>	0.088		
Overall CSR <sub>t-1</sub>							0.88	0.606
Wald $\chi^2$	48.72**	0.009	48.69**	0.012	57.57**	0.001	50.08**	0.009
Number of Unique Firms	443		443		443		443	
Number of Observations	2653		2653		2653		2653	

<sup>a</sup>NGO Dir Increase equals to 1 if the number of NGO directors increases, and it equals to 0 if the number of NGO directors does not change or decreases

Population-averaged logistic regression is used for all models

\*\*\**p* < 0.001, \*\**p* < 0.01, \**p* < 0.05, +*p* < 0.1, *t* = 2010–2016. Robust standard errors are used to calculate *p* values

**Table 7** Regression results for how the increase of NGO directors affects short-term CSR performance

DV =	CSR strengths <sub>t</sub>				CSR Concerns <sub>t</sub>			
	(1)		(2)		(3)		(4)	
	Coef	p val	Coef	p val	Coef	p val	coef	p val
Constant	-0.57***	0.000	-0.56***	0.000	-0.63***	0.000	-0.64***	0.000
Controls								
CSR Strengths <sub>t-1</sub>	0.72***	0.000	0.72***	0.000				
CSR Concerns <sub>t-1</sub>					0.73***	0.000	0.72***	0.000
Overall CSR <sub>t-1</sub>								
Firm Size <sub>t-1</sub>	0.03***	0.000	0.03***	0.000	0.07***	0.000	0.07***	0.000
Firm Age <sub>t-1</sub>	0.01	0.414	0.01	0.417	0.00	0.737	0.00	0.738
ROA <sub>t-1</sub>	0.10	0.283	0.10	0.280	-0.04	0.546	-0.04	0.544
Tobin's Q <sub>t-1</sub>	0.02***	0.000	0.02***	0.000	0.02***	0.000	0.02***	0.000
Leverage <sub>t-1</sub>	-0.05 <sup>+</sup>	0.088	-0.05 <sup>+</sup>	0.095	0.00	0.986	-0.00	0.989
Slack <sub>t-1</sub>	0.06	0.523	0.06	0.532	0.11	0.274	0.11	0.268
Board Size <sub>t-1</sub>	0.07*	0.028	0.06*	0.033	0.02	0.671	0.02	0.630
Board Independence <sub>t-1</sub>	0.02	0.603	0.02	0.625	0.05	0.465	0.05	0.448
CEO Duality <sub>t-1</sub>	-0.01	0.534	-0.01	0.507	-0.01	0.686	-0.01	0.711
Director Interlocks <sub>t-1</sub>	0.02 <sup>+</sup>	0.051	0.02 <sup>+</sup>	0.052	-0.02**	0.006	-0.02**	0.006
CSR Committee <sub>t-1</sub>	0.06***	0.000	0.06***	0.000	-0.00	0.876	-0.00	0.871
Female Dir Presence <sub>t-1</sub>	-0.00	0.928	-0.00	0.938	-0.09***	0.001	-0.09***	0.001
Year FE	Included		Included		Included		Included	
Industry FE	Included		Included		Included		Included	
Predictor								
NGO Dir Increase <sub>t-1</sub>			0.03	0.329			-0.03	0.293
Wald $\chi^2$	11,353.36***	0.000	11,580.34***	0.000	2322.54***	0.000	2308.33***	0.000
Number of Unique Firms	415		415		415		415	
Number of Observations	2191		2191		2191		2191	
DV =		Overall CSR <sub>t</sub>				(6)		
		(5)						
		Coef	p val			Coef	p val	
Constant		-0.44***	0.000			-0.43***	0.000	
Controls								
CSR Strengths <sub>t-1</sub>								
CSR Concerns <sub>t-1</sub>								
Overall CSR <sub>t-1</sub>		0.68***	0.000			0.68***	0.000	
Firm Size <sub>t-1</sub>		0.01*	0.028			0.01*	0.029	
Firm Age <sub>t-1</sub>		0.01	0.329			0.01	0.330	
ROA <sub>t-1</sub>		0.09	0.162			0.09	0.159	
Tobin's Q <sub>t-1</sub>		0.01 <sup>+</sup>	0.095			0.01 <sup>+</sup>	0.091	
Leverage <sub>t-1</sub>		-0.05	0.139			-0.05	0.151	
Slack <sub>t-1</sub>		0.01	0.958			0.00	0.975	
Board Size <sub>t-1</sub>		0.07*	0.024			0.07*	0.029	
Board Independence <sub>t-1</sub>		0.01	0.858			0.01	0.884	
CEO Duality <sub>t-1</sub>		-0.00	0.735			-0.00	0.702	
Director Interlocks <sub>t-1</sub>		0.03**	0.005			0.03**	0.005	
CSR Committee <sub>t-1</sub>		0.07***	0.000			0.07***	0.000	
Female Dir Presence <sub>t-1</sub>		0.04 <sup>+</sup>	0.056			0.04 <sup>+</sup>	0.055	
Year FE		Included				Included		
Industry FE		Included				Included		

