Corporate Social Responsibility Controversies and Director Reputation

Kent A. Hickman[a], Timo P. Korkeamäki[b], and Niclas O. Meyer[c]

Abstract

We study the proposition that directors on boards of firms involved in corporate social responsibility controversies incur reputational penalties in the labor market for board members. We find evidence of such reputational penalties among both affiliated and outside board members. Independent directors lose more seats when they also depart the controversial firm's board, and among their other directorships, they tend to lose seats in larger firms. Among inside directors, losses are more significant for those directors who stay on the controversial firm's board. The magnitude of losses is comparable to previously reported losses related to bankruptcies, financial fraud, and proxy contests.

[a]Gonzaga University, Spokane, WA 99258, USA, hickman@gonzaga.edu

[b]Hanken School of Economics, 00101 Helsinki, Finland, timo.korkeamaki@hanken.fi

[c]Hanken School of Economics, 00101 Helsinki, Finland, niclas.meyer@hanken.fi

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1. Introduction

Reputation has an important effect on corporate directors' prospects for future board appointments. We know from prior studies that directors who sit on boards of firms involved in bankruptcies and financial misconduct incur significant reputational penalties, as they tend to lose seats on other boards where they serve (see e.g. Gilson, 1990; Helland, 2006; Fich and Shivdasani, 2007). A recent study by Lel and Miller (2015) indicates that the effect of a tarnished reputation is not limited to the U.S. director labor market, but it also has global consequences.

While the impact of financial misrepresentation and economic performance on outside board members' prospects is well documented, other types of corporate controversies have received less attention. In this paper, we examine how controversies related to corporate social responsibility (CSR) affect director reputation. As CSR relates not only to analytical vigilance, but also to one's values and personal character, it is possible that reputations would suffer even more from CSR controversies than from financial misreporting or distress.

RepRisk compiles an annual list of the ten most environmentally and socially controversial firms around the world. Their 2008 list includes five US firms whose board characteristics are covered by the BoardEx database: Baxter International, Wal-Mart Stores, Monsanto, Chevron, and ExxonMobil. Among these five firms, there were a total of 54 independent directors in 2009, who held 84 directorships in other corporations. Four years later, the group had lost 28.6% of their other directorships[1]. These casual observations are consistent with the reputational effect that we test more formally in our study.

[1] 26 out of the 54 directors lost at least one other directorship, while 22 of them experienced no change in other directorships. However, out of these 22 directors, 12 could not lose directorships since they held no other directorships at time t. Only six out of 54 directors gained other directorships in four years.

Reputational penalties for CSR violations may vary by the type of violation. Karpoff, et al. (2005) study market reactions to CSR controversies, and report for environmental violations that while they lead to significant legal penalties, firms that commit such violations do not exhibit market reactions beyond the monetary value of the legal penalties. We study environmental, social, corporate governance, and economic CSR controversies separately, in order to shed more light on this issue.

Firms are spending increasing amounts on CSR (Hong, et al., 2012), which may be partially derived from the enhanced availability of corporate information and the resulting media scrutiny (Benabou and Tirole, 2010). Agency problems may also explain why some firms overspend on CSR investments (Cheng, Hong, and Shue, 2016). Whether CSR spending has an effect on firm value remains under debate. Krüger (2015) reports that negative CSR news generates negative stock reactions, while positive CSR news has only a weak effect on stock returns. Chava (2014) finds that firms with environmental concerns have significantly higher cost of both debt and equity. Albuquerque, et al. (2014) develop a model indicating that the value of CSR investments stems from increased customer loyalty, leading to higher profit margins and lower systematic risk.

Existing studies of the reputational penalties incurred by board members of fraudulent firms focus on outside board members. This is motivated by the Fama and Jensen's (1983) notion that the value of outside board members' human capital in the director labor market depends on how well they are able to signal their effectiveness as monitors. However, Fama and Jensen (1983) also note that management of the firm, and thus inside directors, make attractive outside board members in other firms due to their expertise and reputations. Consequently, we include both affiliated directors (i.e., insiders and non-independent outsiders) as well as independent outside directors in our study.

We collect data from the Asset4 Economic, Social, and Governance database, provided by Thomson Reuters. The database lists the number of controversies published in the media for each firm and controversy type. It also provides a cost estimate for the controversies, based on legal fees and penalties.

We focus on the firm's that rank in the top 5%[2] in the number of controversies each year. We also gather a contrasting sample of "clean" firms, with no controversies reported. Using BoardEx, we then track board memberships of both highly controversial and clean firms' directors during years after the controversies.

We find that in comparison to clean firm directors, both independent and affiliated directors of controversial firms lose significantly more board seats in the years following a controversy. Our findings indicate that the magnitude of the reputational effect of CSR violations is comparable to the effect reported in previous studies, related to financial distress (Gilson, 1990), financial fraud (Fich and Shivdasani, 2007), and proxy contests (Fos and Tsoutsoura, 2014). The effect is concentrated in cases involving social and economic controversies, and it is most significant among directors who either leave the board of a controversial firm, or are affiliated directors. Consistent with Karpoff, et al. (2005), environmental controversies have no significant effect on the number of board seats retained by directors of firms with controversies. These findings are robust to various controls at the industry-, firm-, and individual director level. When we consider the size of the firms in which directors hold additional seats, we find that controversy firms' directors are more likely to lose seats at firms that are the largest among the set of firms where they serve. Masulis and Mobbs (2014) indicate that directorships at large firms are the most valuable ones to individuals serving on multiple boards.

The remainder of the paper is organized as follows. Section 2 presents relevant literature and develops hypotheses. Section 3 discusses the data, our sample selection method, and presents descriptive statistics for the firms, their boards, and the directors included in our analysis. Section 4 describes the composition of boards for firms involved in controversies and those without controversies during our sample period.

[2] We use the top 5% cut-off as it is a reasonable trade-off between controversy severity and sample size. Lowering the threshold would increase the sample size but also include less severe failures.

Section 5 presents results from regression models of factors affecting demand for directors in our sample and Section 6 concludes the paper.

2. Background and Hypotheses Development

Firms' market values often suffer serious drops following misconduct. Karpoff, Lee, and Martin (2008) find that stock market reactions to enforcement actions on financial misrepresentation by the SEC indicate significant reputational effects, beyond the value of the legal penalties. Peltzman (1981) reports similar effects related to false advertising. Interestingly, Karpoff, Lott and Wehrly (2005) find that with environmental violations, value losses tend to be limited to the legal penalties levied upon the firms, and thus no additional reputational penalties appear for that type of violation.

Krüger (2015) studies positive and negative CSR events and finds that negative CSR news generates negative abnormal returns. However, positive CSR events also generate a negative, but much weaker market response. In cases when the positive news is related to a firm trying to repair its damaged reputation, investors react positively. Cline, Walkling, and Yore (2016) find that firms whose executives are accused of indiscretions, such as dishonesty, sexual misconduct or substance abuse, experience significant losses in shareholder value. Also, these firms are more likely to manage reported earnings and to be involved in shareholder class action lawsuits, as well as DOJ/SEC investigations. These findings support the notion of a link between directors' ethics and the wrongdoing of their corporations, also suggested by Griffin, Krueger, and Maturana (2016). Consequently, controversies at firms could reasonably be interpreted as signals of poorly performing directors, which, in turn, would diminish their value as board members.

Fama and Jensen (1983) suggest that directors build their reputations and gain expertise from board memberships and, therefore, the labor market for directors should penalize ineffective oversight. Reputational penalties for directors sitting on the boards of fraudulent or controversial firms have received some research attention. Srinivasan (2005) examines earnings restatements and Fich and Shivdasani (2007)

study shareholder class action lawsuits alleging financial fraud. Both papers indicate that the labor market for board members penalizes directors of firms that have carried out financial misconduct. Our paper is closely related to Gilson (1990), who finds that among his 111 publicly traded sample firms, only 46% of the firms' directors retain their seats following bankruptcy or debt restructuring. He also finds that the directors who depart the board hold significantly fewer board seats at other firms in the future. Naturally, going through a debt restructuring as a board member can also be a valuable learning experience that enhances the value of a board member's human capital. However, the empirical findings by Gilson (1990) suggest that reputational effects dominate any effects related to an enhanced skill set.

Furthermore, Agrawal, Jaffe, and Karpoff (1999) examine boards of firms involved in fraud scandals and find that fraud does not lead, on average, to higher board turnover at these firms. Helland (2006) finds that directors of firms sued in a securities class action actually increase their net of board seats at other firms. He argues that this could be because class action suits do not identify actual frauds and may not suggest that a board member is a bad monitor. However, when looking at only the cases with the largest settlement amounts or the SEC-initiated cases, Helland (2006) finds that board members lose a significant portion of their outside board positions. In a recent study, Carver (2014) finds that, in a sample of 748 firms with a single restatement announcement, audit committee members have a higher probability of remaining on the board if the CEO has greater influence over the nominating process, i.e. they may shield directors from being removed from the board. Ertimur, Ferri and Maber (2012) examine what happens to outside directors after the option backdating scandal in 2006 – 2007 and report significant reputational penalties for the board members at the focal firm, but not at other firms.

