Board reputation attributes and corporate social performance:

an empirical investigation of the US Best Corporate Citizens

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Acknowledgements

The authors thank the participants of the 33rd European Accounting Association Congress and the 2010 North American Congress on Social and Environmental Accounting Research at the University of Central Florida. The authors would like to thank the two anonymous referees for their constructive comments and they also express their gratitude to Antonio Parbonetti and Chris Cowton for their helpful comments.

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Abstract

The aim of the paper is to investigate the relationship between board reputation and corporate social performance. Specifically, we claim that corporate social performance may be a function of board attributes and we investigate the association between board reputation – in terms of board composition, competence, diversity, leadership, structure and links with the external environment – and the social performance of firms, after controlling for other company-specific characteristics.
In order to explore such a relationship, we analyse the association between corporate social performance and board reputation of the Business Ethics 100 Best Corporate Citizens over the period 2005-2007. Data on corporate social responsibility are collected from the KLD's SOCRATES database, which is derived from multiple sources and is not dependent upon corporate self-reporting. Data on board reputation are hand-collected from corporate reports and proxy statements.
Our empirical evidence shows that the proportions of independent, community influential and female directors are positively associated with corporate social performance, while the presence of a CSR committee is positively associated with community performance. In contrast, we find that CEO duality and community influential directors with multiple directorships have a negative effect on corporate social performance.

Keywords: board of directors, corporate social performance, stakeholder theory, community influential directors, women on the board

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1. Introduction

The recent financial crisis, the collapse of high profile companies and the increasingly stringent stakeholders pressure have increased debate on corporate governance and board responsibility. More emphasis is being placed on the ethical, environmental and social responsibilities of the firm towards a broad range of stakeholders in order to establish and enhance the firm's legitimacy to operate. According to Neu et al. (1998: 265), organisational legitimacy improves the inflow of resources necessary for the viability of the company (Pfeffer and Salancik, 1978; Neu et al., 1998), allows for the avoidance of product boycotts and other disruptive actions (Elsbach, 1994) and enhances corporate reputation (de Quevedo-Puente et al., 2007).

The aim of the paper is to investigate the relationship between board reputation and corporate social performance amongst the Best US Corporate Citizens. Specifically, we claim that corporate social performance may be a function of board reputation and we classify group the concept of board reputation into several attributes: board composition, competence, diversity, leadership, structure and links with the external environment. We investigate the effects that each of these attributes has on the social performance of firms, after controlling for other company-specific characteristics.

In order to explore such a relationship, we make use of a US-based sample of companies considered the Best Corporate Citizens over the period 2005-2007. We analyse the association between corporate social performance and board reputation of the Business Ethics 100 Best Corporate Citizens. This dataset has the advantage of providing us with a multidimensional measure of each firm's social performance. Data on corporate social responsibility are collected from the KLD's SOCRATES database, which is derived from multiple sources and is not dependent upon corporate

self-reporting. Data on board reputation are hand-collected from corporate reports and proxy statements. We employ various measures to proxy for board reputation: the proportion of independent directors, the proportion of community influential directors, the proportion of women, CEO duality, the presence of a corporate social responsibility (CSR) committee and relational capital (multiple directorates).

We find that board reputation is positively associated with the social performance of the 100 Best Corporate Citizens. Our empirical evidence shows that (i) the proportion of independent directors is positively associated with corporate social performance and environmental performance; (ii) the proportion of community influential directors is positively associated with corporate social performance, community performance and environmental performance; (iii) the proportion of women directors is positively related also with employee relations and human rights performance; (iv) the presence of a CSR committee is positively associated with community performance and human rights performance. Moreover, we provide empirical support for the hypothesis that CEO duality is detrimental to corporate social performance, as indeed are directors with multiple directorships.

This paper makes several contributions. First of all, it explores the relationship between board reputation attributes and corporate social performance, which to the best of our knowledge has not been studied yet in the literature. Second, we provide theoretical and empirical evidence that the effect of board attributes on corporate social performance is depicted more completely when looking at the specific competences of directors, as in the case of community influential directors. Thus traditional proxies for board composition are not a good prediction of the service role of the board in terms of legitimacy and reputation.

The paper is structured as follows. The next section presents the theoretical framework. The development of hypotheses is presented in section 3. Section 4 describes the research methodology, followed by discussion of the results in section 5. Concluding remarks are presented in the final section.

2. Theoretical framework

The main question we try to answer in this paper is which characteristics and attributes of the board of directors are related to the corporate social performance of companies. In order to discuss the role of the board of directors with regard to corporate social performance, we will refer to resource dependence theory (Pfeffer and Salancik 1978), while we will rely on legitimacy theory to discuss the theoretical underpinnings of such a relationship (Dowling and Pfeffer, 1975).

The board of directors is the 'apex of the decision-making process' (Kassinis and Vafeas, 2002: 400) and they are ultimately responsible for corporate social strategy, whether this strategy is 'proactively pursued or passively rubber-stamped' (Kassinis and Vafeas, 2002: 400). According to Hillman and Dalziel (2003), the board of directors plays two different functions: monitoring (control role) and provision of resources (service role). The monitoring function has been mainly analysed following agency theory (Jensen and Meckling, 1976; Fama and Jensen, 1983), according to which directors are responsible for monitoring managers on behalf of shareholders, given the potential for conflicts of interest arising with the separation of ownership and control (Berle and Means, 1932). On the other hand, the focus on the service role of boards is the perspective adopted in the resource dependence (Pfeffer, 1972; Pfeffer and Salancik, 1978; Hillman et al., 2000) and stakeholders' research (Johnson and Greening, 1999; Luoma and Goodstein, 1999; Hillman and Keim, 2001; Huse, 2003).

Indeed, various authors advocate a broadening of the corporate governance agenda to encompass a stakeholder and legitimacy perspective (Tirole, 2001; Huse, 2003; OECD, 2004; Webb, 2004; Aguilera et al., 2006; Deakin and Whittaker, 2007; Brennan and Solomon, 2008). Following this perspective, the board of directors can be seen a mechanism of legitimacy and reputation, as its role is to ensure that the company is managed efficiently, top management has oversight and stakeholders' interests are taken into consideration at the highest levels of decision making (Michelon and Parbonetti, 2010).

According to resource dependence theory, boards consist of both human capital (experience, expertise and reputation) and relational capital (network of ties to other firms and external contingencies) (Hillman and Dalziel, 2003: 383), thus assuring the management of external dependencies and the provision of important external resources (Hillman et al., 2001). Directors are seen not only as keepers of shareholders' fiduciary duties, but also as able to enhance the firm's reputation, by establishing contacts with the external environment and providing top management with insightful advice as to what stakeholders expect from the company. Markarian and Parbonetti (2007: 1225) in examining board of director composition, assert that boards perform different tasks at the same time and that, within the board, each director plays a specific role consistent with her own skills, competencies, professional expertise and links with the external environment that produces 'a mosaic of decision making structures and subsequent firm behaviour'.

Following Zahra and Pearce, (1989: 297), in this paper we assume that corporate boards act as 'boundary spanners' and perform many roles at the same time, providing four types of benefits to the firm: advice and counselling (Mintzberg, 1983; Lorsch and MacIver, 1989); legitimacy (Selznick, 1949); channels for communicating information between external organisations and the company (Hillman et al., 1999) and preferential access to commitments or support from important stakeholders in the company's environment (Hillman et al., 2001). Thus, directors may do more than reduce uncertainty (Hillman et al., 2000), as they bring resources and legitimacy to the company (Gales and Kesener, 1994). Within this framework, the reputation of the directors in the community and among stakeholders enables the company to carry on its business and actions, mobilise external support and resources, and enhance organisational legitimacy (Provan, 1980; Deephouse, 2000).

