PhD in Management – XXIV Cycle

CORPORATE SOCIAL RESPONSIBILITY AND PERFORMANCE MEASUREMENT: THREE STUDIES FROM A STAKEHOLDER MANAGEMENT PERSPECTIVE

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Introduction

The topic of Corporate Social Responsibility has received much attention along the years from a wide variety of fields, such as philosophy, ethics, political theory, economics, law and organizational science. While in the management literature the first definition of Corporate Social Responsibility (CSR) is generally attributed to Brown (1953), prominent scholars in other areas had tackled the issue much earlier. Among those, one of the most relevant being Adam Smith, who despite being represented as one of the main advocates of self-interest in the economic literature, both in the Lectures on Jurisprudence and in "The Theory of Moral Sentiments" (1759), developed a sound rational as to the need of social responsibility on the part of business and honesty in the market place. The issue of CSR emerged as an interdisciplinary field of study in the 1960s and early 1970s, when a number of events (the OPEC oil crisis, the success of environmental and civil rights activists) made it clear that the business environment was social and political, as well as economic and technological (see Wood (1991)). During this time period, Milton Friedman intervened in the debate with his 1970 New York Times Magazine article "The social responsibility of business is to increase its profits". The field received a foundational framework in the 1980s with the works of Freeman ("Strategic Management: A Stakeholder Approach"). Today, Corporate Social Responsibility is the subject of many studies investigating various issues, such as the effect of CSR on financial performance, the relationship with corporate governance as well as the ways in which firms communicate their social performance to various stakeholders.

The attention of firms, investors and policy makers toward the topic has also recently increased sharply. According to a survey by KPMG (2011) on corporate responsibility reporting, 70% of European firms and 69% of firms operating in the Americas issue CSR reports. The Forum for Sustainable and Responsible Investing reported that 3 trillion out of total 25 trillion $ in the U.S. investment marketplace are invested under the guidelines of Socially Responsible Investing (SRI) practices, where SRI investors direct investment funds in ways that combine investors' financial objectives with their commitment to social concerns (see Haigh and Hazelton (2004)).

The European Commission devoted remarkable attention to CSR this past decade, one of the last initiative being the 2011 issuance of a new set of policies for CSR going into effect during the 2011-2014 time period. Along with the increased interest by policy makers, many NGO have also began to take an active role in laying the foundation for CSR. Take for example the Global Reporting Initiative (GRI) is active in the field, trying to fill the void produced by the facultative nature of CSR implementation and communication.

The present work aims to contribute to the literature on Corporate Social Responsibility by investigating three different but connected research areas, thereby providing a cohesive and all encompassing view of the topic of Corporate Social Responsibility and stakeholder management in various areas.

The research begins from one of the most widely debated (yet still unanswered) question in the academic field of CSR, that is: do firms that contribute socially also do well financially? In other words, does CSR foster corporate financial performance (CFP)? Are managers investing in CSP destroying shareholder value (as argued by Friedman (1970)) or are they fostering the firms' ability to gain and maintain a competitive advantage over time (as argued by Freeman (1984))? Trying to answer these questions is probably the most natural way to start a path of research on CSR, because they touch upon all the central issues of the debate. Despite the massive amounts of studies on the mater, these questions still remain unanswered. We propose that, in order for the field to progress to finally reach an answer, a holistic approach to the issue ought to be employed. Thus, studies ought to look both at the potential benefits of CSP in the normal business environment as well as at the potential insurance effects in instances of economic crises. We contribute to the growing academic literature on the value of CSP as an insurance during crises or crises-like situations (see Jones, Jones and Little (2000), Schnietz and Epstein (2005) and Godfrey et al (2009)) by investigating whether CSP acted as insurance (buffer) in the context of the Lehman Brothers bankruptcy through an event study methodology. We find support for the insurance hypothesis, as empirical results show that, in the context of the Lehman Brothers bankruptcy, socially responsible firms' stock price decreased less than non-socially responsible firms', as measured by abnormal returns.

The second contribution of the investigation deals with the insurance property of CSP for managers, rather than for the firm as a whole. At the end of the day, the decision about whether to invest in socially responsible activities is left up to the managers (and in particular to CEOs). In taking such a decision, a CEO may consider both the positive effects of CSP for the firm and for him/herself. In this perspective, CSP is considered as an agency cost (see Cestone and Cespa (2007), Pagano and Volpin (2005) and Letza et al (2004)). In order to test for the potential positive effects of CSP for the CEO, we investigate the relationship between CSP and performance induced CEO turnover. In particular, two hypotheses on the nature of the relationship were implemented and tested. The first one being the Insurance Hypothesis (grounded in agency theory and the managerial entrenchment literature), predicting that the probability of the CEO being fired as a consequence of a negative financial performance shock will be decreasing in the presence of increasing CSP. Based on the notion that CEOs may buy off stakeholders' support via CSP, thus entrenching themselves in the firm (see Cestone and Cespa (2007) and Pagano and Volpin (2005)). The second hypothesis developed is the Punishment Hypothesis, predicting that CEOs will be fired more promptly in cases of poor negative financial performance and high CSP. This result, driven by shareholders punishing the CEO for the negative performance while considering CSP in this case as a distraction from the CEO's job of creating shareholder value. The analysis provides support for the Punishment Hypothesis, thus disconfirming the existence of insurance properties of CSP for the CEO in the context of negative firm performance.

Finally, the third contribution deals with the non-profit (more specifically, museums) sector. Non-profit organizations need to engage their various stakeholders in order to survive, that is to gather funding and contributions by donors or by the government while not being constrained by the issue of maximizing shareholders' benefit, as in the private sector. Therefore, the non-profit sector provides an even clearer environment to apply Freeman's (1984) framework of analysis to test for the positive effects of stakeholder engagement practices. While stakeholder management practices originated in the private sector, we intend to contribute to the stream of literature that applies such framework of analysis to non-profit organizations. The aim is to analyse

both the role of stakeholders in a clearer environment as well as learn from the differences in frameworks between the profit and non-profit sectors. More specifically, the research investigates the effects of stakeholder engagement (measured through the number of board members and the number of volunteers serving the museum) on the fundraising activity of museums and on the organizations' efficiency. Empirical results show that museums engaging in more dialogue with their stakeholders receive more contributions than those that do not. Furthermore, results show that museums more engaged in a dialogue with their stakeholders are more efficient in terms of their administrative expenses. We hypothesize this result may be driven by better monitoring (both by the board and by other stakeholders) given the active engagement of the museums.

The rest of the work is organized as follows. Chapter 1 provides a literature review of the most relevant studies on the issues hereby analysed. The chapter is divided into four sections. The first one provides a definition and discussion of the three constructs that will be central to the whole analysis (CSR, Stakeholder Theory and Corporate Social Performance). The second section deals with the literature on the relationship between CSR and financial performance and it is propaedeutic to the analysis developed in Chapter 2. The third section provides an overview of the relationship between CSR and corporate governance and is linked to the research idea developed in Chapter 3. Finally, the fourth section introduces the role of CSR in the non-profit literature and it is propaedeutic to Chapter 4. Chapter 2 develops the research topic of the insurance property of CSP in the context of crises (Lehman Brothers bankruptcy). Chapter 3 deals with the insurance properties of CSP for CEOs rather than for firms and tests the Insurance and Punishment Hypotheses introduced above. Chapter 4 shifts the analysis to the non-profit sector and discusses the role of stakeholder engagement on museums' fundraising activities and efficiency. Finally, the main findings and contributions to current literature are summarized in the Conclusion section.

CHAPTER 1

Background

The aim of Chapter 1 is to provide an overview of the previous literature, in order to introduce the research topics investigated in the following pages. A more detailed literature review will be provided at the beginning of Chapters 2, 3 and 4, but the nature and the aim of the two background sections are quite different. On the one hand, the literature review of Chapter 1 is broad and aimed at defining the general constructs on which the research ideas developed in the following Chapters are grounded (i.e. definition and discussion of Stakeholder Theory). On the other hand, the literature reviews developed in each of the following Chapters (2 to 4) is narrower and aimed at defining the specific constructs employed in the analysis (i.e. definition of corporate reputation for CSP).

1.1 CSR, STAKEHOLDER THEORY AND CSP: DEFINITION AND DISCUSSION

As pointed out in the Introduction, Corporate Social Responsibility (CSR) has received a great deal of attention in the past few years. Nevertheless, the issue of the social responsibilities of the business is not new. Among the first scholars to tackle the issue was Adam Smith, who despite being represented as one of the main advocates of self-interest in the economic literature, developed a sound rational for the need of social responsibility by business and honesty in the market place in many of his writings'. In Lectures on Jurisprudence, Smith argued that the goal of the salesman is not to obtain the maximum benefit in each deal, but rather to maximize the benefit deriving from the total deals. Not being honest may cause the number of deals to decrease, thus diminishing the salesman's total benefit. In the Theory of Moral Sentiments (1759), Smith introduces the concept of sympathy. People temper their personal interests in

order to allow society, and therefore the market (that is essential in order to deliver wealth), to be sustainable.

The field of management began to tackle the issue of a business's social responsibilities in the 1950s, with the first definition of CSR generally attributed to Bowen (1953). In the following years, a number of scholars submitted different definitions of CSR but a widely accepted definition is still missing. The main reasons for this are that the concept of stakeholder is very broad and inclusive and that CSR is a constantly evolving concept. For instance, over the time, the main focus of firms investing in socially responsible activities shifted from the improvement of the working conditions of employees to the investment on environmental issues. Johnson (2001) writes: "a socially responsible firm is one whose managerial staff balances a multiplicity of interests. Instead of striving only for larger profits for its stockholders, a responsible enterprise also take into account employees, suppliers, dealers, local communities, and the nation". Jones (1980) argues: "Corporate social responsibility is the notion that corporations have an obligation to constituent groups in society other than stockholders and beyond that prescribed by law and union contract". Finally, Hopkins (2003) writes that "CSR is concerned with treating the stakeholders of the firm ethically or in a responsible manner. 'Ethically or responsible' means treating stakeholders in a manner deemed acceptable in civilized societies".

Even if a common definition of CSR does not exist, it is possible to find at least two common features in the definitions of CSR both provided above and proposed by other studies not cited here (see Walton (1967), Johnson (1971), Carroll (1979), Khoury et al (1999), McWilliams and Siegel (2001)). The first one is that any action or investment by firms, in order to be considered CSR, must be voluntary. This means that firms investing in order to improve the working conditions of employees are not investing in CSR if law requires that improvement to be achieved. The second common feature is the centrality of the concept of stakeholders, defined by Freeman (1984) as "any group or individual who can affect or is affected by the achievement of the organization's objectives".

CSR enlarges the boundaries of the firm in order to incorporate the wider range of responsibilities that business has towards its many stakeholders. This shift in the way

in which the firm is described and in the way in which it should be managed has been described in the academic field through lens of Stakeholder Theory Stakeholder Theory is the theoretical framework many scholars employ in order to study and build empirical and theoretical studies on CSR, thus also making it the main framework of analysis employed in the following Chapters. Stakeholder Theory can be defined as one of the sub-theories of corporate governance. The field of corporate governance is filled with various theories that have been developed along the years the most relevant being: Agency Theory (see Alchian and Demsetz (1972) and Jensen and Meckling (1976)), Stewardship Theory (see Davis, Schoorman and Donaldson (1997)), Stakeholder Theory (see Freeman (1984)), Resource Dependency Theory (see Johnson et al (1996)), Transaction Cost Theory (see Williamson (1996)).

Stakeholder Theory was formalized by Freeman through his landmark book Strategic Management: A Stakeholder Approach (1984), but, as argued by Wood (1991), the broader field of social issues in management emerged as an interdisciplinary field of study as early as the 1970s, with an explosion of studies on the various business-related social problems and issues. Scholars contributing to Stakeholder Theory have been drawing from many different fields of research, such as philosophy, ethics, political theory, economics, law and organizational science. In order to get a comprehensive definition of Stakeholder Theory it is important to rely specifically on the work of Donaldson and Preston (1995), who provided coherence to a number of previous studies dealing with or relying on the concept of stakeholders differently and thus generating confusion about the Theory's nature and purpose. According to the authors, Stakeholder Theory has three different dimensions. The first one is descriptive, in the sense that it describes how the corporation is. According to this dimension, the corporation is "a constellation of cooperative and competitive interests possessing intrinsic value" (see Donaldson and Preston (1995), p 66). The second dimension is instrumental. Stakeholder Theory sets the framework for examining the relationship between the practice of stakeholder management and the achievement of various corporate performance goals (primarily financial performance). Many (mostly empirical) studies dealt with this issue, and a review of this literature is provided below. Finally, the third dimension of the Stakeholder Theory is normative and involves the acceptance of two ideas. The first one is that "stakeholders are persons or groups with

legitimate interests in procedural and/or substantive aspects of corporate activity" (see Donaldson and Preston (1995), p.67). The second one is that each stakeholder merits consideration for its own sake.

As we pointed out, the concept of stakeholder is central in the definition of CSR and in the Stakeholder Theory. Despite its relevance, it has been often criticized because it includes a wide range of entities (from suppliers to the environment, from current shareholders to future generations). Actually, the broadness of its definition may be an issue for managers willing to implement stakeholder management practices in the firm and for academics willing to study the issue. Mitchell, Agle and Wood (1997) propose a framework for classifying stakeholders according to their relative relevance to firms. The three dimensions a company should look at in order to map its stakeholders are the following: power, legitimacy and urgency. The combination of these three attributes may lead to the definition of different categories of stakeholders (dormant, dangerous, dominant, etc.). According to Freeman, Harrison and Wicks (2007), "stakeholders who have highest legitimacy" (thus primary stakeholders) vary across firms and across industry, therefore each firm must implement its own process of defining the relative importance of each of its stakeholders.

The construct of Corporate Social Performance (CSP) is tightly linked with CSR and Stakeholder Theroy. In 1990, the Academy of Management conference dedicated a symposium to the issue, titled "Corporate Social Performance – Methods for evaluating an Elusive Construct", this confirming the difficulties of previous studies in finding a consensus on the CSP definition. Since then, a number of studies did tackle the issue, in order to gather a common definition on the issue (among the others, see Carroll (1991), Clarkson (1995), Wood (1991), Hocevar and Bhambri (1989), Wood and Jones (1995)). According to Davenport (2000), there is a lack of generally accepted definitions of CSP, with negative consequences on the ability of academic literature in finding and analysing data. To provide a detailed discussion of the theoretical debate on the definition of CSP is not within the boundaries of the present study, therefore, for the purposes of our analysis, we rely on the definition of CSP provided by previous studies. Wood (1991) defines CSP as "a business organization's configuration of principles of social responsibility, processes of social responsiveness, and policies, programs, and

observable outcomes as they relate to the firm's societal relationships" (see Wood (1991), p 693). She also writes: "to assess a company's social performance, the researcher would examine the degree to which principles of social responsibility motivate actions taken on behalf of the company, the degree to which the firm makes use of socially responsible processes, the existence and nature of policies and programs designed to manage the firm's societal relationships, and the social impacts (i.e. observable outcomes) of the firm's actions, programs, and policies". According to Quevedo-Puente et al (2007), CSP is "a comprehensive assessment of firm's performance with every stakeholder group" (see Quevedo-Puente et al (2007), p 62). Finally, McGuire et al (2003) write: "corporate social performance evaluates how well firms have met expectations of stakeholders and environmental concern" (McGuire et al (2003), p 342).

Even if some studies employ CSR and CSP as synonyms, CSP is a construct employed mainly by empirical studies (such as those implemented in Chapter 2 and 3). As pointed out by Davenport (2000), to gather a commonly agreed upon and precise definition of CSP is important in order to get data that actually measure the construct. To find an adequate measure of Corporate Social Performance, which is a construct that, compared to CFP, is much wider and more difficult to measure, is a challenging task. To date, the vast majority of the academic articles dealing with CSP (see, among the others, Harrison and Freeman (1999), Johnson and Greening (1999), McWilliams and Siegel (2000), David et al (2007), Godfrey et al (2009)) rely on the Kinder, Lydenberg and Domini - KLD (now MSCI ESG Research) framework. KLD provides research, ratings and analysis of the environmental, social and governance-related business practices of thousands of companies listed on the S&P 500, Domini 400 Social Index, Russell 1000, or KLD Large Cap Social Indexes as of December 31st of each year. KLD provides a score (through the indication of the number of strengths and concerns) for each of the following CSP dimensions: Community, Corporate Governance, Diversity, Employee Relations, Environment, Human Rights and Product. Another framework widely employed in the measurement of the social performance of firms is the one proposed by SAM Group, the organization that, together with Dow Jones Indexes, launched in 1999 the Dow Jones Sustainability Indexes. The sources of information used by SAM in the Corporate Sustainability Assessment are four. First, the

company questionnaire, distributed to all the companies in the DJSI World investable stock universe. Second, company documentation (such as sustainability reports, environmental reports and similar). Third, media, press releases, articles and stakeholder commentary written about the company during the year. Fourth, direct contact with companies, in order to clarify open points arising from the analysis of the questionnaire. The most important source of information is the company questionnaire, which takes into account also some aspects of the CSP of suppliers of the firms being evaluated. The KLD and SAM framework greatly influences not only the academic world but the way in which investors take their decisions as well. According to Chatterji et al (2007), each year billions of dollars are invested according to the KLD framework. Socially Responsible Investment (SRI) funds take into account the environmental, social and governance performance of firms (as measured by KLD or SAM or other similar initiatives) in making their investment decisions.

Even if KLD data are generally employed in order to measure the construct, academic literature is not unanimously supporting the validity of the measure. On the one hand, according to Sharfman (1996), the KLD measure is a reliable construct. More specifically, according to his analysis, KLD social performance ratings are measuring at least part of the same CSP construct as to the Fortune magazine. Chatterji et al (2007) focus on the environmental performance of firms and they find that KLD "concern" ratings to do summarize fairly well the past environmental performance of firms but that, at the same time, KLD environmental strengths do not accurately predict pollution levels or compliance violations. On the other hand, Entine (2003) sharply criticizes the KLD framework by writing: "KLD's ratings in particular are tainted by anachronistic, contradictory, idiosyncratic and ideologically constructed notions of corporate social responsibility" (Entine (2003), p 352). In particular, the author argues that CSP research uses arbitrary standards, that it ignores some aspects of corporate activity that are no easily measurable and that creates an illusion of objectivity. Entine (2003) backs up his argument also through the discussion of two cases (the Odwalla controversy and the Body Shop case) that according to the author shows the contrast existing between CSP as measured by KLD and reality.

1.2 DOES IT PAY TO BE GOOD? THE CSP – CFP RELATIONSHIP

Are firms doing good also doing better financially? For the past 40 years, this has been a central question in the academic debate on Corporate Social Responsibility and Corporate Social Performance, with the first empirical papers written on the issue dating back to the 1970s (see Bragdon and Marlin (1972) and Moskowitz (1972)). The instrumental perspective of Stakeholder Theory predicts that "corporations practicing stakeholder management will, other things being equal, be relatively successful in conventional performance terms (profitability, stability, growth, etc.)" (see Donaldson and Preston (1995)). Other authors who contributed to stream of literature on instrumental Stakeholder Theory are, among the others: Clarkson (1995), Cornell and Shapiro (1987), Freeman (1984), Mitchell et al. (1997). If academic literature would manage to empirically demonstrate that higher levels of Corporate Social Performance do actually lead to better Corporate Financial Performance, many issues in the current debate would be overcame. For instance, the long standing debate over the role of business between those supporting Friedman's (see Friedman (1970)) argument and those supporting Freeman's (see Freeman (1984)) would be resolved, since both the approaches would lead to the same ultimate goal: the maximization of economic profit. Jensen (2001) already proposed an integrated approach, arguing that a firm cannot maximize value if it ignores the interests of its stakeholders ("enlightened value maximization"), but he did not develop an empirical model to test the theory. Also, to find an ultimate answer to the question about the relationship between CSP and CFP would also be important in the definition of the role of managers and of the fiduciary duty binding them to the firm.

The discussion of the issue is divided into two steps. First, we will review the main theoretical arguments supporting a positive relationship between CSP and CFP. Second, we will discuss the main empirical results.

Several arguments supporting a positive relationship between CSP and CFP can be found in previous literature. First of all, socially responsible firms, thus firms having good relationships with their stakeholders, may benefit from a better reputation in the market place (see Fombrun (2001), Wang and Smith (2008), Jones (2000), Schnietz and

Epstein (2005)). Under conditions of incomplete information, stakeholders may employ CSP as one of the informational signals upon which to base their assessments of corporate reputation (see Fombrun and Shanley 1990), with consequent positive effects on CFP. Second, managers working (and succeeding) in developing good relationships with their firm's stakeholders can improve their ability into addressing and balancing the claims of multiple stakeholders (see Freeman and Evan (1990)), thus increasing the ability of firms to adapt to external demands and market changes. This because managers working for socially responsible firms may increase their scanning skills and firms' processes and information systems, thus increasing the ability of the organization to adapt to external changes. The positive impact of CSP on the human capital of the firm may be due to the fact that more socially responsible firms may increase the level of motivation of their managers and they may also attract better employees (see Greening and Turban 2000; Turban and Greening 1997). Third, according to slack resources theory (see Orlitzky et al (2003), Ullmann (1985), Waddock and Graves (1997)), prior high levels of CFP may provide the slack resources necessary to invest in socially responsible activities. In particular, according to McGuire et al (1988), the investment of resources on socially responsible activities may depend on the availability of excess funds. According to this framework, the positive relationship between CSP and CFP may be due to CFP causing CSP and not vice versa. The fourth argument relies on the resource based view of the firms (see Barney (1991)). According to this framework, investments in CSP may help firms develop new competencies, resources, and capabilities which are manifested in a firm's culture, technology, structure, and human resources (Barney (1991), Russo and Fouts (1997), Wernerfelt (1984)). Finally, firms with high CSP ratings may gather an easier access to capital, through the improvement of their relationships with bankers and investors (see Spicer (1978)).

From an empirical perspective, the academic literature dealing with the relationship between CSP and CFP is vast and in many ways inconsistent. The first empirical papers written on the issue date back to the 1970s, with the work by Bragdon and Marlin (1972) and Moskowitz (1972). Since then, many other studies have been conducted and the generation of literature continues till date, one of the reasons being that there is still not a widely accepted consensus about the intensity and the nature of

the relationship. We will not cite all the previous literature on the topic, but we will rather rely on some important studies that tried to comprehensively review previous empirical analysis. Among the best reviews are: Pava and Krausz (1996), Orlitzky, Schmidt and Rynes (2003), Margolis and Walsh (2003) and Margolis, Elfenbein and Walsh (2007).

Margolis and Walsh (2003) review 127 studies, 109 of which treated CSP as an independent variable and CFP as a dependent variable. The results of the meta-analysis are mixed, as it is shown in Table 1.

Table 1
Margolis and Walsh (2003) results on the relationship between CSP and CFP

Results of Margolis and Walsh (2003) meta-analysis, considering the 109 studies that treated CSP as independent variable and CFP as dependent variable (see Margolis and Walsh (2003), p 274)

Positive relationship	54
Negative Relationship	7
Non-significant relationship	28
Mixed findings	20
TOTAL	109

In a more recent study, Margolis, Elfenbein and Walsh (2007) conduct a meta-analysis of 167 studies, published between 1972 and 2007 and empirically testing the existence of a relationship between CSP and CFP. Rather than simply counting the positive, negative and non-significant effects (as in Margolis and Walsh (2003)), they quantify the causal effect between CSP and CFP. Their aim is to “take stock” of this vast stream of literature in order to find the real nature of the relationship. Their overall results (across all the 167 studies) suggest that a positive and statistically significant relationship does exist, but that, on absolute basis, it is small.

Some authors tried to provide some explanation for the lack of consensus of this stream of literature. Ullman’s (1985) article, titled “Data in search of theory”, discusses the issues deriving from improperly justifying and designing attempts to show a relationship between CSP and CFP. A broader review of previous studies shows that the lack of a consensus on the issue may be due to several reasons, that are hereby

discussed in order to define the limitations of this stream of literature and to better describe the contributions of the present work.

First of all, as it was already discussed in the previous section, to find an adequate measure of Corporate Social Performance is a challenging task. The empirical measures of social performance (KLD, SAM Group), given also the complexity of the construct, may to some extent be the reason for the difficulty of literature in finding consistent results (see Entine (2003)). As pointed out by Davenport (2000), the difficulties in developing a consistent measurement system may be due to the difficulties in reaching a generally agreed upon and precise definition of CSP. In any case, more research would be needed in order to strengthen the reliability of such empirical measures, maybe through the implementation of case studies.

A second issue is that studies on the CSP-CFP relationship need to face is the span of time necessary for an increase in CSP in improving CFP. Will it have an impact in the short term or rather in the long term? According to some studies on corporate reputation and CSP (see Fombrun et al (2000), de Quevedo – Puente et al (2007) and Bhattacharya and Sen (2004)), CSP will impact CFP in the long term. To date, it does not exist a unique answer to this question, and empirical studies deal with the issue by relying on previous literature results and by testing the CSP-CFP relationship employing different time frames, in order to check results' robustness.

Another important issue is that of reverse causality. Even if we assume that a positive relationship between CSP and CFP does exist, which is the direction of the relationship? Is CSP causing CFP or vice versa? The instrumental stakeholder theory argues that CSP is determining CFP, but other theoretical frameworks (for instance, the slack resources theory (see Orlitzky et al (2003), Ullmann (1985), Waddock and Graves (1997)), argues that CFP is actually determining CSP. This issue is difficult to solve from an empirical perspective, and many of the empirical studies reviewed in the literature reviews cited above potentially suffer of the endogeneity.

Finally, current literature on the issue does not give enough credence to the role of CSP in the context of crises. Empirical studies focusing only on the role of CSP in business as usual situations are missing an important part of the CSP-CFP relationship: the role of CSP as a buffer in the context of a crisis. Scholars ought to consider the role of CSP in crisis and crisis-like situations, in order to assess its real value.

Chapter 2 deals with this shortcoming of previous literature and will extend current knowledge on the issue, contributing to the establishment of a holistic framework of analysis for the CSP-CFP relationship. Furthermore, it provides some empirical results that contribute to the development of a stream of literature on the insurance role of CSP in crises contexts.

1.3 CSP AND CORPORATE GOVERNANCE

The literature review provided in this section set the ground for the research idea developed in Chapter 3. In the first part, drawing from the corporate governance literature, we discuss which may be the reasons why corporations engage in CSR and how this may relate to corporate governance. In the second part, we briefly review the main characteristics of Agency Theory. Finally, in the third part, we provide an overview of previous studies dealing with the issue of CEO turnover (more specifically: impact of corporate governance characteristics on CEO turnover-financial performance sensitivity and consequences, in terms of financial performance, of CEO turnovers). Such issue is particularly relevant because in Chapter 3 we will further extend the CEO turnover literature through the introduction of the CSP variable.

The tree hypotheses on the reasons for corporations to engage in CSR and its relationship with corporate governance are the following.

The first is the conflict resolution hypothesis. This hypothesis is drawn from the works of Jensen (2001) and Calton and Payne (2003), where it is argued that firms use CSR activities to reduce conflict of interest between managers, investing, and non-investing stakeholders. Jensen (2001) argues that value maximization should be the optimal goal of the firm in the long run and that it includes more than just equity. By employing Stakeholder Theory, management ends up maximizing shareholder wealth. Calton and Payne (2003) focus on the “interactive, developmental, exploratory sensemaking process” that is connected to the stakeholder engagement process.

The second is the over-investment hypothesis. This hypothesis stems from the work of Barnea and Rubin (2006), who argue that top management tends to over-invest in CSR activities in order to build their own personal reputations as good global citizens

while at the cost of shareholder value. In this view, CSR is just an agency problem, where overconfident managers make value-destroying investment.

