Colak, Gonul; Korkeamäki, Timo; Hickman, Kent; Meyer, Niclas

ESG Issues and Career Prospects of Directors: Evidence from the International Director Labor Market

Published in:
Financial Markets, Institutions & Instruments

DOI:
10.1111/fmii.12168

Published: 01/11/2022

Document Version
Publisher's PDF, also known as Version of record

DOI: 10.1111/fmii.12168

ORIGINAL ARTICLE

FINANCIAL MARKETS, INSTITUTIONS & INSTRUMENTS | NEW YORK UNIVERSITY SALOMON CENTER | WILEY

ESG Issues and Career Prospects of Directors: Evidence from the International Director Labor Market

Gonul Colak[1,2] | **Kent Hickman**[3] | **Timo Korkeamäki**[4] | **Niclas O. Meyer**[2]

[1]University of Sussex Business School, Brighton BN1 9RH, UK

[2]Hanken School of Economics, Helsinki 00101, Finland

[3]Gonzaga University, Spokane, WA 99258, United States

[4]Aalto University School of Business, Espoo 02150, Finland

Correspondence
Gonul Colak, University of Sussex Business School, Brighton, BN1 9RH, UK.
Email: gonul.colak@hanken.fi

Data subject to third party restrictions.

This version: May 28th, 2022

Abstract

Using an international sample of firms, we investigate the career prospects of directors of firms experiencing negative ESG issues. By tracking the same director at the same firm over time, we document a significant drop in seats held at other public firms' boards following intense negative media coverage of an ESG problem occurring at a given director's focal firm. Losses of seats at other firms are concentrated among executive directors, among directors of firms located in countries with high environmental and social norms, and among directors of firms located in countries with bank-based systems. Nonexecutive directors and directors of firms located in less stakeholder-oriented countries are not penalized for ESG issues by the director labor market.

KEYWORDS
Director Career Prospects, Director Labor Market, Environmental, Social, and Governance (ESG), Legal Origin, Shareholder Value, Stakeholder Orientation

JEL CLASSIFICATION
A13, G15, G34, M14

1 | INTRODUCTION

An important function of the board of directors is the oversight and monitoring of a firm and its management, in addition to its advisory role to the CEO (Adams & Ferreira, 2007). When a firm is caught in misconduct, this could signal that the directors are poor monitors, which, in turn, could negatively impact their career prospects in the director labor market — as posited by the director reputation hypothesis (Fama & Jensen, 1983). Indeed, consistent with this hypothesis, prior literature reports that directors lose seats at other firms' boards following corporate misconduct that hurts shareholders, such as financial fraud (Fich & Shivdasani, 2007), the option backdating scandal of 2006–2007 (Ertimur et al., 2012), and financial reporting failure (Srinivasan, 2005). However, much less is known about whether directors are held accountable for stakeholder-related corporate failures. In this paper, we study the effects of negative news about a company's ESG behavior (consumer controversies, pollution, employee disputes, child labor, etc.) on directors' career prospects, and whether those effects systematically vary worldwide.

Overall, prior literature argues that reputational concerns are important for directors (Fama & Jensen, 1983; Levit & Malenko, 2016) and that directors may even step down from boards prior to negative events to protect their reputations (Fahlenbrach et al., 2017). Additionally, attaining a board seat on a public firm as a result of a good reputation is likely to be very valuable in monetary terms for directors.[1] This suggests that directors' fear of their reputational capital being harmed by an ESG issue could motivate them to ensure that their firm respects its stakeholder relations. Evidence consistent with such a view would imply that the reputational concerns in the director labor market function as a type of corporate governance mechanism that deters stakeholder-related corporate misbehavior (Karpoff et al., 2008).

From a shareholder-primacy perspective (Friedman, 1970; Macintosh, 1999), directors focus on their fiduciary duty towards the shareholders and do not engage in decisions that advance stakeholders' interests at the expense of shareholders. This implies that if stakeholders' preferences (Deng et al., 2013) are not viewed as important in the director labor market, directors' career prospects should not be adversely affected by a negative ESG issue which mainly harms the firm's stakeholders. On the other hand, in many countries, directors have a legal right to consider the interests of stakeholders in their decision-making (Adams & Ferreira, 2007).[2] These contrasting notions suggest that the relationship and interaction between directors and stakeholders is not fully understood (Adams, 2017), and that directors' reputational capital could depend not only on how they execute their fiduciary duties towards the shareholders but also on how their firm treats its stakeholders. Building on this notion, we test the hypothesis that directors of firms involved in stakeholder failures can be disciplined in the director labor market as their reputations are tarnished.