Organisational legitimacy has been discussed for some time in the academic literature. Dowling and Pfeffer (1975: 122) suggest 'organisations seek to establish congruence between the societal values associated with or implied by their activities and the norms of acceptable behaviour in the larger social system of which they are a part. Insofar as these two value systems are congruent we can

speak of organisational legitimacy'. Corporate social responsibility has been addressed in the literature (e.g. Husted and Allen, 2000) as a strategy that helps companies in addressing societal concerns about corporate behaviour and thus is able to enhance organisational legitimacy. According to de Quevedo-Puente et al. (2007: 66) corporate social performance describes 'the degree of legitimacy of the firm's behaviour by the standard of its institutional context', so that a firm is behaving legitimately when its actions are perceived as congruent with society's expectations (Suchman, 1995) on the social, environmental and economic impact of the firm's activities. According to Unerman and Bennett (2004: 685), 'good corporate governance and accountability should focus on addressing these social, environmental, economic and ethical expectations'.

As firms operate in a constantly changing environment, they must show that they operate within the bounds, values and norms of the society (Brown and Deegan, 1998). By legitimacy, i.e. the accumulation of similar social performances over time (de Quevedo-Puente et al., 2007), the firm is able to consolidate its corporate reputation (Fombrun and Rindova, 1994; Rao, 1994).

Corporate social performance has been widely discussed in the literature (see, e.g. Carroll, 1979 and 1991; Wartick and Cochran, 1985; Clarkson, 1995), as being a multidimensional concept (Johnson and Greening, 1999), associated with corporate legitimacy (de Quevedo-Puente et al., 2007) and built on a set of principles, processes and policies (Wood, 1991).

The effects of boards' characteristics on social performance, defined as the outcome of the firm's social strategy (Husted and Allen, 2000), will be studied with reference to the various roles played by the board and the directors (Zahra and Pearce, 1989), considering that, by establishing external ties with stakeholders and the wider society, directors are able to attract and retain precious resources to the firm's survival and thus enhance the organisational legitimacy (Zahra and Pearce, 1989: 297).

Based on the above considerations and given the lack of significant board variables in social performance studies, our objective is to investigate whether board reputation has an effect on corporate social performance.

3. Development of hypotheses

Based on the idea that corporate governance encompasses all 'the interests that affect the viability, competence and moral character of an enterprise' (Selznick, 1992: 290; Worthy and Neuschel, 1983; Haniffa and Cooke, 2005) and that board reputation consists of both human capital, in terms of experience, expertise, leadership, and of relational capital, in terms of ties with external contingencies (Hillman and Dalziel, 2003), we analyse the impact of board composition, competence, diversity, leadership, structure and links with the external environment on corporate social performance.

Board composition – Independent directors

According to the resource dependence framework (Pfeffer and Salancik, 1978), independent directors attract valuable resources vital to the companies' viability by establishing external links with stakeholders and other organisations and they enhance the reputation of the firm (Certo et al., 2001). The presence of independent directors on the board should increase the board's objectivity and its ability to represent multiple points of view of the firm's role in the environment and among stakeholders (Haniffa and Cooke, 2005). Moreover, according to Johnson and Greening (1999: 569), by representing various constituents and being knowledgeable about the critical contingencies facing firms, they 'may be more inclined to comply with environmental standards to avoid penalties, fines and negative media exposure and a subsequent loss of reputation'. In this sense, they 'reflect changing societal values in shaping corporate identity because boards lack requisite power to bring about desired changes in the role of the corporation' (Zahra and Pearce, 1989: 304).

Wang and Dewhirst (1992) find that outside directors are likely to have a stakeholder orientation and are conscious of the expectations of the different constituencies of the firm. Johnson and Greening (1999) find empirical support for their hypothesis that outside directors' representation is positively associated with corporate social performance. The theoretical argument behind these findings is that, by being more dedicated to stakeholders' expectations, independent directors will increase their own prestige and role in society and thus they will be more likely to encourage the company to undertake CSR activities.

If independent directors are likely to respect the stakeholder obligations of the firm, they are more likely to be committed to stakeholder responsibility because in this way they increase their prestige and role in society (Zahra and Stanton, 1988; Haniffa and Cooke, 2005). Hence, we present our first research hypothesis, in alternative form:

H1: Corporate social performance is positively associated with the proportion of independent directors.

Board competence – community influential directors

Previous research on corporate governance and social performance has mainly concentrated on the role played by outside (independent) directors (see, e.g. Johnson and Greening, 1999).

Following Baysinger and Hoskisson (1990) and Markarian and Parbonetti (2007), non-executive directors are not homogeneous in terms of skills, competencies, expertise and networks with the external environment. We argue that the specific and unique individual competencies of board directors contribute differently to the board process and priorities, thus motivating management to adopt specific strategies and actions (Goodstein and Boeker, 1991). In order to understand the impact that diversity in terms of competencies and backgrounds of directors has on social performance, we concentrate on community influential directors (Hillman et al., 2000; Michelon and Parbonetti, 2010).

Community influential directors (hereafter 'community influentials') typically are 'directors with experience and linkages relevant to the firm's environment beyond competitor firms and suppliers. Community influentials include directors who possess knowledge about or influence over important non-business organisations' (Hillman et al., 2000: 241)[1]. They are mainly political and religious leaders, university faculty, and members of social or community organisations, including military officers (Baysinger and Zardkoohi, 1986; Hillman et al., 2000). By supplying the firm with linkages to society beyond the competitive context, they bring experience and connection to community groups and organisations (Baron, 1995), like societal movements and non-profit organisations. According to Hillman et al. (2000: 242), community influentials 'provide valuable non-business perspectives on proposed actions and strategies'. In this sense, their competence, expertise and influence on societal constituencies help the firm in avoiding strategic choices and actions against the interests of such constituencies and promoting socially responsible actions.

The presence of community influentials on the board helps in obtaining commitments or support from important stakeholders and, by establishing these relationships with stakeholder groups, they provide legitimacy to the company. According to Kassinis and Vafeas (2002: 401), community influentials are 'less likely to tolerate environmental irresponsibility because their interests are more closely aligned with the interests of the community at large'. Since they provide the board with better knowledge about stakeholders' needs and expectations, they enhance the board awareness about stakeholders' expectations and ensure that their interests are taken into account during corporate decision making (Selznick, 1992). As a consequence, they might promote corporate social performance in order to ensure congruence between the firm's decisions and societal values. This leads us to the formulation of the second hypothesis, in alternative form:

[1] Let us assume that a company operating in the mining industry appoints a World Wildlife Fund (WWF) representative to its board. This appointment is to signal to the wider society that the company wants to be committed to the environment and thus society will expect this company to be more environmentally responsible given the presence of that particular community influential.

H2: Corporate social performance is positively associated with the proportion of community influentials.

Board diversity – women on the board

According to Coffey and Wang (1998), board diversity is defined as variation among its members[2]. The relevance of female presence on the board is stressed by Hillman et al. (2002) and more recently by Adams and Ferreira (2009), according to whom they are increasingly being appointed to corporate boards. According to the literature on gender-based differences, women and men are different in the way they play their leadership role: while men are characterised mainly to agentic[3] attributes (Eagly et al., 2003), women are more ascribed to communal characteristics. Communal characteristics are concerned primarily with the welfare of other people, helpfulness, kindness, sympathy, sensitivity, nurturing and gentleness. According to Nielsen and Huse (2010) such elements are translated in working situations into accepting others' positions, supporting and soothing others and contributing to relational and interpersonal problems. Moreover, research has found evidence that female directors are more likely to be cooperative and collaborative and they are more oriented towards improving and enhancing the others' self-worth (Eagly et al., 2003). According to Siciliano (1996), board gender diversity improves organisational performance because it provides new insights and perspectives. Bilimoria (2000: 27) suggests that women are valued as board members for their ability to 'provide strategic input and generate productive discourse'.