Fos and Tsoutsoura (2014) find that directors sitting on boards of firms targeted in proxy contests incur career penalties. Using a sample of 396 proxy contests, they find that only 43.5 % of the 2,176 directors sitting on the targeted firms' boards retain their seat after three years. Also, in comparison to directors of non-targeted firms, these directors lose significantly more other directorships.

Krüger (2010) examines the relationship between board characteristics (e.g. age, gender, independence, etc.) and occurrence of both positive and negative CSR events. He finds that firms with a higher percentage of women on their board experience more positive events, that firms with directors with no equity ownership are associated with fewer positive events, and that firms with more inside directors have fewer negative events. Usun, Szewczyk, and Varma (2004) test whether board members' individual characteristics affect the likelihood of corporate fraud, and find that a higher proportion of independent directors reduces the likelihood of fraudulent firm behavior. Beasley, Carcello, Hermanson, and Neal (2015) find no clear differences between the governance characteristics of firms disciplined for financial fraud and non-fraudulent firms.

2.1. Hypotheses

To test whether, and how, CSR performance affects the labor market for directors, we derive three hypotheses. We also pose two research questions regarding which aspects of CSR have the greatest impact on directors' reputations. The first hypothesis posits that if the labor market considers CSR performance to be an important part of overall firm performance, then poor CSR performance will have consequences for the attractiveness of directors.

Hypothesis 1: *Directors of firms that suffer from a large number of CSR-related controversies will subsequently lose more board positions at other firms than will directors of firms that suffer no CSR-related controversies.*

Also consistent with the reputational effects of CSR performance on the director labor market, we hypothesize that directors of clean, non-controversial firms will be offered more new directorships than their counterparts who serve on the boards of controversial firms.

Hypothesis 2: *Directors of firms which do not suffer from CSR controversies will be more likely to add directorships than directors of firms experiencing a large number of CSR controversies.*

Third, directors of controversial firms may not be re-elected to or may be asked to leave the original firm's board because the company will be taking steps to repair its damaged reputation following a series of controversies.

Hypothesis 3: *Directors of firms that suffer from a large number of CSR-related controversies will be more likely to lose their board seats at the controversial firm compared to the retention rate of directors at firms that suffer no such controversies.*

As described in the Data section, our dataset covers four categories of CSR controversy: environmental, social, governance and economic. Given that previous research has documented the effect of financial misbehavior on directors' reputations; we expect to find that our results will reinforce the earlier research which will support the validity of our research design. The paper, therefore, also explores two research questions.

Research Question 1: *Is our study consistent with previous studies that document a negative impact of financial misbehavior on director's desirability in the labor market? If so, we expect economic-related CSR controversies to significantly impact directors in the labor market.*

Research Question 2: *What types of controversies (environmental, social, economic or governance) have the greatest impact on directors' desirability in the labor market?*

3. Data

Our main data source for CSR controversy information is the Asset4 ESG (Environmental, Social, and Governance) database provided by Thomson Reuters. The database provides information on more than 4,300 companies globally of which 1,014 are US firms. The information comes from publicly available sources, including major newspapers, sustainability/CSR reports, company websites, annual reports, proxy

filings, and NGOs[3]. We use the reported number of controversies as our main measure of negative media attention. This controversy metric does not take into account the severity of a specific controversy, as it is limited to identifying the number of different controversies that have been cited in the media for a specific year for a specific firm. To capture severity, we use Asset4's estimate of the financial costs imposed on the company following a controversy. One should keep in mind that the two metrics are not synchronized, as the reported financial penalties are reported in the year the company incurs the cost, not the year the controversy occurred or was reported.

We gather controversy information on 1,014 US firms from year 2003 through year 2008. We track each firm's directors from t – 1 through t + 4, where t is the year of a firm's focal controversies. Our data for directors extends from year 2002 through year 2012, thus our controversy sample ends in 2008. We match firms from the Asset4 ESG database with the BoardEx database. BoardEx contains a variety of director-related information, including board members' ages, time to retirement[4], number of current board positions for each year, gender, and audit committee membership. CSR controversies are categorized into four different controversy types: environmental, economic, social, and corporate governance. We describe these categories in more detail in appendix B.

3.1. Data collection

We use the number of controversies as a proxy for the degree of media attention and focus only on the most controversial firms. To construct our CSR controversy sample, we use firms whose controversies number in the top 5% of firms for each year within each category during the period from 2003 through 2008.

[3] See Thomson Reuters Asset4 ESG's Data Collection and Rating Methodology report.
[4] Boardex, as well as our study, uses the age of 70 as estimated retirement age, consistent with previous literature (Fich and Shivdasani, 2007; Yermack, 2004).

We collect Board membership data from BoardEx. Then we cross-reference our controversy database with the BoardEx data to ensure that the data is available for all companies of interest[5]. Next, we check if each specific board member sat on the same firm's board each year between t – 1, and t + 4. The board member is given a value of 1 if he/she sat on the same firm's board in a specific year and 0 otherwise. Then we search, using the individual board member code provided by BoardEx, for the total number of quoted current boards during the period from t – 1 to t + 4. Using these time series, we can check for a reputational effect in form of changes in the number of board positions at other firms. In all our tables, time t refers to the year that a firm enters the controversy sample.

We include both affiliated and independent board members in our analysis. Independent board members are outside directors who have no relationship to the firm other than their role on the board (Srinivasan, 2005), whereas affiliated board members have affiliations with the firm beyond their board membership. We follow the director classification method used by Croci, Gonenc, and Ozkan (2012) and rely on the BoardEx description of each director's role.

3.2. Sample with clean firms

We also construct a sample that includes only 'clean' firms – that is, firms with no controversies. We require clean sample firms to be free of controversies from t – 3 to t + 4. Some potential concerns with clean sample are worth noting. First, we only observe controversies for the subset of firms that are included in the ESG Asset4 database. A director of a firm with a clean record in the database could hold a seat at a controversy firm that is not covered by the database.[6] Second, the clean firm sample includes much smaller firms than

[5] We leave out firms for which no data is available for board memberships. Also, we do not explicitly control for retirement or death which would indicate a loss of all outside board seats in the data. However, deaths should not introduce bias because it is unlikely that they are systematically related to factors responsible for CSR controversies. Controversies, on the other hand, may induce early retirements which lowers board seats among controversial firms, which is consistent with the idea that CSR controversies affect the market for directors – the supply side of the market in these cases.

[6] We remove from the clean sample any directors with presence in other firms in our sample that experienced controversies within the period from t - 4 to t + 3.

the controversy sample. Size has been shown to affect the rate at which directors attain other directorships (Srinivasan, 2005), i.e. the bigger the company on whose board they sit, the more likely directors will attain additional directorships, perhaps because of the prestige and exposure associated with serving on a large firm's board. It is also more likely for a small company to end up in our clean sample because they are not subject to as much media attention, and smaller firms with more limited operations may naturally have fewer controversies. It is noteworthy that the greater media attention of large firms, and the greater prestige of being a director of a large firm, arguably leads to favorable prospects for these directors on the director job market, generating a bias against findings as we study changes in the number of other board seats between clean directors and controversial firm directors – who tend to be at larger firms.

4. Results

4.1. Descriptive Statistics

We identify controversial firms during the period from 2003 to 2008. Table 1 shows the descriptive statistics for each controversy type. The Social controversy type has the highest average number of controversies per firm-year, 2.58, and also the highest number of controversies, 35, for a single firm in a single year.

<Table 1 about here>

While Table 1 includes all firms in the controversy sample, Table 2 includes only the firms in the top 5th percentile of controversies. These observations comprise our controversy sample. Among these most-controversial firms, the Social controversy category includes 567 controversies for 93 firm-year observations, which eclipses the second most frequently appearing type of controversy – Economic with 90 and 32, respective tabulations. Summing all controversy types yields a total of 203 firm-year observations. The total number of reported controversies is 790. The firms with most controversies in each

year are Fedex (7 controversies published in the media) in 2003, Microsoft (11) in 2004, Hewlett-Packard (9) in 2005, Wal Mart Stores (30) in 2006, Wal Mart Stores (35) in 2007, and Apple (31) in 2008.

<Table 2 about here>

We employ two dependent variables[7], along with 19 independent variables in our analysis. These are defined in Appendix A. Table 3 provides descriptive statistics for each variable.

Table 3 also breaks down these values between affiliated and independent director subsamples and between clean and controversial director subsamples. After removing directors with missing values and clean-firm directors who serve on both a clean firm's and a controversial firm's boards[8], the final sample includes a total of 1,963 independent directors and 533 affiliated directors, of which 1,411 independent directors and 250 affiliated directors hold at least one other directorship at time t.

Comparing these descriptive statistics, it appears that both independent and affiliated directors lose board seats following controversies, with independent directors suffering more severe losses. Values for some other variables are worth noting as well. The proportion of female directors in the Affiliated sub-sample is less than half the proportion of females within the Independent sample. Firms in the controversy sample are relatively large, with average sales of roughly $55 billion per year.

<Table 3 about here>

The correlation matrix (unreported) indicates that the controversy dummy variable is inversely related to all three dependent variables used for OLS regressions, a first hint that controversies might affect changes

[7] The two dependent variables represent the net change in other directorships in four years (OLS regressions) following the controversial years as well as an indicator variable for whether a director retains his/her board seat in four years (logistic regressions) after a controversy. The independent variables include whether the firm is controversial or clean, firm size and performance, as well as a director's age and gender, among other controls.