The third hypothesis is the strategic choice hypothesis. This hypothesis stems from the theoretical work of Cestone and Cespa (2007) where, based on the assumption that stakeholder protection is left solely to managers, incumbent CEOs who may be under pressure to be replaced may use strategically CSR activities as an entrenchment strategy, i.e. try to buyoff stakeholders. Pagano and Volpin (2005) also provide a theoretical model in which top managers and workers collude against takeover threats, i.e entrenchment via employee support. According to this hypothesis, corporate governance quality (i.e. in terms of executives' turnover sensitivity to financial performance) is expected to be negatively correlated with CSP.

Both the over-investment and the strategic choice hypotheses are linked to what Letza et al (2004) define, in their framework, as the "abuse of executive power model". According to this model (e.g. Hutton (1995) and Kay and Silberston (1995)), the "major problem with the current corporate governance arrangements is that they allow excessive power to executive managers who may abuse their power in pursuit of their own interests" (see Letza et al (2004), p 245).

The relationship between management (agents) and shareholders (principals) has been described by the Agency Theory (Jensen and Meckling (1976)). The theory has its roots in the work by Alchian and Demsetz (1972) and Coase (1937), who proposed the contractual view of the firm. According to Shleifer and Vishny (1997) the essence of the Agency Theory is the separation of ownership and control. Berle and Means (1933) were the first to recognize that the increasing number of the companies' shareholders was decreasing their influence within the company and, at the same time, the influence of professional managers was increasing.

Shareholders and managers do not have the possibility to write complete contracts, because it is not possible for them to foresee all the future contingencies. Therefore, owners and managers need to allocate residual control rights. The result is that the effective control rights of the management ends up being end up being more extensive than the shareholders'.

Being these the characteristics of the relationship, Agency Theory focuses on two issues (see Eisenhardt (1989)). The first is the agency problem, arising when the desires or goals of the principal and agent conflict and when it is difficult or expensive for the principal to verify what the agent is actually doing (see Eisenhardt (1989)). The second issue is the difference in risk attitudes between principal and agent. It may be that principals and agents have different preferences over the actions to be taken because of different risk preferences. Agency Theory ultimately focuses on determining the most efficient contract governing the principal-agent relationship given certain assumptions about people (self-interest, bounded rationality, risk aversion). As we will discuss in the following pages, some authors question the applicability of Agency Theory and of its assumptions in certain contexts.

Among the corporate governance literature, CEO turnover represents a particularly relevant issue. CEO turnover is also central in the development of our research idea in Chapter 3. A common aspect tackled by most academic articles of the field is the relationship between CEO turnover and financial performance. The existence of a negative relationship between firm performance and likelihood of turnover has been well documented in the literature (see Benston (1985), Coughlan and Schmidt (1985), Weisbach (1988), Warner et al (1988), Gilson (1989), Morck et al (1989), Jensen and Murphy (1990), Fee and Hadlock (2003), Yermack (2006), Jenter and Kanaan (2008) and Defond and Hung (2004)). Recently, Jenter and Lewellen (2010) conduced an analysis on performance-induced CEO turnovers by employing new empirical techniques in order to identify when a CEO turnover has been determined by poor performance. Their results confirm previous literature results and furthermore, they show that "turnover decisions are much more sensitive to stock price performance than previously thought" (Jenter and Lewellen (2010), p 1).

While the results about the CEO turnover – financial performance sensitivity are widely accepted, studies dealing with the role of corporate governance characteristics on the sensitivity of CEO turnover to firm performance provide, for the most part, inconsistent results. More specifically, these studies deal with (see Jenter and Lewellen (2010, p 6): the percentage of independent directors on the board (see Weisbach (1988), Denis, Denis, and Sarin (1997), Mikkelson and Partch (1997) and Huson, Parrino, and

Starks (2001)), board size (see Mikkelson and Partch (1997) Huson, Parrino, and Starks (2001), and Yermack (1996)), equity ownership by directors (see Weisbach (1988) and Huson, Parrino, and Starks (2001)), equity ownership by the CEO (see Salancik and Pfeffer (1980), Weisbach (1988), Denis, Denis, and Sarin (1997), Mikkelson and Partch (1997) and Huson, Parrino, and Starks (2001)) and the presence of institutional investors (see Denis, Denis, and Sarin (1997) and Huson, Parrino, and Starks (2001)).

In particular, the issue of the effectiveness of outside directors as monitors has been widely debated in the literature. Fama (1980) and Fama and Jensen (1983) provide the traditional argument that outside directors will be more effective monitors because they have incentives to develop a reputation as decision control experts in the labour market. Conversely, other authors cast doubts on the effectiveness of outside directors as monitors. Hermalin and Weisbach (1998) argue that “directors who value the opportunity to serve on other boards could have an incentive to establish reputations for not "rocking the boat"; i.e., for not intensely monitoring the CEO” (Hermalin and Weisbach (1998), p 101). Jensen (1993) points out that outside directors face limitations on their access to firm specific information. Finally, according to Harris and Raviv (2008) increasing the number of outsiders may aggravate the independent directors’ free rider problem. Among the empirical literature there seems to be a consensus (with few exceptions – see Laux (2008)) over the beneficial role of outside directors on CEO turnover sensitivity to financial performance. Weisbach (1988) provides evidence of a stronger negative relationship between firm performance and CEO turnover for outsider dominated boards rather than for insider dominated boards. This leads the author to conclude that CEO turnover is more sensitive to firm performance if the board is independent. Consistently, Rosenstein and Wyatt (1990) report that firms have positive abnormal returns at the announcement of the addition of outside directors. Borokhovich et al. (1996) and Huson et al. (2001) examine the role of outsider-dominated boards in the selection of the CEO successor and they find that outsider-dominated boards are more likely than insider-dominated board to select an outsider. Differently from the studies reviewed above, Laux (2008) casts some doubts on the statement that more independent boards will lead to better outcomes. According to his model, CEO severance pay and incentives related to an independent board represent a form of ex-

ante inefficiency that may lead a dependent board to be more efficient, despite being ex-post inefficient.

An issue common to all the studies dealing with board independence and CEO turnover is endogeneity. A study employ exogenous events in order to reach some evidence on the causal relationship between board independence and CEO turnover. Dahya et al (2002) employ the introduction of the "Code of best practices" in the UK as an exogenous event and as remedy to the endogeneity problem. Their results point to a possible causal relation between board independence and CEO turnover.

Besides board independence, another widely-debated issue is that about the role of board size on the monitoring effectiveness of boards. On the one hand, some studies relying on resource dependence theory argue (and empirically show) that bigger boards are better monitors (see, among the others, Pfeffer and Salancik (1978), Yan and Gray (1994), Dalton et al (1999), Mak and Li (2001), Larmou and Vafeas (2010), Di Pietra et al (2008), Adams and Mehran (2005)). On the other hand, some other studies argue that since bigger boards will find more difficulties in reaching an agreement, they will be more subject to CEO influence and therefore will be worst monitors (see Steiner (1966), Kidwell and Bennett (1993), Yermack (1996), Eisenberg, Sundgren and Wells (1998), Gertner and Kaplan (1997), Jensen (1993), Alexander et al. (1993)). According to Steiner (1966), the actual productivity of a group will be lower than its potential productivity because of motivation and coordination losses. These losses may be due to social loafing and group cohesiveness. According to Kidwell and Bennett (1993), "(…) in the social loafing process, a person withholds effort as he or she moves from an individual performing alone to individuals performing in groups of increasing size" (p 430). Lipton and Lorsch (1992) argue that the lack of time and the size of the board may lead to lack of cohesiveness and to boards not being able to work toward a common objective.

Finally, some studies deal with the issue of the impact of CEO turnover on financial performance, in terms of both impact on market performance (analysed through the event study methodology) and impact on accounting performance.

As pointed out by Huson et al (2004), "results of event studies on management turnover are mixed" (Huson et al (2004), p 239). According to the authors, management

turnover may both indicate a poor performance to uninformed investors and presage improved management. In the first case, it would be expected a negative abnormal return, while in the second case it would be expected a positive abnormal return. Weisbach (1988), Furtado and Rozeff (1987) and Huson et al (2004), Kind and Schlapfer (2011) report positive stock price reactions to turnover news, while Khanna and Poulsen (1995) and Dedman and Lin (2002) find just the opposite result. Reinganum (1985) observe statistically insignificant price changes associated with turnover events. Adams and Mansi (2009) study the impact of CEO turnover on shareholders' wealth, bondholder wealth and firm value. Their results, while consistent with most previous literature (shareholders' experience and increase in their wealth, after a CEO turnover), suggest that "an economically significant portion of the well documented gains to shareholders around certain CEO turnover announcements represents a wealth transfer from bondholders" (Adams and Mansi (2009), p 533).

While these event studies deal with the expected outcome of a CEO turnover, a tightly related stream of literature deals with the actual outcome in terms of financial performance. Hotchkiss (1993) and Denis and Denis (1995) finds that management turnover does improve subsequent financial performance. Huson et al (2004), in order to estimate performance changes following the CEO turnover, analyse unadjusted, industry-adjusted, and control group-adjusted changes in operating performance. The second and third measures of performance are positively associated with CEO turnover, leading the authors to conclude that, because these two measures are the most reliable, "managerial quality and expected firm operating performance increase after CEO turnover" (Huson et al (2004), p 273).

1.4 STAKEHOLDER THEORY IN THE NON-PROFIT SECTOR

Chapter 4 extends the concept of stakeholder engagement to the non-profit sector and tests whether non-profit organizations (museums) engaging more in a dialogue with their stakeholders do have some benefits in terms of fundraising activity and organizational efficiency. This section intends to provide some general background to the research issue investigated in Chapter 4 by discussing the role of non-profit organizations in previous literature, the relationships existing with Stakeholder Theory

and the importance of the stakeholder concept to the way in which performance of non-profit organizations is measured.

As pointed out in the introduction, non-profit organizations are playing an increasingly central role in society. Glaeser (2002) discusses the three main characteristics of non-profit firms. First, they have tax privileges, and this is an element that greatly contributed to their worldwide expansion. Second, non-profit organizations have the non-distribution constraint. Therefore, they are not allowed to disburse profits to owners. Third, non-profit organizations do not ultimately have owners, in the sense that people who founded the non-profit, probably through donations, do not have any control rights over the organization. This characteristic and the lack of a market for non-profit organizations' control gives the management more discretionary power than for the for-profit firms. According to Lewis et al (2001) three types of non-profits are typically differentiated in the literature: philanthropic organizations, mutual benefit organizations and advocacy organizations. The research developed in Chapter 4 will deal with museums, which are a kind of philanthropic organization (according to Lewis (2001), philanthropic organizations are "those whose mission focuses on health, education, religion, cultural concerns and social services" (see Lewis et al (2001), p 8).

Traditionally, the two disciplines that contributed the most to the non-profit organizations' literature are economics and sociology (see Helmig et al (2004)). However, none of these two contrasting disciplines managed to resolve all the research issues regarding non-profit organizations. On the one hand, the standard economic model does not apply well to a non-market situation (such as in the non-profit organization case). On the other hand, sociology fails to develop plans of action for non-profit organizations (see Helmig et al (2004)).

In the last years, two main factors deeply influenced and shaped the debate on non-profit organizations. The first is due to the fact that governments worldwide are relying more and more on non-profit organizations as complements or replacement of public sector organizations, the reason being that they are seen as less bureaucratic and more flexible than traditional public sector organizations (see Moxley (2004), Myers and Sacks (2003), Murray and Carter (2005)). The second element is the increasing pressures (both legislative and competitive) for non-profit organizations to develop a

higher marketing orientation, defined as "focusing on consumer needs as the primary drivers of organizational performance" (see Jobber (2004) and Warnaby and Finney (2005)).

This shift in the non-profit organizations' strategic purpose stresses even more the long debated issue of how to measure performance in non-profit organizations. The challenges in measuring success in non-profit organizations have long been recognized by previous literature (see, among the others, Bryson (1995), Drucker (1990), Forbes (1998), Oster (1995), Kanter and Summers (1987)). Notwithstanding the numerous contributions, this stream of literature is largely inconclusive (see Forbes (1998) and Kaplan (2001)). According to Di Maggio (1988), non-profit managers face more ambiguous and diverse goals than their for-profit counterparts. Similarly, Forbes (1998) argues that "non-profit organizations lack the simple elegance of a financial measure – such as profitability or shareholder returns – used by for-profit organizations to assess their performance". The fact that non-profit organizations need to employ multidimensional measures of performance is recognized by some studies (see Cameron (1981), Connolly et al (1980)) that have been later extended by Kaplan (2001), who extended the Balanced Scorecard in the non-profit sector. Piber and Gstraunthaler (2010) provide an interesting description of the evolution of the performance measures in the non-profit sector. They argue that the fourth (and most recent) generation of performance evaluation "takes into account that any notion of performance is constructed by the participating actors. Therefore, a thorough understanding and an evaluation of performance has to be executed in a dialogue between the organization and its relevant stakeholders".

The role of stakeholders and Stakeholder Theory is central in the academic debate on non-profit organizations. According to a number of studies dealing with the non-profit sector, it is not clear who should be regarded as the principal (see Anheier (2005), Miller (2002), Ostrower and Stone (2006)). Since there are no owners of the non-profit organizations (see Glaeser (2002)), it is fundamental for researchers to look at the organization's stakeholders. According to Puyvelde et al (2011), the stakeholders of a non-profit organization may be divided into three categories: interface stakeholders

(board members), internal stakeholders (managers, employees, volunteers) and external stakeholders (funders, beneficiaries, suppliers/contractors, competitors, organizational partners). The role of stakeholders in the non-profit organization management is central because of two main reasons.

The first one, as discussed above (see Piber and Gstraunthaler (2010)), is the role of stakeholders as counterpart with whom the company needs to engage in a dialogue with in order to reach a consistent system of measures of performance (and strategic objectives). According to Lewis et al (2001), "the responsiveness of the organization to the needs of its stakeholders is an important indicator of its success" (Lewis et al (2001), p 7.

The second reason behind the importance of stakeholder theory is the importance of stakeholders and Stakeholder Theory in determining and explaining non-profit organizations' behaviour. According to Caers et al (2006), there is a lack of consensus on which theory should be applied in order to explain and understand the behaviour of non-profit organizations. In this search for the optimal framework of analysis in order to study non-profit organizations, Stakeholder Theory plays a central role. Ben-Ner and Van Hoomissen (1991) proposed that non-profit organizations are founded and controlled primarily by "demand-side stakeholders", that are subjects interested in the provision of services for themselves and/or for others. In their framework, non-profit organizations are controlled by "high-demand stakeholders", who have the greatest interest in the organization's products, and that who have the time and expertise to control the organization (see Abzug and Webb (1999) and Caers et al (2006)) combine agency theory with stewardship theory, and Puyvelde et al (2011) employ the stakeholder framework in order to distinguish different categories of principal-agent relationships and discuss these relationships from a stewardship-agency perspective. The authors, aiming at contributing to the creation of a principal-agent theory of non-profit organizations, combine agency theory with aspects of stakeholder theory, stewardship theory and empirical literature.

CHAPTER 2

Does Corporate Social Performance yield any tangible financial benefit during a crisis?

An Event Study of Lehman Brothers bankruptcy

The aim of the analysis is to empirically test – through the event study methodology - whether Corporate Social Performance (CSP) had any impact on Corporate Financial Performance (CFP) in the context of the crisis due to Lehman Brothers bankruptcy. Drawing on previous studies belonging to different streams of literature, this study proposes three mechanisms that may have linked CSP to CFP in the context of the crisis. Stock prices of the non-financial companies included in the S&P 500 stock market index are examined before and during the bankruptcy announcement. Empirical findings show that in the context of the crisis due to Lehman Brothers bankruptcy, CSP was positively correlated with short term CFP (Abnormal Returns), thus providing a buffer effect.

2.1 INTRODUCTION

Do investments in socially responsible activities increase firms' financial performance? The first empirical papers written on the issue date back to the 1970s, with the work by Bragdon and Marlin (1972) and Moskowitz (1972). Since then, many other studies have been conducted and the generation of literature continues till date, one of the reasons being that there is still not a widely accepted consensus about the intensity and the nature of the relationship. We believe that in order to completely

understand the research problem, researchers need to adopt an holistic approach[1], therefore testing the impact of Corporate Social Performance (CSP) on Corporate Financial Performance (CFP) both in "business as usual" settings and in crisis or crisis-like situations.

This study tests the impact of firms' Corporate Social Performance on Corporate Financial Performance during the crisis due to Lehman Brothers bankruptcy. Lehman Brothers filed for Chapter 11 bankruptcy protection at early morning of September 15th 2008. Drawing from newspapers and previous studies, we argue that this event brought stakeholders' attention towards ethical and social issues – more evidence is provided in the following sections. The research problem and (most importantly) the empirical results provided in this article are of paramount importance for academics, practitioners and policy makers. This analysis - and the growing stream of literature dealing with the value of an investment in socially responsible initiatives during a crisis - shows that CSP can both reduce the impact of a crisis on shareholders' value and limit stocks' volatility. This result is particularly relevant in the ever-changing environment in which firms operate today. The increasing globalization of financial markets makes crises and crisis-like situations easier to spread all around the world, and socially responsible firms may increasingly benefit from their socially responsible investments.

The methodology employed is based on the notion that stock prices are driven by investors' expectations about firms' ability to generate future cash flows. By relying on and reframing previous literature, we build three different mechanisms through which CSP may have had an impact on the expected CFP (future cash flows) after Lehman Brothers bankruptcy. Using the event study methodology, we calculated Abnormal Returns (ARs), which represent the impact of Lehman Brothers bankruptcy on firms' return due to firms' specific risk. The present study tests whether CSP had an impact on Abnormal Returns and, at the same time, it indirectly tests investors' expectations on future CFP of socially responsible firms as a consequence of the crisis and in the part due to firms' specific risk.

[1] Peloza (2006) makes a similar argument, since he suggests that researchers should include both incremental gain and "the moderating effect of CSR on negative firm behavior" (Peloza (2006), p 62).

The rest of the Chapter is organized as follows. Section 2.2 (Background) provides an extensive literature review about the CSP-CFP relationship and a definition of the constructs on which the three mechanisms proposed here are based. Section 2.3 (Hypothesis Development) describes the three mechanisms linking CSP to expected CFP and contains the three hypothesis of the study. Section 2.4 (Methodology) is mainly devoted to the description of the sample and of the event study methodology. Section 2.5 (Empirical Analysis) provides the results of the Abnormal Returns analysis and of the regression models. In Section 2.6 (Results) we show the empirical results and in Section 2.7 (Discussion) we discuss them. Section 2.8 (Conclusion) and Section 2.9 (Future Research) summarize the most important finding and proposes the direction for future research.

2.2 BACKGROUND

This Section is divided into four paragraphs. In the first, we propose a literature review of previous studies dealing with the relationship between CSP and CFP in crises contexts. In the last three paragraphs - one for each of the three mechanisms we proposed - we define the main constructs on which the mechanisms are based.

2.2.1 The relationship between CSP and CFP in crises contexts

Despite the central role it could have in the understanding of the relationship between CSP and CFP, the empirical literature testing the existence of a relationship between CSP and CFP in the context of a crisis is scant. To our knowledge, the only articles specifically testing the relationship in the context of a crisis are Godfrey et al (2009), Schnietz and Epstein (2005) and Jones, Jones and Little (2000). Pearson and Clair (1998) define an organizational crisis as a “low-probability, high-impact event that threatens the viability of the organization and is characterized by ambiguity of cause, effect and means of resolution, as well as by a belief that decisions must be made swiftly”. The present article deals with systemic crises rather than with firm-specific crises, thus adding on a very specific stream of literature. We define “systemic crisis” as

a crisis that affects a large number of firms operating in a given market, while "firm-specific crisis" is a crisis that affects only one particular firm (see Godfrey et al (2009), Schnietz and Epstein (2005) and Jones, Jones and Little (2000)). Godfrey et al (2009) rely on a previous theoretical article (Godfrey (2005)) and empirically test the existence of an "insurance-like" property of CSR activities. They employ an event study of 178 negative legal or regulatory actions against sample firms and they find that a buffer effect does exist. The main construct they implement in order to justify the positive relationship between CSP and CFP is the "moral capital", which is positively connected to CSP and acts like an insurance. Schnietz and Epstein (2005) investigate whether is there financial value for a reputation for corporate social responsibility during the crisis due to the failed 1999 Seattle WTO ministerial meeting. They find evidence that "a reputation for social responsibility yielded tangible financial benefit during the crisis" (Schnietz and Epstein (2005), p 341). Jones et al (2000) investigate the impact of the stock market crashes in 1987 and 1989 on firms with good reputations, where reputation is measured by Fortune's annual ratings of America's largest companies. They find support for the "reservoir of goodwill" presumption, since the stock prices of companies with better reputations dropped significantly less than those without such a reputation.

These three articles tackle the research issue from two different perspective. Schnietz and Epstein (2005) and Jones et al (2000) deal with systemic crises (the failure of the WTO ministerial meeting and the 1987-1989 market crashes), while Godfrey et al (2008) deal with firm-specific crises, in which the negative event has been caused by the firm itself. As pointed out in the introduction, this article will focus on the specific role of CSP in the context of systemic crises.

While empirical studies dealing with the role of CSP in the context of a crisis are few, a number of theoretical studies have combined crisis management and stakeholder management literature. This particular stream of literature has evolved to the extent that, in a recent article, Alpaslan, Green and Mitroff (2009) try to give coherence to a "stakeholder theory of crisis management". The authors analyze the impact of the adoption of a stakeholder model of corporate governance on crisis management outcomes in the context of crises and crisis-like situations. According to the authors, managers behaving more in accord with the stakeholders model will "enjoy more successful crisis management outcomes (such as early detection of warning signals, fast

recovery, etc.) than managers behaving more in accord with the shareholder model" (Alpaslan et al (2009), p. 46). In particular, the main arguments behind this prediction are the following. First of all, managers behaving according to a stakeholder model do establish relationships with a broader set of stakeholders. This allows these managers to define crisis from others' or different stakeholders' viewpoint and allows a "more realistic understanding of themselves and the environment" (Alpaslan et el (2009), p. 45). Second, managers will enjoy the availability of critical stakeholders' resources and information. Third, managers may pick up and interpret adequately early warning signals sent out by different stakeholders.

Other more specific studies focused on issues such as stakeholder identification (Savage, Dunkin and Ford (2004) and Burnet and Houbeart (2007)) and communication (Stephens, Malone and Bailey (2005) and Acquier, Gand and Szpirglas (2008)).

2.2.2 Implicit Claims Management and Regulatory Costs

Implicit Claims. According to Cornell and Shapiro (1987), Coase's insight that "firms exists as a substitute for more expensive modes of transacting" has been extended by others (Alchian and Demsetz, Jensen and Meckling, Williamson, Klein, Crawford and Alchian and Fama and Jensen, among others) and has evolved into viewing the firm as "a contractual coalition that includes both investor and non-investor stakeholders" (Cornell and Shapiro (1987), p 5). In the same article, Cornell and Shapiro distinguish between implicit and explicit contractual claims. While explicit contractual claims are legally codified, implicit claims are "too nebulous and state contingent" (Cornell and Shapiro (1987), p 6) to be codified into a proper contract at reasonable costs and therefore have little legal standing. Nevertheless, they play a central role in the relationship between firms and non-investor stakeholders.

Regulatory Costs. Blacconiere and Patten (1994) define regulatory costs as "costs incurred by a firm in response to or as a result of proposed or enacted government regulations" (Blacconiere and Patten (1994), p 357).

Stakeholders Relations Freeman (1984) defines stakeholders as "any group or individual who can affect or is affected by the achievement of the organization's objectives". A number of studies (among the others Orlitzky, Schmidt and Rynes

(2003), Roman, Hayibor and Agle (1999), Hillman and Kleim (2001), Ruf et al (2001) and Russo and Fouts (1997)) argue that firms having good relationships with their stakeholders may increase their financial performance, since stakeholder relations are valuable, rare and inimitable resources (see Choi and Wang (2009)). Some of these studies (among the others, Choi and Wang (2009)) rely on the theoretical framework of the Resource Based View of the firm (Barney (1991)). According to Graves and Waddock (2000), there is a positive relationship between CSP and implementation of stakeholder relationships and the implementation of stakeholder relations derive from "the values embedded in a company's vision" (Graves and Waddock (2000)).

2.2.3. Resource Availability and Withholding

Resource withholding. Frooman (1999), building upon the resource dependence theory, argues that one of the ways in which stakeholders can influence certain firms' strategies is resource control. In particular, he defines "withholding strategies" as "those where the stakeholder discontinues providing a resource to a firm with the intention of making the firm change a certain behavior". As an example, employees may withhold labor by striking or creditors may withhold debt financing by nonrenewal of loans. If a stakeholder cannot shut off the flow of resources to a firm, it may continue to supply resources but with strings attached. Frooman defines this particular (less strong) way of influence as "usage strategies".

Resource Availability. In order to define "Resource availability" we rely on the stakeholder theory of crisis management and in particular on the article by Alpaslan, Green and Mitroff (2009). Since the article has already been reviewed above, we just recall that the availability of resources and information from stakeholders is among the factors that may lead to a positive crisis outcome.

2.2.4. Corporate Reputation for CSP

Corporate Reputation. Fombrun (1996) defines Corporate Reputation (CR) as "a perceptual representation of a company's past actions and future prospects that describe the firm's overall appeal to all its key constituents when compared to other

leading rivals" (Fombrun (1996), p 72). A well established idea in the literature about reputation (see Fombrun (2001) and Kreps and Wilson (1982)) is that reputation can help uninformed investors or stakeholders to "assess a firm's ability to deliver valued outcomes" (Schnietz and Epstein (2005), p 329). Fombrun (2001) writes: "since outside investors in firms' securities are less informed than managers about firms' future actions, corporate reputations increase investor confidence that managers will act in ways that are reputation-consistent" (Fombrun (2001) p. 290). Kreps and Wilson (1982) argue that reputations may be used by uninformed players in order to determine the characteristics and future behaviours of other players. Other studies (among the others, Choi and Wang (2009) and Ruf et al (2001)) based on the Resource Based View of the firm (Barney (1991)), did show that reputation is a resource difficult to imitate and thus valuable.

According to part of the literature (among the others, Brammer and Pavelin (2006), Fombrun and Shanley (1990), Sobol and Farrell (1988) and Riahi-Belkaoui and Pavlik (1991)) corporate reputation is determined by a number of different dimensions, such as: CSP, CFP, market risk, long-term institutional ownership, the nature of the firm's business, dividends payout and appearances on the media. Other studies, instead, do assume that corporate reputation is determined just by CSP. Hillenbrand and Money (2007), at the end of their qualitative study consisting in 15 in-depth interviews, conclude that there is a "great overlap between elements of reputation models and aspects of Corporate Responsibility" (Hillenbrand and Money (2007), p 275) and that "(m)easuring Corporate Responsibility may therefore, not be that different from measuring Corporate Reputation, as both can be rooted in stakeholder relationship" (Hillenbrand and Money (2007), p 275). Logsdon and Wood (2002) argue that CSP is "(…) a source of a firm's reputation, and widespread consensus within the field is that managers should consider the expectations and judgments of various external and internal stakeholders when they make decisions" (Logsdon and Wood (2002), p 365). De Quevedo Puente et al (2007) cite three specific studies (Sharfman (1996), Waddock and Graves (1997) and Brown and Perry (1994)) that demonstrated that CSP – as measured by KLD ratings – is related to the reputational rankings published by Fortune (de Quevedo Puente et al (2007), p 65). Furthermore, they propose a framework in order to define the nature of the relationship between corporate reputation and CSP.

According to the framework, CSP, through a legitimation process, determines corporate reputation. Since we are interested into analyzing the specific impact of CSP on CFP, we will focus on Corporate Reputation for CSP, a narrower kind of Corporate Reputation, and we assume, following the literature reviewed above, that Corporate Reputation for CSP is determined by CSP.