Such abilities, combined with the communal characteristics predominant in female directors, are more likely to lead to the women's active involvement in issues of a strategic nature that concern the firm and its stakeholders. Thus 'women may be particularly sensitive to – and may exercise influence on – decisions pertaining to certain organisational practices, such as corporate social

[2] Although diversity is a rich concept and would include gender, race, age, possible disabilities, etc., given the operational difficulties in proxying for such multiple diversity, we will rely only on the presence of women on the board, i.e. gender diversity. We are grateful to an anonymous referee for pointing this out.

[3] Agentic attributes describe a behaviour that is independent, masterful, assertive, and instrumentally competent (Eagly et al., 2003).

responsibility and environmental politics' (Nielsen and Huse, 2010: 138). This leads us to the formulation of the third hypothesis, in alternative form:

H3: Corporate social performance is positively associated with the proportion of women directors.

Board leadership – CEO duality

CEO duality occurs when one individual serves as both chairman of the board of directors and chief executive officer. Best practice in corporate governance recommends the separation of the role of the chairman from that of the CEO (OECD, 2004), in order to ensure a frank and honest discussion of the performance of the firm (Carver, 1990). According to Fama and Jensen (1983: 314) CEO duality 'signals the absence of separation between decision control and decision management'. Forker (1992: 117) adds that 'a dominant personality commanding a company may be detrimental to the interest of shareholders'. Roberts et al. (2005) assert that CEO duality constrains board independence, as combining the role of CEO and chairman compromises the system of checks and balances and represents a conflict of interests, thus reducing the overall accountability of the firm. Thus, based on the agency arguments of Forker (1992) and Roberts et al. (2005), CEO duality reduces the overall legitimacy of the company in front of stakeholders.

In contrast to agency theory, organisation theory supports the idea that strong leadership could be interpreted as a characteristic that brings legitimacy, as it sends a signal to stakeholders that the firm has a clear direction (Salancik and Meindl, 1984) and that 'someone is in charge and that the fate of the organisation depends on that person' (Pfeffer and Salancik, 1978: 263). Thus, CEO duality could help a firm maintaining its relationships with stakeholders by invoking a sense of managerial efficacy because 'the consolidation of the two most senior management positions establishes a unity of command at the top of the firm, with unambiguous leadership clarifying decision-making authority and sending reassuring signals to stakeholders' (Finkelstein and D'Aveni, 1994: 1080).

Given the two contrasting perspectives, we formulate the CEO duality hypothesis in the null form, with two competing alternative hypotheses:

H4: Corporate social performance is not associated with CEO duality.

The alternative hypothesis of a negative association is based on agency theory, while the alternative hypothesis of a positive association is based on organisation theory.

Board structure - presence of a corporate social responsibility (CSR) committee

Board reputation is not just a function of the composition of the board as a whole, but it also depends on the structure and composition of its subcommittees (Xie et al., 2003). According to Zahra and Pearce (1989), the firm's board structure affects the directors' commitment and involvement in shaping the goals and strategy of the firm, because it defines the internal organisation and division of tasks among the board's committees. Furthermore, most important board decisions are taken at a committee level (Kesner, 1988).

A firm actively engaging with stakeholders can undertake various decisions and actions at board level in order to manage social responsibility, sustainability or ethical issues. In particular, the presence of a corporate social responsibility committee[4], or of a director in charge of such issues indicates an active strategic posture (Ullman, 1985) with regards to stakeholder relationships.

Such a committee is involved in the stakeholder engagement process and in the way the firm turns social strategy into action. The presence of a CSR committee can be interpreted as a signal that the firm sends to stakeholders in order to show its commitment and involvement in CSR (Lam and Li, 2007). Post et al. (2002) assert that a CSR committee is responsible for reviewing policies and conduct with respect to the firm's principles and commitment to ethical and social responsibility issues. Thus the presence of a CSR committee should reveal the firm's willingness to improve its corporate behaviour to meet stakeholders' expectations. Hence, we hypothesise in alternative form:

H5: Corporate social performance is positively associated with the presence of a CSR committee.

[4] Such a committee may also be called the sustainability committee or ethics committee.

Board relational capital – other directorates

According to resource dependence theory, board relational capital refers to the actual and potential resources embedded within, available through, and derived from the network of relationships possessed by each director (Hillman and Dalziel, 2003). In order to understand whether the board's relational capital helps in the provision of both advice and counselling, and reputation, we will refer to the board's directorate ties to external organisations.

Pfeffer and Salancik (1978) state that prestigious organisations represented on the board provide assurance to external stakeholders of the value and worth of the firm, as the firm's reputation is affected not just by who serves on the board, but also to whom the firm is linked (Bazerman and Schoorman, 1983). In this vein, directorate ties may help the firm in attracting critical resources, improving corporate reputation and thus ensuring improved performance.

Previous research found that boards having ties with strategically related organisations are able to provide better strategic guidelines and thus improve firm performance (Westphal, 1999; Carpenter and Westphal, 2001). Moreover, empirical studies show that boards with great prestige experience less underpricing during an IPO (Certo et al., 2001; Kassinin and Vafeas, 2002).

Nevertheless, recent discussion (Di Pietra et al., 2008) suggests that independent directors may not properly fulfil their functions if they serve on too many boards, as they cannot adequately comply with all their duties. Directors with too many appointments would not be able to provide enough and adequate attention not only to monitor and evaluate management's behaviour, but also to advice and counsel the firm, attract critical resource and increase the firm's reputation.

Given the opposing views on the effects of multiple directorships on board performance, we state our last research hypothesis in null form, with two competing alternative hypotheses:

H6: Corporate social performance is not associated with the board's relational capital.

The alternative hypothesis of a positive association is based on enhanced reputation, while the alternative hypothesis of a negative association is based on perceived inadequacy of commitment.

4. Research method

Sample

The initial sample for this study consists of the 100 companies listed in the Business Ethics 100 Best Corporate Citizens for the years 2005, 2006 and 2007. The rank is built on the KLD overall social performance rating obtained as the average of the ratings in seven corporate social performance areas: Community, Corporate Governance, Diversity, Employee Relations, Environment, Human Rights, and Product Quality and Safety[5].

Given that some companies were listed for more than one year in succession whilst others were listed for only one year and that we lost some observations because of lack of data, the total number of observations is 278 and the total number of companies is 176[6]. For each company and year, archival data about board reputation and CSR performance are collected as follows.

Measures of corporate social performance

Data on corporate social performance are collected from the KLD's SOCRATES database, which is a comprehensive research database measuring the social performance of corporations. The web-based database[7] contains social and environmental ratings indicators on the Business Ethics 100 Best Corporate Citizens for the years 2005, 2006, and 2007.

[5] The choice of this sample does not lead to biased results given that we look at the social performance of firms in single areas of CSR. Whilst belonging to the list of the Best Corporate Citizens, these firms present both strengths and weaknesses as the ratings present both positive and negative values. Thus KLD's social performance data of the Top 100 Best Corporate Citizens provides a great degree of variability in the behaviour of the firms. Moreover by using a period of three years (2005, 2006, and 2007) we are able to analyse the company's longer-term social performance. Nonetheless, we recognise that the generalisation of the findings of the study may be limited given the fact that the sample consisted of the 176 most highly rated companies.

[6] The panel consists of 93, 96, 89 companies respectively for year 2005, 2006 and 2007. 25 companies appear in the list for three years, 52 for two years and 99 for just one year.