**Table 7** (continued)

DV =	Overall CSR <sub><i>t</i></sub>		(6)	
	(5)			
	Coef	<i>p</i> val	Coef	<i>p</i> val
Predictor				
NGO Dir Increase <sub><i>t-1</i></sub>			0.03	0.279
Wald $\chi^2$	4258.33***	0.000	4293.72***	0.000
Number of Unique Firms	415		415	
Number of Observations	2191		2191	

Population-averaged linear regression is used for all models. The results do not change if we control for the decrease of NGO directors on boards \*\*\* $p < 0.001$ , \*\* $p < 0.01$ , \* $p < 0.05$ , + $p < 0.1$ ,  $t = 2011\text{--}2016$ . Robust standard errors are used to calculate *p* values

may provide additional support for our arguments about symbolic management and in-group resistance to change.

## Discussion

Over the last decade, more than one-third of S&P 500 firms include at least one NGO director on their boards. Despite that NGO directors have become a widely observed phenomenon in the corporate world, we still 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 NGO directors are more prevalent in firms with poor prior CSR performance, which suggests that poor CSR performing firms are more likely to appoint NGO directors to their boards subsequently. We also show that NGO directors on boards are associated with enhanced CSR reporting in the short term, but they may experience difficulties in promoting substantive CSR commitment in the short term due to symbolic management and in-group resistance to change. Nevertheless, NGO directors may be able to overcome these difficulties over time and ultimately lead to CSR performance improvements.

Our study enriches the literature on board composition and CSR by focusing on NGO directors. The various corporate scandals and the introduction of the 2002 Sarbanes Oxley Act have led to a situation in which the board of directors is more accountable for cultivating responsible corporate behavior (Adams et al. 2010; de Villiers et al. 2011; Walls et al. 2012). Resource dependence theory outlines four benefits directors can bring to the firm, namely advice and counsel, channels for communicating information with external organizations, commitment and support from important elements outside the firm, and legitimacy (Pfeffer and Salancik 1978). Previous studies frequently emphasize the first three benefits,

based on which directors with CSR-related expertise and/or connections are expected to improve CSR performance (Bai 2013; Dixon-Fowler et al. 2017; Hillman et al. 2001; Johnson and Greening 1999; Jones and Goldberg 1982; Kock et al. 2012; Luoma and Goodstein 1999; Mallin and Michelon 2011). We extend this line of research by considering the legitimacy role of NGO directors whose experience, expertise, and reputation are particularly relevant for CSR and by investigating both the short- and long-term effects of NGO directors on CSR performance. We show that NGO directors are more prevalent in firms with poor CSR records and that their positive influence on CSR performance takes time to emerge. In this way, our study provides additional evidence for the legitimacy role of directors and highlights the importance of distinguishing the short- versus the long-term effects of directors on firm strategic outcomes.

Furthermore, our additional analysis shows that whereas NGO directors may not be able to influence CSR performance of their firms in the short run, they may have an immediate effect on the firms' propensity to initiate standalone CSR reports, probably because this action causes less of a shock to current firm strategies. This finding reinforces the idea that NGO directors indeed play an active role in CSR. Even though NGO directors may experience difficulties in promoting CSR performance when first added to the board, they can generate impact via enhancing CSR reporting of their firms.