A notable example of a stakeholder issue in recent years is the *Volkswagen's emission scandal* which began with a Notice of Violation by the US Environmental Protection Agency on September 18th, 2015. The scandal harmed the firm's reputation, and hurt its customers, communities, and the environment. Volkswagen responded, in part, by making changes to its board. Several of the firm's top managers and directors resigned, including the Chairman of the Management Board, Dr. Martin Winterkorn. In addition, related to the research question in this paper, the directors who served on Volkswagen's board one year prior to the scandal lost a significant portion of their seats at other firms in the following years.[3] In a more recent example, activist investors ousted directors at Exxon Mobil for climate change-related issues.[4] These anecdotal examples indicate that directors' career prospects can indeed be adversely affected when their firms fail to meet stakeholder expectations.

To test this conjecture in a more systematic way, we begin by gathering information from BoardEx on directors of firms listed on the S&P 500 and Stoxx 600 indices (henceforth, the "focal firms"). As we track ESG risk exposure in the past three years relative to a director-firm-year observation in BoardEx, our data includes directors for the time period January 2010 through December 2018, and ESG risk exposures are tracked from January 2007 through December 2018. This yields a final panel data set consisting of 129,543 international director-firm-year observations for 1,336 firms and 21,274 directors in 25 different countries. For each director-firm-year observation, we record the number of seats held on other public firms' boards, the number of seats held on private firms' boards, tenure at the

focal firm, each director's age, whether the director is close to retirement, etc. Furthermore, we include both executive and nonexecutive directors in our analysis in order to control for the managing, advising, and monitoring roles of directors (Adams & Ferreira, 2007). Executive directors tend to be directors who also work for the company and therefore have a managing or advising role within the company, while nonexecutive directors can be independent directors, tasked with monitoring and also advising management.[5] For example, Francis et al. (2015) note that academics can be valuable nonexecutive directors by advising and monitoring firm managers, which tends to improve performance.

For identifying ESG issues, we rely on a news-based measure by a novel and unique database named RepRisk, which identifies the ESG risk (negative media coverage) of firms from stakeholder-related ESG issues.[6] Each day, RepRisk screens more than 80,000 media and stakeholder sources for ESG-related issues in 15 different languages. It then quantifies the total risk exposure to ESG issues in a month by combining the severity, reach, and novelty of the issues to develop their Reputational Risk Index (RRI). The RRI ranges from -1 (no issues) to 100, and values over 60 indicate very high or extremely high risk exposure. We construct two groups based on the highest RRI level of a firm in the past three years and contrast these groups to each other: those firms with "intense ESG-related media coverage" are director-firm-years for which the RRI reaches or exceeds 60, and firms with "normal ESG-related media coverage" are director-firm-years with RRI values below 60. As the RRI index is calculated based on the intensity and scope of the negative news in the media, it should represent a more objective measure of poor ESG performance compared to more traditional measures of firms' ESG performance (such as the Asset4 ESG by Refinitiv and the MSCI ESG score), or alternative techniques used for measuring companies' ESG activity such as textual analysis (Baier et al., 2020) and topic-modelling tools (Kiesel & Lücke, 2019). In addition, the RepRisk index is likely to be prone to fewer greenwashing concerns than more traditional measures which often rely on companies' self-reporting (for instance, Berg et al. (2021; 2022) raise concerns about the validity and divergence between different ESG rating providers). Finally, by focusing on ESG issues at large public firms, we ensure that we focus on each director's most financially-significant board membership (Masulis & Mobbs, 2014).