[7] http://www.business-ethics.com/BE100_all

Companies are rated in seven corporate social performance areas: Community, Corporate Governance, Diversity, Employee Relations, Environment, Human Rights, and Product Quality and Safety. For each area, KLD analysts assign 'strengths' and 'concerns' on a 5-point scale. Each area score is then determined by subtracting the concerns scores from the strengths scores. Data are collected in a disciplined process from a wide variety of company, government, and non-government organisations and media sources. Once the information is collected, KLD rates the social performance of companies using a proprietary framework of positive and negative indicators. KLD data have been extensively used in the management literature on corporate social and environmental performance (see, e.g., Waddock and Graves, 1997; Johnson and Greening, 1999; Hillman and Keim, 2001; David et al., 2007) as well as recent social and environmental accounting research (see, e.g., Cho et al., 2006; Cho and Patten, 2007).

Given the multi-dimensionality of the concept of corporate social performance, we make use of several measures based on KLD's data: community performance (*comm*), employee relations performance (*er*), environmental performance (*env*), human rights performance (*hr*) and product quality performance (*pr*) ratings. We exclude, on the grounds of potential endogeneity problems, both the KLD ratings regarding the firm's governance and diversity.

Moreover, we employ an overall corporate social performance (*csp*) rating, determined as the average of the ratings obtained in the community, employee relations, environment, human rights and product quality areas.

Governance related variables

Data on board composition are collected from the firms' annual reports and proxy statements. For each company it was possible to find the name and the type of directors (i.e. executive or independent non-executive director), a description of their role within the board (i.e. membership in a committee) and, in general, a brief biography. The board composition (*prind*) is measured by the proportion of independent directors and the board competence is measured by the proportion of community influentials (*pci*). Community influentials are identified using the brief

biographical note that is reported in the proxy statement. Community influentials are classified following Hillman et al. (2000): academicians, politicians (including retired politicians), military officers (including retired military officers) and members or directors of social/non profit organisations (including members of clergy and religious leaders). We measure board diversity as the proportion of women sitting on the board (*pw*). The presence of CEO duality (*dual*) is measured by a dummy variable that takes the value of 1 if the CEO is also the chairman of the board and 0 otherwise. The board structure is measured as a dummy variable equal to 1 if the company has identified a director in charge of social responsibility issues or when boards have a committee in charge of CSR/ethics/sustainability matters, 0 otherwise (*csr_board*). We employ two measures of relational capital. Following (Koenig and Gogel, 1981) we use the average number of directorships held by non-executive directors (*ratio_neddir*). We also measure relational capital by considering the average number of directorships held by community influentials (*ratio_cidir*).

Figure 1 summarizes the research hypotheses and the measurement of independent variables.

INSERT FIGURE 1 ABOUT HERE

Control variables

We select control variables on the basis of prior studies on governance and corporate performance. First of all, we consider other board variables that may have an impact on corporate social performance. Following Jensen (1993) and Lipton and Lorsch (1992), we control for board size (*bsize*).

We select accounting performance, size and industry as control variables based on prior studies (Ullman, 1985; Johnson and Greening, 1999; McWilliams and Siegel, 2000; Al-Tuwaijri et al., 2003; Brammer et al., 2006) investigating the determinants of social performance.

Following Ullman (1985), we assume financial performance influences the financial capability to undertake costly programs related to social demands. We measure financial performance (*roe*) as the return on equity.

According to Burke et al. (1986), as firms grow they are more likely to adopt CSR principles because of the increased pressures the firms experience from various stakeholders. We measure size (*size*) as the natural logarithm of total sales.

The nature of a company's industry has been identified as a factor potentially driving corporate social performance. For example, companies whose economic activities modify the environment, such as natural resources companies (mining, forestry, oil and gas, etc.) are clearly more closely monitored for environmental performance than companies in other industries (Dierkes and Preston, 1977) while consumer-oriented companies may exhibit greater concern about demonstrating their social involvement to the community, since it is likely to affect the corporate reputation and therefore influence sales (Cowen et al., 1987). Companies in the sample belong to nine industries (basic industries, cyclical consumer goods, non-cyclical consumer goods, cyclical services, non-cyclical services, financial, general industrial, information technology, utilities), thus we employ eight dummies.

Data analysis

We consider panel data techniques to be the most suitable for testing our hypotheses. Given that we find cross-section heteroskedasticity, the fixed effects models with cross-section heteroskedasticity cannot be efficiently estimated with OLS. Thus, we specify the following panel corrected standard error model (Wooldridge, 2002):

$$csp_{it} = \alpha_1 prind_{it} + \alpha_2 pci_{it} + \alpha_3 pw_{it} + \alpha_4 dual_{it} + \alpha_5 csr\_board_{it} + \alpha_6 ratio\_dir_{it} + \\ + \alpha_7 bsize_{it} + \alpha_8 roe_{it} + \alpha_9 size_{it} + \alpha_{10n} industry_{nit} + \varepsilon_{it} \quad (1)$$

Where:

csp	Measure of corporate social performance. It refers to the KLD overall and components ratings (*csp, comm, er, env, hr, pr*)
prind	board composition; proportion of independent directors

pci	board competence; proportion of community influentials
dual	board leadership; dummy variable equal to 1 if CEO is also chairman, 0 otherwise
csr_board	board structure; dummy variable equal to 1 if the company has identified a director in charge of social responsibility issues or when boards have a committee in charge of CSR/ethics/sustainability matters, 0 otherwise
ratio_dir	relational capital; we employ two measures: average number of directorships held by non-executive directors (*ratio_neddir)* or by community influentials (*ratio_cidir*)
pw	board diversity; proportion of female directors
bsize	board size; number of directors sitting on the board
roe	profitability; return on equity
size	company's size; natural logarithm of total sales
$industry_n$	Industry dummies (basic industries, cyclical consumer goods, non-cyclical consumer goods, cyclical services, financial, general industrial, information technology, utilities)

5. Empirical results

Descriptive statistics and correlation analysis

Table 1 shows the social performance ratings of the companies in the sample. The overall social performance score (*csp*) takes into account all strengths and weaknesses of each component considered. The mean is 0.771, and the standard deviation is 0.455. On average, companies seem to perform better with issues involving community relations (the mean for *comm* is 1.194, and the maximum is almost 5.0) and employee relations (the mean for *er* is 1.013, and the maximum is 4.661). Major concerns can be identified in issues regarding human rights (the mean for *hr* is 0.166, and the minimum is -4.289) and product quality and safety (the mean for *pr* is 0.529, and the minimum is -2.921). From the standard deviation data, we can also say that there seems to be great variation among companies in the sample about how they deal with the different CSR areas. The community and environmental issues present the largest variance. On the other side, human rights (*hr*) and product quality and safety (*pr*) issues seem to be more uniformly managed by companies in the sample. Over the three-years the social performance of companies seems to improve in all areas, except for human rights (*hr*) and product quality and safety (*pr*), which show a decrease in year 2006.

INSERT TABLE 1 ABOUT HERE

Table 2 provides descriptive statistics for the independent variables. During the three years period, the mean (median) proportion of independent director (*prind*) is 78.2% (81.8%), the mean (median) proportion of community influentials (*pci*) is equal to 24.4% (22.2%), indicating that almost 1 in every 4 directors is a community influential. The minimum of *pci* is 0 and the maximum is 77.8%. Women directors (*pw*) represent on average 15% of board members (median is equal to 14.8%). Only in one case is the board made up of a majority of women directors (Student Loan Corporation in 2006). CEO duality (*dual*) is quite a common practice given that during the three years on average 65.8% of companies have the CEO who is also the chairman of the board of directors. In 56.7% of cases, the companies have a CSR or ethics committee (*csr_board*), it being more common in 2006 (80% of companies) rather than in 2005 (37.6%) or in 2007 (51.7%). On average, non-executives have 3.081 directorships in other companies (median value for *ratio_neddir* is 2.778), while community influentials seem to be slightly busier with a mean of 3.675 directorships (median value for *ratio_cidir* is 3.5).