As with any study, ours is subject to certain limitations. Our study is based on a sample of S&P 500 firms. The focus on these relatively large U.S. firms may limit the generalizability of our findings in two ways. Firstly, given that smaller firms usually receive less media attention and, hence, may experience fewer legitimacy threats, we are cautious to claim that our results can be generalized to non-S&P-500-firms. Secondly, we acknowledge that it may be difficult to extend our findings to other countries, because differences in terms of politics, regulation, and the business environment may



**Table 8** Regression results for how the increase of NGO directors affects long-term CSR performance

DV =	CSR strengths <sub>t</sub>				CSR concerns <sub>t</sub>			
	(1)		(2)		(3)		(4)	
	Coef	<i>p</i> val	Coef	<i>p</i> val	Coef	<i>p</i> val	Coef	<i>p</i> val
Constant	-0.37**	0.002	-0.37**	0.002	-0.57***	0.000	-0.58***	0.000
Controls								
CSR Strengths <sub>t-1</sub>	0.75***	0.000	0.74***	0.000				
CSR Concerns <sub>t-1</sub>					0.80***	0.000	0.80***	0.000
Overall CSR <sub>t-1</sub>								
Firm Size <sub>t-1</sub>	0.03***	0.000	0.03***	0.000	0.05***	0.000	0.05***	0.000
Firm Age <sub>t-1</sub>	-0.00	0.599	-0.00	0.677	0.01	0.483	0.01	0.504
ROA <sub>t-1</sub>	0.06	0.504	0.06	0.469	0.02	0.749	0.02	0.773
Tobin's Q <sub>t-1</sub>	0.01**	0.009	0.01**	0.006	0.01**	0.002	0.01**	0.002
Leverage <sub>t-1</sub>	-0.08*	0.024	-0.07*	0.039	0.07 <sup>+</sup>	0.070	0.07 <sup>+</sup>	0.083
Slack <sub>t-1</sub>	0.02	0.867	0.03	0.781	0.23*	0.030	0.23*	0.034
Board Size <sub>t-1</sub>	0.08*	0.037	0.08 <sup>+</sup>	0.051	0.06	0.166	0.06	0.149
Board Independence <sub>t-1</sub>	-0.08	0.267	-0.08	0.242	-0.02	0.796	-0.02	0.827
CEO Duality <sub>t-1</sub>	-0.01	0.636	-0.01	0.642	0.00	0.900	0.00	0.896
Director Interlocks <sub>t-1</sub>	0.02	0.255	0.02	0.240	-0.01 <sup>+</sup>	0.069	-0.01 <sup>+</sup>	0.067
CSR Committee <sub>t-1</sub>	0.06***	0.000	0.07***	0.000	0.01	0.543	0.01	0.539
Female Dir Presence <sub>t-1</sub>	0.00	0.844	0.01	0.811	-0.03	0.297	-0.03	0.291
Year FE	Included		Included		Included		Included	
Industry FE	Included		Included		Included		Included	
Predictor								
NGO Dir Increase <sub>t-3</sub>			0.09**	0.004			-0.04	0.234
Wald $\chi^2$	5399.25***	0.000	5355.44***	0.000	3242.21***	0.000	3272.34***	0.000
Number of Unique Firms	378		378		378		378	
Number of Observations	1391		1391		1391		1391	
DV =	Overall CSR <sub>t</sub>							
	(5)				(6)			
	Coef		<i>p</i> val		Coef		<i>p</i> val	
Constant	-0.00		0.993		0.01		0.957	
Controls								
CSR Strengths <sub>t-1</sub>								
CSR Concerns <sub>t-1</sub>								
Overall CSR <sub>t-1</sub>	0.76***		0.000		0.76***		0.000	
Firm Size <sub>t-1</sub>	-0.00		0.663		-0.00		0.616	
Firm Age <sub>t-1</sub>	-0.01		0.319		-0.01		0.376	
ROA <sub>t-1</sub>	0.05		0.378		0.05		0.315	
Tobin's Q <sub>t-1</sub>	0.00		0.655		0.00		0.563	
Leverage <sub>t-1</sub>	-0.10**		0.005		-0.09**		0.009	
Slack <sub>t-1</sub>	-0.04		0.706		-0.03		0.799	
Board Size <sub>t-1</sub>	0.06		0.144		0.05		0.189	
Board Independence <sub>t-1</sub>	-0.07		0.329		-0.08		0.286	
CEO Duality <sub>t-1</sub>	-0.01		0.270		-0.01		0.275	
Director Interlocks <sub>t-1</sub>	0.02		0.140		0.02		0.129	
CSR Committee <sub>t-1</sub>	0.05***		0.000		0.05***		0.000	
Female Dir Presence <sub>t-1</sub>	0.01		0.843		0.01		0.811	
Year FE	Included				Included			
Industry FE	Included				Included			