[8] We exclude only the clean-firm directors who also sit on controversial boards and could therefore taint the clean-director subsample. 26 directors sit on both a clean firm's board and a controversial firm's board. If a director sits on a controversial firm we exclude this director's clean firm observations in years t – 4 through t + 3, since a controversial director's reputation might be tarnished during this period.

in other directorships. The dummy variable for directors who lose their board seat at the controversial firm anytime during the two years following a controversy has a strong negative correlation with each of the dependent variables, indicating that there is a possible association between a governance shift at the focal firm and the reputational capital of its directors.

None of the correlations between independent variables is sufficiently high to cause concerns with multicollinearity. In our sample with all independent directors (n=1,946) the highest correlation among the independent variables is between "age" and "ln(time on board+1)" (0.45). The highest variance inflation factor (VIF) in the regressions in Table 5 and 6 is 3.25.

4.2. Tests of Hypotheses and Research Questions

4.2.1. Univariate results

< Figure 1 here >

Figure 1 plots the average number of other directorships from time t – 1 through time t + 4 as well as the net change in other directorships relative to time t. The figure shows the average numbers and changes separately for controversial (solid lines) and clean (dotted lines) independent directors. The percentage decline is greater for controversial directors in both groups. The net change in four years for controversial independent directors is -0.48 boards) while the net change for clean independent directors is -0.35. The differences in the means between the two groups are statistically significant in years t + 2, t + 3, and t + 4, indicating that in comparison to their clean firm counterparts, controversial independent directors lose on average significantly more other directorships in years following a controversy. As Figure 1 further indicates, the number of other board memberships for outside directors goes from about 2.2 to about 1.7 within our observation period. Interestingly, Fos and Tsoutsoura (2014) report a fall from 2.2 to about 1.8 in outside directorships, in three years following a proxy contest. Gilson (1990) reports a drop in outside directorships from 2.6 to 1.7 (in three years) for those outside board members who resign from the board

of a firm that undergoes financial distress, which translates to a loss of 34.6% of the seats. In non-tabulated tests, we find an identical reputational effect among the outside board members who resign.[9] A further analysis of lost directorships by type of controversy reveals that Economic, Social, and Environmental controversies are all connected with losses of outside directorships that deviate significantly from clean firm directors' losses, while Governance controversies fail to affect the number of lost outside seats.

< Figure 2 here >

Figure 2 shows the same graphs for affiliated directors. Controversial affiliated directors lose on average 0.35, or roughly 20 %, of their other directorships in four years while clean affiliated directors actually add on average 0.11 other directorships. The differences between the means for the net changes in other directorships are significant for years t + 3 and t + 4.

< Figure 3 here >

Figure 3 indicates what happens at the focal firms in the years following a controversy. Controversial directors, both affiliated and independent, are more likely than clean directors to lose their seat at the focal firm. After four years, roughly 35 % of controversial independent directors have lost their board seat while only 25 % of clean independent directors have lost their seats. The differences between the percentages are significantly lower for controversial independent directors in years t + 2, t + 3, and t + 4. Of controversial

[9] More precisely, the board members who resign from the controversial firm's board lose 34.55% of their other board seats by year t+3, or 36.89% by year t+4.

affiliated directors, 42 % lose their seat following a controversy, compared to 33 % for the clean affiliated directors. However, the differences in percentages are not statistically significant in any of the years following a controversy.

Table 4 examines the proportions of controversial and clean firms whose directors add board seats (left column), whose directors' board positions remain unchanged (middle column), and whose directors lose board seats (right column) in four years after time t. The results are generally in line with our expectations, with some exceptions. Among independent directors in Panel A, clean firm directors add slightly more seats, and also lose fewer seats than controversy firm directors. The z-test indicates that the result regarding adding seats is significant at the 10% level, while the results regarding loss of seats are not significantly different from zero. Among affiliated directors in Panel B, added seats results go against our expectations, as the percentage of controversial firms whose affiliated directors add seats is higher than the percentage of clean firms whose affiliated directors add seats. It is possible that this result is explained by the larger size and possibly the prestige of the controversy sample firms, as noted earlier. However, affiliated directors are also more likely to lose seats, as the right column of Panel B indicates. The combined results in Panel C reflect no statistically significant differences.

<Insert Table 4>

4.2.2. Multivariate results

In Table 5, we report the OLS results. Our dependent variable is changes in directorships at other firms, measured four years after the incident. In columns 1, 2, and 3, we consider independent directors, affiliated directors, and both groups combined, respectively. Variables of interest are indicator variables for directors at controversy firms who lose their seats at the focal firm, and for those controversy directors who retain their seats, following Gilson (1990). A third indicator variable records clean directors who lose their seats at the focal firm. The benchmark group for the controversy-related variables is clean directors who retain

their seats. Thus, all coefficients and significance levels represent the marginal effects from that baseline. Notably all controversy-related variables, except for the indicator variable for controversial independent director who retain their board seat, across columns 1-3, are signed negatively. This suggests that in comparison to clean directors who retain their seats at the focal firm, both continuing to serve on the board of the controversial firm and resigning from either type of firm's board appear to contribute to a net loss in other board seats. These effects are strongest among controversial firms, providing additional support for Hypothesis 1.

<Insert Table 5>

Regressions reported in Table 5 indicate that independent directors suffer losses in other directorships following controversies in cases when they also leave the controversial firm's board. Interestingly, affiliated directors of controversial firms who *retain* their focal firm seats suffer the greatest loss of other directorships among the three controversy-related control variables. This may indicate that these insider/affiliated directors at controversial firms - who do not leave that firm – have the most tarnished reputations among the four sub-groups of directors (i.e., independent who retain or who lose the focal directorship, and affiliated who retain or lose the focal firm directorship). As expected, older directors and directors with more board seats at the beginning of the study period tend to lose more board seats over time. To evaluate the practical significance of the losses, we multiply the median number of other board seats (not tabulated) of a group times the estimated coefficient form Table 5 for that same group. We find that for controversial independent directors who leave their board seat between t and t + 2, the median number of other seats is two and the coefficient is -0.252 suggesting that the loss is on average over 0.5 directorships greater than for clean directors who retain their seat. For controversial affiliated directors who retain their seat, the median number of other directorships is one, suggesting that these directors lose on average 0.73 directorships more than clean directors who retain their seat.

In columns 4 and 5 of Table 5, we analyze the effects of severity of the controversies by including covariates for the number of controversies, and their estimated cost. Interestingly, the severity of the controversies seems to affect mainly the affiliated directors' prospects, as all the variables of interest enter with a negative and significant sign in the regression for the affiliated directors. For independent directors' reputation, severity (in terms of either the number of controversies or their cost) does not appear to have a marked effect.[10]

In Table 6, we include indicators for different types of CSR controversies, and whether the director retains or loses his or her seat at the focal firm.

<Insert Table 6>

Economic and social controversies have the greatest impact on director departures. No governance variables appear significant. Similarly to Table 5, independent directors experience effects that differ from those of affiliated directors. Table 6 indicates that affiliated directors suffer most when they retain their seats at the focal firm, while the opposite is true for the independent directors. The results indicate that the market for directors may penalize firms with either a poor economic or social record, but the penalties are assessed most harshly on independent directors who leave the controversial firms or on affiliated directors who stay at the controversial firm.

Tables 5 and 6 report the net changes in other directorships, with the variable netting added and lost other directorships. In Table 7, we focus solely on lost directorships by examining whether the prevalence of CSR controversies affects the probability that a director loses his or her other board seats. We identify

[10] In unreported tests, we observe whether CEO changes affect our results by estimating similar OLS regressions as in Tables 5 and 6, using a subsample of directors who sit on firms in which the CEO has changed in year t. The sample is constructed using ExecuComp, and we exclude cases where the CEO has deceased. We find a total of 37 firms in which a CEO change has occurred in year t, of which 26 are controversial firms and 11 are clean firms. A CEO change is 116.6 % more likely to occur for a controversial firm than for a clean firm. Our estimations using the CEO change subsample yields results that are very similar, albeit weaker, than those reported in Tables 5 and 6.

controversial directors' other board positions at time t and check, using BoardEx data, whether a directorship is lost within four years. We do the same for clean directors but also include directorships at focal firms, as those seats are not affected by the focal firm controversy as is expected for controversial directors' seats. . We lose some observations due to missing data[11]. We construct an indicator variable that equals one for each seat that a director retains, zero otherwise, and use this variable as the dependent variable in logistic regressions. Our main independent variables are the four indicator variables that categorize the types of controversies; environmental, social, corporate governance, and/or economic. The benchmarks in all models are clean directors' directorships.

<< Table 7 here >>

Table 7 shows the results for the logistic regressions. The results for independent directors (at the focal firm) indicate that the probability that a controversial director retains his or her directorship at another firm is lower following all types of controversies compared to the probability that a clean director retains his or her directorships. Following environmental controversies, the probability is 14.5 percent lower, all else equal. For social controversies, the difference is 1.7 percent, and for governance and economic controversies, it is 3.7 percent and 28.6 percent, respectively. However, the difference is statistically significant only for economic controversies.