INSERT TABLE 2 ABOUT HERE

Descriptive statistics for the control variables are reported in Table 3. On average, boards are made up of 10 members (*bsize*), the median value is 11 and the maximum value is 28. Companies in the sample present on average a *roe* equal to almost 20% and *size* is, on average, about $11,700,000 net sales.

INSERT TABLE 3 ABOUT HERE

Table 4 shows the Pearson's correlation matrix. The overall social performance score (*csp*) is significantly and positively correlated to the proportion of community influentials (*pci*), the proportion of women (*pw*), the presence of a CSR committee (*csr_board*), the number of directorships of the independent directors (*ratio_neddir*) and it is negatively correlated to CEO duality (*dual*).

INSERT TABLE 4 ABOUT HERE

The correlation analysis also shows significant pairwise correlations among the independent variables. In order to test whether relevant multi-collinearity can affect the results, we performed the Variance Inflation Factor (VIF) test. The largest value among all the independent variables is often used as an indicator of the severity of multi-collinearity (Neter et al., 1996). A maximum VIF value in excess of 10 is frequently taken as an indication that multi-collinearity may be unduly influencing the least squares estimate. In our case, the largest VIF is equal to 2.29, so multi-collinearity among the predictor variables is not a problem.

Multivariate results

Table 5 provides the results for the multivariate regression model. Models 1 to 6 depict the relationships between our variables of interest and the six measures of corporate social performance employed in the study, respectively: the overall social performance (*csp*), and its constituent components: community performance (*comm*), employee relations (*er*), environmental performance (*env*), human rights (*hr*) and product quality and safety (*pr*)[8].

INSERT TABLE 5 ABOUT HERE

Model 1 investigates the relationships between the overall social performance (*csp*) and the variables of interest. The R^2 is 0.198 and the model appears highly significant (chi square = 55.79, p = 0.000). As regards our variables of interest, the proportion of independent directors *(prind)* (H1), community influentials (*pci)* (H2) and women directors (*pw)* (H3) are significantly associated with the overall social performance (*csp*) with the expected sign. The proportion of independent directors *(prind)* (H1) and the proportion of community influentials *(pci)* (H2) on the board of directors are both positively related to the overall social performance (*csp*), suggesting that the presence of independent directors and community influentials both enhance board awareness about

[8] In the discussion below, we have referred to these as Models 1-6 although we recognise that community performance (*comm*), employee relations (*er*), environmental performance (*env*), human rights (*hr*) and product quality and safety (*pr*) are essentially each a sub-set of the overall social performance (*csp).*

stakeholders' expectations and promote corporate social performance in order to ensure congruence between the firm's decisions and stakeholders' values. The proportion of women directors *(pw)* (H3) is also positively associated with the overall social performance (*csp*) suggesting that the presence of women on the board increases the awareness of the company on issues relating to various stakeholders and thus leads to greater social performance. CEO duality *(dual)* (H4) is also significantly associated with the overall social performance (*csp*) and the sign of the relationship is negative, providing empirical support for the alternative hypothesis of a negative association as predicted by agency theory. Thus, the empirical analysis supports the advocates of the separation of the roles of CEO and chairman and the agency theory hypothesis that CEO duality reduces the overall legitimacy of the company for its stakeholders. Model 1 provides mixed empirical support of a relationship between the board's relational capital proxies (*ratio_neddir, ratio_cidir*) (H6) and the overall corporate social performance: while the average number of directorships held by non-executive directors *(ratio_neddir)* is positively associated with the overall social performance (*csp*), the average number of directorships held by community influentials *(ratio_cidir)* is negatively associated with it. Such evidence is in line with the idea that boards with great prestige in terms of the external directorships of non-executive directors benefit in terms of stakeholders' legitimacy (Kassinis and Vafeas, 2002) but, when non-executive directors are community influentials, the fact that they serve on many boards is detrimental to the legitimacy of the company as they cannot adequately play their service function, in line with the results of Di Pietra et al. (2008).

Model 2 provides empirical evidence of the relationship between community performance (*comm*) and board reputation. Model 2 is the model with greatest predictive power: the R^2 is 0.308 and the model appears highly significant (chi square = 142.18, p = 0.000). Among the proxies for board reputation, we find a significant association between community performance (*comm*) and the proportion of community influentials (*pci*) (H2), the proportion of women directors (*pw*) (H3) and the presence of a CSR committee (*csr_board*) (H5). The findings thus suggest that community influentials are able to focus the attention of the board on the impact of the company's activity on

the community. Female directors' communal characteristics (i.e. friendly, kind, unselfish, concerned with others, and expressive, Eagly et al., 2003) increase the sensitivity of the board towards external stakeholders' needs. The CSR committee, which is in charge of activities and strategies relating to ethical, environmental and social issues, is more likely to increase the legitimacy of the company in the community.

In Model 3, as regards our variables of interest, only the proportion of women directors (*pw*) (H3) and CEO duality (*dual*) (H4) appear to be related to the corporate social performance measured as relations with the employees (*er*). The estimated coefficients are significant and they have the expected sign. The coefficient for the proportion of women directors (*pw*) (H3) is positive, thus supporting the hypothesis of a positive association between the proportion of women directors and corporate social performance. Such a result could be interpreted along the lines that boards with a greater proportion of women directors are more sensitive to others' needs and self-worth. The coefficient for CEO duality (*dual*) (H4) is negative, supporting the alternative hypothesis formulated by agency theory that CEO duality reduces the ability of the company to pursue and implement socially responsible strategies, rather than the organisation theory hypothesis that strong leadership is a characteristic that brings legitimacy.

Model 4 provides the regression coefficients when corporate social performance is measured along the environmental dimension (*env*). The proportion of independent directors (*prind*) (H1) and the proportion of community influentials (*pci*) (H2) are both significantly and positively associated with environmental performance (*env*). This evidence supports the idea that independent directors (H1) and community influentials (H2) are more likely to consider stakeholders' needs and expectations in particular regarding the environmental impacts of corporate activities.

Model 5 provides evidence of a relationship between the proportion of women directors (*pw*) (H3), the presence of the CSR committee (*csr_board*) (H5) and corporate social performance, measured along the human rights dimension (*hr*). The empirical evidence suggests that a sensitive and pro-active board on stakeholders' needs and issues is associated with greater strengths in human rights.

We find mixed evidence of the relationship between the relational capital of the board (*ratio_neddir, ratio_cidir*) (H6) and corporate social performance, measured along the human rights dimension (*hr*). The external directorships of non-executives (*ratio_neddir*) are positively related to human rights performance (*hr*), supporting the idea that they bring greater prestige and awareness of sensitive issues. When the board relational capital is measured as the average number of directorships of community influentials (*ratio_cidir*), we find a negative sign for this relationship, thus suggesting that while community influentials are likely *per se* to improve social performance, they are detrimental to it if they have many directorships. The evidence confirms that community influentials are not able to properly fulfil their functions if they serve on too many boards and thus are not able to increase the firm's social performance.

Model 6 provides quite surprising results, given that it shows a significant and negative relationship between the proportion of community influentials (*pci*) (H2) and corporate social performance measured along the product quality and safety dimension (*pr*). A possible explanation of this negative relationship is that a community influential director may not have adequate competences to improve product quality and safety and thus concentrates the efforts of the company in other areas of social performance such as community or the environment.

Finally the models, in line with previous findings (e.g. Ullman, 1985), depict a size and industry effect.

Robustness results

In order to test the robustness of our results, we ran a number of alternative models. In particular we ran the regressions using both the fixed effects model and the first difference model. In both cases, the results do not vary significantly from those reported in the previous section and hence the detailed results are not reported here. The only relevant change in results under these two models is obtained with respect to the proportion of independent directors (*prind*) (H1) which is not

significantly associated with corporate social performance measured as the overall average score (*csp*) and along the environmental dimension (*env*).