The value placed on shareholders' versus stakeholders' welfare can vary significantly by country (Botero et al., 2004; La Porta et al., 2000). Hence, directors could be affected differently by negative ESG issues depending on the focal firm's home country. For instance, civil-law countries tend to place more focus on stakeholders' welfare than do common-law countries (Bénabou & Tirole, 2010; La Porta et al., 2000, among others), and, consequently, firms in civil-law countries have significantly higher ESG ratings than do firms in common-law countries (Cai et al., 2016; Liang & Renneboog, 2017). Interestingly, Lel and Miller (2019) examine director career prospects following corporate shareholder-related events around the world and find that directors of firms that engage in shareholder-unfriendly actions lose other seats only in the more shareholder-oriented common-law countries. While their focus is on negative shareholder-related corporate events, we take the opposite approach of studying negative stakeholder-related corporate events in the international director labor market. Thus, building on the idea that stakeholder-friendliness can vary across countries, we posit that reputational penalties to directors for ESG issues are confined to stakeholder-oriented countries.

To test this, we focus on a set of country-level channels. The first channel is the legal origin (civil- versus common-law origin) of a firm's home country (Liang & Renneboog, 2017). In addition, as prior literature documents that European investors tend to be more environmentally- and socially-oriented than US investors (see e.g., Dyck et al., 2019), we also contrast European to US firms. Second, we employ measures for the stakeholder-orientation of the country, proxied as strong employment protection, environmental performance, public sector ethics, and corporate governance efficacy in a country. Third, we focus on the inherent differences in cultural factors across countries by employing the six Hofstede measures (Hofstede et al., 1991). As a fourth channel, we analyze the role of a country's financial system in allocating resources to firms by contrasting bank-based to market-based economies (Levine, 2002), as market-based economies in particular tend to place greater emphasis on shareholder rights (Demirgüç-Kunt & Levine, 2001).

Using panel data regressions with director-firm and year fixed effects, i.e., tracking the same director over the time he or she serves on a focal firm's board, we find that directors lose a significant portion of their seats at other public

firms when their focal firm has intense negative media attention to ESG issues in any of the past three years. Although the average decline in other seats is statistically significant, the economic magnitude is relatively small (our estimate is that directors lose roughly 4% of their seats). To gain a better understanding of these losses, we partition the sample into executive (EDs) and nonexecutive directors (NEDs) and find that the losses for EDs are statistically significant and economically meaningful (16% of other seats), while they are insignificant and small in magnitude for NEDs. Additionally, we find that directors' career prospects, and especially the career prospects of EDs, decline more when their firms experienced stakeholder issues with greater frequency during the past three years. Taken together, this suggests that EDs, but not NEDs, are disciplined in the director labor market for ESG issues. The main results are robust to including important time-variant control variables; using a firm and year fixed effects specification; examining the subset of directors whose focal firm has at least one ESG issue during the panel data period; restricting the sample to young directors; and using alternative estimation methods such as a Poisson panel data model (to account for the fact that the dependent variable is a count variable).

We then turn to investigate whether director penalties can vary across countries depending on the stakeholder-friendliness of a firms' home country. We begin by splitting the sample into US and European firms. Interesting results emerge from this cross-country analysis: we document that European firms' directors, but not US firms' directors, lose a significant portion of their other seats following intense negative media coverage of ESG issues. We find similar results when we divide the sample into firms located in the more stakeholder-oriented civil-law countries versus firms located in the more shareholder-oriented common-law countries: only directors in civil-law countries lose seats at significant rates. These findings are consistent with Lel and Miller (2019) who report that only directors in common-law countries lose seats following shareholder unfriendly actions, and with Liang and Renneboog (2017) who find that firms in civil-law countries tend to have higher ESG scores.

In a final set of tests, we employ several proxies for the stakeholder-orientation of a country (such as the Employment Laws Index by Botero et al. (2004), the Environmental Protection Index by Yale University, and the Public Sector Ethics Index by Kaufmann (2004)) and find that directors in countries with high ESG norms, but not with low ESG norms, lose seats at significant rates. Similarly, cultural factors (Hofstede et al., 1991) also play a role: in countries with higher uncertainty avoidance, higher long-term orientation, lower indulgence, and in less individualistic countries, directors lose seats following ESG issues. Finally, when contrasting bank-based to market-based economies (Beck & Levine, 2002), we find that directors lose seats primarily in bank-based economies.