The results are similar for affiliated directors. The probability is 4.4 percent lower for controversial directors following environmental controversies, 50.4 percent for social controversies, 5.9 percent for governance controversies, and 67.9 percent for economic controversies, ceteris paribus. The odds ratios for social and economic controversies are statistically significant.

[11] At time t, directors with at least one other directorship sit on 3,341 other directorships. Of these 3,341 other directorships we are able to identify 2,671 other directorships (roughly 80 %). After including clean directors' all focal directorships (n = 376) and removing observations with missing observations we end up with a sample of 2,909 directorships.

Results for all directors are shown in the last column. Again, all controversy-type dummies have odds ratios that are lower than one, indicating that the probability of retaining a directorship is lower for controversial directors than for clean directors. Looking at the odds ratios for control variables reveals that a higher age and a longer time on the board are associated with lower probabilities of retaining a board seat whereas audit membership and directorships at bigger firms are associated with higher probabilities of retaining a board seat. Females also have a 24.9 percent higher probability of retaining their seat; however, this odds ratio is not statistically significant.

In Table 8, we consider whether the status of a board position affects director turnover. Masulis and Mobbs (2014) argue that directors who hold seats in multiple firms value most highly the seats at larger firms. In order to observe whether losses of board seats concentrate on the set of firms that the directors value most highly, we compile a sub-sample that includes only "other directorships" for controversial directors but all directorships for clean directors[12]. We then rank the directorships by market value (MV) as in Masulis & Mobbs (2014), i.e. Compustat item 25*Compustat item 199. We create an indicator variable that equals one if a directorship has the highest MV of all directorships for a specific director in a specific year. This variable is called "Highest ranked directorship". In a similar fashion, we also identify and define variable "Lowest ranked directorship". If a directorship is neither the highest nor the lowest ranked other directorship for a director in a specific year, it has the value zero for both indicator variables and is called a middle ranked directorship.

<Insert Table 8>

As Panel A of Table 8 indicates, in comparison to clean firm directors, independent directors at controversial firms are significantly less likely to retain their highest ranked directorship. The pattern is

[12] We include all directorships, both other directorships as well as the directorship at the focal firm, for clean directorships since none of these directorships are at a controversial firm (see footnote 7). If a clean director only has one directorship (at the focal firm) and it is included in the sample, the directorship is treated as the director's highest ranked directorship.

similar for the lowest and middle ranked directorships (in Panel D), but slightly weaker. Among affiliated directors, controversial directors are more likely to retain their lowest and middle ranked seats, as revealed by Panel E of Table 8.

In Table 9, we estimate clustered (by sector) logit models using an indicator variable for retaining a board seat after four years as the dependent variable. We control for age, number of directorships, time on board, audit membership, gender, a firm's sales, a firm's market adjusted stock return, and year dummies. The main independent variable is an indicator variable for controversy. When we look at only the highest ranked directorships, the significant results we attain in table 8 hold up for the independent directors, suggesting a 43.2 % lower probability of retaining a board seat after four years for controversial directors, ceteris paribus. Looking at the lowest and middle ranked directorships, the odds ratio for the controversy indicator is less than one; however, it is not statistically significant.

< Insert Table 9 here >

As robustness check, in unreported tests we use an alternative data source to identify controversial firms, namely a sample of controversial firms identified using RepRisk's lists of most socially and environmentally controversial firms for selected months in years 2008 and 2009, and our clean firms in 2008. RepRisk constructs their lists based on the RepRisk index (RRI), an index that quantifies a company's reputational risk exposure associated with ESG (environmental, social, or governance) issues. The lists consist of firms with the highest RRI index scores in the selected months. Our final sample includes 17 controversial firms[13] and 24 clean firms. The results using this sample are virtually identical to the results we find using the Asset4 ESG sample. The univariate results indicate that controversial independent directors with at least one other directorship lose, on average, -0.39 other directorships between time t and

[13] We include only US firms. The RRI index scores for the controversial firms in our sample vary between 50 and 70. According to RepRisk, scores between 51 and 75 denote "high risk exposure". If the same firm enters the sample for several months in either year 2008 or 2009, we only include the observation for the month in which the firm has the highest RRI index score out of any month in that year.

time t + 4. Clean independent directors with at least one other directorships lose, on average, -0.29 other directorships in four years. The difference between these means is not statistically significant. For controversial affiliated directors, the difference is -0.71. For clean affiliated directors it is 0.46, and the difference between those means is statistically significant. Replicating Table 5, we find that controversial independent directors who lose their board seat at the focal firm following a controversy lose significantly more other board seats than clean directors who retain their focal firm board seat. The coefficients for the other controversy related variables are not significant. We find the same result for affiliated directors, the coefficient for the indicator variable for controversial directors who lose their board seat is -1.301 and statistically significant. The other controversy related variables are not significant, except for the RepRisk score variable, which suggests that the higher the reputational risk of a firms is, the more other directorships controversial affiliated directors tend to lose.

In another set of robustness tests, we use the number of added as well as the number of lost other board seats as alternative dependent variables. We use the goodness-of-fit statistics (deviance statistic and Pearson statistic) to determine whether Poisson- or Negative Binomial regression is the appropriate method for estimating each model. In unreported tests, we use indicator variables for type of controversy as our test variables, and our choice of control variables follows Tables 5 and 6.

For the number of appointments, the coefficients for the indicator variables for environmental, social, and economic controversies are negative but only significant for environmental and social controversies. The incidence rate ratio (IRR) following environmental controversies is 0.61, 0.60 following social controversies, and 0.54 following economic controversies. This suggests that, ceteris paribus, rate ratios for number of appointments would be expected to decrease by a factor of 0.61, 0.60, and 0.54, respectively, following the controversies. The results remain similar after controlling for the exposure variables. For the number of departures from other directorships, the results are weak. The coefficients for the main independent variables are negative but insignificant, with the exception for the coefficient for

environmental controversies which is borderline significant. Controlling for the exposure variables does not change the results.

This suggests that reputational penalties for controversial affiliated directors are mostly due to lower rates of appointments in the director labor market. This might be a result of the demand for these directors decreasing following CSR controversies, leading to their lower rate of being offered new directorships as compared to clean directors.

5. Conclusion

We study whether involvement in CSR controversies affects the reputation of those individuals sitting on the firm's board at the time of a controversy. We measure the reputation effect by observing whether those individuals are able to retain or add board seats in other firms during the years following a controversy.

Our findings are consistent with the hypothesis that being involved in a controversy has a negative effect on the board members' reputation in the director labor market. Our results further indicate that reputation effects are present among both independent and affiliated board members. We also consider the relative size of those firms. Controversy firms' board members have a tendency to lose more seats at larger firms, which, according to Masulis and Mobbs (2014), tend to be valued highest by directors holding multiple board seats. The reputational penalties are found to be harshest for independent directors who lose their seat at the controversial firm, and for affiliated directors who retain their focal-firm seat. This suggests that governance mechanisms at controversial firms signal either "housecleaning" or "entrenchment" of monitors following controversies, with the labor market assessing reputational penalties consistent with those signals.

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Figure 1 Other directorships, independent directors.
The figure shows the average number of other directorships (staples) and the change in other directorships relative to other directorships at time t (lines) for controversial independent directors (straight lines) and clean independent directors (dotted lines). The lines with no markers represent the 95 % confidence interval. The darker-colored staples show the number of other directorships for controversial independent directors while the lighter-colored staples show the number of other directorships for clean independent directors. The scale on the left shows the change in other directorships relative to time t and the scale on the right shows the number of other directorships.

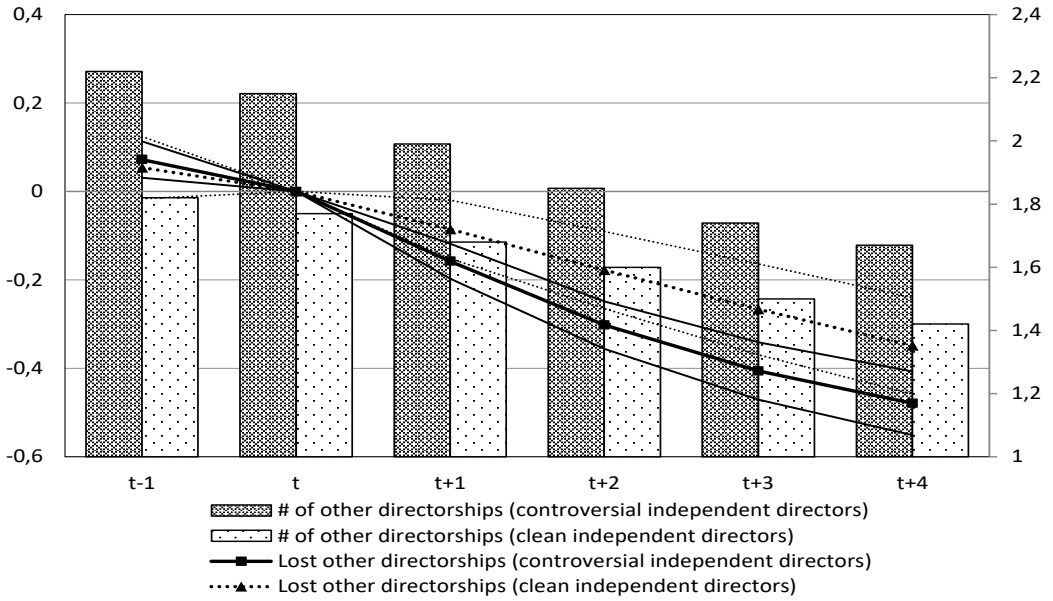

Figure 2 Other directorships, affiliated directors.
The figure shows the average number of other directorships (staples) and the change in other directorships relative to other directorships at time t (lines) for controversial affiliated directors (straight lines) and clean affiliated directors (dotted lines). The lines with no markers represent the 95 % confidence interval. The darker-colored staples show the number of other directorships for controversial affiliated directors while the lighter-colored staples show the number of other directorships for clean affiliated directors. The scale on the left shows the change in other directorships relative to time t and the scale on the right shows the number of other directorships.