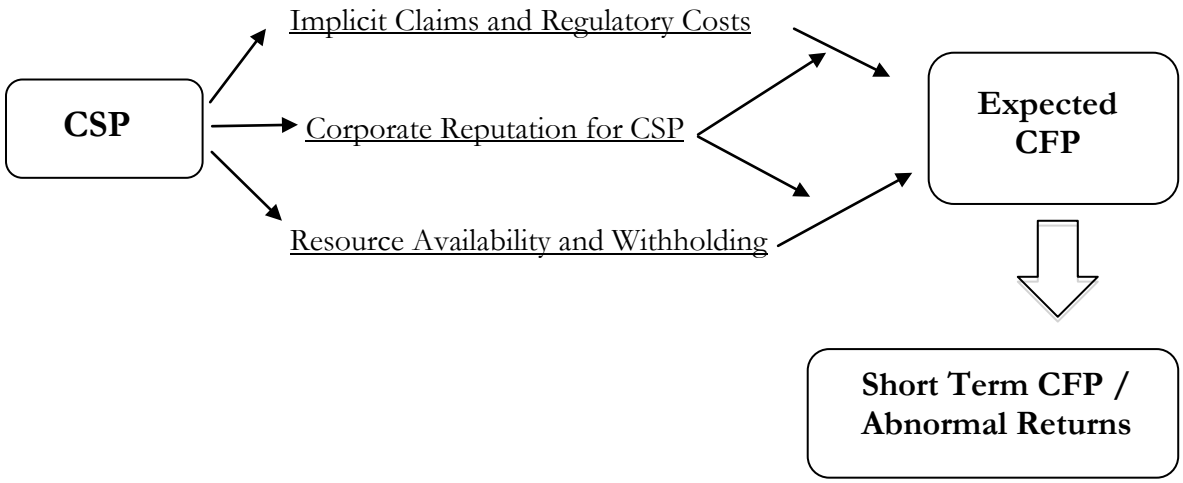
Among all the empirical and theoretical studies dealing with the relationship between Corporate Reputation and Financial Performance (for a review see de la Fuente Sabate and de Quevedo Puente (2003)), some of them specifically deal with the role of reputation in the context of a crisis. Among the empirical studies, Schnietz and Epstein (2005) and Jones et al (2000) show that a positive relationship between Reputation for CSP and CFP during a crisis does exist. Among the theoretical studies, Coombs (2007) proposes a framework – the Situational Crisis Communication Theory – through which managers can better understand how stakeholders will react to a crisis and better deal with reputation threats posed by crises. Peloza (2006) deals with the relationship among Corporate Social Performance, Reputation and Corporate Financial Performance. He argues that the value of CSR as "insurance" against negative events is a well known and accepted concept not only in the academic field but also among practitioners. During a crisis, reputation can protect firms' financial performance and therefore "CSR can provide incremental gain during good times and subsequent mitigation of negative publicity" (Peloza (2006), p 62).

2.3 HYPOTHESIS DEVELOPMENT

Below, three different mechanisms explaining how CSP may have impacted on the expected CFP in the context of Lehman Brothers bankruptcy are described. Each mechanism is grounded on previous literature, implemented and finally contextualized in the Lehman Brothers bankruptcy. The first two mechanisms ("Implicit Claim Management and Regulatory Costs" and "Resources Availability and Withholding") are based on the literature about stakeholder relations and stakeholder theory of crisis management and have a direct impact on expected CFP. The third mechanism

("Reputation for CSP") is based the literature about Corporate Reputation and acts as a moderator in the relationship between the other two mechanisms and expected CFP.

Figure 1: the relationship between CSP and Short Term CFP / Abnormal Returns[a b]



[a] "Implicit Claims Management and Regulatory Costs" and "Resource Availability and Withholding" have a direct impact on expected CFP (thus on investors' expectations about the ability of firms to produce future cash flows as a consequence of the crisis and for the part due to firms' specific risk). Reputation for CSP acts as a moderator between the other two mechanisms and the expected CFP, because it signals stakeholder relations' quality. Expected CFP will determine Short Term CFP / Abnormal Returns.

[b] Arrows indicate the existence of a positive relationship between variables and/or mechanisms' effectiveness.

2.3.1 Implicit Claims Management and Regulatory Costs

This mechanism refers to the ability of companies to manage implicit claims made by non-investor stakeholders and to prevent regulatory costs due to the enforcement of laws from the government. Due to the US financial crisis, and in particular to Lehman Brothers bankruptcy, the consumers' and other non-investor stakeholders' demand for transparency and ethic behaviors from companies may have

increased. This because greed, bad regulation in the financial sector and lack of transparency have been pointed out among the main causes of the financial crisis. Relying on *Factiva*, it is possible to see that during 2008 the word "greed" has been used in 31.582 press articles, whereas three years before it has been used just in 18.744 articles. The words "financial regulation" have been used 7.219 times in 2008 and 1.931 in 2005. The word "transparency" 137.446 times in 2008 and 85.090 in 2005. The argument that the lack of ethics is one of the (perceived) causes of the US financial crisis (and, more broadly, of Lehman Brothers' bankruptcy) finds also support in public statements of prominent world leaders. In July 2008 the president of the United States, George W Bush– during a closed Republican fund-raiser - declared: "Wall Street got drunk" (The New York Times (2008b)). On the 23rd of September 2008 – only some days after Lehman Brothers' bankruptcy - the French president Nicolas Sarkozy, addressing to the United Nations general assembly, said that the world cannot wait to "bring ethics to financial capitalism" (see The Economist (2008)). A recent article on the Economist (The Economist (2010)) gives account of the work by Anton Valukas, chairman of a law firm in charge of investigating into the causes of Lehman Brothers' bankruptcy. According to The Economist: "Mr Valukas marshals plenty of evidence to back up his claim that 'Lehman painted a misleading picture of its financial condition'" (The Economist (2010)). At the same time, the financial crisis rekindled the debate – still alive to date - on the fairness of executive pay and "golden parachutes" (see The Economist (2009a) and The Economist (2009b). Just recently academic literature dealt with the topic. Fornasari (2009) argues that one of the main causes of the financial crisis has been the "opacity of the financial system". He writes: "(...) non-bank financial intermediaries (...) were able to expand their assets enormously without any deposit money and outside the close supervision of central banks and regulators".

Even if a deep analysis of the causes of the financial crisis and of their perception by investors is not within the boundaries of this article, the considerations above show that some of the main causes of the financial crisis are closely related with a poor socially responsible conduct by financial institutions. As a consequence, this may have led a wide range of stakeholders to increase their demand for transparent and ethic behaviors (e.g. demand for increased financial disclosure), thus increasing their implicit claims on firms. Following the framework used by Schnietz and Epstein (2005) to

interpret Seattle WTO's failure, we argue that Lehman Brothers bankruptcy may have increased the probability of non-investor stakeholders causing firms financial distress by exercising their implicit claims on firms to, for example, increase their financial disclosure. We expect that firms with better stakeholder relations will manage implicit claims more efficiently, and this will ultimately lead socially responsible firms to achieve a better expected CFP. Similarly, the perception that the lack of ethics and transparency has been among the causes of the financial crisis may have increased the probability of the government to enforce laws and regulations in order to push firms toward higher standards of ethical behaviors and disclosure. In fact, after the crisis the US government did enforce a law for the regulation of the financial sector (see Wall Street Journal (2010)) . This has shown that the risk of bearing regulatory costs was a concrete possibility. In assessing firms' expected CFP, investors may have considered that firms with higher levels of CSP may face less regulatory costs (as defined by Blacconiere and Patten (1994)). Therefore, we expect that firms with higher CSP – bearing less risk of regulatory costs - will achieve better than expected CFP.

2.3.2 Resources Availability and Withholding

In the context of Lehman Brothers bankruptcy, firms adopting a stakeholder model may have enjoyed more successful crisis management outcomes mainly because of the availability of critical resources and information from stakeholders (Alpaslan et al (2009)). It is widely recognized that the US financial crisis caused a diminishing level of trust among operators. Firms that managed during the years to create trustworthy relationships with stakeholders may have relied on these relationships in order to maintain their financial performance during the crisis.

It has been previously shown that Lehman Brothers bankruptcy stressed the issue of ethics in business. This may have led stakeholders to increase their implicit claims about social responsibility and disclosure. Therefore, some stakeholders may have withheld resources in order to push companies toward social responsibility. According to Alpaslan et al (2009), it may exist a negative relationship between stakeholders engagement and resource withholding: "establishing strong and sincere relationships with stakeholders before a crisis makes crisis prevention and recovery

faster and easier, because such efforts make stakeholders less likely to withhold resources and information (…)". The same authors rely on Jones (1995) article to argue that managers embracing stakeholder theory's principles are "more trustworthy and cooperative in the eyes of their stakeholders". As it was argued before, Lehman Brothers bankruptcy may have boosted stakeholders' implicit claims (e.g. demand for transparency). Some stakeholders (see Frooman (1999), p 197) may have used resource withholding to push firms toward a more socially responsible behavior. Relying on previous literature, socially responsible firms are expected to experience less resource withholding than non socially responsible firms and this is expected to increase socially responsible firms' CFP. Therefore, we expect that firms with better stakeholder relations (measured through CSP) will have higher expected CFP because of resources availability and less resource withholding.

2.3.3 Corporate Reputation for CSP

By relying on previous literature reviewed above (and in particular on the work by Schnietz and Epstein (2005)), Hillenbrand and Money (2007) and de Quevedo-Puente et al (2007)) we assume that Corporate Reputation for CSP is determined by CSP (see Section 8 for a discussion on the issue). In particular, we argue that in the context of Lehman Brothers bankruptcy, a reputation for CSP may signal to investors the ability of the firm to deliver social performance to stakeholders. In other words, it may signal the quality of stakeholder relations – that are the core of "Implicit Claim Management and Regulatory Costs" and "Resource Availability and Withholding" mechanisms. Therefore, contrary to Schnietz and Epstein (2005) and Jones et al (2000), we argue that Reputation for CSP will not have a direct impact on expected CFP, but will rather act as a moderator between stakeholder relations and expected CFP. In other words, Reputation for CSP will impact on the assessments made by investors about firms' stakeholder relations and –as a consequence- future profitability through the other two mechanisms.

Therefore, we argue that CSP will determine Corporate Reputation for CSP and Corporate Reputation for CSP may positively impact on investors' opinion about the

effectiveness of the “Implicit Claim Management and Regulatory Costs” and “Resource Availability and Withholding" mechanisms.

2.3.4 Hypothesis 1

The three mechanisms implemented above suggest the existence of a positive relationship between CSP and expected CFP, in the context of the crisis due to Lehman Brothers bankruptcy. Since stock prices are driven by investors’ expectations about firms’ ability to generate future cash flows (thus, by expected CFP), we propose the following Hypothesis:

Hypothesis 1: in the context of the crisis due to Lehman Brothers bankruptcy, CSP is positively correlated with short term CFP / Abnormal Returns.

If Hypothesis 1 will be empirically tested to be true, then we can infer that, in the context of the crisis due to Lehman Brothers bankruptcy, there was a positive correlation between CSP and expected CFP, thus that investors expected firms with higher levels of CSP to perform better.

2.3.5 Hypothesis 2

CSP is a broad construct that includes a variety of firms’ actions, ranging from social and environmental disclosure to human capital development. On the one hand, a number of studies (e.g., Schnietz and Epstein (2005)) use single measures of CSP. On the other hand, the organizations providing measures of CSP (e.g. SAM Group or KLD) do differentiate between various dimensions of CSP and also in the more recent academic literature scholars distinguish CSP into different dimensions. Godfrey et al (2009) point out the issue and they observe: “(…) extant studies use relatively coarse-grained measures for CSR (e.g., usually a single, monolithic measure of CSR or a single proxy such as disclosure or philanthropic giving)” (Godfrey et al (2009, p 426). The authors rely on the work by Mattingly and Berman (2006) in order to distinguish between “Technical CSR” (activities benefiting primary stakeholders) and “Institutional

CSR" (activities benefiting secondary stakeholders). Primary stakeholders are those who are essential to the operation of a business. They make legitimate claims on the firms and they have both urgency and power (see Godfrey et al (2009) and Mitchell et al (1997)). Secondary stakeholders can influence the firm's primary stakeholders. They have legitimate claims on the firm, but they lack both urgency and power to enforce those claims (see Godfrey et al (2009) and Mitchell et al (1997)). We believe that this classification can offer some important insights in order to understand the role of primary and secondary stakeholders in the impact of the crisis. We rely on the work of Mattingly and Berman (2006) in the definition of the independent variables and we measure CSP (or "corporate social actions", as they define it in their article) by employing the four latent factors defined by the authors (Institutional Weaknesses, Institutional Strength, Technical Weaknesses, Technical Strength).

We propose the following hypotheses:

Hypothesis 2 a: in the context of the crisis due to Lehman Brothers bankruptcy, Institutional Weaknesses are negatively correlated with short term CFP / Abnormal Returns.

Hypothesis 2 b: in the context of the crisis due to Lehman Brothers bankruptcy, Institutional Strengths are positively correlated with short term CFP / Abnormal Returns.

Hypothesis 2 c: in the context of the crisis due to Lehman Brothers bankruptcy, Technical Weaknesses are negatively correlated with short term CFP / Abnormal Returns.

Hypothesis 2 d: in the context of the crisis due to Lehman Brothers bankruptcy, Technical Strengths are positively correlated with short term CFP / Abnormal Returns.

2.3.6 Hypothesis 3

In a recent article, Surroca, Tribò and Waddock (2010) find that intangibles mediate the relationship between CRP (Corporate Responsibility Performance) and CFP. Godfrey et al (2009) find evidence supporting the hypothesis that in the context of

a negative event, “the insurance effect of CSR activities will be greater for firms with higher levels of intangible assets” (Godfrey et al (2009) p 430). This because negative events may impact on the value of the firm indirectly, thus reducing – through stakeholder reaction - the value of intangible assets. The higher the proportion of intangible assets, the higher the possibility for losses, the higher the potential for the insurance value of CSR. By applying the same reasoning to the context of Lehman Brothers bankruptcy, the impact of the three mechanisms described above (“Implicit Claim Management and Regulatory Costs”, “Resources Availability and Withholding” and “Reputation for CSP”) may have been higher for firms with higher levels of intangible assets. Therefore, we propose the following Hypothesis, that is relevant because the role of intangible assets in the context of a systemic crisis has never been tested before. Surroca, Tribò and Waddock (2010) test the effects of a firm’s intangibles in mediating the relationship between CSP and CFP in a business as usual context, while Godfrey et al (2009) test the same relationship in the context of firm-specific crises.

Hypothesis 3: in the context of the crisis due to Lehman Brothers bankruptcy, the positive effect of CSP on short term CFP / Abnormal Returns will be greater for firms with higher levels of intangible assets.

2.4 METHODOLOGY

2.4.1 Sample

The sample hereby studied includes all the US non-financial firms belonging to the S&P 500 stock market index. Because of their peculiar core business and risk profile, companies operating in the following industries (financial firms) were excluded from the initial sample: Non life insurance, Life insurance, Financial services, Banks and Real Estate Investment Trusts. To test the impact of Lehman Brothers bankruptcy on financial firms would be an interesting contribution that may be implemented in a following article.

Financial firm level data were drawn from *Datastream*, while data about CSP have been provided by *KLD (now MSCI)*. KLD data are widely used in the academic articles dealing with CSP (see, among the others, Harrison and Freeman (1999), Johnson and Greening (1999), McWilliams and Siegel (2000), David et al (2007), Godfrey et al (2009)) and they currently represent the most reliable source of information of social performance of firms (for a discussion on the KLD framework of analysis see Sharfman (1996)) . KLD provides in-depth research, ratings and analysis of the environmental, social and governance-related business practices of thousands of companies listed on the S&P 500, Domini 400 Social Index, Russell 1000, or KLD Large Cap Social Indexes as of December 31st of each year. KLD provides a score (through the indication of the number of strengths and concerns) for each of the following CSP dimensions: Community, Corporate Governance, Diversity, Employee Relations, Environment, Human Rights and Product. Table 1 displays some descriptive statistics of the companies included in the sample.

Table 1
Descriptive Statistics for Variables Used in the Analysis
Variables refers to 2007

Variable	Mean	Standard Deviation	Median
Total - Assets	21.295.809	50.029.307	9.668.307
Debt - Equity Ratio	129,020	686,84	50,57
Return on Equity (ROE)	35,57	331,16	18,52
Market to Book Ratio	4,30	5,33	3,36

Table 2 shows the different industries included in the sample.

Table 2
Industries in the sample

Nuber of sample firms belonging to the different industries. The benchmark used to classify the different industries Industry Classification Benchmark Level 1

Basic Materials	26
Consumer Goods and Services	120
Health Care	44
Industrials	74
Oil and Gas	35
Technology	56
Utilities	34
Telecommunications	9
TOTAL	372

2.4.2 Event Study

Event study methodology measures the impact of a specific and unanticipated event on the value of a firm through the determination of abnormal stock returns. According to MacKinlay (1997), event studies have been applied in accounting and finance to a variety of events, and in particular both to firm specific events and to economy wide events. MacKinlay (1997) quotes, as examples of event studies dealing with economy wide events, the articles of Grant McQueen and Vance Roley (1993) and G. William Schwert (1981). Also Schnietz and Epstein (2005) deal with an event – the 1999 Seattle World Trade Organization failure - that does not have an impact just on one single firm but rather on the whole market. Similarly to these studies, the present research intends to examine the impact of an exogenous economy wide event –Lehman Brothers bankruptcy – on the value of sample firms.

In order to determine sample firms' abnormal returns, we chose the Market Model for two reasons. First, it is by far the most widely used model in studies employing event study methodology – among the others, both Schnietz and Epstein (2005) and Godfrey et al (2009) employed the Market Model. Second, according to Brown and Warner (1980), in presence of event clustering the performance of the

Market Model is higher than the others, in particular than the Constant Mean Return Model. According to the Market Model:

$$AR_{iT} = R_{iT} - \alpha_i - \beta_i * R_{mT}$$

Where AR_{iT} is the abnormal stock return of security i at time T, R_{iT} is the actual return of security i at time T and ($\alpha_i + \beta_i * R_{mT}$) is the expected return of security i at time T. α_i and β_i are firm-specific parameters obtained by regressing firms' stock prices on the market index (see MacKinlay (1997) for the specific formulae). R_{mT} is the stock index (S&P 500 index). Following Schnietz and Epstein (2005), the estimation window has been set to be 255 trading days long. AR_{iT} represents the impact of Lehman Brothers bankruptcy on firms' return depending on firms' specific risk. ($\alpha_i + \beta_i * R_{mT}$) represents the Normal (or Expected) Return, that is the component of returns due to systematic risk.

2.5 EMPIRICAL ANALYSIS

2.5.1 Event Window definition and test of Event Study's assumptions

Consistently with the event study protocol, three different statistics have been performed in order to test whether Abnormal Returns significantly differ from zero. Boehmer et al (1991) provide a review of the different methods used in previous literature in order to test Abnormal Returns' significance. Following Boehmer et al (1991), three different tests have been performed following different methodologies: the traditional method (Brown and Warner (1980)), the ordinary cross-sectional method (Boehmer et al (1991)) and finally the sign test. According to MacWilliams and Siegel (1997), non-parametric test statistics (such as the sign test) are an effective way to control for the influence of outliers. Since event windows of sample firms do overlap, there is event clustering. Because of cross sectional dependence, event clustering may bias the statistical tests. Brown and Warner (1980) tackle the issue of the effect of clustering on the effectiveness of statistics testing the significance of abnormal returns

and they conclude that when Abnormal Returns are determined through the Market Model, the fact that cross-sectional dependence is taken into account or not does not significantly impact on the effectiveness of statistics testing the significance of abnormal returns (Brown and Warner (1980)). Therefore, since we computed Abnormal Returns of sample firms through the Market Model, the bias of event clustering is overcome and the statistics presented below are reliable.

Table 3
Abnormal Returns significance

Statistical tests (t-values) on the Abnormal Returns of each trading day from t-1 to t+1, where t represents the event day. Null hypothesis: "Average Abnormal Returns are zero". N = 398. *: The test rejects the null hypothesis at a 1 % significance level, thus AAR are significantly different from zero.
"The traditional test statistic equals the sum of the event-period abnormal returns divided by the square root of the sum of all securities' estimation-period residual variances" (Boehmer et al (1991)); "The ordinary cross-sectional method ignores estimation-period estimates of variance and uses the event-day cross-sectional standard deviation for its t-statistics" (Boehmer et al (1991)); "The sign test statistic is the observed proportion of positive returns minus 0.50 divided by the standard deviation of a binomial distribution" (Boehmer et al (1991).

Date	Average Abnormal Return	Traditional	Ordinary Cross-Section	Sign Test
12th September 2008	0.0016	0.85	1.35	0.89
15th September 2008	**-0.0146**	**-7.63 ***	**-9.77 ***	**6.83 ***
16th September 2008	0.0032	1.61	2.56 *	1.88

In order to define the event window, we took into account the significance of the abnormal returns in the days surrounding the 15th of September 2008. In particular, we followed the approach proposed by Godfrey et al (2009). The authors employ a parametric and a non-parametric test (Patell z and the generalized sign z test) in order to examine the likelihood that the Average Abnormal Returns (AAR)[2] of the days surrounding the event day differs from zero. Then they define the event window selecting the days in which AARs significantly differ from zero. The results displayed in Table 3 show that AAR on the 15th of September 2008 are significantly different from zero and that – with the exception of the ordinary cross-sectional method -AARs of neither the day before nor the day after the event are significantly different from zero,

[2] Average Abnormal Returns (AAR) is the average of sample firms' AR for each day.

suggesting that the event window should include just the event day (15th of September 2008).

The decision of Lehman Brothers to file for bankruptcy has been taken at the end of a week end of intense negotiations, and it is important to notice that the two days preceding the announcement were not trading days (Saturday 13th and Sunday 14th September). The empirical evidence provided above (see Table 3) suggests that the negotiations' outcome was unpredicted by investors on the trading day prior to the event day, thus Friday 12th September. According to McWilliams and Siegel (1997), one of the three assumptions underlying the identification of abnormal returns is that the event is unanticipated. The way in which Lehman Brothers bankruptcy evolved and the robust empirical evidence outlined above do support this assumption.

The second assumption that, according to McWilliams and Siegel (1997), underlies the identification of abnormal returns is market efficiency - thus the hypothesis that prices fully reflect available information (Fama (1998)). To test for market efficiency is particularly important in the particular context of Lehman Brothers bankruptcy, since it could be the case that during the days immediately after the 15th of September 2008 the investors may have reacted to speculative factors rather than incorporate the available information into the stock price. Even if to provide a comprehensive test of market efficiency is not within the boundaries of the present article, some empirical evidence can be drawn from Table 3. According to Brown and Warner (1980), event studies can be used as a direct test of market efficiency. In particular, they argue that the efficient market hypothesis would be violated in the case of "(s)ystematically nonzero abnormal security returns which persist after a particular type of event" (Brown and Warner (1980), p 205). By relying on the statistics shown in Table 4, it is possible to observe that Abnormal Returns do not persist in the days after the event of interest. We therefore argue that firms' stock prices reflect all the available information absorbed by the investors in the marketplace on the 15th September 2008. Lehman Brothers bankruptcy has been news immediately spread all around the world by newspapers, TV and the web. Therefore it seems likely that all the investors (both professional and public) received the information about Lehman Brothers bankruptcy and immediately incorporated it into the stock prices. Previous literature, the specific

events of Lehman Brothers bankruptcy and the empirical evidence outlined above do confirm that the efficient market hypothesis has not been violated.

The third and final assumption that, according to McWilliams and Siegel (1997), underlies the identification of abnormal returns is the absence of confounding events, thus events that may potentially determine an abnormal return not related to the event examined. In order to eliminate this bias, we searched for firms reporting announcements of mergers, dividends distribution, announcement of a new product or other major events. Accordingly, eleven firms has been eliminated from the database because of the presence of confounding events occurred on the 15th of September 2008. In order to check if these sample restrictions had any effect on the results of test statistics about the significance of abnormal returns, the four statistics have been performed one more time on the restricted samples. The results are substantially identical to the ones displayed in Table 3.

2.5.2 Regression

The linear regression model (OLS) is the following:

$$AR = \alpha + \beta_1 \text{ CSP} + \beta_2 \text{ LnSales} + \beta_3 \text{ D/E Ratio} + \beta_4 \text{ ROE} + \beta_5 \text{ M/B Ratio} + \beta_6 \text{ CSP*M/B Ratio} + \beta_7 \text{ INDUSTRY} + \beta_8 \text{ T\_CSP} + \beta_9 \text{ I\_CSP} + \varepsilon$$

<u>Abnormal Return (AR).</u> The dependent variable is the Abnormal Return of sample firms during the event window (15th September 2008). We termed AR “short term CFP” in order to distinguish it from the “expected CFP” (See Figure 1).

<u>Corporate Social Performance (CSP).</u> CSP is the score (data have been provided by KLD) of firms’ CSP in 2007. More specifically, we followed Graves and Waddock (2000) and Choi and Wang (2009) and we computed CSP as the difference between strengths and concerns in the following five dimensions: community relations, diversity, employee relations, governance and product. Since CSP is not a monolithic measure, we distinguish Institutional Weaknesses, Institutional Strengths, Technical Weaknesses and Technical Strengths (see Mattingly and Berman (2006))

Institutional Weaknesses (Inst_Weak). Institutional CSP represents the activities benefiting secondary stakeholders (see Mattingly and Berman (2006) and Godfrey et al (2009)). Mattingly and Berman (2006) performed an analysis through the exploratory analytical method, and they proposed a classification of corporate social action that is based on four variables. These variables are not the net result of the sum of strength and weaknesses (as defined by the KLD methodology) but they rather keep strengths and weaknesses separated. Institutional Weaknesses include the following KLD dimensions: environmental weaknesses, community weaknesses and environmental strengths (see Mattingly and Berman (2006), p 34).

Institutional Strengths (Inst_Str). Institutional Strengths include the following KLD dimensions: community strengths and diversity strengths (see Mattingly and Berman (2006), p 35).

Technical Weaknesses (Tech_Weak). Technical CSP represents the activities benefiting primary stakeholders (see Mattingly and Berman (2006) and Godfrey et al (2009). Technical Weaknesses include the following KLD dimensions: employee weaknesses, product weaknesses, governance weaknesses and diversity weaknesses (see Mattingly and Berman (2006), p 36).

Technical Strengths (Tech_Str). Technical Strengths include the following KLD dimensions: product strengths, governance strengths and employee strengths (see Mattingly and Berman (2006), p 36).

Market to Book Ratio (M/B Ratio). Following Godfrey et al (2009), Market to Book Ratio is used as a proxy for measuring intangible assets. Godfrey et al (2009) quotes a study by Villalonga (2004) showing that market to book is strongly correlated with Tobin's q, that, according to the authors represents "the theoretical standard for measuring intangible assets" (Godfrey et al (2009), p 434). In order to test whether the eventual buffer effect of CSP has been more significant for firms with an higher level of intangibles, we created an interaction variable, CSP * M/B Ratio. CSP is defined above. M/B Ratio refers to the 12th of September 2008, is a continuous variable and has been gathered through *Datastream*.

Natural Logarithm of 2007 Sales (LnSales). Following Godfrey et al (2009), firm size has been measured as the natural logarithm of sales. Sales of the year 2007

have been taken into account in order to avoid some possible biases deriving from the impact of the financial crisis on sales.

Debt to Equity Ratio (D/E Ratio). Debt to equity ratio has been used as a proxy for risk and it refers to the year 2007. It takes into account the level of debt of firms, that may represent an important element in the explanation of Abnormal Returns, since the bankruptcy of Lehman Brothers may have hit more firms with a higher level of debt.