Our results contribute to governance and ESG literatures in several ways. First, we contribute to the literature on director reputation following corporate misbehavior and misconduct (Ertimur et al., 2012; Fich & Shivdasani, 2007; Fos & Tsoutsoura, 2014; Gilson, 1990; Srinivasan, 2005) by showing that negative news about a company's ESG practices can have an adverse effect on director reputation. Second, we contribute to the literature on the relative importance put on stakeholder welfare in different countries (Cai et al., 2016; La Porta et al., 2000; Liang & Renneboog, 2017) by documenting that only directors in the more stakeholder-oriented countries (such as many European countries) are disciplined for ESG failures in the director labor market. Third, we contribute to the literature investigating the international director labor market as well as international corporate governance. Finally, our study broadens our understanding of the relationship and interaction between a firm's board and its stakeholders, of which we still know relatively little according to Adams (2017), Adams et al. (2011), and Adams and Ferreira (2007).

2 | RELATED LITERATURE AND HYPOTHESIS DEVELOPMENT

2.1 | Career prospects of directors

Consistent with the director reputation hypothesis (Fama & Jensen, 1983) — which posits that reputational concerns in the director labor market motivates directors to effectively monitor, manage, and advise their firms — prior literature documents that directors are disciplined for corporate misconduct. For instance, using a sample of 111

public firms that suffered financial distress between 1979–1985, Gilson (1990) finds that directors who lose their seat following an event also lose a significant proportion of their other directorships. Srinivasan (2005) studies a sample of 409 companies that restated their earnings between 1997 through 2001 and reports significant drops in other directorships for involved directors. Helland (2006) examines private securities class action lawsuits and finds significant losses in other seats for directors of firms involved in the top quartile of lawsuits in terms of costs. Similarly, Fich and Shivdasani (2007) report significant losses in other seats for directors following financial fraud litigation. In their sample, the average number of other seats for outside directors drops from 0.95 to 0.47 in three years. For directors who hold at least one other directorship at the time of the lawsuit, the number decreases from 1.92 to 1.62 (a 16% reduction in other seats). Ertimur et al. (2012) examine the option backdating scandal in 2006–2007 and document that outside directors of firms involved in the scandal, and especially outside directors serving on the compensation committee, lose seats at the focal firm. However, these losses appear to be confined to the focal firm board seat and do not extend to seats at other firms' boards. Finally, Brochet and Srinivasan (2014) report that independent directors who are named as defendants or are voted against in re-elections following financial fraud lose significantly more other directorships than directors at matched non-sued firms. Interestingly, they also find that directors who are not named in the lawsuit experience a significant loss, suggesting that all directors are held responsible for failing to monitor management.

Some studies look at corporate events which are not directly related to corporate misconduct. Fos and Tsoutsoura (2014) examine proxy contests in the US between 1996–2010 and find that directors of firms involved in proxy contests lose roughly 10–30% of their other seats in the three years following a proxy contest. Additionally, they report that directors who were nominated in the proxy contest lose 58% more other seats than not-nominated directors. Few studies focus on director career prospects following corporate misbehavior that is not directly related to shareholders. Cai et al. (2020) assert that CEOs can lose outside boards if their companies have ESG concerns, but their study focuses on CEOs as external board members and not on directors in general.

Overall, business investments in ESG/CSR related projects are viewed by scholars either as an agency-related problem (Cheng et al., 2013; Masulis & Reza, 2015), as value-enhancing (Deng et al., 2013; Edmans, 2011; Flammer, 2015), or as "insurance" against potential costly lawsuits (Lins et al., 2017). As these suggest, there is ambiguity about whether such projects add to, or subtract from, firm value. As Bénabou and Tirole (2010) and Krüger (2015) note, common problems with studies investigating the effect of ESG on firm performance include reverse causality, endogeneity, and difficulties in measuring "stakeholder performance." In this paper, we try to mitigate these concerns by focusing on a more objective measure of "negative" ESG; media attention given to a firm's stakeholder/ESG controversies. An especially compelling feature of this measure is that the firm cannot directly control its media attention: indeed, it would be difficult for a firm to prevent NGOs from reporting on a negative issue such as the firm being accused of using child labor. This contrasts to more traditional ESG/CSR measures which could be biased if, for example, a "dirty" firm engages in "green-washing" to bolster its ratings, or, conversely, a "green" firm which decides to not report on its ESG activities. In any case, prior literature documents that negative news about ESG issues, which is the focus of this study, can also hurt firm value (Krüger, 2015). Building on this discussion, we posit that negative ESG issues which hurt stakeholders have an adverse effect on the career prospects of directors:

H1. *All else equal, directors' career prospects decline following years when their focal firm is the subject of intense negative media coverage of ESG issues.*

In addition, the frequency of these issues could matter. For example, a single issue may not be consequential for a director's reputational capital but if a firm is repeatedly involved in negative ESG issues, these could plausibly tarnish a director's reputation. Thus, we hypothesize that the more frequently (repeatedly) a director's focal firm is involved in ESG issues that receive intense negative media coverage, the more other directorships a director loses:

H2. *The loss in seats at other firms' boards for directors of companies involved in ESG issues that receive intense negative media coverage is directly related to the frequency of these issues occurring.*

2.2 | Country characteristics, shareholder value, and stakeholder welfare

According to proponents of the shareholder governance model, firms should not engage in corporate good citizenship (unless it is profitable) since society's moral standards are upheld as the "invisible hand" secures market efficiency and the state corrects for potential market failures (Bénabou & Tirole, 2010). In contrast, the stakeholder societal model of corporate responsibility argues that because the state cannot prevent all market failures, there is a need for an institutional design that incorporates the welfare of "natural stakeholders" (such as employees, banks, customers, communities, etc.) to ensure the economic system is efficacious and conforms to social norms (Tirole, 2001). La Porta et al. (1998) assert that a country's legal origin is related to the extent of shareholder rights protections: common-law countries protect shareholders' rights the most, French civil-law countries the least, and German civil-law and Scandinavian countries lie somewhere in the middle. Similarly, Liang and Renneboog (2017) report that legal origin is linked to firms' ESG rankings; firms in civil-law countries score significantly higher than firms in common-law countries, with Scandinavian countries topping the rankings. This suggests that there is significant cross-country variation in the emphasis firms and managers put on ESG and stakeholder issues.

Based on this discussion, we develop the following hypothesis:

H3. *All else equal, directors of firms located in more stakeholder-oriented countries are disciplined more harshly for ESG issues.*

We also investigate several plausible country-level channels that may explain why directors could be disciplined following ESG issues. The first channel is the legal origin of the firm's home country (Liang & Renneboog, 2017; Tirole, 2001), as well as contrasting US and European firms. The rationale is that prior literature documents that European firms and investors are more environmentally and socially conscious than their US counterparts (see e.g., Dyck et al., 2019). The second channel is the stakeholder-orientation of a country. Here, we focus on proxies for a country's environmental (E) norms, social (S) norms (such as employment protection and ethics in corporate sector), and governance (G) efficacy. In general, we expect that directors in countries which score high on these ESG norms are more likely to be disciplined when their firms experience ESG issues. Comprising the third channel are the cultural norms of a country (Hofstede et al., 1991). Finally, the fourth channel is bank-based versus market-based economies (Beck & Levine, 2002). Here, we expect directors of bank-based economies to be more likely to lose seats for ESG issues as in these countries banks can form long relationships with their firms (Levine, 2002), while market-based economies characterized by transient ownership generally tend to be more concerned about shareholders' rights (Demirgüç-Kunt & Levine, 2001).

3 | DATA SOURCES

3.1 | RepRisk

We use RepRisk as our main source for tracking firms' risk exposure to ESG issues. RepRisk screens over 100,000 media, stakeholder, and third-party sources each day in 23 different languages for incidents related to 28 different ESG issues. We utilize the database's standard package which gives us access to 14,000 global public companies. RepRisk uses artificial intelligence methodology to screen the media and whenever a new issue is found their analysts analyze these issues based on their severity, reach, and novelty. Finally, the negative media attention to these issues is

quantified into the Reputational Risk Index (RRI), which ranges from -1 to 100. A value of -1 means that the firm has no reported issues, a value between 0 and 25 stands for low risk exposure, 26–49 for medium risk exposure, 50–59 for high risk exposure, 60–74 for very high risk exposure, and 75–100 for extremely high risk exposure. At any point in time, the RRI may go up (if there is a new risk incident), stay at the same level, or go down (if no new incidents occur). The index value decays at a rate of 25 every two months if the RRI is between 25 and 100 and no new risk incidents occur, and at a rate of 25 every eighteen months if the value is between -1 and 25 and no new risk incidents occur. According to RepRisk, larger firms are expected to have a value between 25 and 49 even if they have no major controversies because of high media coverage. However, if the value goes above 50 this indicates that the firm has been involved in "stakeholder issues". As we show in robustness tests, high risk exposure does not have a significant effect on the change in the number of other seats for directors. Thus, we contrast firms with intense negative media coverage to ESG issues (RRI≥60) in the past three years to firms with normal levels of negative media coverage to ESG issues (RRI<60). Appendix Table A.2 lists the types of issues tracked by RepRisk.