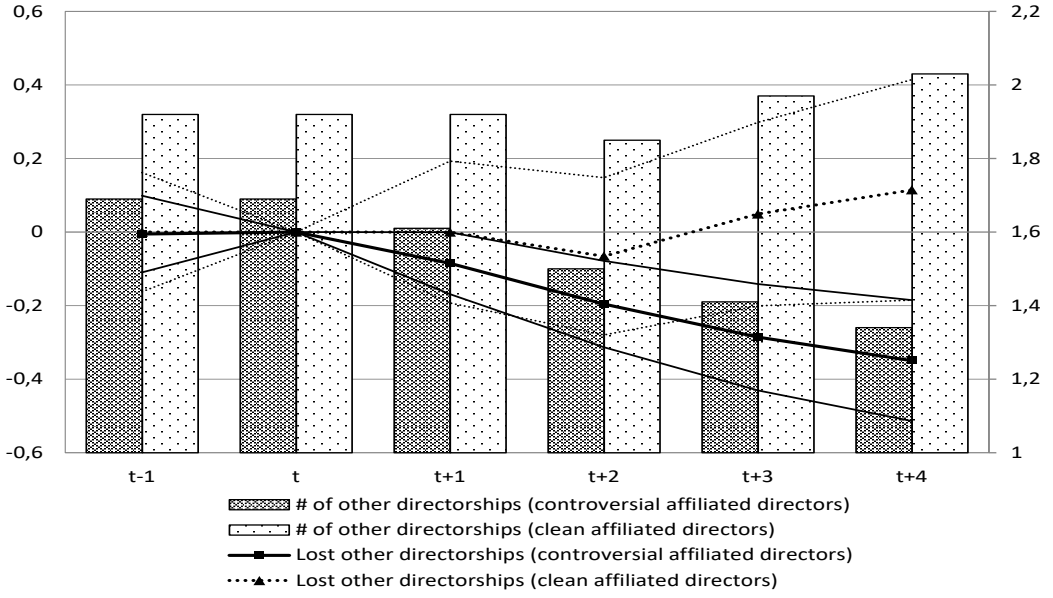

Figure 3 Percentage of directors that retain their board seat at focal firm's board.
The figure shows the percentage of controversial directors (straight lines) and clean directors (dotted lines) that retain their board seat at the focal firm's board. Dots represent independent directors and triangles represent affiliated directors.

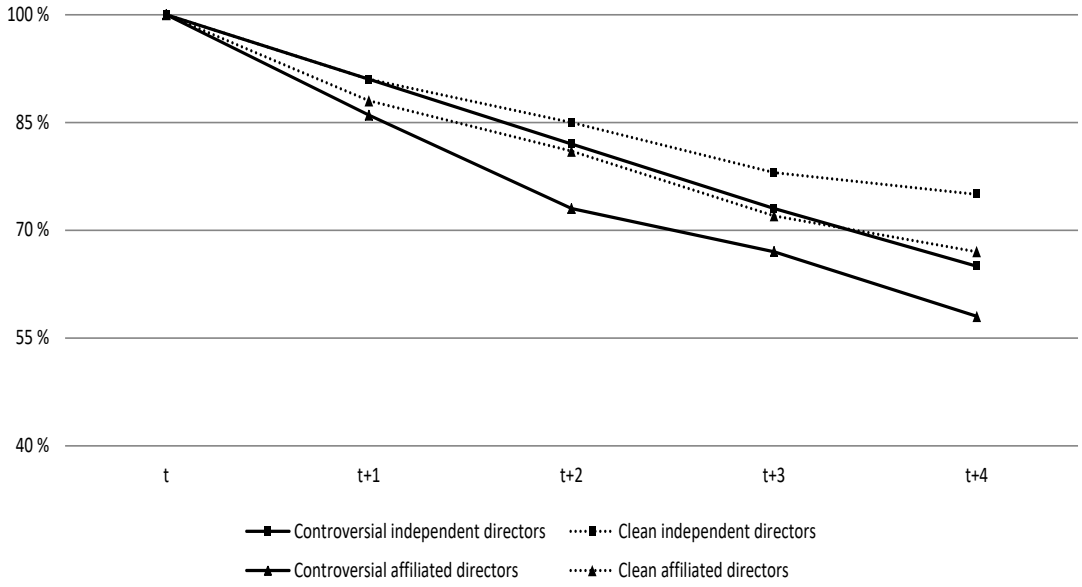

Table 1 Controversies by type from 2003 through 2008.

Controversy type	Number of controversies	Firm-year obs.	Mean	Median	Maximum	Minimum
Environmental	241	166	1.45	1	6	1
Social	2,080	805	2.58	2	35	1
Corporate Governance	89	81	1.10	1	3	1
Economic	383	274	1.40	1	7	1

Table 2 Controversies by type and firm-year observations from 2003 through 2008 and firm year observations for clean firms from 2005 through 2008.

The controversial sample includes only the firms that belong among the top 5th percentile of firms based on the number of controversies per category. The clean sample includes all identified 37 clean firms.

Controversy type	Number of controversies	Firm-year obs.	Mean	Median	Maximum	Minimum
Environmental	85	37	2.30	2	6	1
Environmental Emission Reduction	53	15	3.53	3	6	3
Environmental Resource Reduction	0	0	0.00	0	0	0
Environmental Product Impact	32	23	1.39	1	5	1
Social	567	93	6.10	5	35	1
Social Community	314	49	6.41	6	25	3
Social Human Rights	37	18	2.06	1	5	1
Social Workforce	94	22	4.27	4	7	2
Social Product	122	21	5.81	4	13	3
Corporate Governance	48	41	1.17	1	3	1
CG Compensation Policy	48	41	1.17	1	3	1
CG Shareholder Rights	0	0	0.00	0	0	0
Economic	90	32	2.82	3	6	2
Economic Shareholder Loyalty	31	11	2.82	3	4	2
Economic Customer Loyalty	59	21	2.81	3	6	2
Clean firms	0	88	0	0	0	0

Table 3 Descriptive statistics for affiliated and independent directors (Panel A), and for clean and controversial directors (Panel B). Only directors with at least one other directorship at time t are included.

Panel A	AFFILIATED DIRECTORS						INDEPENDENT DIRECTORS					
VARIABLES	N	Mean	Med.	Stdev.	Min.	Max.	N	Mean	Med.	Stdev.	Min.	Max.
Net change in other directorships in two years	250	-0.164	0	0.822	-5	2	1,411	-0.274	0	0.880	-5	4
Net change in other directorships in three years	250	-0.204	0	1.007	-5	4	1,411	-0.375	0	1.061	-12	4
Net change in other directorships in four years	250	-0.236	0	1.167	-5	5	1,411	-0.450	0	1.170	-12	5
Controversy dummy	250	0.756	1	0.430	0	1	1,411	0.777	1	0.417	0	1
Total number of controversies	250	2.824	2	3.627	0	31	1,411	3.588	2	4.975	0	35
Controversy and loses board	250	0.220	0	0.415	0	1	1,411	0.132	0	0.338	0	1
Controversy and retains board	250	0.536	1	0.500	0	1	1,411	0.645	1	0.479	0	1
No controversy and loses board	250	0.052	0	0.222	0	1	1,411	0.028	0	0.166	0	1
No controversy and retains board	250	0.192	0	0.395	0	1	1,411	0.195	0	0.396	0	1
Estimated average costs (t through t + 2)	250	0.002	0.000	0.011	0	0.111	1,404	0.004	0.000	0.018	0	0.183
Controversies in years t - 1 and t - 2	248	2.766	1	4.017	0	25	1,401	4.116	1	7.378	0	66
Controversies in years t + 1 and t + 2	248	8.339	4	11.84	0	81	1,401	10.97	5	14.62	0	81
Age (Yrs)	250	58.74	59	7.249	38	78	1,411	61.41	62	7.146	36	83
Time on board + 1	250	9.541	7	8.436	0	39	1,411	7.227	5.8	6.238	0	43.9
# of boards at t	250	2.736	2	1.058	1	8	1,411	3.060	3	1.298	1	15
Female	250	0.040	0	0.196	0	1	1,411	0.184	0	0.388	0	1
Audit member	250	0.008	0	0.089	0	1	1,411	0.486	0	0.500	0	1
Portion of independent directors	250	0.750	0.778	0.122	0.385	0.933	1,411	0.810	0.833	0.101	0.385	0.933
One year market-adjusted stock return	245	2.255	-1.900	30.07	-51.73	186.44	1,397	3.639	-1.024	29.64	-76.50	186.44
Sales	249	39500	23850	50027	258.93	313335	1,405	49789	23850	77064	258.93	425071
Market value	247	58199	27204	71784	737.30	310219	1,401	65500	31333	83515	66.05	504240