Return on Equity (ROE). The proxy for profitability is the 2007 Return on Equity. A number of empirical studies show the existence of a positive correlation between Corporate Social Performance and various measures of financial performance (for a review of previous literature see Margolis and Walsh (2001), its update by Margolis and Walsh (2003), Pava and Krausz (1996), Griffin and Mahon (1997) and Roman et al (1999)). Given the possible existence of a relationship between CSP and CFP (in this case the causality is not relevant), it could be the case – if a measure of CFP is omitted - that the CSP coefficient may be overestimated. In order to separate the effects of the two variables, an accounting measure of profitability (ROE) has been included. The data about 2007 has been chosen in order to avoid biases due to US financial crisis.

Industry (INDUSTRY). According to Peloza (2006), " (…) the insurance value of CSR will vary across industries and firms". In order to control for the possible different impact of Lehman Brothers bankruptcy on firms belonging to different industries, a categorical and non ordinal variable has been created. This variable allow to quantify the relative impact of the event on firms operating in the different industries compared to firms operating in the Basic Material industry (that - because of this reason - has been excluded from the regression). The benchmark we used in order to classify the different industries is the Industry Classification Benchmark Level 1. Table 3 displays the number of firms operating in the different industries.

Table 4
Correlation Matrix

The Table displays Pearson correlation matrixes. Coefficients' significance: * p < 0.10; ** p < 0.05; *** p < 0.01

Variable	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Abnormal Returns (AR)	1									
Corporate Social Perofrmance (CSP)	0.164 ***	1								
Log of Sales (Ln_Sales)	0.045	0.114 **	1							
Debt Equity Ratio (D/E Ratio)	0.081	-0.012	0.122 **	1						
Return on Equity (ROE)	-0.016	0.067	0.058	0.058	1					
Market to Book Ratio (M2B)	0.073	0.060	-0.037	0.293 ***	0.238 ***	1				
Institutional Weaknesses (Inst_Weak)	-0.24 ***	-0.28 ***	0.21 ***	0.11**	-0.02	-0.15 ***	1			
Institutional Strenghts (Inst_Str)	0.18 ***	0.65 ***	0.47 ***	0.085 *	0.014	0.001	-0.14 ***	1		
Technical Weaknesses (Tech_Weak)	0.031	-0.36 ***	0.52 ***	0.081	-0.039	-0.077	0.19 ***	0.32 ***	1	
Technical Strengths (Tech_Str)	0.069	0.647 ***	0.353 ***	-0.038	0.064	-0.017	0.046	0.44 ***	0.16 ***	1

Table 5
Effect of Corporate Social Performance (different dimensions) on Abnormal Returns

The dependent variable is Abnormal Returns. All variables are winsorized at the 2% level. N = 372. Initial sample: 398 firms (S&P non financial firms included in Datastream); 11 firms dropped because of confounding events; 15 firms dropped because not included in the KLD database
Coefficients' significance: * p < 0.10; ** p<0.05; *** p<0.01.

Variable	(1)	(2)	(3)	(4)
Intercept	-0.04409 **	-0.03484	0.00418	-0.03458 *
	(0.01948)	(0.01906)	(0.02201)	(0.01924)
CSP		0.00131 ***		0.00096 *
		(0.00045)		(0.00054)
LnSales	-0.00028	-0.00082	-0.00225	-0.00085
	(0.00107)	(0.000105)	(0.00140)	(0.00107)
D/E Ratio	-0.00001	-0.00001	-0.00001	-0.00001
	(0.00001)	(0.00001)	(0.00001)	(0.00001)
ROE	0.00005	0.00003	0.00003	0.00002
	(0.00008)	(0.00008)	(0.00008)	(0.00008)
M/B Ratio				0.00003
				(0.00015)
CSP * M/B Ratio				0.00005
				(0.00007)
Inst_Weak			-0.00170	
			(0.00126)	
Inst_Str			0.00041	
			(0.00082)	
Tech_Weak			0.00028	
			(0.00081)	
Tech_Str			0.00353 ***	
			(0.00102)	
Year Fixed	Yes	Yes	Yes	Yes
Industry Fixed	Yes	Yes	Yes	Yes
F	24.29 ***	22.79 ***	19.77 ***	19.77 ***
R2	0.40	0.42	0.43	0.41

2.6 RESULTS

Table 5 reports regression's results. The comparison of Model 1 and Model 2 allows estimating the impact of CSP on ARs. Model 1 is overall significant at the 1% level and has an R^2 of .40. None of the control variables, with the exception of industry

variables, are significant. Model 2 (significant at the 1% level and with an R^2 of .42) introduces the variable CSP. CSP is positive and significant at the 1% level and determines a .02 increase of the R^2 of the model. Together, these results provide strong empirical evidence that CSP did have a significant and positive impact on ARs, in the context of Lehman Brothers bankruptcy.

Model 3 tests Hypothesis 2a, 2b, 2c and 2d. The model is significant at a 1% level and has an R^2 of .43. Only the variable Technical Strengths has a significant impact on Abnormal Returns.

Model 4 is aimed at testing Hypothesis 3 and it is overall significant at the 1% level with an R^2 of .41. The interaction variable (CSP * M/B ratio) does not have a significant impact on AR, therefore we can conclude that CSP did not have a higher impact on AR in sample firms with more intangibles. None of the control variables (with the exception of the variables representing industry effects) does have any predictive power on ARs, since none of them is significant.

2.7 DISCUSSION

The evidence provided by the regressions displayed in Table 5 (and more specifically in Models 1 and 2) confirms *Hypothesis 1*: in the context of the crisis due to Lehman Brothers bankruptcy, CSP is positively correlated with short term CFP/Abnormal Returns. Since *Hypothesis 1* has been empirically proved to be true, we can infer – even if we did not directly prove it - that the positive relationship between CSP and ARs is a consequence of a positive relationship between CSP and expected CFP. Therefore, as a consequence of Lehman Brothers' bankruptcy, investors expected firms with higher CSP to perform better than firms with lower CSP, as far as it concerns the expected CFP due to the specific risk. Further evidence on this point is provided in Table 6. According to our data, on the 15th of September 2008, Abnormal Returns of both the firms belonging to the top CSP decile and the firms belonging to the bottom CSP decile have been negative. Nevertheless, the Average Abnormal Returns for high CSP firms is significantly less negative than the Average Abnormal Return for the bottom decile CSP firms.

Table 6
Actual Return, Normal (or Expected) Returns and Abnormal Returns on the 15th of September 2008

Abnormal Return = Actual Return – Normal Return; Actual Returns represent average sample firms' return on the 15th of September 2008; Normal (or Expected) returns are calculated through the Market Model; According to t-test, Average Abnormal Returns for high CSP firms is significantly less than the Average Abnormal Return for the bottom decile CSP firms.

	S&P 500 non financial firms	Top 10% CSP Score	Bottom 10% CSP score
Actual Returns	-0.0412	-0.0337	-0.0453
Normal (or Expected) Returns	-0.0266	-0.0232	-0.0124
Abnormal Returns	**-0.0146**	**-0.0105**	**-0.0329**

The confirmation of *Hypothesis 1* shows that investors considered firms with higher levels of CSP able to produce higher CFP, for the part due to the specific risk. The reasons behind this finding could be the ones expressed by the three mechanisms proposed, but this hypothesis cannot be tested here. The confirmation of *Hypothesis 1* is consistent with the finding of Schnietz and Epstein (2005). Even if the authors employ a different framework of analysis (they measure the impact of a reputation for CSR on CFP), their main independent variable is empirically measured as CSP. Furthermore, the event of interest is similar to the one studied here, an economy-wide event capturing stakeholders' attention on social and ethical issues. These analogies make the results of Schnietz and Epstein (2005) and of the present study directly comparable. On the contrary, it is not possible to make any comparison with the study by Godfrey et al (2009), since the authors focus on firm-specific crises, rather than on systemic crises. Our results provide important insights to academics, managers and policy makers. On the one hand, as we will discuss below, further research is needed in order to allow for a generalization of our results to crises or exogenous financial shocks in general. On the other hand, the test of a positive correlation between CSP and CFP in the context of a crisis may represent an important step forward in the literature dealing with the relationship between CSP and CFP. The analysis performed in this and similar studies may provide the evidence that is still missing, in the achievement of a consensus on the much debated question: "Are firms doing good also doing better financially?". Managers may find our paper's results of their interest, since socially responsible firms benefited of a buffer effect in the context of Lehman Brothers bankruptcy. More

specifically, the existence of a buffer effect has two implications. First, when facing crises, socially responsible firms' stocks are less volatile. This is of paramount importance especially if we consider that firms are operating in an ever-changing and globalized environment. The globalization of financial markets makes financial crises more common than before (see Schmukler et al (2004) for a review of previous literature on financial contagion), and less volatile stocks may be increasingly appreciated by investors. Second, the buffer effect of CSP had an immediate positive effects on socially responsible firms' returns, the 15th of September 2008.

Model 3 tests *Hypothesis 2a, 2b, 2c and 2d.* The results show that the positive and significant impact of CSP on ARs is driven by the activities benefiting primary stakeholders (Technical Strengths). We can conclude that *Hypothesis 2 d* is confirmed while all other hypothesis are disconfirmed. In this analysis, we followed the approach by Mattingly and Berman (2006) and we decomposed CSP into the four "latent factors" suggested by the authors. These results suggests that the process through which investors assess the future expected performance of firms in the context of a crisis is influenced by the positive activities implemented by firms toward primary stakeholders. Managers may find these results of interest in order to have some indications on which socially responsible activities to foster, being the resources by definition scarce and the number of possible CSP activities very large.

Model 4 introduces an additional construct (the level of intangibles), represented by the two variables CSP * M/B Ratio and M/B Ratio. These variables (and in particular the interaction variable CSP * M/B Ratio) test whether CSP had a higher impact on AR in firms with more intangibles. Since the variable is not significant, Model 4 disconfirms Hypothesis 3, thus in the context of the crisis due to Lehman Brothers bankruptcy, the positive impact of CSP on Abnormal Returns is not greater for firms with higher levels of intangible assets. Our results disconfirm the evidence provided by Godfrey et al (2009). It is interesting to notice that after Lehman Brothers bankruptcy and – more broadly – after the US financial crisis, the EU and US accounting standard setter reduced the scope of application of the principle of the fair value. In October 2008, the FASB (Financial Accounting Standards Board) and IASB

(International Accounting Standard Board) modified Statement 157 ("Fair Value Measurements") and IAS 39 ("Financial Instruments: Recognition and Measurement"). As a consequence, after these changes became effective, financial assets may not be measured in balance sheets with the fair value methodology. Researchers wanting to investigate the role of intangibles by using M/B Ratio (or similar measures) after October 2008 should take into account this important issue.

Given the characteristics of the sample, our findings are generalizable to large US listed firms. It must be underlined that results only refer to the crisis due to Lehman Brothers bankruptcy, therefore they are not generalizable to different crises. Nevertheless, the similar results obtained by us and by Schnietz and Epstein (2005) suggest that a stream of literature testing the relationship between CSP and CFP in the context of crisis and exogenous shocks ought to be further developed until reaching a common position on the issue. Therefore, as Schnietz and Epstein (2005), we call for further research to test the effect of CSP on CFP in other crisis in order to attain consensus on the issue.

2.8 CONCLUSION

The present research contributes to existing literature in several ways. First of all, it shows the existence of a positive relationship between CSP and CFP (both short term and expected) during the crisis due to Lehman Brothers bankruptcy. In particular, these findings prove that high CSP firms benefited – through higher (less negative) ARs - of a buffer effect and that investors considered them able to produce higher financial performance than low CSP firms, in the part due to specific risk. This confirms the results of Schnietz and Epstein (2005) and represents a step forward toward the achievement of a generally accepted consensus on the role of CSP during exogenous crisis. At the same time, it provides some indirect empirical evidence for the "stakeholder theory of crisis management" (see Alpaslan et al (2008)), since the main construct of the two mechanisms directly has an impact on expected CFP ("Implicit Claims Management and Regulatory Costs" and "Resource Availability and

Withholding") is stakeholder relations. Furthermore, we showed that Technical CSP (and in particular Technical Strengths) is driving the results and that more intangibles-intensive firms did not benefit more from CSP. Managers considering whether to invest in socially responsible activities or investors considering whether to invest in socially responsible firms may find these results of interests.

2.9 FUTURE RESEARCH

As pointed out by Schnietz and Epstein (2005), the nature of the methodology employed does not allow to shed light on investors' reasoning about future profitability of socially responsible firms. Even if we proposed three different mechanisms to explain the reasons why investors may have considered CSP linked to future CFP, this process remains a "black box" (Schnietz and Epstein (2005), p 342). We believe that this shortcoming is embedded into the methodology employed. Maybe a qualitative case study could provide more insight on the issue. This will be particularly useful in order to find support for the growing "stakeholder theory of crisis management" (Alpaslan et al (2008)). At the same time, further research on the role of CSP in other crisis context is needed in order to reach a widely accepted position on relationship between CSP and CFP in exogenous crisis situations.

According to part of the literature, the two concepts of CSP and Corporate Reputation for CSP may differ because of decoupling (see Weaver, Trevino and Chchran (1999)) and greenwashing (see, among the others, Beder (1997) and Laufer (2003)). In particular, Weaver et al (1999) introduce the concept of "decoupled" CSP, and they write: "(a)n easily decoupled structure or policy provides the appearance of conformity to external expectations while making it easy to insulate much of the organization from those expectations" (Weaver et al (1999), p 541). The relationship between CSP and Corporate Reputation has been studied by de Quevedo-Puente et al (2007). According to the authors, while CSP "describes, from an 'objective' point of view, the firm's performance with respect to stakeholders", Corporate Reputation is a perceptual variable describing stakeholders' expectations about the future behaviour of the firm. Accordingly, they point out that "(…) it seems proper to use objective

databases to measure CSP and perceptual surveys to measure CR". It would be an interesting contribution to investigate the impact of the mechanism "corporate reputation for CSP" on CFP during a crisis by measuring CR through "perceptual surveys" rather than through objective databases.

CHAPTER 3

The Impact of CSP on Forced CEO Turnover:

Buffer or Intensifier?

3.1 INTRODUCTION

While there exists an extensive literature on the topics of Chief Executive Officer (CEO) turnover, specifically in regards to performance (Warner et al. 1988, Murphy 1999, Jensen et al. 2004), and on the drivers and effects of Corporate Social Performance (CSP) in firms (Schidt and Rynes 2003 for a review), very little has been studied empirically on the intersection of these two streams. Specifically, there is no empirical documentation as to the effects of CSP on CEO performance turnover sensitivity. In this paper, we focus on the interactive impact of CSP on CEO performance turnover sensitivity finding that rather than buffering the CEO from the impact of negative performance shocks it magnifies their sensitivity to such performance shocks.

The Literature on performance induced CEO turnover suggests a significant association between forced turnovers and firm stock performance (Murphy (1999), Warner et al. (1988) Kaplan and Minton (2008)). Specifically, Kaplan and Minton (2008) find that forced turnovers are significantly associated with firm stock performance and this relation has gotten stronger since 1998. Moreover, they find that the relation is also sensitive to CEO tenure, with shorter CEO tenure associated with an increased sensitivity to stock performance, a result also found in Dikolli, Mayew and Nanda (2009). Given that CEO sensitivity may be affected by certain characteristics of the CEO or firm and given also the great interest in CSP, there is room to speculate as to what effects CSP would have on CEO sensitivity to stock performance.

In the realm of CSP research, despite a plethora of studies investigating the association between CSP and a firm's financial performance, the existent literature has so far failed to give a definitive answer on the matter. The literature is saturated with empirical studies finding rather conflicting results, ranging from a positive to a negative relation, to a U-shape or even an inverse U-shaped relation (Margolis and Walsh 2003 and Orlitzky, Schidt and Rynes 2003 for a review). In addition to the contradictory results, there has been almost no work done on the impact of CSP on managers' employment, with the few studies that even remotely touch the issue being theoretical in nature. Within the theoretical realm we find studies rooted in neoclassical economics that view the use of valuable firm resources on CSP as resulting in managerial rather than shareholders benefits (Brammer and Millington (2008)). Moreover, some models take the view that CSP serves as an entrenchment mechanism for managers (Pagano and Volpin (2005); Cestone and Cespa (2007)). Given the lack of evidence on the relationship, we view the effects of CSP on CEO performance turnover sensitivity to be an empirical one, that is yet not answered.

In this paper, we focus on the interactive impact of CSP on CEO performance turnover sensitivity using a sample of large U.S. firms from 1996 to 2005 in which we could measure CSP as well as forced CEO turnover. Our study is based on the premise that CEOs ultimately decide which level of CSP the firm should partake in, given the separation of ownership and control (see Alchian and Demsetz (1972) and Jensen and Meckling (1976)). Given this discretion it is likely that there would exist a relationship between CSP and CEO turnover, with various theoretical papers modeling the supposed relation with almost no direct empirical evidence on the matter.

We begin our study by looking at the governance characteristics of high and low CSP firms in order to see whether any difference in CEO turnover could be driven by better governance rather than just CSP (Fombrun and Shanley (1990); Fombrun (2005)). We find that the firms do not differ significantly with the exception that higher CSP firms have larger boards consistently sample specifications, but this could just be due to their overall larger size. More importantly is the finding that the average rate of unconditional CEO turnover does not differ between High and Low CSP firms, instilling confidence that our findings are related to CSP rather than to any monitoring benefits associated with CSP.

We then proceed to our main research question looking at the effects of CSP on CEO performance turnover sensitivity. Using a sample of performance induced CEO turnovers we regress various measures of CSP as well as their interactions with negative returns on CEO turnover. Using the general net CSP score of the firm we find that while unconditionally it does not affect CEO turnover when we condition on negative returns we find a significant and positive association with the probability of turnover, increasing the marginal likelihood of turnover by 2.3%, that is almost half the magnitude as the unconditional effect of negative returns. We further explore the relation by studying the effects of various measures of CSP finding that the most of the power comes from total strengths when we separate strengths from concerns, while at the same time concerns do not provide any protection from shareholder punishment nor exasperate the performance turnover sensitivity in the event of a negative performance shock. When we look at the categorical segmentation of CSP we find most of the positive association stemming from the categories of diversity and employees relations. Given this evidence it leads us to view CSP as an intensifier of the likelihood of CEO turnover given negative performance surprise.

We corroborate our findings by running change regressions of CSP on firm value as measured by Tobin's Q as well as other variables previously found to be associated with firm value. We look to find whether these measures of CSP are positively associated with Tobin Q, finding that the net CSP score is marginally significant, with all of the significance coming from the lowest decile of Tobin's Q firms. More importantly when we use the strength measure and diversity measure there is no significant association while the employee measure having only marginal significance at the 10% level. These results are in line with our finding that the social projects that the CEOs engage in are not creating value to the firm thus given a negative performance shock he/she would be punished more for engaging in such activities.

Our study contributes to the literature in several ways. First, while previous studies investigate whether CSR affects firm value, this is the first study to our knowledge to use a large panel of U.S. firms to examine the effect of CSR on CEO performance turnover sensitivity. We provide a cleaner setting in which to test the effects of CSP on firm outcomes, in our case CEO turnover, without relying on an ex ante belief on the relation between CSP and Financial performance. Moreover we

contribute to the literature on CSP and monitoring by providing preliminary evidence as to the relation of CSP and governance.

The remainder of the paper is organized as follows. In Section 2, we develop our hypotheses based on the interaction between CEO turnover performance sensitivity and corporate social performance. In Section 3, we provide our sample selection procedure, descriptive statistics, as well as univariate correlations on our variables of interest. Our empirical methods and results are discussed in section 4. Section 5 concludes.

3.2 HYPOTHESIS DEVELOPMENT

In this Section we develop our hypotheses on the relationship between performance induced CEO turnover and the effect of Corporate Social Performance (CSP) on this relationship. Our hypotheses are driven by past studies that have shown that the likelihood of CEO turnover increases with firm performance, as measured via various indicators (Murphy (1999) deteriorates. Specifically, prior research finds that there is a positive relationship between CEO turnover and negative stock price reactions (see Matsumoto (2002) and Dikolli, Mayew and Nanda (2009)). This relationship can be interpreted as the negative stock performance signaling shareholders lack of confidence in the CEO's ability to create shareholder value and as a result the CEO is dismissed. In this case we are able to study the effects of CSP on this association, testing to see whether the CEO, by engaging in high levels of these activities, would be protected or further exposed to and increase probability of being fired.

3.2.1 Firm Corporate Governance Characteristics and Corporate Social Performance

Before we are able to fully explore our main hypothesis we must be sure that we are capturing the effects of CSP on CEO turnover rather than some corporate governance aspects that could be associated with different levels of CSP. It could be argued, as in the previous literature (see Bartkus et al (2002), Webb (2004), Johnson

and Greening (1999), Wang and Coffey (1992) and Atkinson and Galaskiewicz (1988)) that firms that engage in social projects and having higher CSP scores, have different governance characteristics that could lead to different monitoring levels than those firms with lower scores. Thus before we can test the association between CSP and CEO turnover we must see whether firms in our sample exhibit significantly different governance characteristics conditional on their level of CSP.

According to the definition of corporate governance proposed by Tirole (2001), corporate governance is "the design of institutions that induce or force management to internalize the welfare of stakeholders"; while CSP has been defined as the "comprehensive assessment of a firms performance with every stakeholder group" (De Quevedo_Puente et al (2007)). Thus it can be argued that firms that engage in higher levels of CSP would also be associated with having higher quality governance mechanism in order to guard against the over investment in these social projects. In this regards previous literature does not provide any definitive result about the relationship between corporate governance characteristics and CSP and as such it becomes an empirical question as to the differences in governance mechanism between high and low CSP firms. More specifically, the corporate governance characteristics we analyze are the following: board size, percentage of independent directors, CEO age, percentage of voting power held by total board excluding the CEO, number of board meetings and number of board members on corporate governance committee; variables that have been linked to a company's governance environment.

There is a vast stream of literature studying the impact of specific governance characteristics on the monitoring ability of the board and consequent financial performance of the firm, while a relatively scant stream on the association between CSP and governance characteristics with findings being inconclusive. One of the most studied board characteristic in the literature board size has been found to both increase as well decrease monitoring. Studies relying on resource dependence theory argue (and empirically show) that bigger boards are better monitors (see, among the others, Pfeffer and Salancik (1978), Yan and Gray (1994), Mak and Li (2001), Larmou and Vafeas (2010), Di Pietra et al (2008), Adams and Mehran (2005)), while other studies that use a conflict resolution frame work as support argue that since bigger boards will find more

difficulties in reaching an agreement, making them volnariable to CEO influence, they will be worst monitors and find it empirically (see Steiner (1966), Kidwell and Bennett (1993), Yermack (1996), Eisenberg, Sundgren and Wells (1998), Gertner and Kaplan (1997), Jensen (1993), Alexander et al. (1993)). Given this line of reasoning it could be that high CSP firms are associated with having larger boards (see Aggarwal and Nanda (2004)). In regards to board size and CSP, Bartkus et al (2002), in their analysis of corporate philanthropy and corporate characteristics, find that big donors have significantly larger board of directors than small donors. The authors hypothesize that this is due either to an increased difficulty for larger boards to control CEOs (consistently with the findings of Jensen (1993) and Alexander et al (1993)) or to a higher number of relationships these large boards have with the external environment. Additionally, Webb (2004) also finds that socially responsible firms have relatively bigger boards, thus leading us to test the significance of a difference in board size in our sample.

Another heavily studied corporate governance dimension is the composition of the board, and in particular the percentage of independent directors sitting in a board. In the traditional corporate governance literature, studies have either argued that outside directors are more independent and thus free of the influence of CEO and top management (see Fama (1980), Finkelstein and D'Aveni (1994), Kosnik (1987)) or that insider directors have an information advantage with which to judgment the management's performance and thus are more important in monitoring. In relation to CSP, Johnson and Greening (1999) and Webb (2004) find that boards of socially responsible firms have a higher percentage of outside directors while Wang and Coffey (1992), on the other hand, find that an increase in the insider to outsider ratio is associated with an increase in a firms charitable contributions (that may be considered as a proxy for CSP). Finally, Bartkus et al (2002) find no significant relationship between the percentage of independent directors and corporate philanthropy; they conclude that there is no significant relationship between CSP and the mechanisms designed to align the interests of executives and shareholders.

Studies about the effect of inside ownership on CSP provides mixes results as well. Some of them (see Coffey and Wang (1998) and Wang and Coffey (1992)) find that insiders' stock ownership is positively correlated with charitable contribution, while

some others find that they are negatively correlated (see Atkinson and Galaskiewicz (1988)). Bartkus et al (2002) find no significant relationship between inside ownership nor CEO compensation and corporate philanthropy. Webb (2004) finds that boards of socially responsible firms have fewer meetings than non-socially responsible firms.

Given that the results of previous studies do not allow us to draw any inference on the relationship between corporate governance characteristics and CSP and our specific need in identifying the relation of CSP and CEO Performance turnover, we propose the following hypothesis in the null form:

Hypothesis 1: There are no significant differences in the corporate governance and board characteristics between high CSP and low CSP firms.

3.2.2 CEO performance turnover sensitivity and Corporate Social Performance

The second hypothesis hereby proposed deals with the use of corporate social projects by managers and their effects and it is grounded in agency theory. The views exposed in the literature can be classified into the two following hypotheses: the Insurance Hypothesis and the Punishment Hypothesis.

According to the Insurance Hypothesis, which is grounded on agency theory and the managerial entrenchment literature, CEOs engage in social projects as a way to build their reputation and entrench themselves in the firm. Therefore, under the Insurance Hypothesis we would predict CSP as being negatively correlated with CEO performance induced turnovers, in other words high CSP should mitigate the sensitivity of CEO turnover to negative performance. Cestone and Cespa (2007) argue that incumbent CEOs who may be under pressure to be replaced may use CSR activities strategically as an entrenchment strategy, i.e. try to buyoff stakeholders. Pagano and Volpin (2005) also provide a theoretical model in which top managers and workers collude against takeover threats, i.e. entrenchment via employee support, there by buying employee support in case of bad times.

While these two studies explicitly model the entrenchment situation under the notion of CSP being an agency cost other studies still provide indirect support for the

Insurance Hypothesis. Barnea and Rubin (2006) argue that top managers tends to over-invest in CSR activities in order to build their own personal reputations as good global citizens while at the cost of shareholder value. Similarly, Letza et al (2004) define, in their framework, the "abuse of executive power model". According to their model (e.g. Hutton (1995) and Kay and Silberston (1995)), the "major problems with current corporate governance arrangements are that they provide excessive power to executive managers who may abuse their power in pursuit of their own interests" (see Letza et al (2004), p 245). Lavelle (2002) provided some anedoctical evidence that CEOs have used philanthropic giving to compromise the independence of influential directors. Similarly, Boatsman and Gupta (1996) and Bartkus et al (2002) argue that CSP (more specifically, corporate philanthropy) is associated with agency problems.

According to what we have classified as the Punishment Hypothesis, CSP may act as an intensifier, thus increasing the likelihood of CEO being fired due to negative financial performance conditional on CSP. According to this hypothesis, if the financial performance of the firm turns out to be negative, CEOs who engage in CSR activities are punished to a greater extent. Conversely, when financial performance is negative, the fact that CEOs had been spending shareholders' money in order to achieve CSP is taken into account by the board of directors and it does intensify the sensitivity of CEO turnover to financial performance. This approach is particularly innovative because it determines how boards, conditionally to the firm's financial performance in a certain year, evaluate CSP.