We have also taken into consideration that our results may suffer from an endogeneity problem due to the potential endogenous relationship between community influentials and social performance. Thus, we perform a three-stage least square regression model using two simultaneous equations. Particularly, equation (2) shows the effect of community influentials over the overall performance score while equation (3) tests the effect of social performance over community influentials.

$$csp_{it} = \alpha_0 + \alpha_1 prind_i + \alpha_2 pci_i + \alpha_3 pw_i + \alpha_4 dual_i + \alpha_5 csr\_board_i + \alpha_6 ratio\_dir_i + \\ + \alpha_7 bsize_i + \alpha_8 yr2005_i + \alpha_9 yr2006_i + \alpha_{10n} industry_{ni} + \varepsilon_i \quad (2)$$

$$pci_{it} = \alpha_0 + \alpha_1 csp_i + \alpha_2 prind_i + \alpha_3 pw_i + \alpha_4 dual_i + \alpha_5 csr\_board_i + \alpha_6 ratio\_dir_i + \\ + \alpha_7 bsize_i + \alpha_8 roe + \alpha_9 size + \alpha_{10} yr2005_i + \alpha_{11} yr2006_i + \alpha_{12n} industry_{ni} + \varepsilon_i \quad (3)$$

Where:

csp	Measure of corporate social performance. It refers to the KLD overall and social components ratings (*csp, comm, er, env, hr, pr*)
prind	board composition; proportion of independent directors
pci	board competence; proportion of community influentials
dual	board leadership; dummy variable equal to 1 if CEO is also chairman, 0 otherwise
csr_board	board structure; dummy variable equal to 1 if the company has identified a director in charge of social responsibility issues or when boards have a committee in charge of CSR/ethics/sustainability matters, 0 otherwise
ratio_dir	relational capital; we employ two measures: average number of directorships held by non-executive directors (*ratio_neddir)* or by community influentials (*ratio_cidir*)
pw	board diversity; proportion of female directors
bsize	board size; number of directors sitting on the board
roe	profitability; return on equity
size	company's size; natural logarithm of total sales
yr2005	Year dummy variable equal to 1 if data point is observed in year 2005, 0 otherwise
yr2006	Year dummy variable equal to 1 if data point is observed in year 2006, 0 otherwise
$industry_n$	Industry dummies (basic industries, cyclical consumer goods, non-cyclical consumer goods, cyclical services, financial, general industrial, information technology, utilities)

The results are presented in Table 6. Columns (A) and (B) report results respectively for equations (2) and (3). The results indicate that the proportion of community influentials *(pci)* is positive and significant for corporate social performance (*csp*) ($p = 0.051$) (column A), while the coefficient of corporate social performance (*csp)* is not significant ($p = 0.131$) for the proportion of community

influentials (*pci*) (column B), thus confirming that community influentials play a role in orienting corporate social performance.

INSERT TABLE 6 ABOUT HERE

6. Conclusion

In this paper we investigate the relationship between board reputation, in terms of composition, competence, diversity, leadership, structure and links with the external environment, and the social performance of Best Corporate Citizens, after controlling for other company-specific characteristics. By doing so, we extend previous studies on social performance, by considering board reputation as a governance contextual factor that can influence the ability of the company to be involved in socially responsible actions.

Our results show that board reputation plays a role in driving corporate social performance in the companies that are the Best Corporate Citizens.

Our first hypothesis on the association between the proportion of independent directors and corporate social performance (H1) is supported by our statistical tests for the overall social performance and for the component of social performance measured along the environmental dimension.

The empirical analysis also provides support for the second hypothesis regarding the role of community influential directors, who have been identified as promoters of stakeholders' engagement and management. We find a significant and positive association between the proportion of community influentials and our measure of overall corporate social performance (H2). Such positive association also holds for two components of corporate social performance: community performance and environmental performance.

Together the evidence suggests that the traditional dichotomy between insiders and outsiders may not depict well the service role of the board in terms of legitimacy and reputation. Research that

relates corporate governance and social performance should thus more specifically consider the various individual characteristics of directors that may have an impact on various corporate processes carried out by the board of directors.

Regarding our third hypothesis on the role of women on the board, we find a significant and positive relationship between the proportion of women on the board and the overall social performance (H3), community performance, employee relations and human rights. Such evidence suggests that women directors enhance sensitivity towards others and their consideration of the multiple interests of stakeholders is able to improve the service role of the board of directors and thus lead to greater legitimacy and social performance.

We provide empirical evidence that best standards of corporate governance also matter in terms of how the company performs socially. Our empirical evidence supports the alternative hypothesis formulated on the basis of agency theory of a negative relationship between CEO duality and corporate social performance (H4), suggesting that when the roles of CEO and Chairman of the board are concentrated in the hands of the same person, the company is less likely to be involved in socially responsible activities, or at least, it is likely to be associated with lower corporate social performance.

The empirical results also support our fifth hypothesis, providing evidence of a significant and positive relationship between the presence of a CSR committee and corporate social performance (H5) measured along the community dimension. When the board appoints a committee to manage and work on the social and environmental impacts of business activities, it is more likely that the company will have a greater legitimacy in the community in which it operates.

Regarding the results on the relationship between a board's relational capital and corporate social performance (H6), the empirical evidence supports the alternative hypothesis of a positive association (enhances reputation) when a board's relational capital is measured by the number of directorships of non-executive directors. This can be interpreted along the lines that when independent directors have a greater number of ties with other organisations, then they are able to

provide better strategic guidelines on how to manage the social impacts of corporate activities. On the other hand, the empirical evidence also supports the alternative hypothesis of a negative association (perceived inadequacy of commitment) when a board's relational capital is measured by the number of directorships of community influentials. The empirical results suggest that, although community influential directors are likely to be associated with higher levels of social performance, when they hold too many directorships, their contribution to the overall success of CSR is negative. The evidence thus supports the view that community influential directors with too many directorships are not able to successfully contribute to corporate social performance.

Summing up, we are of the view that companies which have CSR more "at their heart" seem to benefit from this approach: indeed, taken overall, the appointment of community influential and women directors to the board and the presence of a CSR Committee have a positive impact on corporate social performance. On the other hand, where companies exhibit corporate governance that does not meet generally accepted best standards (for example, they combine the roles of Chairman and CEO) there is a negative effect on social performance.

Our paper provides both theoretical and practical implications. From a theoretical perspective, in times of great debate about the role of the board of directors in driving corporate performance in an ethical and responsible way, it shows that research on corporate governance needs to move beyond the paradigms of agency theory to overcome the traditional distinction between executive and non-executive directors, because of the non-homogeneity in terms of backgrounds, competencies and effects on how the board performs its various roles. From a practical perspective, the findings provide useful insights to governance standard setters, regulators and investors interested in the triple bottom line performance of companies, and the important role of the board of directors in addressing CSR activities and their outcomes.