Panel B	CLEAN DIRECTORS						CONTROVERSIAL DIRECTORS					
VARIABLES	N	Mean	Med.	Stdev.	Min.	Max.	N	Mean	Med.	Stdev.	Min.	Max.
Net change in other directorships in two years	376	-0.160	0	0.794	-3	4	1,285	-0.286	0	0.892	-5	3
Net change in other directorships in three years	376	-0.215	0	0.940	-3	4	1,285	-0.388	0	1.083	-12	3
Net change in other directorships in four years	376	-0.274	0	1.029	-4	5	1,285	-0.460	0	1.207	-12	3
Total number of controversies	376	0	0	0	0	0	1,285	4.489	3	5.026	1	35
Controversy and loses board	376	0	0	0	0	0	1,285	0.188	0	0.391	0	1
Controversy and retains board	376	0	0	0	0	0	1,285	0.812	1	0.391	0	1
No controversy and loses board	376	0.141	0	0.348	0	1	1,285	0	0	0	0	0
No controversy and retains board	376	0.859	1	0.348	0	1	1,285	0	0	0	0	0
Estimated average costs (t through t + 2)	369	0.000	0	0.000	0	0.002	1,285	0.005	0.000	0.019	0	0.183
Controversies in years t - 1 and t - 2	376	0.077	0	0.267	0	1	1,273	5.046	3	7.596	0	66
Controversies in years t + 1 and t + 2	376	0.133	0	0.384	0	2	1,273	13.66	9	14.90	0	81
Age (Yrs)	376	60.91	61	6.930	42	83	1,285	61.04	62	7.308	36	82
Time on board + 1	375	7.709	5.8	7.376	0	43.9	1,285	7.536	6	6.444	0	36.9
# of boards at t	376	2.798	2	1.074	1	11	1,285	3.074	3	1.315	1	15
Female	376	0.197	0	0.398	0	1	1,285	0.153	0	0.360	0	1
Audit member	376	0.500	0.500	0.501	0	1	1,285	0.389	0	0.488	0	1
Portion of independent directors	376	0.771	0.800	0.104	0.417	0.923	1,285	0.810	0.833	0.105	0.385	0.933
Independent director	376	0.838	1	0.369	0	1	1,285	0.853	1	0.354	0	1
One year market-adjusted stock return	364	-4.509	-5.404	23.96	-76.50	69.07	1,278	5.695	2.801	30.78	-51.73	186.4
Sales	376	8165.8	4388	135466	258.93	70189	1,278	60030	31367	79794	472.68	425071
Market value	370	6440.8	5037.5	4870.0	66.05	23951	1,278	81187	48625	85941	989.20	504240

Table 4 Changes in other directorships.
For all firms the sum of all directors' net change in other directorships in year t + 4 is calculated. The test for difference in proportions between controversial and clean firms is shown in percentage (units) with *, **, and *** denoting significant differences between the groups using 1%, 5%, and 10% significance levels, respectively.

	Percentage of firms whose directors add board seat (sum of net change in other directorships > 0). Directors with other directorships and without other directorships at time t.	Percentage of firms whose directors seats are unchanged (sum of net change in other directorships = 0). Only directors with at least one other directorship at time t.	Percentage of firms whose directors lose board seats (sum of net change in other directorships < 0). Only directors with at least one other directorship at time t.
Panel A: Independent directors			
Controversial firms	17 %	15 %	74 %
3 or more boards	5 %		50 %
5 or more boards	1 %		26 %
Clean firms	27 %	17 %	69 %
3 or more boards	6 %		24 %
5 or more boards	2 %		8 %
Difference in percentage units (z-test for difference in proportions between controversial and clean firms)	-10 % * (-1.95)	-3 % (-0.55)	5 % (0.90)
3 or more boards	0 % (-0.14)		26 % *** (3.95)
5 or more boards	-1 % (0.68)		18 % *** (3.46)
Panel B: Affiliated directors			
Controversial firms	35 %	35 %	45 %
3 or more boards	5 %		8 %
5 or more boards	1 %		2 %
Clean firms	17 %	56 %	30 %
3 or more boards	5 %		0 %
5 or more boards	4 %		0 %
Difference in percentage units (z-test for difference in proportions between controversial and clean firms)	19 % *** (2.99)	-21 % ** (-2.45)	15 % * (1.69)
3 or more boards	0 % (-0.11)		8 % * (1.90)
5 or more boards	-3 % * (-1.87)		2 % (1.02)
Panel C: Affiliated and independent directors			
Controversial firms	21 %	12 %	77 %
3 or more boards	8 %		53 %
5 or more boards	3 %		33 %
Clean firms	27 %	17 %	69 %
3 or more boards	7 %		24 %
5 or more boards	5 %		7 %
Difference in percentage units (z-test for difference in proportions between controversial and clean firms)	-6 % (1.12)	-5 % (1.05)	7 % (1.27)
3 or more boards	1 % (0.39)		29 % *** (4.43)
5 or more boards	-2 % (-0.67)		26 % *** (4.63)

Table 5 Regression results

The dependent variable in all models is the net change in other directorships in year t + 4. The main independent variables in models 1 through 3 are indicator variables for controversy/no controversy and losing board seat/retaining board seat at the controversy firm. The baseline is clean directors who keep their board seat at the focal firm. The main independent variables in models 4 and 5 are controversy severity variables; estimated average costs for controversies in year t, the sum of controversies in past two years, and the sum of controversies in years t + 1 and t + 2. The descriptions for the control variables are found in Appendix A. Year fixed effects are included in all regressions but not reported. Significance levels 1%, 5%, and 10% are indicated with ***, **, and *, respectively. Coefficients are reported above robust (clustered by sector) t-statistics (in parentheses).

	Dependent variable: Net change in other directorships in t + 4				
Explanatory variables	(1) Independ. directors	(2) Affiliated directors	(3) All directors	(4) Independ. directors	(5) Affiliated directors
Constant	2.772***	1.126	2.592***	3.054***	0.022
	(5.270)	(0.863)	(4.760)	(5.439)	(0.017)
Controversy and loses board	-0.252*	-0.361	-0.260*		
	(-1.719)	(-1.102)	(-1.795)		
Controversy and retains board	0.130	-0.731**	-0.015		
	(1.310)	(-2.403)	(-0.127)		
No controversy and loses board	-0.021	-0.395	-0.096		
	(-0.122)	(-0.800)	(-0.531)		
Independent director			-0.032		
			(-0.345)		
Total number of controversies				-0.005	-0.037*
				(-1.004)	(-1.854)
Controversies in years t - 1 and t - 2				0.005	-0.037*
				(1.371)	(-1.830)
Controversies in years t + 1 and t + 2				0.001	-0.012**
				(0.361)	(-2.212)
Estimated average costs (t through t + 2)				0.960	-10.54***
				(0.876)	(-3.983)
Age (Yrs)	-0.030***	-0.025*	-0.030***	-0.033***	-0.027*
	(-5.042)	(-1.696)	(-4.945)	(-5.177)	(-1.789)
Ln(Time on board + 1)	-0.069	0.017	-0.051	-0.070	0.078
	(-1.343)	(0.154)	(-0.973)	(-1.317)	(0.770)
Ln(# of boards at t)	-1.364***	-1.113***	-1.310***	-1.365***	-1.052***
	(-11.940)	(-3.359)	(-12.430)	(-11.950)	(-2.988)
Female	0.013	-0.496	-0.014	0.002	-0.677**
	(0.133)	(-1.510)	(-0.135)	(0.021)	(-2.082)
Audit member	0.015	-0.018	0.014	0.018	-0.150
	(0.235)	(-0.040)	(0.201)	(0.268)	(-0.360)
Independent director			-0.0316		
			(-0.345)		
Nationality = American	0.022	0.184	0.049	0.050	0.165
	(0.299)	(0.756)	(0.688)	(0.628)	(0.687)
Board independence (%)	-0.102	0.430	-0.083	-0.104	0.738
	(-0.329)	(0.646)	(-0.234)	(-0.322)	(1.004)
One year market-adjusted stock return	-0.001	-0.002	-0.001	-0.001	-0.003
	(-0.864)	(-0.882)	(-0.760)	(-0.606)	(-1.060)
Ln(Sales)	0.010	0.089	0.022	0.004	0.139**
	(0.327)	(1.664)	(0.845)	(0.147)	(2.284)
Observations	1,397	244	1,641	1,386	243
R-squared	0.263	0.213	0.238	0.250	0.237
Year fixed effects	Yes	Yes	Yes	Yes	Yes

Table 6 Regression results on controversy types

Dependent variable in all models is the net change in other directorships in year t + 4. The main independent variables are indicator variables that control for the type of controversy (environmental, social, corporate governance, or economic) interacted with a variable indicating whether the director departs the board anytime in two years or keeps his/her seat. We also include an indicator variable for clean directors who depart their board seat. The descriptions for the independent variables are found in Appendix A. The baseline for all regressions is clean directors who keep their board seat at the focal firm. Year fixed effects are included in all regressions but not reported. Significance levels 1%, 5%, and 10% are indicated with ***, **, and *, respectively. Coefficients are reported above robust (clustered by sector) t-statistics (in parentheses).