An alternative hypothesis for CSP being positively correlated with CEO performance induced turnovers is that boards of socially responsible firms are simply better at monitoring. This means that, given a negative financial performance in a certain year, boards of socially responsible firms fire CEOs more promptly than boards of non-socially responsible firms. In this case, the Punishment Hypothesis would not have any explanatory power. In order to rule out the possibility that the CSP-CEO performance induced turnover relationship is due to the fact that socially responsible firms have more efficient boards than non-socially responsible firms, we rely on the empirical analysis testing Hypothesis 1. The analysis will test the differences between

socially responsible and non-socially responsible boards and will therefore rule out the possibility of results being biased by inherent differences among boards.

Therefore, we propose the two specifications that follow, where Hypothesis 2 a supports the Insurance Hypothesis while Hypothesis 2 b supports the Punishment Hypothesis:

Hypothesis 2 a: The likelihood of a CEO turnover conditional of negative performance will be lower given higher CSP

Hypothesis 2 b: The Likelihood of a CEO turnover conditional on negative performance will be higher given a higher level of CSP.

Our third hypothesis builds on the second one in respect to effect of the various measures of CSP. Conditional on our findings from Hypothesis 2 we intent to study whether all CSP is the same or whether certain categories have more of an impact on CEO performance turnover sensitivity. The literature on stakeholder theory is full of categorizations on the different stakeholders in a firm and how certain stakeholders are more critical than other (see Mitchell, Agle and Wood (1997) and Freeman, Harrison and Wicks (2007)). In addition to the stakeholder definitions, much of the empirical research on the effects of CSP is dealing with issues on CSP variable construction driving results (see Entine (2003)). Thus we feel we can contribute by moving beyond the traditional net score as a measure of a firms performance and look at the various categories provided for in the KLD data.

Therefore we propose hypothesis three in the null form:

Hypothesis 3: The association between CEO turnover and CSP is the same for each category of stakeholders.

Finally, to provide more insight to the effects of CSP on CEO turnover – financial performance sensitivity we look at the relationship between shareholder value and CSP. Conditional on our finds from hypothesis 2 if the relation is driven by the efficient monitoring of the high CSP firms we would expect to see CSP positively correlated with firm value as measured by Tobin Q. If we find that shareholder value is

not positively associated with CSP we can further support the Punishment hypothesis. The literature on the CSP-financial performance relationship is vast and in many ways inconsistent. Among the best reviews on the issue there are Pava and Krausz (1996), Orlitzky, Schmidt and Rynes (2003), Margolis and Walsh (2003) and Margolis, Elfenbein and Walsh (2007).

Since this stream of literature does not provide consistent results, we propose hypothesis four in the null form:

Hypothesis 4: There is not any significant relationship between CSP and shareholder value

3.3 DATA AND EMPIRICAL DESIGN

To construct the sample with which to study the relation between CEO performance turnover sensitivity and CSP we begin with firm data from the KLD Research Analytics, Inc (KLD) database. We use the KLD coverage sample as our base sample given the fact that KLD provides us with narrative coverage of firm performance along issues related to community, diversity, employee relations, environment, human rights, corporate governance, and product. The database covers companies listed on the S&P 500 from 1992 as well as the full Russell 1000 from 2002 onward.

Using the data provided by KLD, we construct our measures of corporate social performance for each firm. Firms can have various strengths and concerns within each of the various categories. To construct our first measure of a firm's CSP we subtract the firms' total strengths against their total concerns obtaining a net overall performance score for the firm, which ranges from -7 to 12 in our sample. If the firm has a higher net score we view it as having a higher level of social performance (CSP). In addition to the net scores we also utilized the total strengths and total concerns across all the categories to see the whether nonlinearities exist between the effects of total strengths versus total concerns. Following previous literature we also constructed two variables for primary (Technical CSP) and secondary stakeholder (Institutional CSP) engagement. We rely on

the works by Mattingly and Berman (2006) and Godfrey et al (2009) in order to define Institutional and Technical CSP. Technical CSP is constructed as the difference between strengths and weaknesses of the following dimensions: Governance, Employees, Product while Institutional CSP is defined as the difference between strengths and weaknesses of the Community and Diversity dimensions. Finally, to test the magnitude of the effects of various categories we construct net scores for each of the various categories provided for in the KLD data (Corporate Governance, Human Rights, Community, Diversity, Employees, Environment and Product) all centered around 0 in the sample.

The KLD database was then merged with the Execucomp database, which provides information on CEOs' start and end dates, allowing us to identify CEO turnovers.[3] Our final sample begins in 1995 given that the governance data we require is only available from 1995 onward. Our measures of monitoring intensity: board size, number of board meetings, percentage of independent directors, and director holdings were obtained from the Institutional Investors Research Center (IIRC). Monthly stock returns and stock prices are obtain from the Center for Research in Security Prices (CRSP) while accounting information was acquired from the Compustat database. We measure firm performance as the market-to-book ratio (Tobin's Q). Tobin's Q is equal to the ratio of the sum of the market value of equity and the book value of debt to the book value of equity and the book value of debt. The Tobin Q measure has been utilized in previous research as an adequate measure of firm value. Unlike previous CEO turnover research, we follow Dikolli, Mayew and Nanda (2011) and use quarterly data in our empirical tests. By looking at quarterly data we are able to get a clearer picture of performance turnover relation. Our KLD, Execucomp, and IRRC data, which is only available at the yearly level is matched to the quarters by using the annual number in each of the quarters in the given year. While the use of an yearly data and quarterly level data may introduce measurement error into the analysis there should not be any systematic bias in the error with out variable of interest, thus if we find something with this error the results should be stronger with finer measures. Our final sample consists of 21,435 firm quarter observations representing 1108.

[3] We thank Dikolli, Mayew & Nanda for providing us with a more refined measure of forced CEO turnover observations by screening out CEO turnovers due to death, retirement, or illness.

3.3.1 Descriptive Statistics

Table 1
Descriptive Statistics for Variables Used in the Analysis
There are 21.435 firm-quarter observations from 1995 to 2005

Variable	Mean	Standard Deviation	1st Quartile	Median	3rd Quartile
Annual Turnover	0.115	0.319	0	0	0
Stock Returns	0.035	0,2	-0.121	0.021	0.176
Missed Earnings	0.66	1.369	0	0	1
Board Size	10.324	2.758	8	10	12
Small Boards	0.562	0.496	0	1	1
Independent Directors (%)	0.681	0.158	0.571	0.7	0.8
CEO Age (log)	4.024	0.126	3.951	4.043	4.11
Retirement Age CEO	0.067	0.251	0	0	0
Book to Market Ratio	0.623	0.254	0.423	0.631	0.836
CSP net	0.419	2.116	-1	0	2
Technical net	-0.336	1.458	-1	0	0
Institutional net	0.756	1.622	0	0	1
Strengths	1.972	2.211	0	1	3
Concerns	1.943	2.096	1	1	3
Corporate Governance net	-0.306	0.628	-1	0	0
Human Rights net	-0.095	0.341	0	0	0
Community net	0.211	0.693	0	0	0
Diversity net	0.545	1.254	0	0	1
Employees net	0.139	0.922	0	0	1
Environment net	-0.137	0.818	0	0	0
Product net	-0.169	0.752	0	0	0
Tobin's Q	2.391	1.251	1.385	1.944	3.066
Sales (log)	7.938	1.366	6.974	7.872	8.868
Capital to Sales Ratio	0.41	0.534	0.134	0.41	0.435
Cash Flow to Capital	0.56	0.474	0.202	0.56	0.75
Debt to Assets	0.361	0.369	0.094	0.361	0.485
R&D to Capital Ratio	0.112	0.179	0	0.112	0.148
Dividend Yield	1.477	1.743	0	1.477	2.282

In Table 1 we report the descriptive statistics for all our variables of interests. For our main research question our dependent variable, Annual Turnover, is an indicator variable equal to one in the quarter that there is a forced CEO change. We see that in our sample the unconditional forced turnover rate was around 11.5%. The average age of a CEO's in the sample was 56. Only 6.7% of sample CEO's were at retirement age. The average cumulative median industry adjusted stock return over the prior four quarters for the sample is 3.5% with a median return of 2.1%. The firms in

the sample have average sales of 2.8 million with an average capital expenditure to sales ratio of 41% and average Debt to Assets ratio of 36%. The average Tobin's Q in the sample is 2.39 with a median of 1.94 signaling relatively well off firms. Our monitoring variables reflect board composition and ownership of the firm. The mean firm in the sample has a board of 10, median of 10 as well, with 68% of them being independent and 56% of the firms having small boards and have an average of 2.79 members on their corporate governance committees.

Table 2 Panel A

Correlation Matrix - Spearman and Pearson Correlation

The Table displays Spearman (on the bottom) and Pearson (on the top) correlation matrixes. Coefficients' significance: * p < 0.05

Variable	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Annutal Turnover	1	0.029*	0.012	0.001	0.015*	0.029*	0.033*
Board Size	0.033*	1	0.172*	-0.079*	0.295*	0.309*	0.215*
CSP net	0.010	0.157*	1	0.643*	0.725*	0.745*	-0.271*
CSP Technical net	-0.004	-0.076*	0.649*	1	-0.059*	0.204*	-0.540*
CSP Institutional net	0.015*	0.287*	0.660*	-0.050*	1	0.788*	0.131*
CSP strengths	0.021*	0.309*	0.691*	0.244*	0.678*	1	0.347*
CSP concerns	0.032*	0.195*	-0.353*	-0.554*	0.031*	0.261*	1

Table 2 Panel B

Correlation Matrix - Spearman and Pearson Correlation

The Table displays Spearman (on the bottom) and Pearson (on the top) correlation matrixes. Coefficients' significance: * p < 0.05

Variable	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Annutal Turnover	1	0.029*	-0.022*	-0.013*	0.001	0.018*	0.017*	-0.027*	0.0006
Board Size	0.033*	1	-0.142*	-0.066*	0.205*	0.269*	0.0824*	-0.100*	-0.136*
CSP Corporate Governance net	-0.022*	-0.140*	1	0.096*	-0.037*	-0.222*	-0.023*	0.097*	0.206*
CSP Human Rights net	-0.014*	-0.078*	0.094*	1	0.007	-0.131*	0.051*	0.201*	0.162*
CSP Community net	-0.003	0.191*	-0.046*	-0.001	1	0.332*	0.079*	0.117*	-0.057*
CSP Diversity net	0.019*	0.269*	-0.213*	-0.123*	0.280*	1	0.134*	-0.033*	-0.132*
CSP Employees net	0.014*	0.087*	-0.044*	0.061*	0.089*	0.116*	1	0.023*	0.105*
CSP Environment net	-0.018*	-0.085*	0.076*	0.129*	0.090*	-0.005	0.068*	1	0.245*
CSP Product net	0.001	-0.139*	0.172*	0.120*	-0.033*	-0.111*	0.130*	0.218*	1

In Table 2 we provide univariate correlations between our CSP variables and CEO turnover as well as our other monitoring variables. We see that turnover is positively correlated with board size, institutional CSP, strengths, concerns, diversity, and employee. While turnover is significantly negatively correlated with corporate governance, human rights, and environmental. In terms of the CSP measures it is interesting to note that the corporate governance score is negatively correlated with community, diversity and employee scores leading to question the effectiveness of resources spent on community, diversity, and employee relations in establishing an adequate governance system in firms. These results point in the direction of an unconditional relationship between CEO turnover and CSP, which we further investigate in the following section.

3.4 EMPIRICAL RESULTS

3.4.1 Governance Characteristics and Corporate Social Performance.

To examine whether the governance system of firms differed based on their level of CSP, we perform univariate difference in means test between sub samples of firms based on their levels of CSP. Firms were classified as high CSP firms if their net CSP score was in the top quintile of the distribution of scores, while firms in the bottom quintile were classified as low CSP firms. The significance of the difference was determined parametrically via the two-sample mean-comparison test and non-parametrically via the Wilson rank sum test. Our main variables of interest being: board size, percentage of independent directors, CEO at retirement age, CEO turnover, voting power held by the board members excluded the CEO, number of meeting and number of members on the corporate governance meeting.

Table 3 Panel A
Difference in means test and descriptive statistics

This Table compares the means of Low CSP firms and High CSP firms. Low and High CSP firms are the firms respectively included in the lowest and highest quintile for CSP distribution. In order to test for the significance of the difference between means in the various dimensions, we performed a Wilcoxon rank sum test and a T-test. In both tests the Null Hypothesis is that the means are the same.Z and T values significance levels: * p < 0.10; ** p < 0.05; *** p < 0.01

Variable	Low CSP firm Mean (Std Deviation)	High CSP firm Mean (Std Deviation)	Difference High CSP - Low CSP firms	Wilcoxon rank sum Z	T-test	Full sample mean (median)
Board Size	9.9673	11.472	1.505	12.69 ***	13.43***	10.32
	(2.538)	(2.868)				(10)
Independent Directors (%)	0.682	0.693	0.011	1.44	1.62	0.681
	(0.159)	(0.153)				(0.7)
CEO Age (log)	1.483	1.378	-0.105	2.40 **	2.07 **	4.02
	(1.179)	(1.297)				(4.04)
CEO Turnover	0.113	0.120	0.007	0.48	0.48	0.1156
	(0.317)	(0.352)				(0)
% voting power held by board excl. CEO	5.533	5.951	0.418	4.66 ***	0.63	8.31
	(13.334)	(14.535)				(1.70)
Number of Board Meetings	7.215	7.562	0.347	1.68 *	1.266	7.16
	(3.161)	(3.002)				(7)
No of Board Memb on C.Gov Comm	2.776	3.208	0.432	-4.10 ***	-4.185 ***	2.79
	(2.092)	(2.580)				(3)
Log Sales	7.971	8.579	0.608	-9.98 ***	-10.47 ***	7.926
	(1.346)	(1.417)				(7.858)
Log Assets	8.280	8.909	0.629	-8.25 ***	-9.20 ***	8.22
	(1.495)	(1.842)				(8.04)

In Table 3 panel A we set out our baseline test, separating firms between high and low CSP. We include the variables of interest as well as two proxies for size (log of sales and log of assets) in order to control for any size effect driving the results. We find that, compared to low CSP firms, high CSP firms have larger boards 11.47 versus 9.96, younger CEOs and more board members on the corporate governance committee. We also find that the boards hold more voting power while the other corporate governance characteristics do not appear to be significantly different. High CSP firms are significantly larger than low CSP firms, which could explain the difference in board size between the sub samples. What is more striking is that the mean CEO turnover rate does not differ significantly between the two sub-samples, 11.3% in the low CSP firms versus 12% in the high CSP and a T-value of only .48.

Table 3 Panel B

Difference in means test and descriptive statistics for Low Tobin Q firms

This Table compares the means of Low CSP firms and High CSP firms among Low Tobin Q firms. Low Tobin Q firms are those firms included in the lowest quintile. Low and High CSP firms are the firms respectively included in the lowest and highest quintile for CSP distribution. In order to test for the significance of the difference between means in the various dimensions, we performed a Wilcoxon rank sum test and a T-test. In both tests the Null Hypothesis is that the means are the same. Z and T values significance levels: * p < 0.10; ** p < 0.05; *** p < 0.01

Variable	Low CSP firm Mean (Std Deviation)	High CSP firm Mean (Std Deviation)	Difference High CSP - Low CSP firms	Wilcoxon rank sum Z	T-test	Full sample mean (median)
Board Size	10.890 (2.526)	13.098 (3.146)	2.208	7.61 ***	8.85 ***	10.32 (10)
Independent Directors (%)	0.699 (0.163)	0.705 (0.143)	0.006	0.01	0.41	0.681 (0.7)
CEO Age (log)	1.419 (1.161)	1.419 (1.202)	0	0.28	0.004	4.02 (4.04)
CEO Turnover	0.109 (0.312)	0.098 (0.299)	-0.011	0.36	0.36	0.1156 (0)
% voting power held by board excl. CEO	4.383 (12.491)	2.892 (9.025)	-1.491	2.47 **	1.24	8.31 (1.70)
Number of Board Meetings	8.457 (4.762)	9.354 (4.045)	0.897	1.68	0.95	7.16 (7)
No of Board Memb on C.Gov Comm	2.994 (2.143)	3.510 (2.649)	0.516	2.88 **	2.29 **	2.79 (3)

Table 3 Panel C

Difference in means test and descriptive statistics for High Tobin Q firms

This Table compares the means of Low CSP firms and High CSP firms among High Tobin Q firms. High Tobin Q firms are those firms included in the highest quintile. Low and High CSP firms are the firms respectively included in the lowest and highest quintile for CSP distribution. In order to test for the significance of the difference between means in the various dimensions, we performed a Wilcoxon rank sum test and a T-test. In both tests the Null Hypothesis is that the means are the same.Z and T values significance levels: * p < 0.10; ** p < 0.05; *** p < 0.01

Variable	Low CSP firm Mean (Std Deviation)	High CSP firm Mean (Std Deviation)	Difference High CSP - Low CSP firms	Wilcoxon rank sum Z	T-test	Full sample mean (median)
Board Size	8.977 (2.640)	10.868 (2.621)	1.891	8.42 ***	8.04 ***	10.32 (10)
Independent Directors (%)	0.638 (0.164)	0.682 (0.139)	0.044	2.70 ***	3.21 ***	0.681 (0.7)
CEO Age (log)	1.560 (1.204)	1.470 (1.243)	-0.09	0.82	0.82	4.02 (4.04)
CEO Turnover	0.130 (0.337)	0.135 (0.343)	0.005	0.16	0.16	0.1156 (0)
% voting power held by board excl. CEO	7.619 (14.676)	9.323 (20.645)	1.704	3.43 ***	0.97	8.31 (1.70)
Number of Board Meetings	6.663 (2.603)	6.521 (2.008)	-0.143	-0.01	-0.33	7.16 (7)
No of Board Memb on C.Gov Comm	2.202 (2.053)	3.210 (2.593)	1.008	4.15 ***	4.63 ***	2.79 (3)

In panels B and C we go about checking whether the firm's performance may affect the governance characteristics of high and low CSP firms. Thus in panel B we separate high and low CSP firms conditional on them being in the lowest quintile of the

Tobin Q distribution of the sample, while in panel C the same thing is done for firms in the highest quintile of the Tobin Q distribution of the sample. Results reported in Panel B show that the two variables that are significantly different for high CSP and low CSP firms; board size and number of board members on corporate governance committee. We also find that in this case low CSP firms have boards with more voting power by almost 2%. But this could be just due to firms underperforming and having been set up for takeover bids. Conditional on firms being in the lowest quintile (Panel C), we again find significant difference in board size, number of board members on corporate governance committee and now percentage of independent directors. High CSP firms in the top performance quintile tend to have larger boards, more independent directs and more members on the corporate governance committees. In this case however we see that higher CSP boards on average hold more voting power than low CSP firms 9.3% versus 7.6%. Yet, we again see no significant difference in the percentage of CEO turnover between the two groups, making it seem that CEO turnover is not affected differently by the governance system in the two groups.

The empirical results displayed in the three Panels indicate that the only two variables consistently significantly different for high and low CSP firms, also conditional on high and low levels of Tobin Q, are board size and number of board members on the corporate governance committee. This result is consistent with the findings of previous studies investigating the issue (see Bartkus et al (2002) and Webb (2004)). Bartkus et al (2002) propose that the positive relationship between CSP and board size may be due either to an increased difficulty for larger boards to control CEOs (consistently with the findings of Jensen (1993) and Alexander et al (1993)) or to a higher number of ties big boards have with the external environment. Or it could also be due to the fact that the high CSP firms are larger firms as seen in the significant difference in size and as such we would expect to see larger boards and mechanically larger corporate governance committees. The other corporate governance variables are not significantly different for high and low CSP firms. In particular, the CEO turnover is never significantly different, thus it is not driven by the mere fact that a firm is a high or low CSP performer, but rather suggesting that it is being driven by other factors, such as the financial performance of firms, given credence to the view that its not a monitoring story affecting any increase in turnover probability.

Overall, we can conclude that, with the exception of board size (and number of board members on the corporate governance committee) the governance systems of high and low CSP firms are not significantly different from one another. This result, and the fact that CEO turnover is not significantly different for high and low CSP firms, supports our following analysis on the impact of CSP on performance induced CEO turnover, the reason being that CSP does not significantly determine the governance characteristics of firms. Therefore, we can expect CSP to have a direct impact on performance induced CEO turnovers, rather that an indirect one (through governance characteristics of firms).

3.4.2 CEO Performance Turnover Sensitivity and Corporate Social performance.

To test our second hypothesis and examine whether Corporate Social performance has an impact on the CEO performance turnover sensitivity, we estimated the following logistic regression:

$$\begin{aligned}
&Turnover = \alpha + \beta_1 Pos\mathrm{Ret} + \beta_2 Neg\mathrm{Ret} + \beta_3 MissEarn + \beta_4 BoardSize + \\
&\beta_5 SmallBoards + \beta_6 Interact_SmallBoards_Neg\mathrm{Ret} + \beta_7 IndDir + \beta_8 DirAge + \\
&\beta_9 \mathrm{Ret}AgeDir + \beta_{10} Book2Mrk + \beta_{11} CSP + \beta_{12} InteractCSP_Neg\mathrm{Ret} + \\
&\beta_{13} InteractCSP_MissEran + \varepsilon
\end{aligned}$$

With our dependent variable being a dummy variable (Turnover) that equals to one if there is a forced CEO turnover in a firm quarter, on one quarter lagged variable used in the previous literature as good predictors of turnover. Our main variables of interest being those capturing the effect of CSP (measured differently in each specification of the model) on turnover unconditionally as well as those that measure its effect conditional on the negative performance. We include separately two measures of financial performance, industry adjusted quarterly stock returns, shown in previous literature to effect CEO turnover (Dikolli, Mayew, & Nanda (2011) and Brickley (2003)) and the magnitude of missing earnings estimates. We allow for asymmetric effects in the returns turnover relation by separate returns into positive and negative returns. We control for firm and CEO characteristics that are associated with the

likelihood of turnover by including CEO age, CEO nearing retirement age, and the firms book to market ratio. Finally we also control for some monitoring aspects in the firm by including board size, whether firms board size is below the median board size (Small Board), and the percentage of independent directors on the board.

Results from estimating our base logistic regression from equation (1) are displayed in Table 4 Panel A.

Table 4 Panel A

Effect of Corporate Social Performance (net) on financial performance - CEO turnover sensititvity

The dependent variable is the CEO annual turnover. All variables are winsorized at the 2% level. Firm-quarter observati 21.305 observation. Standard Errors are clustered by firm and they are reported in parentesis. Coefficients' significance: + p < 0.10; * p<0.05; ** p<0.01; *** p<0.0001

Variable	(1)	(2)	(3)
Intercept	-26.43***	-26.27***	-26.46***
	(1.834)	(1.824)	(1.838)
Positive Returns	0.385*	0.384*	0.381*
	(0.189)	(0.188)	(0.189)
Negative Returns	-1.036**	-1.326***	-0.835*
	(0.341)	(0.316)	(0.360)
Missed Earnings	0.113***	0.113***	0.108***
	(0.0279)	(0.0287)	(0.0310)
Board Size	0.0430*	0.0453*	0.0397+
	(0.0216)	(0.0216)	(0.0219)
Small Boards	0.00507	0.0161	-0.00751
	(0.133)	(0.134)	(0.134)
Interaction Small Boards - Negative Returns	-0.491	-0.336	-0.601
	(0.400)	(0.388)	(0.404)
Independent Directors (%)	0.442+	0.453+	0.403
	(0.249)	(0.249)	(0.252)
CEO Age (log)	5.805***	5.760***	5.830***
	(0.423)	(0.421)	(0.425)
Retirement Age CEO	0.237+	0.227+	0.242*
	(0.122)	(0.123)	(0.123)
Book to Market Ratio	-0.370*	-0.401*	-0.367*
	(0.164)	(0.162)	(0.164)
CSP net	-0.00750		
	(0.0230)		
Interaction CSP net - Negative Returns	-0.249**		
	(0.0867)		
Interaction CSP net - Missed Earnings	0.00470		
	(0.0135)		
CSP Technical net		-0.00484	
		(0.0331)	
Interaction CSP Technical - Neg. Returns		-0.180	
		(0.148)	
Interaction CSP Technical - Missed Earnings		-0.00404	
		(0.0188)	
CSP Institutional net			-0.00942
			(0.0306)
Interaction CSP Institutional - Neg. Returns			-0.324**
			(0.105)
Interaction CSP Institutional - Missed Earnings			0.00903
			(0.0167)
Year Fixed	Yes	Yes	Yes
Industry Fixed	Yes	Yes	Yes
Wald Test	329.07***	322.30***	329.03***
Pseudo R2	0.077	0.076	0.077

The table displays three different versions of the model, only difference being the independent variables representing CSP. In Model 1, CSP is the overall score of CSP, across all the dimensions covered by KLD. In Model 2, we include Technical CSP, defined by Mattingly and Berman (2006) as those activities benefiting primary stakeholders. In Model 3, we include Institutional CSP, which represents the performance of firms toward secondary stakeholder. Consistently with expectations and with previous studies, all the three models of Table 4 Panel A report that negative returns, missed earnings and CEO age all increase the probability of CEO turnover. Looking at our variables of interests, results show the unconditionally neither of the CSP scores significantly affect CEO Turnover likelihood. Yet when we look at the interaction variable CSP – negative return wee see a negative and significant relation, thus indicating that, conditional on negative performance, higher CSP scores are associated with a higher probability of the CEO being fired. Results from Model 2 and 3 indicate that what is driving the results of Model 1 is actually the CSP scores toward secondary stakeholders (Institutional CSP) with the marginal impact of having negative returns and an increase in Institutional CSP leading to a 3% increase in the likelihood of the CEO being fired, almost half the size of the unconditional effect of the negative return (7%).

These results are consistent with the view that negative stock market performance signals shareholders lack of confidence with current CEO's ability to deliver positive results and, as a consequence, the CEO is dismissed and more likely if he is engaging in these social projects. Most importantly, for the purposes of our analysis, these results do not confirm the Insurance Hypothesis (the probability of performance induced CEO turnovers increases with CSP) but they rather provide some evidence supporting the Punishment Hypothesis. As CSP increases, given a negative stock market performance, the probability for the CEO of being fired increases. In particular, what is driving the results is the Institutional CSP (towards secondary stakeholders). Shareholders may view institutional CSP projects as a waste of resources (or as an agency cost), because secondary stakeholders are less relevant for the firm operations and shareholder value creation and thus CEO is more severely punished given the negative performance. Thus it seems that CSP acts as an intensifier to CEO performance turnover sensitivity rather than a buffer given that conditionally on the

CEO's negative performance by engaging in social projects he is further punished by shareholders with an increased probability of being dismissed, confirming punishment hypothesis.

Given the results of hypothesis 2, we next examine the incremental effects of the various dimensions of CSP on the CEO Performance turnover relation to see where they equally affect the relation or not, thereby testing our third hypothesis. To perform such a test we rerun our base model with the various alternative measures of CSP scores provided in the KLD database.