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Figure 1. Research hypotheses

Variable of interest		**Proxy**	**Measure**	**Expected sign**	**Variable**
Board composition	*H1*	Role of independent	Proportion of independent directors	+	*prind*
Board competence	*H2*	Role of community influential	Proportion of community influentials	+	*pci*
Board diversity	*H3*	Role of female directors	Proportion of women directors	+	*pw*
Board leadership	*H4*	CEO Duality	Dummy = 1 if CEO is also chairman	+/-	*dual*
Board structure	*H5*	CSR committee or director in charge of CSR issues	Dummy = 1 if there is a CSR committee or a director in charge of CSR issues	+	*csr_board*
Board relational capital	*H6*	Links with the external environment	N. of directorships of NED / n. of NED	+/-	*ratio_neddir*
			N. of directorships of CI/ n. of CI profit organisation	+/-	*ratio_cidir*

Table 1. Descriptive statistics for the dependent variables

		mean	sd	min	p25	p50	p75	max
3-yrs	csp	0.771	0.455	-0.488	0.479	0.711	1.030	2.366
(n=278)	comm	1.194	1.441	-1.798	0.036	1.015	2.065	4.993
	er	1.013	1.122	-1.462	0.161	1.030	1.804	4.661
	env	0.964	1.142	-1.219	0.157	0.543	1.535	4.748
	hr	0.155	0.823	-4.289	0.339	0.409	0.433	3.128
	pr	0.529	0.799	-2.921	0.444	0.537	0.981	2.773
2005	csp	0.618	0.174	0.434	0.482	0.581	0.689	1.126
(n=93)	comm	0.981	1.640	-1.798	-0.240	-0.240	1.318	4.993
	er	0.781	1.175	-0.974	0.135	1.243	1.243	3.460
	env	0.565	0.995	-1.198	0.157	0.157	0.157	4.223
	hr	0.190	0.755	-2.450	0.339	0.339	0.339	3.128
	pr	0.567	0.715	-1.885	0.444	0.444	0.444	2.773
2006	csp	0.753	0.264	0.472	0.543	0.698	0.818	1.775
(n=96)	comm	1.400	1.347	-0.950	0.558	1.060	2.567	4.080
	er	1.107	1.026	-1.141	0.161	1.030	1.898	4.069
	env	1.028	1.079	-1.219	0.158	0.617	1.535	4.748
	hr	0.089	0.968	-4.289	0.433	0.433	0.433	2.794
	pr	0.468	0.766	-1.240	0.093	0.537	0.981	2.314
2007	csp	0.785	0.303	0.490	0.583	0.659	0.856	2.148
(n=89)	comm	1.193	1.291	-0.944	0.525	1.015	1.994	4.443
	er	1.154	1.139	-1.462	0.579	0.987	1.804	4.661
	env	1.312	1.231	-0.302	0.120	0.965	2.233	4.346
	hr	0.191	0.720	-2.014	0.409	0.409	0.409	1.621
	pr	0.556	0.914	-2.921	0.124	0.559	0.994	2.299

csp: overall social performance
comm: community performance
er: employee relations performance
env: environmental performance
hr: human rights performance
pr: product quality and safety performance

Table 2. Descriptive statistics for the independent variables

		mean	sd	min	p25	p50	p75	max
3-yrs	prind	0.782	0.115	0.227	0.727	0.818	0.857	0.938
(n=278)	pci	0.244	0.184	0.000	0.100	0.222	0.364	0.778
	pw	0.155	0.105	0.000	0.091	0.154	0.200	0.625
	dual	0.658	0.475	0.000	0.000	1.000	1.000	1.000
	csr_board	0.567	0.491	0.000	0.000	0.000	1.000	1.000
	ratio_neddir	3.081	1.405	0.556	2.000	2.778	3.909	9.357
	ratio_cidir	3.675	2.016	0.000	2.000	3.500	5.000	12.000
2005	prind	0.787	0.103	0.500	0.727	0.818	0.875	0.929
(n=93)	pci	0.264	0.195	0.000	0.111	0.250	0.364	0.667
	pw	0.141	0.116	0.000	0.077	0.125	0.182	0.500
	dual	0.602	0.492	0.000	0.000	1.000	1.000	1.000
	csr_board	0.376	0.487	0.000	0.000	0.000	1.000	1.000
	ratio_neddir	2.323	1.062	0.833	1.571	2.111	2.700	6.143
	ratio_cidir	3.025	1.838	0.000	1.708	2.750	4.000	9.500
2006	prind	0.776	0.111	0.364	0.714	0.800	0.852	0.938
(n=96)	pci	0.213	0.169	0.000	0.077	0.200	0.345	0.571
	pw	0.172	0.098	0.000	0.111	0.154	0.207	0.625
	dual	0.708	0.457	0.000	0.000	1.000	1.000	1.000
	csr_board	0.800	0.402	0.000	1.000	1.000	1.000	1.000
	ratio_neddir	3.868	1.337	1.444	2.826	3.739	4.571	9.357
	ratio_cidir	4.537	2.082	1.000	3.000	4.400	5.500	12.000
2007	prind	0.785	0.130	0.227	0.750	0.818	0.857	0.923
(n=89)	pci	0.257	0.185	0.000	0.111	0.200	0.400	0.778
	pw	0.149	0.099	0.000	0.091	0.154	0.200	0.400
	dual	0.663	0.475	0.000	0.000	1.000	1.000	1.000
	csr_board	0.517	0.503	0.000	0.000	1.000	1.000	1.000
	ratio_neddir	3.024	1.350	0.556	2.000	2.778	3.833	7.091
	ratio_cidir	3.514	1.852	0.000	2.000	3.450	5.000	8.286

prind: proportion of independent directors
pci: proportion of community influential directors
pw: proportion of women directors
dual: dummy variable equal to 1 if CEO is also chairman, 0 otherwise
csr_board: dummy variable equal to 1 if company has a social responsibility committee, 0 otherwise
ratio_neddir: average number of directorships of non-executive directors
ratio_cidir: average number of directorships of community influentials

Table 3. Descriptive statistics for the control variables

	mean	sd	min	p25	p50	p75	max
3-yrs							
bsize	10.572	2.670	5.000	9.000	11.000	12.000	28.000
roe	19.960	22.745	-77.010	11.340	19.650	26.000	178.910
size	11700.00	18700.00	51.566	1294.99	4787.65	13300.00	147000.00
2005							
bsize	10.161	2.508	5.000	8.000	10.000	12.000	18.000
roe	20.851	25.505	-32.380	9.845	17.410	23.975	178.910
Size	8023.20	14000.00	60.26	886.40	2133.10	9441.00	86700.00
2006							
bsize	10.969	2.634	6.000	9.000	11.000	13.000	20.000
roe	19.285	15.139	-32.750	12.730	17.170	24.760	85.570
size	14100.00	23200.00	51.57	1642.17	5272.00	14300.00	147000.00
2007							
bsize	10.573	2.832	6.000	9.000	11.000	12.000	28.000
roe	19.775	25.745	-77.010	11.340	19.650	29.620	92.470
size	13000.00	17100.00	113.57	1913.40	6591.77	15800.00	98800.000

bsize: n. of directors sitting on board
roe: return on equity
size: total sales in $ (/000)

Table 4. Correlation matrix

	csp	comm	er	env	hr	pr	prind	pci	pw	dual	csr_board	ratio_neddir	ratio_cidir	bsize	size
csp	1														
comm	0.5008***	1													
cr	0.3238***	-0.0216	1												
env	0.4926***	0.0887	0.0388	1											
hr	0.0386	0.0123	-0.1437**	-0.2432***	1										
pr	0.0399	-0.2197***	0.1169*	-0.0403	-0.0250	1									
prind	0.0757	0.0159	0.0759	0.1362**	-0.0100	0.034	1								
pci	0.1996***	0.2403***	0.0501	0.1554***	0.0121	-0.2237***	0.1778***	1							
pw	0.1199**	0.1883***	0.0203**	0.0385	0.194**	-0.1235**	0.0983	0.2256***	1						
dual	-0.1947***	0.034	-0.0692	-0.0980	0.0408	-0.0391	0.1636***	-0.0165	0.1490**	1					
csr_board	0.1113*	0.1548***	0.0141	0.0816	-0.0550	-0.0946	-0.0109	-0.0846	0.2129***	-0.0111	1				
ratio_neddir	0.1531**	0.1800***	0.0688	0.082	0.0501	-0.1591***	0.0478	0.3295***	0.1942***	0.0339	0.2948***	1			
ratio_cidir	-0.0475	-0.0392*	0.0481	-0.0032	-0.0140	-0.124*	0.0705	0.0961	0.1073	0.0895	0.1568**	0.7740***	1		
bsize	0.0023	0.1960***	0.0509	-0.0208	0.0015	-0.1022*	-0.2635***	0.0108	-0.0386	-0.0674	0.0886	0.1371**	0.0621	1	
size	0.2022***	0.3410***	0.1637***	0.1533**	-0.0660	-0.1421**	0.1265**	0.2608***	0.1776***	0.0592	0.1184*	0.3465***	0.2303***	0.3459***	1
roe	0.0259	0.0673	0.1020*	0.0436	-0.0200	0.0069	0.0814	-0.0052	0.0957	0.0217	0.0774	0.0572	0.0338	0.0028	0.100