**Table 8** (continued)

DV =	Overall CSR <sub>t</sub>			
	(5)		(6)	
	Coef	<i>p</i> val	Coef	<i>p</i> val
Predictor				
NGO Dir Increase <sub>t-3</sub>			0.09**	0.007
Wald $\chi^2$	2845.11***	0.000	2853.63***	0.000
Number of Unique Firms	378		378	
Number of Observations	1391		1391	

Population-averaged linear regression is used for all models. The results do not change if we control for the decrease of NGO directors on boards  
 \*\*\* $p < 0.001$ , \*\* $p < 0.01$ , \* $p < 0.05$ , + $p < 0.1$ ,  $t = 2013-2016$ . Robust standard errors are used to calculate *p* values

**Table 9** Regression results for how the decrease of NGO directors affects short-term CSR performance

DV =	CSR Strengths <sub>t</sub>		CSR Concerns <sub>t</sub>		Overall CSR <sub>t</sub>	
	(1)	(2)	(3)	(4)	(5)	(6)
	Coef	<i>p</i> val	Coef	<i>p</i> val	Coef	<i>p</i> val
Constant	-0.57***	0.000	-0.65***	0.000	-0.44***	0.000
Controls						
CSR Strengths <sub>t-1</sub>	0.72***	0.000				
CSR Concerns <sub>t-1</sub>			0.72***	0.000		
Overall CSR <sub>t-1</sub>					0.68***	0.000
Standalone CSR Report <sub>t-1</sub>						
Firm Size <sub>t-1</sub>	0.03***	0.000	0.07***	0.000	0.01*	0.019
Firm Age <sub>t-1</sub>	0.01	0.415	0.00	0.705	0.01	0.336
ROA <sub>t-1</sub>	0.10	0.282	-0.03	0.616	0.09	0.215
Tobin's Q <sub>t-1</sub>	0.02***	0.000	0.02***	0.000	0.01 <sup>+</sup>	0.085
Leverage <sub>t-1</sub>	-0.05 <sup>+</sup>	0.088	0.00	0.947	-0.05	0.130
Slack <sub>t-1</sub>	0.06	0.522	0.11	0.259	0.00	0.982
Board Size <sub>t-1</sub>	0.07*	0.028	0.02	0.672	0.08*	0.023
Board Independence <sub>t-1</sub>	0.02	0.603	0.05	0.445	0.01	0.864
CEO Duality <sub>t-1</sub>	-0.01	0.533	-0.01	0.640	-0.00	0.771
Director Interlocks <sub>t-1</sub>	0.02 <sup>+</sup>	0.051	-0.02**	0.006	0.03**	0.006
CSR Committee <sub>t-1</sub>	0.06***	0.000	-0.00	0.741	0.07***	0.000
Female Dir Presence <sub>t-1</sub>	-0.00	0.928	-0.08***	0.001	0.04 <sup>+</sup>	0.060
Year FE	Included		Included		Included	
Industry FE	Included		Included		Included	
Predictor						
NGO Dir Decrease <sub>t-1</sub>	0.00	0.970	0.08*	0.023	-0.06 <sup>+</sup>	0.088
Wald $\chi^2$	11,356.51***	0.000	2217.77***	0.000	4140.83***	0.000
Number of Unique Firms	415		415		415	
Number of Observations	2191		2191		2191	

Population-averaged linear regression is used for all models. The results do not change if we control for the increase of NGO directors on boards

\*\*\* $p < 0.001$ , \*\* $p < 0.01$ , \* $p < 0.05$ , + $p < 0.1$ ,  $t = 2011-2016$ . Robust standard errors are used to calculate *p* values

<sup>a</sup>NGO Dir Decrease equals to 1 if the number of NGO directors decreases, and it equals to 0 if the number of NGO directors does not change or increases

**Table 10** Summarize standalone CSR reports by year

Year	Percentage of firms with standalone CSR reports
2009	0.49
2010	0.53
2011	0.58
2012	0.61
2013	0.64
2014	0.64
2015	0.65
2016	0.68
Total	0.60

The DV “Standalone CSR Report” is measured as a dummy that equals to 1 if the firm publishes standalone CSR reports and 0 otherwise

3197 observations, 478 unique firms, 2009–2016

lead to differences in importance of corporate social responsibility, the acceptance of symbolic management practices, and the role and influence of NGO representatives. Accordingly, a potentially fruitful area for future research is to investigate the effect of institutional differences on the role NGO directors play in CSR.