Table 4 Panel B

Effect of Corporate Social Performance (strengths and weaknesses) on financial performance - CEO turnover sensititvity

The dependent variable is the CEO annual turnover. All variables are winsorized at the 2% level. Firm-quarter observati 21.305 observation. Standard Errors are clustered by firm and they are reported in parentesis. Coefficients' significance: + p < 0.10; * p<0.05; ** p<0.01; *** p<0.0001

Variable	(1)	(2)	(3)
Intercept	-26.43***	-26.19***	-26.35***
	(1.837)	(1.822)	(1.836)
Positive Returns	0.373*	0.378*	0.371+
	(0.190)	(0.188)	(0.189)
Negative Returns	-0.427	-1.065*	-0.490
	(0.393)	(0.415)	(0.442)
Missed Earnings	0.106**	0.106**	0.103*
	(0.0366)	(0.0369)	(0.0407)
Board Size	0.0373+	0.0393+	0.0359
	(0.0220)	(0.0218)	(0.0220)
Small Boards	-0.0117	0.0150	-0.00195
	(0.134)	(0.135)	(0.135)
Interaction Small Boards - Negative Returns	-0.695+	-0.453	-0.682+
	(0.405)	(0.404)	(0.409)
Independent Directors (%)	0.405	0.363	0.358
	(0.251)	(0.250)	(0.252)
Director Age (log)	5.825***	5.759***	5.809***
	(0.424)	(0.420)	(0.424)
Retirement Age Director	0.249*	0.236+	0.251*
	(0.122)	(0.123)	(0.122)
Book to Market Ratio	-0.350*	-0.417**	-0.373*
	(0.164)	(0.162)	(0.165)
CSP strengths	-0.00007		-0.00657
	(0.0163)		(0.0165)
Interaction CSP strengths - Negative Returns	-0.187***		-0.195***
	(0.0487)		(0.0513)
Interaction CSP strengths - Missed Earnings	0.00382		0.00270
	(0.00846)		(0.00891)
CSP concerns		0.0284	0.0314
		(0.0210)	(0.0213)
Interaction CSP concerns - Negative Returns		-0.0559	0.0385
		(0.0944)	(0.100)
Interaction CSP concerns - Missed Earnings		0.00476	0.00271
		(0.0109)	(0.0115)
Year Fixed	Yes	Yes	Yes
Industry Fixed	Yes	Yes	Yes
Wald Test	335.09***	330.06***	342.9***
Pseudo R2	0.078	0.076	0.078

In Table 4 panel B, we measure CSP separately as total strengths and total weaknesses to explore any asymmetry in the measures. The control variables included in the three models of Table 4 Panel B are the same as those in the base model. From the results of panel B it is clear strength have a more powerful influence on the turnover relation as compared to weakness. An interesting finding is the interaction of the negative return and the strengths measure which seems to take all the explanatory power away from the unconditional negative return, something we did not see in Panel A, and has a significant marginal effect on turnover of 1.7%[4]. In column two when we perform the same test with the weakness measure the effect disappears with the interaction term losing all significance. Finally in column 3 when both measures are included in the model it is the interaction between the strengths and negative returns that becomes significant with a marginal effect of 1.8%, and again the significance of the unconditional negative return is gone with neither weakness unconditionally nor interacted with negative returns having any significant impact as well. Among the variables of interest, it clearly emerges that CSP strengths have a greater effect on the results, because the interaction variable CSP strengths - negative returns is significant and negative in both Model 1 and Model 3 while subsuming the explanatory significance from the unconditional negative returns. The lack of an effect on the part of the weakness further supports the punishment hypothesis in that given that weaknesses represent a lack of performance in social projects, such projects that the manager should not be engaged in, given a negative performance the manager is not rewarded for not engaging in what he is not supposed to be doing and thus we see no significant effect on the likelihood of turnover.

[4] Margin calculations for Table 4 can be found in Appendix 1.

Table 5 Panel A

Effect of Corporate Social Performance (different dimensions - net) on financial performance - CEO turnover sensititvity

The dependent variable is the CEO annual turnover. All variables are winsorized at the 2% level. Firm-year observati 21.305 observation. Standard Errors are clustered by firm and they are reported in parentesis. Coefficients' significance: + p < 0.10; * p<0.05; ** p<0.01; *** p<0.0001

Variable	(1)	(2)	(3)
Intercept	-26.34***	-26.20***	-26.27***
	(1.822)	(1.827)	(1.829)
Positive Returns	0.372*	0.380*	0.387*
	(0.188)	(0.188)	(0.188)
Negative Returns	-1.174**	-1.136***	-1.264***
	(0.359)	(0.325)	(0.332)
Missed Earnings	0.120***	0.113***	0.123***
	(0.0322)	(0.0284)	(0.0285)
Board Size	0.0403+	0.0433*	0.0443*
	(0.0218)	(0.0216)	(0.0217)
Small Boards	0.0139	0.00567	0.0114
	(0.134)	(0.134)	(0.134)
Interaction Small Boards - Negative Returns	-0.401	-0.401	-0.361
	(0.399)	(0.396)	(0.400)
Independent Directors (%)	0.384	0.436+	0.445+
	(0.250)	(0.249)	(0.248)
Director Age (log)	5.788***	5.753***	5.761***
	(0.420)	(0.422)	(0.422)
Retirement Age Director	0.229+	0.229+	0.226+
	(0.123)	(0.123)	(0.123)
Book to Market Ratio	-0.363*	-0.403*	-0.398*
	(0.162)	(0.162)	(0.163)
CSP Corporate Governance net	-0.119		
	(0.0727)		
Intergaction CSP Corp Gov net - Negarive Returns	0.0425		
	(0.292)		
Intergaction CSP Corp Gov net - Missed Earnings	0.0168		
	(0.0433)		
CSP Human Rights net		0.0362	
		(0.124)	
Intergaction CSP Hum Rights - Negarive Returns		0.796	
		(0.562)	
Intergaction CSP Hum Rights - Missed Earnings		-0.0246	
		(0.0724)	
CSP Community net			0.0293
			(0.0662)
Intergaction CSP Comm - Neg Returns			0.0591
			(0.310)
Intergaction CSP Comm - Missed Earnings			-0.0405
			(0.0389)
Year Fixed	Yes	Yes	Yes
Industry Fixed	Yes	Yes	Yes
Wald Test	327.23*	323.19*	321.68*
Pseudo R2	0.076	0.076	0.075

Table 5 Panel B

Effect of Corporate Social Performance (different dimensions - net) on financial performance - CEO turnover sensititvity

The dependent variable is the CEO annual turnover. All variables are winsorized at the 2% level. Firm-year observati 21.305 observation. Standard Errors are clustered by firm and they are reported in parentesis. Coefficients' significance: + p< 0.10; * p<0.05; ** p<0.01; *** p<0.0001

Variable	(1)	(2)	(3)	(4)
Intercept	-26.49***	-26.30***	-26.20***	-26.32***
	(1.844)	(1.823)	(1.825)	(1.826)
Positive Returns	0.377*	0.381*	0.395*	0.385*
	(0.190)	(0.189)	(0.188)	(0.188)
Negative Returns	-0.722*	-1.057**	-1.326***	-1.254***
	(0.358)	(0.332)	(0.322)	(0.319)
Missed Earnings	0.101**	0.123***	0.105***	0.119***
	(0.0307)	(0.0277)	(0.0284)	(0.0287)
Board Size	0.0389+	0.0428*	0.0422+	0.0453*
	(0.0219)	(0.0216)	(0.0216)	(0.0216)
Small Boards	-0.0121	0.00613	0.0137	0.0127
	(0.134)	(0.133)	(0.134)	(0.134)
Interaction Small Boards - Negative Returns	-0.676+	-0.460	-0.344	-0.368
	(0.402)	(0.398)	(0.396)	(0.391)
Independent Directors (%)	0.391	0.438+	0.384	0.451+
	(0.254)	(0.248)	(0.249)	(0.250)
Director Age (log)	5.842***	5.771***	5.764***	5.773***
	(0.426)	(0.421)	(0.422)	(0.421)
Retirement Age Director	0.248*	0.231+	0.234+	0.227+
	(0.123)	(0.123)	(0.122)	(0.123)
Book to Market Ratio	-0.351*	-0.371*	-0.432**	-0.403*
	(0.164)	(0.163)	(0.163)	(0.162)
CSP Diversity net	-0.0226			
	(0.0398)			
Intergaction CSP Diversity - Neg Returns	-0.501***			
	(0.137)			
Intergaction CSP Diversity - Missed Earnings	0.0246			
	(0.0212)			
CSP Employees net		0.0422		
		(0.0529)		
Intergaction CSP Employees - Neg Returns		-0.457*		
		(0.215)		
Intergaction CSP Eployees - Missed Earnings		-0.0318		
		(0.0287)		
CSP Environment net			-0.0796	
			(0.0567)	
Intergaction CSP Environment - Neg Returns			-0.197	
			(0.240)	
Intergaction CSP Environment - Missed Earnings			-0.0397	
			(0.0269)	
CSP Product net				-0.00227
				(0.0642)
Intergaction CSP Product - Neg Returns				-0.0420
				(0.297)
Intergaction CSP Product - Missed Earnings				0.0207
				(0.0356)
Year Fixed	Yes	Yes	Yes	Yes
Industry Fixed	Yes	Yes	Yes	Yes
Wald Test	332.53*	326.36*	326.45*	320.14*
Pseudo R2	0.078	0.076	0.076	0.075

Finally in Table 5 Panel A and B we examine the various net scores provided in the KLD database to see whether their effects vary. From the models we see that none of the net CSP scores significantly affect turnover unconditionally in any of the regressions. When we look at the case conditional on the negative performance we find that only the categories of diversity and employee significantly effect the association, but at a high significance level as well as magnitude. The 4.6% marginal increase likelihood of turnover conditional on the negative performance for diversity while 4.3% for the employee category, the magnitude of the both of them being half the unconditional magnitude of the effect of the negative return on turnover and significant at the .01 level and .05 level. Leading to the notion that the social projects being punished for are those that are not associated strongly with the firms operations. Thus we can reject the null hypothesis that all CSP affects the turnover relation equally.

3.4.3 Corporate Social performance and Shareholder Value.

Previous literature suggests that some of these social projects might provide value to the firm and it could be that the increased sensitivity we find is due to some unobserved characteristic of the CSP causing the managers to be held more accountable in the high performance firms. Thus we test our fourth hypothesis and study the effects of the various CSP measures on the firm value, instrumentalized via the market to book ratio (Tobin's Q). To examine the effects of the CSP measures on firm value, we estimate the following regression:

$$\begin{aligned} TobinQ = {} & \alpha + \beta_1 SmallBoard + \beta_2 BoardSize + \beta_3 Sales(\log) + \beta_4 Sales(\log)sq + \\ & \beta_5 Capital2Sales + \beta_6 Capital2Salessq + \beta_7 CashFlow2Capital + \\ & \beta_8 Debt2Assets + \beta_9 R\&D2Capital + \beta_{10} R\&Dmissing + \beta_{11} DivYield + \beta_{12} CSP + \varepsilon \end{aligned}$$

The dependent variable Tobin's Q is regressed on our measures of CSP and other covariates listed in the literature as driving firm value.

Table 6 Panel A

Effect of Corporate Social Performance (net) on Tobin's Q

The dependent variable is Tobin's Q. All variables are winsorized at the 2% level. Standard Errors (Bootstrap Standard Errors, for Model 2, 3 and 4) are clustered by firm and they are reported in parentesis. Column 1: full model; Column 2: 25% quantile; Column 3: 50% quantile; Column 4: 75% quantile. Coefficients' significance: * p < 0.10; ** p < 0.05; *** p < 0.01

Variable	(1)	Q 25 (2)	Q 50 (3)	Q 75 (4)
Intercept	1.2855 ***	1.7406 **	1.6378 **	3.3983 ***
	(0.4325)	(0.7312)	(0.8334)	(0.9038)
Small Boards	0.0004	0.0206	0.0672 *	0.0230
	(0.0434)	(0.0360)	(0.0379)	(0.0550)
CSP net	0.0633 ***	0.0227 ***	0.0426 ***	0.0714 ***
	(0.0087)	(0.0076)	(0.0111)	(0.0097)
Interaction CSP net - Small Board	-0.0262 *	-0.0150	-0.0149	-0.0172
	(0.0137)	(0.0129)	(0.0165)	(0.0194)
Board Size	0.0118	0.0179 **	0.0184 *	-0.0068
	(0.0102)	(0.0080)	(0.0106)	(0.0145)
Sales (log)	0.1099	0.2624 ***	0.2276 **	0.0886
	(0.1027)	(0.0962)	(0.1121)	(0.1379)
Sales (log) squared	-0.0016	-0.0128 **	-0.0077	0.0016
	(0.0063)	(0.0059)	(0.0068)	(0.0083)
Capital to Sales Ratio	0.4162 ***	0.2463 ***	0.4281 ***	0.4022 ***
	(0.0877)	(0.0704)	(0.1042)	(0.1134)
Capital to Sales Ratio squared	-0.0553 ***	-0.0382	-0.0580 **	-0.0443 **
	(0.0190)	(0.0149)	(0.0248)	(0.0207)
Cash Flow to Capital	0.9788 ***	0.7092 ***	1.0994 ***	1.1303 ***
	(0.0458)	(0.0688)	(0.0733)	(0.0680)
Debt to Assets	-1.0796 ***	-0.5740 ***	-0.9530 ***	-1.1155 ***
	(0.0702)	(0.0635)	(0.0704)	(0.1004)
Research and Development to Capital Ratio	1.0085 ***	0.9221 ***	1.3109 ***	1.0951 ***
	(0.1415)	(0.1963)	(0.1867)	(0.1770)
Research and Development missing identifier	-0.1515 ***	-0.0543	-0.1255 **	-0.1970 ***
	(0.0452)	(0.0412)	(0.0581)	(0.0659)
Dividend Yield	-0.0986 ***	-0.0085 ***	-0.1041 ***	-0.1406 ***
	(0.0271)	(0.0085)	(0.0125)	(0.0218)
Year Fixed	Yes	Yes	Yes	Yes
Industry Fixed	Yes	Yes	Yes	Yes
F	74.46 ***			
Pseudo R2	0.45	0.19	0.28	0.37
Observations	5,123	5,123	5,123	5,123

In Table 6 Panel A, we include a base line regression in Column 1 and three quantile regressions at the 25, 50, and 75 quintile of the distribution of Tobin's Q in the sample in Columns 2, 3 and 4 respectively. Results show that the variable debt to assets is significant in all the four models and negatively correlated with Tobin's Q. Other variables, such as Cash Flow to Capital, Dividend Yield and Capital to Sales Ratio are significant in the base line regression and in one or two quintile regressions, therefore

being significant conditional to the level of Tobin's Q of the firms. The net total CSP measure is significant at the .01% level in the standard base line regression, with a magnitude of 6.3%, and the magnitude of the effect increases along the quintiles from 2% in the 25th quartile to 7% in the 75th quartile of Tobin's Q.

Table 6 Panel B

Effect of Corporate Social Performance (net) on Tobin's Q. Change regression.

The dependent variable is change in Tobin's Q. All variables are winsorized at the 2% level and measured as chnage from previous year. Standard Errors (Bootstrap Standard Errors, for Model 2, 3 and 4) are clustered by firm and they are reported in parentesis. Column 1: full model; Column 2: 25% quantile; Column 3: 50% quantile; Column 4: 75% quantile. Coefficients' significance: * p < 0.10; ** p < 0.05; *** p < 0.01

Variable		Q 25	Q 50	Q 75
	(1)	(2)	(3)	(4)
Intercept	-0.0315	0.0215	0.0418	-0.1638
	(0.0648)	(0.0356)	(0.1417)	(0.1144)
CSP net	0.0159 *	0.0236 *	-0.0002	0.0082
	(0.0086)	(0.0121)	(0.0191)	(0.0213)
Board Size	0.0140	-0.0081	-0.0005	0.0418 *
	(0.0086)	(0.0182)	(0.0200)	(0.0219)
Sales (log)	-0.0747	-1.2201	-0.8929	-0.2150
	(0.4226)	(0.8118)	(0.8141)	(0.9656)
Sales (log) squared	-0.0117	0.0525	0.0149	-0.0207
	(0.0269)	(0.0534)	(0.0517)	(0.0592)
Capital to Sales Ratio	-0.2997 *	-0.3580 *	-0.1717	-1.8637 ***
	(0.1761)	(0.1987)	(0.4619)	(0.6892)
Capital to Sales Ratio squared	0.0498 *	0.0524	-0.0070	0.2354 ***
	(0.0283)	(0.0321)	(0.0488)	(0.0904)
Cash Flow to Capital	0.2422 ***	0.0996	0.3366 ***	0.1606 *
	(0.0385)	(0.0747)	(0.1086)	(0.0846)
Debt to Assets	-0.9013 ***	-0.4104 **	-1.0509 ***	-1.3599 ***
	(0.1196)	(0.1864)	(0.2816)	(0.3166)
Research and Development to Capital Ratio	0.6112	-0.3702	0.3489	-0.1266
	(0.4089)	(0.6447)	(0.8764)	(0.7065)
Research and Development missing identifier	0.1058	-0.0755	0.0657	0.2308
	(0.0950)	(0.0930)	(0.1718)	(0.2687)
Dividend Yield	-0.0429 *	-0.1011 ***	-0.0084	-0.2149
	(0.0226)	(0.0283)	(0.0195)	(0.0887)
Year Fixed	Yes	Yes	Yes	Yes
Industry Fixed	Yes	Yes	Yes	Yes
Observations	3,973	728	795	845
F	25.6 ***	7.60 ***	8.19 ***	11.09 ***
Pseudo R2	0.14	0.25	0.22	0.24

Realizing that using the standard regression we face the fact that CSP is endogenously determined at the firm we modify the base regression (2) and conduct a differences in differences regression in Panel B to gain a clear picture of the effects of

CSP on firm performance. In Panel B be we see the magnitude of the net CSP measure diminishes to 1.5% the significance of the coefficient falls to under the 10% threshold in Column 1. In Columns 2 to 4 we run the regression over the Inter quartile range of the Tobin Q distribution of the Sample, we find that most of the effect comes from the firms at the lower quartile of the distribution with a coefficient of 2.36% and a significance at a p value of .10. Thus, questions the value increasing function of CSP in the firm.

Table 6 Panel C
Effect of Corporate Social Performance on Tobin's Q. Change regression.

The dependent variable is change in Tobin's Q. All variables are winsorized at the 2% level and measured as chnage from previous year. Standard Errors are clustered by firm and they are reported in parentesis. Column 1: model with Strength CSP measure; Column 2: model with Employee CSP measure; Column 3: model with Diversity CSP measure. Coefficients' significance: * p < 0.10; ** p < 0.05; *** p < 0.01

Variable	(1)	(2)	(3)
Intercept	-0.0660	-0.0282	-0.0324
	(0.0461)	(0.0647)	(0.0648)
CSP	-0.00187	0.0326*	0.0123
	(0.00490)	(0.0166)	(0.0155)
Board Size	0.00531	0.0142	0.0141
	(0.00582)	(0.00871)	(0.00871)
Sales (log)	-0.154	-0.101	-0.0782
	(0.297)	(0.425)	(0.424)
Sales (log) squared	-0.00234	-0.0103	-0.0116
	(0.0184)	(0.0271)	(0.0270)
Capital to Sales Ratio	-0.146	-0.295	-0.294
	(0.118)	(0.176)	(0.176)
Capital to Sales Ratio squared	0.0225	0.0501	0.0496
	(0.0182)	(0.0284)	(0.0283)
Cash Flow to Capital	0.162***	0.241***	0.242***
	(0.0261)	(0.0386)	(0.0386)
Debt to Assets	-0.685***	-0.905***	-0.903***
	(0.0758)	(0.120)	(0.120)
Research and Development to Capital Ratio	0.354	0.610	0.606
	(0.274)	(0.409)	(0.410)
Research and Development missing identifier	0.0783	0.107	0.109
	(0.0583)	(0.0949)	(0.0954)
Dividend Yield	-0.0362*	-0.0431	-0.0428
	(0.0145)	(0.0227)	(0.0226)
Year Fixed	Yes	Yes	Yes
Industry Fixed	Yes	Yes	Yes
Observations	3973	3973	3973
F	30.33**	25.39**	25.51***
Adj R2	15,78%	13,87%	13,74%

In Panel C, we take into consideration our finding in hypothesis 3 that not all CSP as the same effect and we conduct change regressions on our three driving measures of CSP from hypothesizes 2 and 3, Net CSP, Diversity, and Employee to see there effects on Value. The results further collaborate our finds given that the coefficients on strength and diversity are not significant and the sign on the strength coefficient is negative. The coefficient on employee CSP is marginally significant at the 10% level with a magnitude of 3%, but this could just explain that having a happy and healthy workforce improves the performance of the firm. And that given a negative performance it does nothing to buffer the CEO from being fired, as previous analytical research would have predicted (Cite). Overall the findings in table 6 suggest that our findings are not driven by a firm performance based explanation of CSP causing the increased sensitivity the CEO Performance Turnover.

3.5 CONCLUSION

While there exist a vast stream of literature that studies separately the drivers of Corporate Social Performance and Firm Financial Performance and the determinants of the likelihood of CEO turnover, there exists relatively little if any empirical work on the effects of CSP on CEO turnover. Our study strives to fill this void by examining the relationship between corporate social performance and the likelihood of CEO turnover conditional on negative performance. While studying this relation we also investigate the difference in monitoring structures of high and low CSP firms as well as shed light into the ability of CSP to create value for the firm.

We empirically test two competing hypothesis as to the effects of CSP on CEO turnover. Under the Insurance Hypothesis given a negative performance the CEO should be buffered from firing by performing these social projects. Under the alternative Punishment hypothesis shareholders see through the social performance and punish the CEO more for the CSP conditional on the negative performance. Consequently, in order to ascertain the direct effect of the CSP on the sensitivity to turnover after the performance we also test for any differences in the governance system of firms based on

their CSP. We further test whether all CSP has the same effect on the relation as well as investigate whether these corporate social activities are associated firm value.

Using a sample of U.S. socially rated firms from 1996-2005 we find evidence that CSP conditional on negative performance leads to a greater increase in the likelihood of the CEO being fired. Specifically, we find the governing characteristics of high and low CSP firms differ in board size with high CSP firms having larger boards even after conditioning on performance, but this can be explained by them also being significantly larger firms. A more interesting finding though is that the percentage of CEO turnovers does not differs significantly between the two subsamples allowing us to test unconditionally the effects of CSP given negative CEO performance. Our main results show that unconditionally CSP has no direct effect on turnover but conditional on negative performance the CEO's likelihood of being fired is exasperated by the presence of the higher CSP. We then proceed to see if the effect is consistent with alternative measures of CSP as well as specific categories, finding that most of the results come from the total strengths, net Diversity, and net employee. To further collaborate our results we investigate the value creation of these CSP measures finding that they marginally affect firm value once you correct for the endogeneity issues with CSP implementation.

Overall our results support the Punishment hypothesis that conditional on negative performance a CEO is not only punished for the negative performance by a higher unconditional likelihood of being fired but also punished if they engage in CSP. These results suggest that CEO gain no advantage in performing these social projects in times of bad performance. Thus our results are supportive of the view that shareholders see through the wasteful non-value adding activities of CEOs in bad time and adequately punish them so. While our results do not allow us to address specifically the role of CSP and the negative performance, we still contribute to their effect once the negative event is realized calling for future research on the role of CSP in negative performance.

Appendix

Table 4 Panel A - MARGIN
Effect of Corporate Social Performance (net) on financial performance - CEO turnover sensititvity

Average marginal effect and marginal effect at the mean in parenthesis. Coefficients' significance: * p < 0.10; ** p < 0.05; *** p < 0.01

Variable	(1)	(2)	(3)
Positive Returns	0.361**	0.036 **	0.035 **
	(0.032 **)	(0.032 **)	(0.031 **)
Negative Returns	-0.097 ***	-0.124 ***	-0.0784 **
	(-0.086 ***)	(-0.111 ***)	(-0.069 **)
Missed Earnings	0.010 ***	0.010 ***	0.010 ***
	(0.009***)	(0.009 ***)	(0.008 ***)
Board Size	0.004**	0.004 **	0.003 *
	(0.003**)	(0.003 **)	(0.003 *)
Small Boards	0.0004	0.001	-0.0007
	(0.0004)	(0.001)	(-0.0006)
Interaction Small Boards - Negative Returns	-0.046	-0.031	-0.056
	(-0.040)	(-0.028)	(-0.050)
Independent Directors (%)	0.041 *	0.042 *	0.037
	(0.036 *)	(0.037 *)	(0.033)
CEO Age (log)	0.545 ***	0.542 ***	0.548 ***
	(0.484 ***)	(0.482 ***)	(0.486 ***)
Retirement Age CEO	0.022 *	0.021 *	0.022 **
	(0.019 *)	(0.019 *)	(0.020 **)
Book to Market Ratio	-0.034 **	-0.037 **	-0.034 **
	(-0.030 **)	(-0.033 **)	(-0.030 **)
CSP net	-0.0007		
	(-0.0006)		
Interaction CSP net - Negative Returns	-0.023 ***		
	(-0.020 ***)		
Interaction CSP net - Missed Earnings	0.0004		
	(0.0003)		
CSP Technical net		-0.0004	
		(-0.0004)	
Interaction CSP Technical - Neg. Returns		-0.016	
		(-0.015)	
Interaction CSP Technical - Missed Earnings		-0.0003	
		(-0.0003)	
CSP Institutional net			-0.0008
			(-0.0007)
Interaction CSP Institutional - Neg. Returns			-0.030 ***
			(-0.027 ***)
Interaction CSP Institutional - Missed Earnings			0.0008
			(0.0007)
Year Fixed	Yes	Yes	Yes
Industry Fixed	Yes	Yes	Yes

Table 4 Panel B - MARGINS

Effect of Corporate Social Performance (strengths and weaknesses) on financial performance - CEO turnover sensititvity

Average marginal effect and marginal effect at the mean in parenthesis. Coefficients' significance: * p < 0.10; ** p < 0.05; *** p < 0.01

Variable	(1)	(2)	(3)
Positive Returns	0.034 *	0.035 **	0.034 **
	(0.031 *)	(0.031 **)	(0.030 **)
Negative Returns	-0.040	-0.100 **	-0.046
	(-0.035)	(-0.089 **)	(-0.040)
Missed Earnings	0.009 ***	0.009***	0.009 **
	(0.008 ***)	(0.008 ***)	(0.008 **)
Board Size	0.003*	0.003 *	0.003
	(0.003 *)	(0.003 *)	(0.002)
Small Boards	-0.001	0.001	-0.0001
	(-0.0009)	(0.001)	(-0.0001)
Interaction Small Boards - Negative Returns	-0.065 *	-0.042	-0.063 *
	(-0.057 *)	(-0.037)	(-0.056 *)
Independent Directors (%)	0.038	0.034	0.033
	(0.033)	(0.030)	(0.029)
Ceo Age (log)	0.546 ***	0.542 ***	0.545 ***
	(0.485 ***)	(0.481 ***)	(0.483 ***)
Retirement Age CEO	0.023 **	0.022 *	0.023 **
	(0.020 **)	(0.019 *)	(0.020 **)
Book to Market Ratio	-0.032**	-0.039 **	-0.035 **
	(-0.029 **)	(-0.034 **)	(-0.031 **)
CSP strengths	-0.0007		-0.0006
	(-0.0006)		(-0.0005)
Interaction CSP strengths - Negative Returns	-0.017 ***		-0.0187 ***
	(-0.015 ***)		(-0.016 ***)
Interaction CSP strengths - Missed Earnings	0.0003		0.0002
	(0.0003)		(0.0002)
CSP concerns		0.002	0.002
		(0.002)	(0.002)
Interaction CSP concerns - Negative Returns		-0.005	0.003
		(-0.004)	(0.003)
Interaction CSP concerns - Missed Earnings		0.0004	0.0002
		(0.0003)	(0.0002)
Year Fixed	Yes	Yes	Yes
Industry Fixed	Yes	Yes	Yes

Table 5 Panel A - MARGIN

Effect of Corporate Social Performance (different dimensions - net) on financial performance - CEO turnover sensititvity

Average marginal effect and marginal effect at the mean in parenthesis. Coefficients' significance: * p < 0.10; ** p < 0.05; *** p < 0.01