3.2 | Director- and firm-specific data

Data on directors who serve on the boards of firms listed on the S&P 500 or Stoxx 600 indices (the focal firms) between 2007 and 2018 is gathered from BoardEx. The database provides the directors' ages, tenure (at the focal firm), whether a director is close to retirement (aged 70 years or older), the number of directorships held on public (and private) firms' boards, and gender, among other information. We calculate the number of seats held on other public firms ("other seats") by subtracting one (the seat at the focal firm) from the total number of seats held at other listed companies for each director-firm-year observation, and employ this as the dependent variable in our main analysis. In the appendix, we also show results for using the number of seats held on private firms' boards as dependent variable.

After merging RepRisk with our director data from BoardEx, we are left with a final panel-data set consisting of 129,543 director-firm-year observations. Since we track RepRisk information in the past three years (the 36 months preceding as well as the month of) each director-firm-year observation (annual report date in BoardEx), our sample covers information on directors over the full years 2010–2018 whereas the information on negative media coverage to ESG issues covers the years between 2007–2018.

Adams and Ferreira (2007) note that in the countries with a two-tier board structure, the separation between the managing and monitoring roles of directors is clearer than in countries with a one-tier board structure, where firms tend to use committees to delineate the two roles. We accommodate these differences by dividing directors into executive directors, which have managing and advising roles, and nonexecutive directors, which have monitoring but can also have advising roles; we then examine reputational penalties separately for these two groups. To distinguish between these two types of directors, we use the BoardEx variable "*ned*" (executive directors are those for which the variable takes the value "No", and nonexecutive directors are those for which the variable takes the value "Yes").

3.3 | Firm- and country-level control variables

In our main empirical model (see Section 4.2.1), we include director-firm and year fixed effects (as in Fos & Tsoutsoura, 2014). This essentially removes the time-invariant unobserved heterogeneity in the number of other public seats held by a director. Further, in robustness tests, we also include time-variant control variables. First, we include the following CEO-level control variables: whether a director is close to retirement (aged 70 years or older), since older directors would be more likely to retire both from the focal firm's but also the other firms' boards, and the tenure of the director at the focal firm, measured in years. Second, accounting and financial firm-specific data are taken from Compustat. We gather data on return on assets (operating income before depreciation and amortization divided by total assets), size (natural logarithm of total assets), and the past two years market-adjusted stock returns (from CRSP for US firms and

Compustat for European firms). As Compustat reports its variables in the local currency, we correct size so that it is measured in dollars using year-end exchange rates as reported by the Federal Reserve (from WRDS). Third, we include the following time-variant country-level control variables: the economic freedom index (by Heritage), the regulatory and control of corruption indices by World Bank, the Globalization Index by KOF, and the natural logarithm of GDP per capita (World Bank). Descriptions for all variables are shown in Appendix Table A.1. Continuous control variables are winsorized at the 1st and 99th percentiles.

4 | RESULTS - CAREER PROSPECTS

4.1 | Main sample, descriptive statistics, and univariate results

In this section, we report descriptive statistics and univariate results for our main sample consisting of 129,543 director-firm-years for 1,336 firms headquartered in 25 different countries.

Table 1 reports descriptive statistics for the full sample at the director-firm-year level (Panel A), as well as collapsed at the firm-year level (Panel B). As shown in Panel A, 7 percent of the observations in our sample have intense negative media attention to ESG issues at some point in the past three years. Furthermore, the number of boards directors serve on is relatively stable over time as directors hold on average 0.98 seats at other public firms' boards in year *t* – *3* (the time when we start to track ESG issues), while they hold an average 0.96 at time *t* (the time of the director-firm-year observation). Although the focus in this study is on the change in the number of seats held on other public firms' boards — arguably the most important seats for the directors (Masulis & Mobbs, 2014) — we also investigate changes in the number of seats held on private firms' boards in the Appendix. Finally, the average time a director serves on a focal firm's board is seven years, and roughly 14% of the directors are close to retirement.