In this study we argue for the existence of direct relationships (e.g., NGO directors on boards lead to improved CSR performance). This can be considered a limitation of the study as we cannot rule out the possibility that the role and ability of NGO directors to stimulate subsequent improvements in CSR depend on certain contextual factors such as the CSR orientation of the CEO and/or chairman of the board, the CEOs and/or investors’ time horizon, and other factors that may affect a firm’s stance on CSR. Accordingly, 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.

**Table 11** Regression results for the effect of NGO directors on a firm’s likelihood to issue standalone CSR reports

DV = Standalone CSR Report <sub>t</sub>	(1)		(2)		(3)	
	Odds ratio	<i>p</i> val	Odds ratio	<i>p</i> val	Odds ratio	<i>p</i> val
Constant	0.00***	0.000	0.00***	0.000	0.00***	0.000
Controls						
Standalone CSR Report <sub>t-1</sub>	6.82***	0.000	6.98***	0.000	6.96***	0.000
CSR Strengths <sub>t-1</sub>	1.87***	0.000	1.89***	0.000	1.88***	0.000
CSR Concerns <sub>t-1</sub>	0.93	0.638	0.92	0.610	0.92	0.596
Firm Size <sub>t-1</sub>	1.73***	0.000	1.71***	0.000	1.71***	0.000
Firm Age <sub>t-1</sub>	0.96	0.656	0.96	0.647	0.96	0.638
ROA <sub>t-1</sub>	8.51**	0.002	8.75**	0.002	8.67**	0.002
Tobin’s Q <sub>t-1</sub>	1.11*	0.047	1.11*	0.050	1.11 <sup>+</sup>	0.052
Leverage <sub>t-1</sub>	1.65	0.269	1.81	0.190	1.82	0.188
Slack <sub>t-1</sub>	1.40	0.649	1.36	0.682	1.34	0.696
Board Size <sub>t-1</sub>	1.53	0.271	1.54	0.266	1.50	0.294
Board Independence <sub>t-1</sub>	9.98***	0.000	9.61***	0.000	9.69***	0.000
CEO Duality <sub>t-1</sub>	0.87	0.295	0.87	0.285	0.86	0.270
Director Interlocks <sub>t-1</sub>	0.95	0.548	0.95	0.551	0.95	0.552
CSR Committee <sub>t-1</sub>	2.51***	0.000	2.51***	0.000	2.50***	0.000
Female Dir Presence <sub>t-1</sub>	1.39	0.187	1.36	0.210	1.35	0.222
Year FE	Included		Included		Included	
Industry FE	Included		Included		Included	
Predictors						
NGO Dir Presence <sub>t-1</sub>			1.25	0.123		
NGO Dir Number <sub>t-1</sub>					1.22 <sup>+</sup>	0.080
Wald $\chi^2$	481.57***	0.000	488.70***	0.000	493.08***	0.000
Number of Unique Firms	443		443		443	
Number of Observations	2653		2653		2653	

Population-averaged logistic regression is used for all models

\*\*\**p* < 0.001, \*\**p* < 0.01, \**p* < 0.05, +*p* < 0.1, *t* = 2010–2016. Robust standard errors are used to calculate *p* values

Another limitation of the study relates to our focus on only one specific board characteristic. As the board capital literature suggests, directors possess a plethora of characteristics that could influence decision making on boards (Johnson et al. 2013). That is, we are unable to examine how certain configurations of director characteristics affect corporate strategic outcomes. For instance, an NGO director living abroad may miss more board meetings (Masulis et al. 2012) than an NGO director living in the U.S. and, hence, he/she would be less effective in terms of influencing decision making. Furthermore, in this study we treated all NGO directors equally. That is, we neither consider the number of years an NGO director has served as the executive of an NGO nor his/her field of experience (e.g., environmental issues versus poverty issues versus human rights, and so on). Similar to the example above, these differences could affect how an NGO director functions, the extent to which he/she is able to exert influence in the board, and what CSR dimension(s) his/her board would focus on. Therefore, extensions of our work along each of the lines mentioned above would appear to be warranted.