Variable	(1)	(2)	(3)
Positive Returns	0.035 **	0.035 **	0.036 **
	(0.031 **)	(0.031 **)	(0.032 **)
Negative Returns	-0.110 ***	-0.106 ***	-0.119 ***
	(-0.098 ***)	(-0.095 ***)	(-0.105 ***)
Missed Earnings	0.011 ***	0.010 ***	0.011 ***
	(0.010 ***)	(0.009 ***)	(0.010 ***)
Board Size	0.003 *	0.004 **	0.004 **
	(0.003 *)	(0.003 **)	(0.003 **)
Small Boards	0.001	0.0005	0.001
	(0.001)	(0.0004)	(0.0009)
Interaction Small Boards - Negative Returns	-0.037	-0.037	-0.034
	(-0.033)	(-0.033)	(-0.030)
Independent Directors (%)	0.036	0.041*	0.041 *
	(0.032)	(0.036 *)	(0.037 *)
CEO Age (log)	0.545 ***	0.541 ***	0.542 ***
	(0.484 ***)	0.481 ***)	(0.482 ***)
Retirement Age CEO	0.021 *	0.021 *	0.021 *
	(0.019 *)	(0.019 *)	(0.018 *)
Book to Market Ratio	-0.034 **	-0.037 **	-0.037 **
	(-0.030 **)	(-0.033 **)	(-0.033 **)
CSP Corporate Governance net	-0.011		
	(-0.009)		
Intergaction CSP Corp Gov net - Negarive Returns	0.001		
	(0.003)		
Intergaction CSP Corp Gov net - Missed Earnings	0.001		
	(0.001)		
CSP Human Rights net		0.003	
		(0.003)	
Intergaction CSP Hum Rights - Negarive Returns		0.079	
		(0.066)	
Intergaction CSP Hum Rights - Missed Earnings		-0.002	
		(-0.002)	
CSP Community net			0.0027
			(0.002)
Intergaction CSP Comm - Neg Returns			0.005
			(0.004)
Intergaction CSP Comm - Missed Earnings			-0.003
			(-0.003)
Year Fixed	Yes	Yes	Yes
Industry Fixed	Yes	Yes	Yes

Table 5 Panel B - MARGIN

Effect of Corporate Social Performance (different dimensions - net) on financial performance - CEO turnover sensititvity

Average marginal effect and marginal effect at the mean in parenthesis. Coefficients' significance: * p < 0.10; ** p < 0.05; *** p < 0.01

Variable	(1)	(2)	(3)	(4)
Positive Returns	0.035 **	0.035 **	0.037 **	0.036 **
	(0.031 **)	(0.031 **)	(0.033 **)	(0.032 **)
Negative Returns	-0.067 **	-0.099 ***	-0.124 ***	-0.118 ***
	(-0.060 **)	(-0.088 ***)	(-0.110 ***)	(-0.104 ***)
Missed Earnings	0.009 ***	0.011 ***	0.009 ***	0.011 ***
	(0.008***)	(0.010 ***)	(0.008 ***)	(0.009 ***)
Board Size	0.003 *	0.004 **	0.003 **	0.004 **
	(0.003*)	(0.003 **)	(0.003 **)	(0.003 **)
Small Boards	-0.001	0.0005	0.001	0.001
	(-0.001)	(0.0005)	(0.001)	(0.001)
Interaction Small Boards - Negative Returns	-0.063 *	-0.043	-0.032	-0.034
	(-0.056 *)	(-0.038)	(-0.028)	(-0.030)
Independent Directors (%)	0.036	0.041 *	0.036	0.042 *
	(0.032)	(0.036*)	(0.032)	(0.037 *)
CEO Age (log)	0.548 ***	0.542 ***	0.542 ***	0.543 ***
	(0.486 ***)	(0.482 ***)	(0.481 ***)	(0.483 **)
Retirement Age CEO	0.023 **	0.021 *	0.021 *	0.021 *
	(0.020 **)	(0.019 *)	(0.019 *)	(0.018 *)
Book to Market Ratio	-0.032 **	-0.0349 **	-0.040 ***	-0.037 **
	(0.029 **)	(-0.031 **)	(-0.036 ***)	(-0.033 **)
CSP Diversity net	-0.002			
	(-0.001)			
Intergaction CSP Diversity - Neg Returns	-0.046 ***			
	(-0.041 ***)			
Intergaction CSP Diversity - Missed Earnings	0.002			
	(0.002)			
CSP Employees net		0.003		
		(0.003)		
Intergaction CSP Employees - Neg Returns		-0.043 **		
		(-0.038 **)		
Intergaction CSP Eployees - Missed Earnings		-0.002		
		(-0.002)		
CSP Environment net			-0.007	
			(-0.006)	
Intergaction CSP Environment - Neg Returns			-0.018	
			(-0.016)	
Intergaction CSP Environment - Missed Earnings			-0.003	
			(-0.003)	
CSP Product net				-0.0002
				(-0.0001)
Intergaction CSP Product - Neg Returns				-0.003
				(-0.003)
Intergaction CSP Product - Missed Earnings				0.001
				(0.001)
Year Fixed	Yes	Yes	Yes	Yes
Industry Fixed	Yes	Yes	Yes	Yes

CHAPTER 4

The Determinants of Organizational Effectiveness: Stakeholder Dialogue and Monitoring in Museums

This study investigates the issue of stakeholder dialogue in the context of non-profit organizations (in particular, museums). By relying on a sample of 72 US museums, we developed a quantitative empirical analysis testing the impact of stakeholder dialogue on organizational effectiveness in terms of fundraising activity and board monitoring. First, we investigated whether museums engaging in more dialogue with their stakeholders manage to collect more contributions and whether they bear less fundraising expenses thanks to this better relationship with the community and other stakeholders. We then investigate the impact of stakeholder dialogue on organizational efficiency, as measured by the amount of administrative expenses. We hypothesize that the higher levels of stakeholder dialogue may lead both the board and other stakeholders to more effectively monitor museums' management.

4.1 INTRODUCTION

Museums and other non-profit organizations need to engage stakeholders in order to survive. They receive contributions and – to a lesser extent – government grants only if they manage to persuade stakeholders as to the merits of their activity, taking into account stakeholders' needs. Despite the critical nature of stakeholder engagement for these institutions, the topic of stakeholder dialogue in non-profit organizations (and in particular museums) has received relatively little attention in the literature and as a result we feel further empirical and theoretical investigation is required. Furthermore, Blaser and McClusky (2005) call for more research on the relationship between

stakeholder management practices and organizational effectiveness, because much of the current research is mainly descriptive and based on case study methodology.

Our study is grounded in Stakeholder Theory and Stakeholder Dialogue, concepts that have been developed in the profit sector, yet should – and to some extent have been - employed in the non-profit sector as well.

We rely on a sample of 72 US museums in order to empirically test our hypotheses. While operationalizing stakeholder dialogue through a quantitative variable is not an easy task, we believe we managed to find a good proxy in: the number of independent voting members of the board as reported by the museums' 990 IRS form and the number of volunteers working for the museum. We provide some theoretical arguments in order to support our choice and we also test it empirically (Hypothesis 1). We show that board size is positively related with the number of volunteers serving in the museum, which we regard as a good proxy for the successfulness of stakeholder dialogue.

As recognized by previous studies (see Bryson (1995), Drucker (1990), Forbes (1998), Oster (1995), Kanter and Summers (1987)) the measurement of organizational effectiveness in the non-profit sector is a challenging task. We employ three financial indicators in order to measure the effectiveness of fundraising activities (contributions and fundraising expenses) and the effectiveness of monitoring both by the board and other stakeholders (administrative expenses).

Hypothesis 2a and 2b empirically test whether museums engaging in more dialogue with their stakeholders receive more contributions as well as bear less fundraising expenses to attract donors. We construct our hypotheses under the guide of previous literature on Stakeholder Dialogue. The existence of a positive relationship between board size and contributions has been already proposed by previous studies. According to Ostrower (2002) and Hyndman and McDonnell (2009), large boards are advantageous from a fundraising perspective, because seats can be used to attract and reward generous donors. To the best of our knowledge, no previous study has empirically tested such relationship in the context of museums.

Hypothesis 3 investigates the impact of stakeholder dialogue on organizational efficiency (as measured by the amount of administrative expenses) through the

monitoring activity of the board and other stakeholders not represented into the board. Callen et al (2010) calls for more research on the factors influencing the relationship between board effectiveness and organizational effectiveness. We propose that stakeholder dialogue may have a positive effect on monitoring (both by the board and by other stakeholders). To the best of our knowledge, ours is the first attempt to tie stakeholder dialogue and monitoring in the non-profit sector. Previous literature on non-profit board monitoring deals with such issues as board composition, size, board-staff relationships, and ultimately board effectiveness. We propose that the effectiveness of the monitoring role of the board and other stakeholders may be positively influenced by the degree of stakeholder dialogue. Thus we propose that stakeholder dialogue has a beneficial impact on organizational efficiency through monitoring (which in this context plays a mediating effect between stakeholder dialogue and organizational efficiency).

The rest of the paper is organized as follows. The Background section provides a literature review of the three streams of literature that have been employed in order to test for our hypotheses: Stakeholder Theory, Stakeholder Dialogue and the monitoring role of board of directors and board size. The Hypotheses Development section discusses the theoretical arguments behind the development of our three hypotheses. In the Methodology section we described the sample we employed in our analysis and the variables included in our models. In the Empirical Analysis section we discuss the five regression models we employed in testing our hypotheses and we comment on the results in the Results section. Finally, the Discussion section provides a comment of our results and points out some limitations of the present study and ideas for future research.

4.2 BACKGROUND

In this Section, we provide a review of three streams of literature that are central in the development of the hypotheses hereby proposed. In the first part of the Section, we provide an overview of Stakeholder Theory and Stakeholder Dialogue in the for-profit sector. We discuss the reasons why the Stakeholder Theory framework is applicable to the non-profit sector as well and we provide a review of the way in which

Stakeholder Theory has been embedded in the non-profit field literature. In the second part, we review and discuss the literature on non-profit organizations effectiveness, focusing in particular on the challenges researchers wanting to measure non-profit organizations performance need to face. Finally, in the third part of the Section, we review scholarly knowledge on non-profit governance and on the monitoring role of boards.

4.2.1 Stakeholder Theory and Stakeholder Dialogue

Following Freeman (1984) we define stakeholder as "any group or individual who can affect or is affected by the achievement of the organization's objectives". Stakeholder Theory, in the for-profit context, stresses the importance for the firm to manage (for normative and/or instrumental reasons) its relationships with stakeholders and, more broadly, it emphasizes values such as participation, inclusion and mutual dependence (see Wheeler et al (2003) and Ayuso et al (2006)). We believe that it is not an illogical jump to apply Freeman's framework in the non-profit (museum) setting. Museums require the building of relationships with stakeholders via participation and inclusion for their survivor. Therefore, our setting provides an even cleaner environment to apply Freeman's framework of analysis because in this setting we have a clear link between stakeholders' relations and museums' survival. Such a relations remains unclear in the for-profit sector.

Stakeholder Theory plays a central role in the academic debate on non-profit organizations. According to a number of studies (see Anheier (2005), Brody (1996), Miller (2002), Ostrower and Stone (2006)), it is not clear who should be regarded as the principal of a non-profit organization and therefore it is fundamental for researchers to look at the organization's stakeholders. Ben-Ner and Van Hoomissen (1991) proposed that non-profit organizations are founded and controlled primarily by "demand-side stakeholders", who are subjects interested in the provision of services for themselves and/or for others. In their framework, non-profit organizations are controlled by "high-demand stakeholders", who have the greatest interest in the organization's products, and who have the necessary time and expertise to control the organization (see Abzug and Webb (1999)).

Donaldson and Preston (1995) further advanced Stakeholder Theory by making the distinction between descriptive, normative and instrumental stakeholder theory, based on the motivations behind its implementation. The instrumental approach to stakeholder theory predicts that firms will achieve better financial performance by managing their relationships with stakeholders. To this purpose, a number of studies (among others Orlitzky, Schmidt and Rynes (2003), Roman, Hayibor and Agle (1999), Hillman and Kleim (2001), Ruf et al (2001) and Russo and Fouts (1997)) argue that firms having good relationships with their stakeholders may increase their financial performance, as stakeholder relations are valuable, rare and inimitable resources (see Choi and Wang (2009)). Some of these studies (among the others, Choi and Wang (2009)) rely on the theoretical framework of the Resource Based View of the firm (Barney (1991)).

A critical issue for firms adopting a Stakeholder Theory framework is identifying (mapping) the relevant stakeholders and determining their relative importance. The fact that stakeholders do not have the same importance has long been recognized by the academic literature, which usually distinguishes between primary and secondary stakeholders (see Clarkson (1995), Hall and Vredenburg (2003), Post et al (2002) and Waddock et al (2002)). Mitchell, Agle and Wood (1997) provide a framework of analysis for firms to assess the right weights to attribute to various stakeholders, the three dimensions to be considered power, legitimacy and urgency. This framework could easily be translated to the non-profit sector given the different constituents that these organizations need to win over to succeed in their missions. Even if the definition of stakeholder is unique (see Freeman (1984)), its broadness allows it to be shaped by the two different contexts. To this end, it is helpful to rely on the categorization of a non-profit organization's stakeholders developed by Puyvelde et al (2011). The authors identify three categories of stakeholders: Interface stakeholders (board members), Internal stakeholders (managers, employees, operational volunteers) and External stakeholders (funders, beneficiaries, suppliers/contractors, competitors, organizational partners and other external stakeholders). For a detailed description of each category of stakeholder see Puyvelde et al (2011), page 4.

According to Unerman and Bennett (2004), stakeholder dialogue has been recognized by both the business and the academic world as a cornerstone of corporate social, environmental and ethical governance (see Adams (2001), Boguslaw (2002), GRI (2000), Larsson and Ljungdahl (2001), Owen, Shwift and Hunt (2001), Zadek and Raynard (2002)). We follow Pedersen (2006) and define stakeholder dialogue as "the involvement of stakeholders in the decision-making processes that concern social and environmental issues" (see Pedersen (2006), p 140). Stakeholder dialogue is a means through which companies, and in our case museums, can achieve stakeholder trust. Kaptein and Tulder (2003), who study the for-profit sector, argue: "a proper dialogue not only enhances a company's sensitivity to its environment, but also increases the environment's understanding of the dilemmas facing the organization" (p 208). In our setting, this argument is even stronger; because museums must rely on stakeholder dialogue as a way to increase the community's understanding of the institutions needs and wants.

Other studies (see Ayuso et al (2006), Hall and Vredenburg (2003), Hart and Sharma (2004)) analyze the importance of stakeholder dialogue in facilitating innovation. Firms innovating without considering the views, perceptions and expectations of stakeholders may face threats. In the non-profit case of museums, the relationship is natural, as museums need to be competitive and innovate according to wants and needs of their local communities. Apart from innovation, stakeholder dialogue provides museums with a mechanism through which they can be held responsible to the local community. Roberts (1996), who studies corporate stakeholder dialogue, argues that this dialogue has a central role in the accountability process. He writes that ''dialogue as a process and practice of accountability'' can potentially ''restore the balance'', in the sense that the it forces firms to judge the social and environmental consequences on their for-profit interests (Roberts (1996), p 59). Stakeholder dialogue, as opposed to stakeholder debate, shifts the framework from confrontation and competition to consultation and cooperation. In order to maintain relevancy, museums need to consult and cooperate with the community, where responsibilities are shared rather than separated and the outcome is aimed at reaching win-win solutions for all the participants in the debate.

The implementation of an effective stakeholder dialogue is not an easy task neither in the for-profit nor in the non-profit arena. Kaptein and Van Tulder (2003) list ten preconditions for an effective stakeholder dialogue, namely: to know and be understood, trust and reliability, clear rules for dialogue, a coherent vision on the dialogue, dialogue skills, expertise in the subject matter, clear dialogue structure, valid information as basis, consecutive meetings and feedback of results. This strategy can be implemented in the non-profit setting as well, in which we measure stakeholder dialogue via the stakeholders' presence on the board.

The importance of managing stakeholder relationships has been recognized by the non-profit literature as well, given the centrality of the concept for non-profit organizations (see Ben-Ner and Van Hoomissen (1991)). According to Balser and McClusky (2005), "stakeholders represent a source of uncertainty for nonprofit organizations", since they provide resources and legitimacy that are not predictable or controllable (see Bielefeld (1992) and Gronbjers (1991)). Most of the non-profit research focuses on the way in which non-profit organizations strategically manage stakeholder relations (see Alexander (1996), Bigelow and Stone (1995), D'Aunno et al (1991), Ospina et al (2002)), but it does not generally tie stakeholder management practices to measures of organizational effectiveness (one exception being the work of Balser and McClusky (2005)).

4.2.2 Non-profit organizational effectiveness

The issue of non-profit organizational effectiveness is among the most widely studied issues in the field, yet it remains elusive. Measuring the performance of a non-profit organization is not an easy task as non-profit managers face more ambiguous and diverse goals than their for-profit counterparts. As a consequence, non-profit organization performance cannot strictly be measured through financial indicators (see Brown (2005)). These issues and the fact that performance measurement in the non-profit sector is a challenging task has already been recognized by previous literature (see Bryson (1995), Drucker (1990), Forbes (1998), Oster (1995), Kanter and Summers (1987)) and, as a consequence, some approaches have been proposed.

Rojas (2000) provides a review of the ways in which organizational effectiveness has been measured in the previous literature. The different methodologies implemented reflect the multi dimensionality of the construct. In particular, according to the social constructionist conception, effectiveness by itself does not exist, but rather there are only judgements of effectiveness. Studies entirely relying on this approach (see, among the others, Nobbie and Brudney (2003)) face the risk of gather contradictory multiple perspective on performance and reflect respondent bias (see Brown (2005)). On the other hand, there are studies relying solely on financial indicators of efficency. According to Ritchie and Kolodinsky (2003), these studies generally measure three main constructs: fundraising efficiency, public support and fiscal performance.

Bradshaw et al (1992) employed four proxies in order to measure organizational effectiveness: the growth in the budget, the size of any budget deficit, and two subjective measures based on respondents' assessment of organizational performance (see Callen et al (2010)). Brown (2005) proposes a very inclusive approach to non-profit organizations' performance measurement, measuring organizational effectiveness through a wide range of indicators, spanning from financial measures of performance to indicators reflecting the perceived organizational performance (see Herman and Renz (1997)). Among the financial measures of organizational effectiveness, Brown (2005) employs: total revenues to total expenses, total contributions to total revenues, total revenue to fundraising expense and net revenue.

The relationship between stakeholder management practice and organizational effectiveness has been generally neglected by previous studies, one of the few exceptions being the work by Balser and McClusky (2005). The authors examine how non-profit organizations manage their relationship with stakeholders and how these practices relate to perceived organizational effectiveness as measured through interviews with individuals highly knowledgeable of the non-profit organization. The authors conclude indicating some stakeholder management practices identified in the article that are correlated with the positive evaluation of organizational effectiveness by external parties.

4.2.3 The monitoring role of Boards of Directors

According to academic literature, one of the main roles of the board of directors is to observe the manager's actions and intervene when necessary to resolve agency conflicts between managers and owners (see Hermalin and Weisbach (2001)). Generally, theoretical and empirical studies dealing with the issue rely on the Agency Theory framework (see Jensen and Meckling (1976)). We rely on this framework of analysis as well, even if Miller (2002) finds that Agency Theory is deficient in explaining some aspects of the non-profit boards' monitoring behaviour given that in the non-profit context boards do not expect managers to act opportunistically.

The monitoring role of the board has received much attention in the non-profit literature, especially after some scandals involving non-profit executive and administrative malfeasance (see Miller (2002)). Ostrower and Stone (2006, 2007) identify four areas of non-profit board research: composition, board-staff relationship, board roles and responsibilities and board effectiveness. According to Callen et al (2010), from an agency theory perspective, a board is well functioning if it manages to minimize unnecessary administrative expenses. Initially contributions on the issue of board effectiveness have been prescriptive in nature, indicating a number of characteristics and practices that make boards effective (see O'Connell (1985), Houle (1989), Carver (1990), Ducca (1996), Block (1998)). Later on, scholars began investigating the relationship between various governance and board characteristics and board (and organizational) effectiveness. Among the best and most recent reviews on non-profit governance are: Hyndman and McDonnell (2009), Stone and Ostrower (2007) and Miller-Millessen (2003).

A number of studies in the literature explore the relationship between board monitoring and organizational effectiveness. According to Herman and Renz (2008), several studies have found a relationship between board effectiveness and organizational effectiveness, with the direction of the relationship (board effectiveness causing organizational effectiveness) haveing been confirmed by Jackson and Holland (1998). However, previous studies do not manage to fully explain how boards have an impact on organizational effectiveness (see Brown (2005)). Furthermore, the literature on board governance and non-profit performance is mainly descriptive and/or explanatory and is in despreate need of a better understanding of the other factors that

are influencing the relationship between board structure, composition and organizational effectiveness (see Callen et al (2010)).

4.3 HYPOTHESES DEVELOPMENT

Museums need to engage stakeholders in order to survive and implement their stated goals in their communities. While the definitions of stakeholder dialogue provided above (see Pedersen (2006) and Kaptein and Tulder (2003)) arise from the for-profit sector, they can easily be applied to the non-profit sector as well.

Museums and non-profit organizations can engage in dialogue with stakeholders in several manners. For instance, they can try to attract prominent citizen to their board of directors or they can organize meetings with stakeholders in order to discuss relevant issues. The Museum of Applied Arts and Sciences of Sidney regularly organizes meetings with its stakeholders, where "meeting face to face enables people to share their concerns and experiences with each other as well as speaking directly with Museum staff" (Museum of Applied Arts and Sciences of Sidney - Annual Report 2011, page 37). Some studies (see, among the others, Unerman and Bennett (2004)) investigate which is the role of technology (i.e. internet) on the way organizations engage with their stakeholders.

Of interest to us is how museums achieve a permanent dialogue with stakeholders by including stakeholders on their board of directors or board of trustees, thus institutionalizing the stakeholder dialogue. In this perspective, the role of directors as interface stakeholders (as defined by the framework proposed by Puyvelde et al (2011)) is central in establishing a close relationship with other groups of stakeholders.

According to this perspective, one would expect a museum that is able to attract and maintain a large number of stakeholders (thus a museum with a larger board of directors or board of trustees) as being more successful in terms of stakeholder dialogue.

We believe a good way of empirically measuring the museums success in dialoguing with and engaging its stakeholders to be the number of volunteers serving in the museum. Given the limited resources of stakeholders, they are forced to make a

decision of where to place their resources be they monetary or in-kind (volunteer hours). Thus when a museum gathers a new volunteer willing to invest his scarce resources (time and energy) to work for the museum, this can be thought of as the result of a successful dialogue and engagement with the stakeholder. Our expectations are supported by the predictions of Identity Theory (see Tajfel and Turner (1979)). In particular, Tyler (1999) and Tyler and Blader (2000) argued that people voluntarily cooperate with the organization if they feel committed to the organization, being commitment based on pride and respect. More broadly, organizational commitment is a form of psychological attachment to the organization (see Boezeman and Ellemers (2007), Mathieu and Zajac (1990) and O'Reilly and Chatman (1986)). The size of the board of directors is a proxy for stakeholder dialogue while the number of volunteers serving in an organization is a proxy for the successfulness of stakeholder dialogue. Thus we expect to find a significant positive relationship between board size and volunteers if board size effectively proxies for stakeholder dialogue.

Therefore, the first preliminary hypothesis we propose, in order to test the validity of board size as a measure of stakeholder dialogue and engagement, is the following:

Hypothesis 1: museums with larger board of directors are more successful in dialoguing and engaging with their stakeholders.

The first issue we intend to investigate is the effect of stakeholder dialogue on a particular kind of organizational effectiveness: the museums' fundraising activities. For the purposes of our analysis, internal and external stakeholders are the museums' potential donors. Museums need to build relationships with them in order to be able to get sufficient contributions to sustain their missions. Therefore, we believe it is interesting to test the effect of stakeholder dialogue on the museums' fundraising activity in terms of contributions and fundraising expenses.

In particular, the two research questions we intend to provide an answer to are the following. First: do stakeholders provide more contributions to museums with more effective stakeholder dialogue (as measured by board size and number of voluntary)? Second: do museums with better stakeholder dialogue bear less fundraising expenses?

According to the academic literature, stakeholder dialogue is important for firms to achieve stakeholder trust (see Kaptein and Van Tulder (2003)). It also increases the community awareness of the dilemmas facing the firm (see Kaptein and Van Tulder (2003)). In the Background section, other studies dealing with stakeholder dialogue in the for-profit sector have been cited, and the conclusion we can draw from that stream of literature is that stakeholder dialogue has a beneficial effect on firms' stakeholder relations. For the reasons already pointed out in the Background section, we believe these arguments can be applied to the museum context as well and in particular to the success of their fundraising activities.

Among the non-profit sector studies, Aggrawal, Evans and Nanda (2007) develop a model of board size in non-profit organizations. They provide empirical support of a positive effect of board size on the ability of a non-profit organization to raise funds, the reason being that board members bring with them assets that are valuable for the organization. According to Ostrower (2002) and Hyndman and McDonnell (2009), large boards are advantageous from a fundraising perspective, because seats can be used to attract and reward generous donors. Kelly (2001) argues that there are four main strategies a Non-profit organization may implement in order to develop a favorable fundraising relationship with donors: reciprocity, responsibility, reporting and relationship nurturing. Reciprocity means that fundraisers ought to thank and acknowledge donors; responsibility means that funders ought to have a say in the decision making process on how to spent their money; reporting means to provide funders with accurate information about how money have been spent (are to be spending); relationship nurturing means that fundraiser ought to keep on building the relationship with donors. All of these four strategies are easier to implement in a successful way if funders (that is: stakeholders) are represented in the board of directors (or board of trustees) of the non-profit organization, in other words, if the dialogue with funders is successfully implemented by the museum.

Because the arguments suggested both in the for-profit and non-profit literature the same directional relation, we argue that museums who engage successfully in a dialogue with their stakeholders will have benefits in their fundraising activity both in terms of efficiency (fundraising expenses) and effectiveness (contributions).

For this reason, we propose the following Hypotheses:

Hypothesis 2 a: ceteris paribus, museums engaging more in a dialogue with their stakeholders will have more contributions.

Hypothesis 2 b: ceteris paribus, museums engaging more in a dialogue with their stakeholders will have to bear less fundraising expenses.

The second issue we want to investigate is the impact of stakeholder dialogue on organizational effectiveness in terms of the monitoring activity of the board and of other stakeholders not included in the board. More specifically, the research question that we are interested in providing an answer to is the following: does stakeholder dialogue have an impact on organizational efficiency, via the monitoring mechanism?

We proxy for organizational efficiency through administrative expenses. The museums' mission is generally to serve the community through establishing and preserving a collection of art and organizing events for the community. In this perspective, administrative expenses ought to be reduced to the lowest possible level, so that museums with lower administrative expenses are more efficient. We argue that organizational efficiency will be affected by two different kinds of monitoring.

The first kind of monitoring is the *board monitoring*. Board of directors and board of trustees have the duty (among the others) to monitor management. This is set by law and it is also recognized by the academic literature. Fama and Jensen (1983) explicitly state that non-profit board of directors has the responsibility to check how the organization is spending donors' money.

The second kind of monitoring is what we define *stakeholder direct monitoring*. Stone and Ostrower (2007), in discussing the way in which non-profit board performance is measured, argue that "many other stakeholders, including executive directors, staff, volunteers, donors and beneficiaries, are likely to influence organizational mission, major policies, executive directors performance and external relationships" (Stone and Ostrower (2007), p 418). This means that organizational efficiency may be directly influenced – beyond the activity of the board – by what we could define as "stakeholder activism".

By tying together the literature on stakeholder dialogue and the literature on monitoring, we argue that there may be a link between stakeholder dialogue and monitoring effectiveness (both board monitoring and stakeholder direct monitoring). Museums with better stakeholder dialogue will have a more central role among stakeholder and in the community at large. A museum that involves stakeholders into its decision-making process and that takes stakeholders' needs into account is likely to be more highly exposed to stakeholder and media attention. Similarly, stakeholders serving in the board of such a museum on the one hand are going to receive higher benefits in terms of reputation but, on the other hand, will be more subject to other stakeholders' scrutiny. For this reasons, we expect that directors and trustees serving in museums with better stakeholder dialogue and engagement will have higher incentives in performing their role of monitors in an effective and proactive way. Thus we expect stakeholder dialogue and board monitoring to be positively correlated.