* significant at 10%; ** significant at 5%; *** significant at 1%

csp: overall social performance
comm: community performance
er: employee relations performance
env: environmental performance
hr: human rights performance
pr: product quality and safety performance
prind: proportion of independent directors
pci: proportion of community influential directors
pw: proportion of women on board
dual: dummy variable equal to 1 if CEO is also chairman, 0 otherwise
csr_board: dummy variable equal to 1 if the company has identified a director in charge of social responsibility issues or when boards have a committee in charge of CSR/ethics/sustainability matters, 0 otherwise
ratio_neddir: average number of directorships of non-executive directors
ratio_cidir: average number of directorships of community influentials
bsize: number of directors sitting on board
size: natural logarithm of total sales
roe: return on equity

Table 5. Multivariate regression results (equation 1)

VARIABLES	(1) csp	(2) comm	(3) er	(4) env	(5) hr	(6) pr
prind	**0.503****	0.753	0.566	**1.158****	0.071	-0.034
	[0.040]	[0.338]	[0.371]	**[0.032]**	[0.857]	[0.939]
pci	**0.367***	**1.891*****	-0.071	**0.954****	-0.311	**-0.625****
	[0.062]	**[0.002]**	[0.870]	**[0.023]**	[0.368]	**[0.042]**
pw	**0.411***	**1.425***	**0.144***	-0.149	**0.581****	0.051
	[0.089]	**[0.090]**	**[0.085]**	[0.811]	**[0.021]**	[0.898]
dual	**-0.123****	-0.174	**-0.212***	-0.198	-0.007	-0.022
	[0.035]	[0.330]	**[0.080]**	[0.174]	[0.950]	[0.819]
csr_board	0.042	**0.400****	0.017	0.200	**0.266****	-0.141
	[0.474]	**[0.022]**	[0.914]	[0.177]	**[0.020]**	[0.194]
ratio_neddir	**0.053***	0.092	0.027	0.039	**0.116*****	-0.012
	[0.061]	[0.325]	[0.698]	[0.580]	**[0.009]**	[0.813]
ratio_cidir	**-0.046*****	**-0.156*****	-0.005	0.003	**-0.077****	0.004
	[0.005]	**[0.002]**	[0.910]	[0.945]	**[0.013]**	[0.891]
bsize	0.018	-0.013	0.036	-0.001	**0.053*****	0.017
	[0.134]	[0.733]	[0.290]	[0.966]	**[0.006]**	[0.442]
roe	-0.002	-0.002	-0.003	-0.004	-0.001	0.002
	[0.175]	[0.567]	[0.359]	[0.209]	[0.604]	[0.279]
size	**0.055****	**0.243*****	0.076	0.070	-0.043	**-0.072***
	[0.011]	**[0.000]**	[0.148]	[0.140]	[0.295]	**[0.060]**
basic industries	0.045	**-1.072****	-0.210	0.589	-0.254	**1.173*****
	[0.789]	**[0.044]**	[0.636]	[0.249]	[0.124]	**[0.000]**
cyclical consumer goods	0.037	**-0.881*****	-0.161	**1.325*****	-0.261	0.165
	[0.649]	**[0.001]**	[0.433]	**[0.000]**	[0.126]	[0.254]
non-cyclical consumer goods	0.060	**-0.882****	0.390	**0.820*****	0.162	-0.189
	[0.617]	**[0.011]**	[0.180]	**[0.002]**	[0.183]	[0.390]
cyclical services	**-0.175****	**-1.309*****	-0.036	**0.424*****	-0.054	0.097
	[0.023]	**[0.000]**	[0.877]	**[0.008]**	[0.719]	[0.588]
financial	**-0.196****	**-1.962*****	0.023	**0.466***	0.071	**0.421*****
	[0.032]	**[0.000]**	[0.955]	**[0.052]**	[0.607]	**[0.004]**
general industrial	-0.022	**-1.165*****	0.189	**0.729*****	**0.449****	**0.585*****
	[0.789]	**[0.000]**	[0.392]	**[0.001]**	**[0.020]**	**[0.001]**
information technology	0.037	**-0.963*****	**0.431***	**0.824*****	**-0.541*****	**0.434*****
	[0.672]	**[0.000]**	**[0.056]**	**[0.000]**	**[0.001]**	**[0.008]**
Utilities	-0.206	**-1.488*****	**-1.358*****	**1.871*****	-0.041	-0.011
	[0.334]	**[0.000]**	**[0.000]**	**[0.007]**	[0.845]	[0.955]
Constant	**-0.721****	**-2.639*****	-0.942	**-1.929*****	0.451	**1.453****
	[0.028]	**[0.005]**	[0.213]	**[0.005]**	[0.396]	**[0.011]**
Observations	265	265	265	265	265	265
R-squared	0.198	0.308	0.106	0.219	0.139	0.187
Number of observations	169	169	169	169	169	169

*p-values in brackets *** p<0.01, ** p<0.05, * p<0.1*

csp: overall social performance
comm: community performance
er: employee relations performance
env: environmental performance
hr: human rights performance
pr: product quality and safety performance
prind: proportion of independent directors
pci: proportion of community influential directors
dual: dummy variable equal to 1 if CEO is also chairman, 0 otherwise
csr_board: dummy variable equal to 1 if the company has identified a director in charge of social responsibility issues or when boards have a committee in charge of CSR/ethics/sustainability matters, 0 otherwise
ratio_neddir: average number of directorships of non-executive directors
ratio_cidir: average number of directorships of community influentials
pw: proportion of women on board
bsize: n. of directors sitting on board
roe: return on equity
size: natural logarithm of total sales
Industry dummies (basic industries, cyclical consumer goods, non-cyclical consumer goods, cyclical services, financial, general industrial, information technology, utilities)

Table 6. Robustness test - simultaneous equations model

	A	B
VARIABLES	csp	pci
pci	**0.328***	
	[0.051]	
csp		0.354
		[0.131]
prind	**0.044***	**0.184***
	[0.067]	**[0.071]**
pw	**0.226***	0.097
	[0.094]	[0.382]
dual	**-0.116*****	
	[0.004]	
csr_board	-0.049	
	[0.279]	
ratio_neddir	0.044	
	[0.159]	
ratio_cidir	**-0.018****	
	[0.043]	
bsize	0.012	0.000
	[0.814]	[0.961]
roe		0.000
		[0.658]
size		**0.027*****
		[0.002]
yr 2005	**-0.152*****	**0.077****
	[0.000]	**[0.036]**
yr 2006	-0.029	-0.049*
	[0.636]	[0.057]
basic industries	-0.14	-0.061
	[0.441]	[0.616]
cyclical consumer goods	-0.077	0.042
	[0.615]	[0.679]
non-cyclical consumer goods	-0.061	**0.175***
	[0.742]	**[0.091]**
cyclical services	-0.155	0.11
	[0.333]	[0.294]
financial	-0.282	**0.23****
	[0.117]	**[0.044]**
general industrial	-0.115	0.042
	[0.455]	[0.690]
information technology	-0.017	-0.008
	[0.911]	[0.936]
utilities	0.178	-0.127
	[0.256]	[0.219]
constant	**0.691*****	**-0.648*****
	[0.002]	**[0.000]**
Observations	265	265
R-squared	0.1751	0.1885

*p-values in brackets *** p<0.01, ** p<0.05, * p<0.1*