A last limitation is that we purely rely on secondary data like many other studies in board research. This makes it more difficult to present clear ideas about the process of how NGO directors may help firms make more socially responsible decisions. Given the lack of studies on what is going on within the boardroom, a fruitful avenue for future research would be to adopt a more qualitative approach involving interviews with and/or surveys among NGO directors (and their peers) to assess for instance their status in boards and how they influence board meetings. In addition, future research may follow the same board for several years to investigate how group dynamics within boards change and how NGO directors manage to overcome out-group bias over time. Studies as such would bring more insights on how NGO directors exert influences into firms in undertaking CSR activities.

Despite these limitations, we believe our findings offer important practical implications to managerial practices on board appointment and CSR performance. As an increasing number of firms come to realize the importance of CSR

in their success, our findings that NGO directors bring resources to help their firms enhance CSR reporting immediately and improve CSR performance over time provide a reason for firms to broaden the pool of director candidates to NGO executives. At the same time, broadening the pool in this way may be conducive in bringing more diversity to the boardroom. In addition, even though inviting NGO directors to the board may be an effective way to improve CSR performance, managers and fellow directors should be aware that symbolic management and in-group resistance to change may restrict NGO directors' influence on CSR performance, especially in the short run.

Our study has implications for analysts, investors, and other stakeholders as well. There have been many critics on firms' symbolic efforts to improve CSR and enhance legitimacy. Restructuring board compositions has been one of the most frequently used tactics by firms to manage stakeholder impressions of CSR. In the face of potential symbolic management, stakeholders are tasked with the challenge of evaluating a firm's actual CSR engagement. Our findings provide insights for stakeholders to understand the implications of NGO directors on boards. While we show that in the short-run NGO directors may not be associated with better CSR performance, our results also suggest that stakeholders should not be too pessimistic. On-the-job learning and networking may enable NGO directors to tweak firm strategies in such a way that the firm does increase its attention to CSR gradually over time.

**Author contributions** All authors contributed to the study conception and design. Material preparation, data collection and analysis were performed by SC, NH, and RH. The first draft of the manuscript was written by SC and all authors commented on previous versions of the manuscript. Revisions to the paper reflect all authors' efforts. All authors read and approved the final manuscript.

### Compliance with Ethical Standards

**Conflict of interest** The authors declare that they have no conflict of interest.

## Appendix: Measures

	Variable	Symbol	Definition
1	CSR Strengths	CSR Strengths	Standardize the total number of strengths for each of the seven KLD categories and then take the average of the standardized numbers
2	CSR Concerns	CSR Concerns	Standardize the total number of concerns for each of the seven KLD categories and then take the average of the standardized numbers
3	Overall CSR Performance	Overall CSR	Subtract the total number of concerns from the total number of strengths to create a net score for each of the seven KLD categories, standardize the net scores for each category, and then take the average of the standardized net scores
4	The Presence of NGO Directors on Boards	NGO Dir Presence	A dummy variable that equals to 1 if one or more NGO directors sit on the firm's board, and 0 otherwise
5	The Number of NGO Directors on Boards	NGO Dir Number	The total number of NGO directors on the firm's board
6	Firm Size	Firm Size	The natural log of total assets
7	Firm Age	Firm Age	The natural log of the number of years a firm has been publicly traded
8	Return on Assets	ROA	The ratio of net income to total assets
9	Tobin's Q	Tobin's Q	Total assets plus market value of equity minus book value of equity divided by total assets
10	Leverage	Leverage	The ratio of long-term debt to total assets
11	Slack Resources	Slack	The ratio of the total cash flow from a firm's operations, financing, and investing activities to total assets
12	Board Size	Board Size	The natural log of the total number of directors on the board
13	Board Independence	Board Independence	The proportion of independent directors on the board
14	CEO Duality	CEO Duality	A dummy variable that equals to 1 if the CEO simultaneously chairs the board, and 0 otherwise
15	Director Interlocks	Director Interlocks	The average number of directorships held by all directors on the board
16	The Presence of a CSR Committee	CSR Committee	A dummy variable that equals to 1 if the firm has a CSR committee, and 0 otherwise
17	The Presence of Female Directors on Boards	Female Dir Presence	A dummy variable that equals to 1 if one or more female directors sit on the firm's board, and 0 otherwise

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