Overall, the average number of seats held on public and private firms in our sample are comparable to other studies in the literature. For instance, Ertimur et al. (2012) report that the average number of seats at other public firms is 0.80 in their sample consisting of 7,582 director-firm observations (the same number in our study is 0.96). Furthermore, Fos and Tsoutsoura (2014) report that US directors hold a total of 2.99 other seats (i.e., seats at both other public and private firms' boards) which is quite similar to the average total number of seats (2.78) in our international sample.

In Panel B, we contrast firm-years with intense negative media coverage to firm-years with normal levels of media coverage. Firms with negative media coverage have, by construction, significantly higher RRI values, but they are also larger, have lower operating performance (ROA), and lower past stock returns. Interestingly, firms in German civil-law countries are relatively overrepresented in the intense negative media attention category (18% in the intense media attention subsample relative to 11% in the subsample of firms with normal levels of ESG risk exposure), whereas Scandinavian civil-law countries are relatively underrepresented (3% versus 8%).

Our main multivariate model compares the number of seats held by the same director at the same focal firm for years when the firm is exposed to intense ESG-related negative media attention to years when the firm has normal levels of ESG risk exposure. Therefore, in Panel C, we report descriptive statistics for the subset of directors whose firm exhibits at least one year of intense negative media attention in our panel data sample, and compare director-firm-years with RRI≥60 to director-firm-years when RRI<60. The highest RRI in the past three years is, as expected, higher when the RRI reaches intense levels (65.12 versus 46.66). This suggests that these directors' firms are not repeatedly exposed to negative ESG-related media attention. Also, the number of seats these directors hold is significantly lower (mean difference is -0.08; $p < 0.001$) for years when their focal firm has intense negative media attention to ESG issues compared to years when it has normal media attention. This univariate finding is first evidence that directors suffer penalties in the director labor market for ESG-related issues, indicating a drop of roughly 7 percent in seats at other public firms. Moreover, contrasting US to European firms yields distinct differences: directors of US firms do not lose other seats at significant rates for ESG issues, while directors of European firms do lose 0.11 (or roughly 9%) other seats, a significant drop ($p < 0.001$).

TABLE 1 Descriptive statistics for main sample

PANEL A: Full sample (director-firm-year level)	Obs.	Mean	Median	p10	p90
Intense ESG-related media coverage in past three years	129,543	0.070	0	0	0
Number of board seats at other public firms in year *t*	129,543	0.96	1	0	3
Number of board seats at other public firms in year *t-3*	129,543	0.98	1	0	3
Number of board seats at private firms in year *t*	129,543	1.81	1	0	5
Director close to retirement (= 1) in year *t*	129,543	0.138	0.000	0	1
Time on board (in years) in year *t*	129,543	7.00	5.30	0.8	15.1

PANEL B: Collapsed at the firm-year level

	Intense ESG-related media coverage in past three years		Normal ESG-related media coverage in past three years		
	Obs.	*Mean*	*Obs.*	*Mean*	*Mean diff.(Intense versus Normal)*
Peak RRI in past three years	651	65.18	10,629	27.08	38.10***
Return on Assets in year *t-1*	634	0.106	10,232	0.124	−0.017***
Ln(Total Assets) in year *t-1*	654	11.87	10,538	9.31	2.56***
Past two years market-adjusted stock returns	613	0.003	9,527	0.153	−0.150***
US firm (by headquarters)	651	0.46	10,516	0.44	0.02
Non-US firm (by headquarters)	651	0.54	10,516	0.56	−0.02
English common-law country	651	0.60	10,592	0.61	0.01
German civil-law country	651	0.18	10,592	0.11	0.07**
French civil-law country	651	0.18	10,592	0.20	−0.02
Scandinavian civil-law country	651	0.03	10,592	0.08	−0.05***

(Continues)

TABLE 1 (Continued)