	Dependent variable: Net change in other directorships in t + 4		
	(1)	(2)	(3)
Explanatory variables	Independ. directors	Affiliated directors	All directors
Constant	2.749***	0.870	2.553***
	(5.782)	(0.683)	(4.663)
Environmental controversy and departs board	-0.158	0.059	-0.121
	(-0.635)	(0.129)	(-0.589)
Social controversy and departs board	-0.192*	-0.462	-0.231**
	(-1.782)	(-1.511)	(-2.236)
Governance controversy and departs board	0.073	0.055	0.102
	(0.487)	(0.139)	(0.841)
Economic controversy and departs board	-0.421**	-0.119	-0.333*
	(-2.219)	(-0.365)	(-2.012)
Environmental controversy and keeps seat	-0.001	-0.402	-0.050
	(-0.012)	(-1.643)	(-0.526)
Social controversy and keeps seat	0.153*	-0.656**	0.050
	(1.816)	(-2.425)	(0.639)
Governance controversy and keeps seat	-0.071	-0.435	-0.121
	(-0.538)	(-1.513)	(-0.973)
Economic controversy and keeps seat	-0.041	-0.887**	-0.128
	(-0.253)	(-2.686)	(-0.901)
No controversy and loses board	-0.038	-0.323	-0.094
	(-0.229)	(-0.669)	(-0.560)
Age (Yrs)	-0.031***	-0.026*	-0.030***
	(-5.237)	(-1.890)	(-5.156)
Ln(Time on board + 1)	-0.068	0.051	-0.051
	(-1.326)	(0.438)	(-0.971)
Ln(# of boards at t)	-1.365***	-1.190***	-1.311***
	(-11.910)	(-3.504)	(-12.410)
Female	0.012	-0.461	-0.010
	(0.128)	(-1.409)	(-0.096)
Audit member	0.026	0.048	0.023
	(0.416)	(0.108)	(0.345)
Independent director			-0.019
			(-0.207)
Nationality = American	0.026	0.159	0.049
	(0.355)	(0.715)	(0.698)
Board independence (%)	-0.054	0.729	-0.042
	(-0.176)	(0.948)	(-0.113)
One year market-adjusted stock return	-0.001	-0.003	-0.001
	(-0.605)	(-1.036)	(-0.663)
Ln(Sales)	0.016	0.096*	0.024
	(0.486)	(1.817)	(0.818)
Observations	1,397	244	1,641
R-squared	0.262	0.231	0.240
Year fixed effects	Yes	Yes	Yes

Table 7 Logistic regression results for probability of retaining seat in four years

The table includes all identified other directorships (2,671 out of 3,341) of clean and controversial directors at time t as well as all focal directorships of clean directors (n = 375). The dependent variable is an indicator variable for whether a director retains his or her directorship in four years. The indicator variables for environmental, social, corporate governance, and economic indicate whether a director has been involved in a controversy at the focal firm. The descriptions for the independent variables are found in Appendix A. The benchmark group is clean directorships (directors). Control variables are included as well as year fixed effects (dummies). Significance levels 1%, 5%, and 10% are indicated with ***, **, and *, respectively. Robust t-statistics (clustered by director) are shown in the parentheses below odds ratios. Column (1) shows the results for independent (at the focal firm) directors, column (2) shows the results for affiliated (at the focal firm) directors, and column (3) shows the results for all directors. The coefficients represent odds ratios.

	Dependent variable: Director retains his/her seat in four years		
Explanatory variables	(1) Independent directors	(2) Affiliated directors	(3) All directors
Environmental controversy	0.855	0.956	0.865
	(-1.024)	(-0.0998)	(-1.004)
Social controversy	0.983	0.496**	0.932
	(-0.118)	(-2.016)	(-0.525)
Corporate governance controversy	0.963	0.941	0.976
	(-0.223)	(-0.139)	(-0.153)
Economic controversy	0.714*	0.321***	0.688**
	(-1.782)	(-2.607)	(-2.105)
Age (Yrs)	0.956***	0.970	0.961***
	(-4.265)	(-1.547)	(-4.366)
Ln(Time on board + 1)	0.900	0.694**	0.869**
	(-1.424)	(-2.401)	(-2.118)
Ln(# of boards at t)	0.843	1.111	0.926
	(-1.414)	(0.350)	(-0.698)
Female	1.194	1.133	1.249
	(1.117)	(0.182)	(1.471)
Audit member (other directorship)	1.304**	1.453	1.363***
	(2.229)	(1.056)	(2.819)
Nationality = American	1.127	1.532	1.195
	(0.730)	(1.210)	(1.194)
Market adjusted total stock return in year t	1.000	1.004	1.000
	(0.302)	(0.831)	(0.412)
Ln(Sales)	1.068*	1.284***	1.082**
	(1.948)	(3.108)	(2.537)
Constant	23.08***	1.713	12.84***
	(4.076)	(0.394)	(3.858)
Observations	2,469	440	2,909
Year fixed effects	Yes	Yes	Yes

Table 8 Retained board seats conditional on market value (MV) ranking.
For controversial directors, the table shows the percentage of other directorships which the director retains four years after a controversy. For clean directors, the table shows the percentage of clean directorships, including the directorship at the focal firm, which the director retains four years after the clean observation. The directorships of all directors are ranked based on the firm's market values. This is done for each year and each director. If a directorship has the highest market value of any directorship in a specific year, this directorship is categorized as "Highest ranked directorship". If it has the lowest market value it is categorized as "Lowest ranked directorship". If it has neither the highest nor the lowest market value in a specific year, it receives a "Middle ranked directorship" status. We look separately at the "Highest ranked directorship" and the "Lowest and Middle ranked directorships". For controversial directors, the ranking is based on all other directorships' market values for a director in a specific year and for clean directors the ranking is done using all other directorships' market values as well as the focal firm's market value for each year and for each director. Statistical differences are tested using a proportions test (z-distribution).

Highest ranked (market value of firm) directorships	Retains board seat after four years
Panel A: Independent directors (at focal firm)	
Controversial (n = 457)	66.30%
Clean (n = 271)	78.60%
Proportions test (z-distribution) between controversial and clean directors	-12.30% *** (-3.53)
Panel B: Affiliated directors (at focal firm)	
Controversial (n = 44)	63.63%
Clean (n = 50)	58.00%
Proportions test (z-distribution) between controversial and clean directors	5.64% (0.56)
Panel C: All directors	
Controversial (n = 501)	66.07%
Clean (n = 321)	75.39%
Proportions test (z-distribution) between controversial and clean directors	-9.32% *** (-2.84)

Lowest and Middle ranked (market value of firm) directorships	Retains board seat after four years
Panel D: Independent directors (at focal firm)	
Controversial (n = 685)	63.07%
Clean (n = 420)	68.57%
Proportions test (z-distribution) between controversial and clean directors	-5.51% * (-1.86)
Panel E: Affiliated directors (at focal firm)	
Controversial (n = 58)	65.52%
Clean (n = 81)	50.62%
Proportions test (z-distribution) between controversial and clean directors	14.90% * (1.75)
Panel F: All directors	
Controversial (n = 743)	63.26%
Clean (n = 501)	65.67%
Proportions test (z-distribution) between controversial and clean directors	-2.41 % (-0.87)

Table 9 Logistic regressions for "Highest" and "Lowest and Middle" ranked other directorships.
The table shows logistic regressions for two subsamples; the "Highest ranked other directorships" and the "Lowest and Middle ranked other directorships" for all directors who hold at least two other directorships at time t. Columns (1) – (3) shows results for independent, affiliated, and all directors for the subsample including only highest ranked (in terms of MV) other directorships. Columns (4) – (5) shows results for independent, affiliated, and all directors for the subsample including only lowest and middle ranked directorships. The dependent variable is an indicator variable for whether a director retains his or her directorship in four years or not. The main independent variable is an indicator variable for controversial firms. The descriptions for the rest control variables are found in Appendix A. Significance levels 1%, 5%, and 10% are indicated with ***, **, and *, respectively. Robust (clustered by sector) standard errors are shown in parentheses below odds ratios. All models include year fixed effects.