For similar reasons, we argue that stakeholder dialogue will foster stakeholder direct monitoring as well, because stakeholders will have greater interests and will have to bear less costs –in terms of costs to acquire information- in order to monitor a museum that engage in a dialogue with them.

Finally, since previous academic literature does not reach a consensus on the issue, we do not have any expectation on the relationship between board size and board monitoring.

We propose the following hypothesis:

Hypothesis 3: Ceteris paribus, museums engaging more in a dialogue with their stakeholders will be more efficient in the use of contributions as viewed through lower administrative expense.

4.4 METHODOLOGY

This Section provides a description of the sample and of each variable included in the regression models.

4.4.1 Sample

The sample hereby studied includes 72 US art museums (more specifically: modern art (36), decorative art (25) and photography (11) museums). Information about museums have been gathered through GuideStar, an information service specialized in reporting on U.S non-profit companies which allowed us to use their database in order to perform this study. For the purposes of the present study, the information we are interested in are for the most part included in the IRS form 990, which is the tax form that tax-exempt and non-profit organizations need to submit to the US fiscal agency. This allowed gathering a complete set of comparable and reliable information about each of the museums included in the database.

4.4.2 Variables Definition and Descriptive Statistics

The variables included in the five models proposed are the described as follows.

Board Size – Independent Directors (BS_IND). This variable measures the size of the Board of Directors or Board of Trustees. In particular, since we are interested in studying the effect of stakeholder dialogue, we want to determine the number of directors/trustees representing the external stakeholders in the governing body of the museum. Thus this variable has been measured through the item, reported in the 990 Form under the section "Activities and governance" and named "number of independent voting members of the governing body". As displayed in Table 1 and Table 2, Board Size (total) and Board Size (independent directors) are very similar, meaning that governing bodies of sample museums are composed for the most part by independent directors/trustees.

Board Size – Total (BS). This variable represents the total number of trustees or directors (independent and non independent), as reported in the 990 Form.

Volunteers (VOL). It is the total number of volunteers working for the organization, as reported in the 990 Form.

Employees (EMPL). It is the total number of people employed in the museum, as reported in the 990 Form.

Museum age (AGE). In order to measure for the age of the museum, we used the ruling year as a benchmark. According to the definition provided by GuideStar, the ruling year is defined as "The year that the IRS granted an organization 501(c)(3) status". Even if this variable is not exactly representing the number of year a museum has been operating, we believe that the ruling year is a good proxy.

Total Assets (SIZE). The proxy for size is the asset of the museum, as reported in the 990 Form.

Contributions (CONTR). This variable represents the total amount of contributions ($) as reported in the 990 Form.

Fundraising Expenses (FUND_EX). This variable represent the total amount of fundraising expenses ($) as reported by the 990 Form.

Government Grants (GOVGRANTS). This variable represent the total amount of grants ($) provided by government, as reported in 990 Form.

Administrative Expenses (ADM_EX). This variable represent the total amount of administrative expenses ($) as reported in the 990 Form.

Photography, Modern Art, Decorative Art (TYPE). These are three dummy variables controlling for the type of museum.

4.5 EMPIRICAL ANALYSIS

This Section provides variables' descriptive statistics and a description of the regression models.

4.5.1 Descriptive Statistics

Table 1 shows the main descriptive statistics for each variable:

Table 1
Descriptive Statistics for Variables Used in the Analysis

Variable	Mean	Standard Deviation	Median
Board Size - Independent Directors (BS_IND)	29,75	15,33	27,50
Board Size - Total (BS)	29,750	15,54	27,50
Volunteers (VOL)	247,63	437,04	109,50
Employees (EMPL)	172,70	172,70	66,00
Museum Age (AGE)	47,49	20,12	48
Total Assets (SIZE)	128.974.282	263.588.359	29.401.914
Contributions (CONTR)	9.308.507	15.738.345	2.345.332
Fundraising Expenses (FUND_EX)	1.012.754	1.872.661	382.067
Government Grants (GOVGRANTS)	2.467.478	14.297.555	179.967
Administrative Expenses (ADM_EX)	3.027.814	6.804.730	811.285

4.5.2 Regressions

We test Hypothesis 1 through the following model, which will be run according to three different specifications (OLS, quantile regression and Poisson). The dependent variable is the number of volunteers serving in the museum (VOL) and the main independent variable is Board Size – Independent Directors (BS_IND). We control for: the size of the museum, the number of employees, the age of the museum and the three categories of museums included in the sample.

$$VOL = \alpha + \beta_1 BS\_IND + \beta_2 SIZE + \beta_3 AGE + \beta_4 GOVGRANT + \beta_5 CONTR + \beta_6 TYPE + \beta_7 FUND\_EX + \varepsilon$$

We test Hypothesis 2a through the following two models, that will be run according to two specifications (OLS and quantile regression). We measure stakeholder dialogue using both Board Size - independent directors (BS_IND) and volunteers (VOL). In the second model, we include both volunteers and Board Size – total (BS), in order to capture the effect of stakeholder dialogue.

$$CONTR = \alpha + \beta_1 BS\_IND + \beta_2 SIZE + \beta_3 AGE + \beta_4 GOVGRANT + \beta_5 FUND\_EX + \beta_6 TYPE + \varepsilon$$

$$CONTR = \alpha + \beta_1 BS + \beta_2 VOL + \beta_3 SIZE + \beta_4 AGE + \beta_5 GOVGRANT + \beta_6 FUND\_EX + \beta_7 TYPE + \varepsilon$$

We test Hypothesis 2b through the following two models, that will be run according to two specification (OLS and quantile regression).

$$FUND\_EX = \alpha + \beta_1 BS\_IND + \beta_2 SIZE + \beta_3 AGE + \beta_4 GOVGRANT + \beta_5 FUND\_EX + \beta_6 TYPE + \varepsilon$$

$$FUND\_EX = \alpha + \beta_1 BS + \beta_2 VOL + \beta_3 SIZE + \beta_4 AGE + \beta_5 GOVGRANT + \beta_6 FUND\_EX + \beta_7 TYPE + \varepsilon$$

We test Hypothesis 3 through the following two models, that will be run according to two specifications (OLS and quantile regression).

$$ADM\_EX = \alpha + \beta_1 BS\_IND + \beta_2 SIZE + \beta_3 EMPL + \beta_4 AGE + \beta_5 GOVGRANT + \beta_6 CONTR + \beta_7 TYPE + \varepsilon$$

$$ADM\_EX = \alpha + \beta_1 VOL + \beta_2 BS + \beta_3 SIZE + \beta_4 EMPL + \beta_5 AGE + \beta_6 GOVGRANT + \beta_7 CONTR + \beta_8 TYPE + \varepsilon$$

4.6 RESULTS

Table 2 displays the correlation matrix among variables:

Table 2

Correlation Matrix

The Table displays Pearson correlation matrixes. Coefficients' significance: * p < 0.10; ** p < 0.05; *** p < 0.01

Variable	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Board Size - Independent Directors (BS_IND)	1									
Board Size - Total (BS)	0,917 ***	1								
Volunteers (VOL)	0,5459 ***	0,5834 ***	1							
Employees (EMPL)	0,2800 **	0,2994 **	0,5044 ***	1						
Museum Age (AGE)	0,2477 **	0,2659 **	0,2725 **	0,3031 **	1					
Total Assets (SIZE)	0,4806 ***	0,4434 ***	0,5415 ***	0,6450 ***	0,2275 *	1				
Contributions (CONTR)	0,5471 ***	0,5091 ***	0,5064 ***	0,4939 ***	0,1762	0,8935 ***	1			
Fundraising Expenses (FUND_EX)	0,3709 ***	0,3535 ***	0,4305 ***	0,8141 ***	0,1981 *	0,7600 ***	0,7330 ***	1		
Government Grants (GOVGRANTS)	0,1473	0,1447	0,2202 *	0,4387 ***	-0,0364	0,3347 ***	0,1499	0,2529 **	1	
Administrative Expenses (ADM_EX)	0,2668 **	0,2687 **	0,4105 ***	0,7886 ***	0,1644	0,8100 ***	0,6632 ***	0,8802 ***	0,4183 ***	1

Table 3 displays the results testing Hypothesis 1:

Table 3
Determinants of the number of Volunteers working for a non-profit organization

Dependent variable: number of volunteers. All variables are winsorized at the 2% level. Model 1 employs an OLS specification; Model 2 employs a quantile specification Model 3 employs a poisson specification
* p < 0.10; ** p < 0.05; *** p < 0.01

Variable	(1)	(2)	(3)
Intercept	-278.20 **	-5.186	3.928 ***
	(135.70)	(33.649)	(0.051)
BS_IND	6.581 ***	1.089 *	0.036 ***
	(2.542)	(0.650)	(0.0008)
AGE	2.952	0.003	0.009 ***
	(1.968)	(0.501)	(0.0007)
SIZE	0.000006 *	0.00005 ***	3.460 ***
	(0.000004)	(0.000009)	(1.110)
CONTR	-0.000001	-0.000001	-3.710 ***
	(0.000005)	(0.000001)	(1.640)
FUND_EX	-13.503	31.451	-2.114 ***
	(687.04)	(174.453)	(0.283)
GOVGRANTS	0.000009	-0.000004	5.940 ***
	(0.00002)	(0.000003)	(6.440)
Museum Type Fixed effects	Yes	Yes	Yes
N	67	67	67
F / Chi2	6.95 ***	.	19004 ***
R2 / Pseudo R2	49%	16%	64 %

According to Model 1, 2 and 3 the number of volunteers working for a museum (proxy for the effectiveness of stakeholder dialogue) is positively correlated with Board Size – Independent Directors, thus confirming Hypothesis 1. In particular, Board Size – Independent Directors is significant at the 1% level in Model 1 and 3, and at the 10% level in Model 2. Among the control variables, size is positively correlated with the dependent variable and it is significant in all the three specifications of the model. Other variables (museum age, contributions, fundraising expenses and government grants) are significant only in the Poisson specification. The model has a R^2 ranging from 16% (in the quantile specification) to 64% (in the Poisson specification).

Table 4 Panel A reports the results testing Hypothesis 2a.

Table 4 - Panel A
Effect of Stakeholder Engagement (different dimensions) on contributions

Dependent Variables: contributions. All variables are winsorized at the 2% level. Model 1 and 3 employ a OLS specification; Model 2 and 4 employ a quantile specification.
* p < 0.10; ** p < 0.05; *** p < 0.01; † p < 0.15

Variable	(1)	(2)	(3)	(4)
Intercept	866.228,9	469.306 *	-502.860,7	426.214,4
	(2.482.672)	(280.936,3)	(2.786.886)	(56.4876,3)
BS_IND	150.754,6 ***	14.915,29 ***		
	(51.009,43)	(5.239,2)		
BS			150.422,7 **	15.849,71
			(58.100,14)	(1.1546,1)
VOL			-1.204,13	1.607,23 ***
			(3.036,18)	(448,74)
AGE	-61.187,38	-5.089,01	-42.487,83	-5.877,44
	(39.788,86)	(4.084,84)	(42.660,88)	(8.361,07)
SIZE	0,0532 ***	0,064 ***	0,056 ***	0,063 ***
	(0,0055)	(0,0004)	(0,005)	(0,0009)
FUND_EX	1,050	1,032 ***	0,889	0,8131 ***
	(0,650)	(0,063)	(0,667)	(0,1215)
GOVGRANTS	-1,528 ***	0,260 ***	-1,74 ***	0,120
	(0,435)	(0,0637)	(0,474)	(0,100)
Museum Type Fixed effects	Yes	Yes	Yes	Yes
N	71	71	67	67
F	52,70 ***	.	44,04 ***	.
R2	85 %	58 %	86 %	60 %

According to Model 1 and 2, stakeholder dialogue as measured by the number of independent directors is positively and significantly correlated with the contributions gathered by the museum. According to Model 3 and 4, the number of volunteers serving in a museum (the other proxy for stakeholder dialogue) is correlated with contributions only in the quantile regression specification but it is not significant in the OLS specification. Overall, the results displayed in Table 4 Panel A supports Hypothesis 2a. Among the control variables, size is always positive and significant, as one would expect. Results about government grants are mixed. The model's R^2 ranges from 58 % to 86 %.

Table 4 Panel B reports the results about Hypothesis 2b.

Table 4 - Panel B

Effect of Stakeholder Engagement (different dimensions) on fundraising expenses

Dependent Variables: fundraising expenses. All variables are winsorized at the 2% level. Model 1 and 3 employ a OLS specification; Model 2 and 4 employ a quantile specification.

***** p < 0.10; ****** p < 0.05; ******* p < 0.01; † p < 0.15

Variable	(1)	(2)	(3)	(4)
Intercept	-424.157,9	-2.788,427	-563.286,1	157.975,5
	(473.759,2)	117.823,3	538.354,3	179.449,1
BS_IND	-1.571,726	-112,4434		
	9.792,739	2.355,349		
BS			-546,516	31,26571
			11.326,87	3.435,18
VOL			-128,2944	272,4804 *
			591,6926	147,2828
AGE	5.098,126	-110,7006	6.868,327	26,13027
	7.613,539	1.967,267	8.268,879	2.724,939
SIZE	0,0060438 ***	0,0047622 ***	0,0061558 ***	0,0046314 ***
	0,0007517	0,0001785	0,0008387	0,0002421
FUND_EX				
GOVGRANTS	-0,0047028	0,0488131 ***	-0,02522093	0,0458161 ***
	0,0836204	0,013463	0,0925155	0,0159644
Museum Type Fixed effects	Yes	Yes	Yes	Yes
N	71	67	71	67
F	16,63 ***	.	13,28 ***	.
R2/Pseudo R2	61%	38%	61%	40%

The model is overall significant and with an R^2 ranging from 40 % to 61 %. The variable of interest (stakeholder engagement), as measured both by the number of independent directors and by the number of volunteers is insignificant in all the models, thus disconfirming Hypothesis 2b. Among the control variables, size is positive and significant.

Table 5 reports the results about Hypothesis 3.

Table 5
Effect of Stakeholder Engagement (different dimensions) on administrative expenses

Dependent Variables: administrative expenses. All variables are winsorized at the 2% level. Model 1 and 3 employ a OLS specification; Model 2 and 4 employ a quantile specification.
* p < 0.10; ** p < 0.05; *** p < 0.01; † p < 0.15

Variable	(1)	(2)	(3)	(4)
Intercept	670.998,4	100.526,3	143.335,3	20.371,81
	1.125.402	162.125,9	1.444.705	227.332
BS_IND	-44.394,65 *	-6.096,453 *		
	24.046,35	3.370,306		
BS			-21.623,65	-5.354,266
			31.724,81	5.405,37
VOL			-2.328,032	791,1918 ***
			1.603,734	199,3295
AGE	-15.844,43	-254,4803	-17.363,93	457,0953
	18.684,73	2.577,99	22.744,08	3.841,675
SIZE	0,017781 ***	0,012886 ***	0,0191043 ***	0,0113786 ***
	0,0040369	0,0004756	0,0050188	0,0007123
CONTR	-0,0276267	-0,0150121 **	-0,0261804	-0,0057968
	0,0551868	0,007165	0,0674278	0,0105387
GOVGRANTS	0,2650031	0,0503518 **	0,1051668	0,0478944
	0,2193105	0,0229644	0,2800066	0,0315056
EMPL	9.737,969 ***	6.685,937 ***	11.861,65 ***	5.852,704 ***
	1.892,916	230,4041	2.311,934	312,3423
Museum Type Fixed effects	Yes	Yes	Yes	Yes
N	70	70	67	67
F	36,64 ***	.	25,98 ***	.
R2/Pseudo R2	83 %	55 %	80 %	53 %

Among the variables of interest, independent directors is negative and significant (at the 10 % level) both in the OLS and in the quantile specification (Model 1 and 2). The number of volunteers is negative and significant at the 15% level in Model 3 but positive and significant at the 1% level in Model 4. The R^2 of the four models ranges from 53 % to 83 %. Overall, the two variables measuring stakeholder dialogue are negatively and significantly correlated with administrative expenses, thus results displayed in Table 5 confirm Hypothesis 3.

4.7 DISCUSSION

The aim of this article is to shed some light on the issue of stakeholder dialogue and its relationship with organizational effectiveness in non-profit organizations. As we argued above, the issue is central for non-profit organizations because to engage successfully with stakeholders is fundamental for their survival.

Hypothesis 1 tested the relevancy of using Board Size (independent directors) as a measure of stakeholder dialogue. We argued that successful stakeholder dialogue would have led to a higher number of volunteers involved in the activities of the museum. In this perspective, Board Size (independent directors) is our proxy for stakeholder dialogue while the number of volunteers is our proxy for the successfulness of the stakeholder dialogue. Our view is supported by the predictions of Identity Theory (see Tajfel and Turner (1979)).

Empirical results displayed in Table 3 confirm Hypothesis 1, thus: higher number of independent voting members on the board is correlated with higher number of volunteers. Results are robust to the quantile regression specification and to the Poisson specification. This preliminary result provides us with an assurance that the variable we are using (Board Size - independent directors) is appropriate in measuring stakeholder dialogue. At the same time, this result is relevant for future developments of the empirical literature on stakeholder dialogue as well. In fact, to the best of our knowledge, this is one of the first articles empirically measuring stakeholder dialogue in the context of museums management. Future studies may use the variable here proposed in order to proxy for stakeholder dialogue in non-profit organizations.

Hypothesis 2 deals with stakeholder dialogue and organizational effectiveness with respect to the fundraising activity of the museum. As pointed out by Blaser and McClusky (2005), the relationship between stakeholder management practices and organizational effectiveness lacks empirical investigation and it is therefore an issue worth studying.

Hypothesis 2a (dependent variable: contributions) is confirmed, while Hypothesis 2b (dependent variable: fundraising expenses) is not. In particular, the results supporting Hypothesis 2a are robust to two different specifications (OLS and

quantile regression) and to two different ways of measure stakeholder dialogue (the number of volunteers and the number of independent board members). Only Model 3 does not provide support to Hypothesis 2a because the variable of interest (VOL) is not significant.

On the one hand, museums engaging more in a dialogue with stakeholders do manage to collect more contributions by donors, as it was already proposed by in previous studies (see Ostrower (2002) and Hyndman and McDonnell (2009)). The reasons behind this finding may be those exposed in the Hypotheses Development Section. Our empirical results also suggest the existence of a positive relationship between contributions and fundraising expenses, as it would be normally expected.

On the other hand, fundraising expenses are not correlated with stakeholder dialogue, even if the Models of Table 4 Panel B are overall significant. This means that museums engaging in a dialogue with their stakeholders are successful in obtaining the outcome (contributions), but they are not more efficient (nor more inefficient) than the others in managing the expenses related to achieve the outcome. It must be noted that in this article we can draw some conclusions only on the fundraising expenses (as reported in the income statement). We cannot draw any conclusion about other kind of monetary or non-monetary expenses different than fundraising expenses as reported in the income statement. Previous academic literature (see Ostrower (2002) and Hyndman and McDonnell (2009)) has already argued for a positive role of board size on the fundraising activity of non-profit organizations, because seats could have been offered to major donors.

We contribute to the literature by extending the scholarly knowledge on these issue in two ways. First, we show that in the context of US museums the positive effect of stakeholder dialogue is limited to the outcome (contributions) while it does not have any effect on the resources invested in achieving the outcome (in terms of fundraising expenses). Second, we enlarge the perspective by considering the role of all the stakeholders and not only of major donors in the fundraising activity of museums (see Ostrower (2002)). Further research would be needed in order to examine the reasons leading stakeholders to provide museums with more engaged in stakeholder dialogue with contributions. In order to do that, it would be necessary to develop a case study, because the quantitative research is not adequate to examine such issues.

Hypothesis 3 tests the impact of stakeholder dialogue on monitoring efficiency (as measured by administrative expenses). Therefore we tie the construct of board monitoring into stakeholder dialogue – organizational effectiveness analysis. The issue is relevant also because, as pointed out by Callen et al (2010), the factors influencing the relationship between board effectiveness and organizational effectiveness are yet to be fully investigated in the academic literature.

Empirical results displayed in Table 5 generally confirm this hypothesis. In particular, stakeholder dialogue as measured through the number of independent board members (BS_IND) is negatively and significantly correlated with administrative expenses both in the OLS and in the quantile regression specification. The number of volunteers (VOL) is negatively correlated with administrative expenses in the OLS specification (see Model 3) but it is positively correlated with administrative expenses in the quantile regression specification (see Model 4).

We propose that stakeholder dialogue has an impact on organizational efficiency through monitoring (that acts as a moderating variable). We defined two kinds of monitoring: board monitoring and stakeholder direct monitoring. Since organizational effectiveness (as measured by administrative expenses) is highly dependent by the decisions made by the management of the museum, we believe that the main way for stakeholder dialogue to influence organizational efficiency is through monitoring (board monitoring and stakeholder direct monitoring). Due to our database limitations, we can only observe stakeholder dialogue and organizational efficiency and hypothesize a positive relationship based on the understanding of the impact of monitoring on performance. In a subsequent study, it would be interesting to try to get some direct measures of monitoring in order to check if stakeholder dialogue is actually related to monitoring. Finally, it must be noted that, being our analysis a cross sectional empirical analysis, we cannot draw any conclusion on the causality of the relationship between stakeholder dialogue and organizational efficiency. Therefore, we cannot exclude that the negative relationship we tested may be due to the fact that more efficient institutions attract more stakeholders willing to serve in their governing bodies. If this was the case, the positive relationship between board size and organizational efficiency would be verified but not because of monitoring. A possible implementation of the present study

would be to collect data also for previous years in order to be able to run a panel data regression that would allow drawing conclusions on the causality of the relationship.

4.8 CONCLUSIONS AND FURTHER RESEARCH

This article aimed to investigate the role of stakeholder dialogue in non-profit organizations (museums) and its relationship with organizational effectiveness (in terms of fundraising and monitoring effectiveness). We believe we managed to contribute to existing literature (in particular, the literature on stakeholder dialogue-organizational effectiveness association as well as to the literature on non-profit board monitoring) in several ways. First, our article is one of the first attempts to define stakeholder dialogue from an empirical perspective in the context of museums management. Second, we obtained some interesting results on the role of stakeholder dialogue on the fundraising activity of the museum. Third, we linked stakeholder dialogue with organizational efficiency and in particular with monitoring, both by the board and by other stakeholders not included into the board.

As pointed out in the Discussion section, this study has some important limitations as well. In particular, we do not have any direct measure of monitoring, and we only observe the relationship between stakeholder dialogue and organizational efficiency. Our reasoning on the role of monitoring relies on previous literature and on our hypothesis development, but it has not been directly tested. This issue may be fixed in following versions of this work or by future studies.

Furthermore, it may be of interest to test whether museums engaging in more dialogue with their stakeholders disclose more fully their performance, for example through the issuance of a sustainability report. According to this perspective, it would be important also to test whether museums do implement some specific measurement tools in order to measure their non-financial performance.

It would be interesting to test whether board size, in the present study employed as a measure for stakeholder engagement, is positively correlated with board diversity and composition. If this is the case, our results may be extended to the non-profit board member composition.

Conclusion

This study tackles the issue of stakeholder management and its impact on the governance and performance of firms and non-profit organizations. we start by analysing the role of Corporate Social Performance as insurance for firms' financial performance in the context of a crisis (Lehman Brothers bankruptcy). We then move on to look at the insurance properties of CSP for CEOs (in terms of their probability of being fired) when performance has been negative. Finally, we look at the application of stakeholder management in a novel setting of non-profits by studying the effects of stakeholder dialogue on non-profit museums performance.

We believe this work manages to make some significant contributions to current scholastic knowledge in the area of corporate social performance. In general, the present analysis overcomes the endogeneity problems that have plagued previous studies by investigating the relationship between CSP and CFP in situations that do not rely on an ex ante belief on the direction of the CSP effects. Specifically avoiding one of the main questions of previous studies: Is it CSP causing CFP or vice versa? In Chapter 3 we rely on an exogenously determined event (Lehman Brothers bankruptcy) and look at the reaction of firms' stock prices as a consequence of the event conditional on the firms CSP level. In Chapter 4, we examine the effect of CSP on the CEO turnover-financial performance relationship conditional on a negative performance shock.

Chapter 2 contributes to the growing stream of literature (see Schnietz and Epstein (2005) and Godfrey et al (2009)) on the insurance properties of CSP during negative events. Thus, investigating stakeholder management and its benefits in the context of a crisis. While most of the literature looks at the relationship between CSP and CFP under a static stable business environment framework, we propose to investigate a more dynamic setting in order to determine the ultimate value of CSP to shareholders, via its insurance quality. In particular, we find that high CSP firms benefited, through higher (less negative) Abnormal Returns, from a buffer effect and that investors punished them less than they did those firms with low CSP, in the part

due to specific risk. This confirms the results of Schnietz and Epstein (2005) and represents a step towards the achievement of a generally accepted consensus on the role of CSP during exogenous crises. At the same time, it provides some indirect empirical evidence for the "stakeholder theory of crisis management" (see Alpaslan et al (2008)), since the main construct of the two mechanisms studied have a direct impact on expected CFP ("Implicit Claims Management and Regulatory Costs" and "Resource Availability and Withholding") and stakeholder relations. Furthermore, we showed that Technical CSP (and in particular Technical Strengths) is driving the results with intangibles-intensive firms benefitting less from the CSP buffer. Finally, Chapter 2's findings are of particular interest to shareholders and policy makers who are faced with the decision of how many incentives to provide to encourage CSP.

Chapter 3 aims at empirically testing whether CEOs that managed to build better relationship with firm's stakeholders face a lower probability of being fired in the case of negative events. To the best of my knowledge, the issue of the insurance properties of CSP for CEOs has never been tested before. We empirically test two competing hypothesis as to the effects of CSP on CEO turnover. Under the Insurance Hypothesis, given a negative performance, the CEO should be buffered from firing by performing social projects. Under the alternative Punishment hypothesis shareholders take into account the social performance and punish the CEO more for the CSP conditional on a negative performance shock. Overall my results support the Punishment hypothesis, thus finding that, conditional on negative performance, a CEO is not only punished for the negative performance itself by a higher unconditional likelihood of being fired but also punished if they engage in CSP. These results suggest that CEOs gain no advantage in performing these social projects in times of bad performance. Thus my results support the view that shareholders take into account the wasteful non-value adding activities of CEOs (such as CSP) in bad time and, as a consequence, adequately punish them.

Having analysed the insurance properties of stakeholder management both for firms overall benefit and for managers, in Chapter 4 we study its potentially beneficial effects in a completely different setting, namely the non-profit sector. We

chose to move the analysis to this completely different setting because it provides me with an even clearer environment to test the effects of stakeholder management (more specifically, stakeholder dialogue) on organizational effectiveness. My results contribute to the literature in three ways. First, we are among the first to define stakeholder dialogue from an empirical perspective in the context of museums management. Second, we obtain some interesting results on the role of stakeholder dialogue on the fundraising activity of the museum finding that increase dialogue increases contributions. Third, we link stakeholder dialogue with organizational efficiency and in particular with monitoring, and we hypothesize that monitoring may be due to the board and/or to other stakeholders not included into the board. This chapter serves as a first step towards establishing a robust stream of literature on the implementation and effects of stakeholder management in the non-profit sector. It also provides CSR researchers in the private sector a novel way to study the effects of stakeholder management in an experimental setting where the results of stakeholder engagement can be more accurately measured given the lack of the stakeholder – shareholder conflict.

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