	Dependent variable: Director retains his/her seat in four years					
	Highest ranked other directorships			**Lowest and Middle ranked other directorships**		
	(1)	(2)	(3)	(4)	(5)	(6)
Explanatory variables	Indep. directors	Affiliated directors	All directors	Indep. directors	Affiliated directors	All directors
Controversy dummy (focal firm)	0.568**	1.214	0.658*	0.865	1.707	0.914
	(-2.031)	(0.248)	(-1.669)	(-0.615)	(0.958)	(-0.419)
Age (Yrs)	0.931***	0.976	0.939***	0.986	1.038	0.992
	(-3.366)	(-0.451)	(-3.750)	(-1.244)	(1.164)	(-0.633)
Ln(Time on board + 1)	0.915	0.878	0.916	0.811*	0.302***	0.753**
	(-0.682)	(-0.350)	(-0.813)	(-1.909)	(-3.307)	(-2.433)
Ln(# of boards at t)	0.954	1.784	0.996	0.679*	1.917	0.785
	(-0.191)	(0.724)	(-0.0154)	(-1.683)	(1.072)	(-1.193)
Female	0.963	3.818**	1.041	1.610*	1.542	1.635**
	(-0.142)	(2.030)	(0.166)	(1.866)	(0.812)	(1.988)
Audit member (other directorship)	1.058	2.772	1.157	1.545**	2.280	1.562***
	(0.305)	(1.387)	(0.829)	(2.304)	(1.168)	(2.624)
Nationality = American	1.287	1.341	1.287	1.282	2.370*	1.293
	(0.703)	(0.437)	(0.857)	(1.299)	(1.840)	(1.561)
Board independence (%)	0.036***	0.027	0.043***	0.183*	0.095	0.182**
	(-3.678)	(-1.164)	(-3.331)	(-1.910)	(-1.234)	(-2.156)
Market adjusted total stock return	1.000	1.008	1.000	1.000	1.000	1.000
	(-0.187)	(0.512)	(-0.108)	(-0.195)	(0.0660)	(-0.318)
Ln(Sales)	1.121	0.823	1.094	1.130***	1.287	1.145***
	(1.142)	(-0.895)	(0.880)	(2.886)	(1.108)	(3.680)
Independent director (focal firm)			1.950*			1.488
			(1.918)			(1.604)
Constant	109.6***	16.260	35.190***	3.108	0.009	1.154
	(3.132)	(0.835)	(2.666)	(1.185)	(-1.619)	(0.157)
Observations	710	91	803	1,060	131	1,191
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes

Appendix A. Variable description

VARIABLES	DESCRIPTION	SOURCE
Dependent variables		
Net change in other directorships in four years	A director's other directorships at time t + 4 minus the same director's other directorships at time t.	BoardEx
Director retain his/her directorships in four years	An indicator variable that is assigned the value one if a director retains his/her directorship in four years after a controversy, and zero otherwise.	BoardEx
Main independent variables		
Controversy	An indicator variable that equals one if a director sits on a CSR controversial firm, and zero otherwise.	ESG Asset4
Controversy and loses board	An indicator variable that equals one if a director sits on a CSR controversial firm and loses his/her board seat anytime in the following two years after the controversy, and zero otherwise.	ESG Asset4 and BoardEx
Controversy and retains board	An indicator variable that equals one if a director sits on a CSR controversial firm but keeps his/her board seat in the following two years after the controversy, and zero otherwise.	ESG Asset4 and BoardEx
No controversy and loses board	An indicator variable that equals one if a director sits on a clean firm but loses his/her board seat anytime in the following two years after the controversy, and zero otherwise.	ESG Asset4 and BoardEx
No controversy and retains board	An indicator variable that equals one if a director sits on a clean firm and keeps his board seat in the following two years after the controversy, and zero otherwise.	ESG Asset4 and BoardEx
Controversy severity variables		
Total number of controversies	The number of controversies for a firm in year t.	ESG Asset4
Estimated average costs	The estimated costs for all controversies for a firm in years t through t + 2.	ESG Asset4
Controversies in past years	The sum of controversies for a firm in years t + 1 and t + 2.	ESG Asset4
Controversies in future years	The sum of controversies in years t – 1 and t – 2.	ESG Asset4
Director specific control variables		
Age (Yrs)	The age of a director, expressed in years.	BoardEx
Ln(Time on board + 1)	The natural logarithm of a director's time on board. We add plus one to not lose observations (newly-appointed directors with no time on board).	BoardEx
Ln(# of boards at t)	The natural logarithm of a director's total number of quoted current boards at time t.	BoardEx
Female	An indicator variable for female. The variable equals one if a director is female, and zero otherwise.	BoardEx
Audit member	An indicator variable for audit member. The variable equals one if a director is an audit member, and zero otherwise.	BoardEx
Nationality = American	An indicator variable that equals one if the director´s nationality is American, and zero otherwise.	
Firm control variables		
Board independence (%)	The portion of independent directors on the board. The variable is calculated as the number of independent directors divided by the total number of all directors on the board. The variable is used as a proxy for board independence.	BoardEx
One year market-adjusted total stock return	The one year market-adjusted total stock returns (TRT1Y). Data for stock returns is from the Compustat database and is defined as: "the total return concepts are annualized rates of return reflecting price appreciation plus reinvestment of monthly dividends and the compounding effect of dividends paid on reinvested dividends". The return is adjusted using the annualized return (TRT1Y) for the S&P500 index (I0010) for each year.	Compustat
Ln(Sales)	The natural logarithm of a firm's total sales (SALE). A proxy for size.	Compustat
Market value	The market capitalization of a firm, calculated as common shares outstanding (CSHO, Data item 25) multiplied with the stock price at year-end (PRCCF, Data item 199).	Compustat

Appendix B. Controversy type

B.1 Environmental

The environmental controversy type has three categories in the Asset4 ESG database: Emission Reduction, Resource Reduction, and Product Innovation. The Emission Reduction category includes biodiversity controversies and spills & pollution controversies (e.g. spills of chemicals, oils, and fuels, company's overall impact on the environment). The Resource Reduction category includes controversies related to environment resources (the environmental impact of the company's operations on natural resources or local communities). The Product Innovation category includes controversies related to product impact, i.e. controversies linked to the effects a company's products have on the environment.

An example of an environmentally controversial firm in our CSR sample is Exxon Mobil, which has the highest number of environmental controversies for a single year (6 controversies in year 2008). It also ranks fifth on the afore-mentioned RepRisk's list "most socially and environmentally controversial companies in 2008". According to RepRisk, Exxon Mobil is accused of polluting water sources leading to severe health problems in affected communities, seizing farm lands without compensation, for its attitude towards renewable energy and fighting climate change, etc.

B.2 Social

The social controversy type includes six categories: Community, Human Rights, Employment Quality, Diversity and Opportunity, Health and Safety, and Product. The Community category includes controversies involving anti-competition (anti-competitive behavior such as monopoly, price fixing, or kickbacks), business ethics (e.g. political contributions, bribery, or corruption), critical countries (i.e. activities in undemocratic countries with weak fundamental human rights principles), indigenous people (i.e. infringing on the rights of indigenous people), intellectual property (patent and intellectual property infringements), public health (e.g. public health violations or industrial accidents), and tax fraud (e.g. frauds, parallel imports, or money laundering). The Human Rights category includes controversies in

child labor, freedom of association, and human rights. Employment Quality includes controversies involving wages and working conditions for the company (e.g. controversies linked to a company's relation with employees, or to wages or wage disputes) and separately for contractors (wage and layoff disputes or working conditions). The Diversity and Opportunity category includes controversies in workforce diversity and opportunity (e.g. wages, promotion, discrimination and harassment). The Health and Safety category includes controversies linked to a company's workforce health and safety. Employment Quality, Diversity and Opportunity, and Health and Safety are all controversies related to a company's workforce. We combine these three categories into one new category, which we call Workforce. The category Product includes product-related controversies in the following issues: customer health and safety, fair trade, privacy (controversies linked to employee or customer privacy and integrity), product access, product labeling, quality (product and service quality), responsible marketing (e.g. controversies such as over-marketing of unhealthy food to vulnerable consumers), responsible R&D, and social exclusion (e.g. failing to serve specific markets or customers).

Halliburton and Wal Mart Stores are two examples of companies that rank high on the number of social controversies in our CSR sample. Wal Mart Stores has 35 controversies in 2008, the highest of any company in our CSR sample, and is also on the RepRisk list of most controversial firms in 2008. According to RepRisk, it is accused of labor violations, keeping unions out of its stores, child labor, exposing employees to humiliating conditions, etc. Halliburton is among the firms with the highest number of social controversies in our CSR sample for years 2003 and 2004. These controversies are probably related to the company's involvement in the Iraq war and the compensation controversy involving the former CEO and chairman of Halliburton, Dick Cheney.

B.3 Corporate Governance

The Corporate Governance controversy type includes categories Compensation Policy and Shareholder Rights. The Compensation Policy category includes controversies related to management compensation

(e.g. paying high executive salaries or high board compensation), whereas the Shareholder Rights category includes controversies related to shareholder rights infringements.

An example of a corporate governance controversial firm in our CSR sample is Hewlett-Packard, which has the highest number of controversies (3) in this category in the year 2005. It also has one controversy reported for year 2006. The controversy in 2006 is probably related to the spying scandal at Hewlett-Packard, where the company's chairwomen, Patricia Dunn, contracted a security company to spy on co-workers and board members. The scandal ultimately led to several resignations among board members, as well as to the resignation of Dunn herself.

B.4 Economic

Asset4 divides the economic controversy type into two categories, Shareholder Loyalty and Client Loyalty. Shareholder Loyalty includes controversies in two issues; accounting (e.g. aggressive or non-transparent accounting issues) and insider dealings (insider trading or other share price manipulations). Client loyalty includes customer complaint-related controversies.

Our CSR sample identifies Apple and American Airlines Group as the companies with the most Economic controversies in a single year (both in 2008) in our CSR sample. The controversies are all related to customer complaints. The firm with the highest number of accounting controversies is Cadence Design Systems in 2008, with 4 reported controversies.