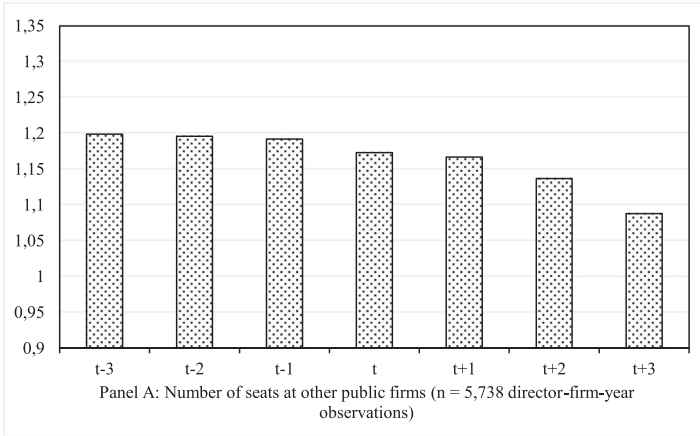
PANEL C: Directors of firms with at least one year of intense ESG-related media coverage recorded in the panel data (director-firm-year)					
	Intense ESG-related media coverage in past three years		Normal ESG-related media coverage in past three years		
	Obs.	*Mean*	*Obs.*	*Mean*	*Mean diff.(Intense versus normal)*
Peak RRI in past three years	9,032	65.12	5,874	46.66	18.46***
Number of board seats at other public firms in year *t*	9,032	1.12	5,874	1.21	−0.08***
Director close to retirement (= 1) in year *t*	9,032	0.127	5,874	0.133	−0.006
Time on board (in years) in year *t*	9,032	6.20	5,874	6.88	−0.67***
US firms					
Number of board seats at other listed firms in year *t*	3,710	1.20	2,806	1.24	−0.04
Director close to retirement (= 1) in year *t*	3,710	0.169	2,806	0.169	−0.000
Time on board (in years) in year *t*	3,710	7.32	2,806	7.70	−0.38**
Non-US (European) firms					
Number of board seats at other listed firms in year *t*	5,322	1.07	3,068	1.18	−0.11***
Director close to retirement (= 1) in year *t*	5,322	0.098	3,068	0.098	−0.001
Time on board (in years) in year *t*	5,322	5.42	3,068	6.12	−0.70***

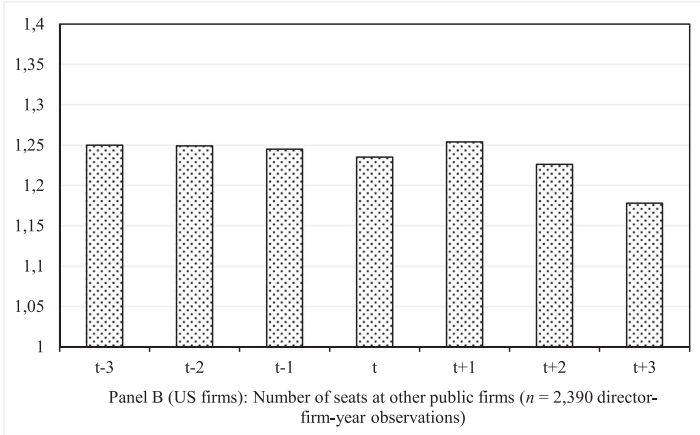
(Continues)

TABLE 1 (Continued)

PANEL D: By country (director-firm-year)(Only countries with at least 1,000 director-firm-year observations are included)					
	Intense ESG-related media coverage in past three years		Normal ESG-related media coverage in past three years		
Country	*Obs.*	*Δ(Other seats) between year t and t-3*	*Obs.*	*Δ(Other seats) between year t and t-3*	*Mean diff. in Δ(Other seats)(Intense versus Normal)*
Austria	0	–	1,890	0.03	–
Belgium	0	–	2,329	0.04	–
Switzerland	563	0.04	4,279	−0.01	0.06
Germany	1,739	−0.06	10,509	0.01	−0.07**
Denmark	75	−0.01	2,304	0.08	−0.09
Spain	270	−0.11	4,258	0.00	−0.11**
Finland	31	0.06	1,434	0.07	0.01
France	781	−0.11	10,182	0.01	−0.11***
UK	1,244	−0.08	13,161	−0.02	−0.06**
Ireland	0	–	2,520	−0.07	–
Italy	191	0.09	4,621	−0.00	−0.10*
Netherlands	239	−0.15	2,829	0.01	−0.16**
Norway	30	−0.23	1,425	0.11	−0.34**
Portugal	0	–	1,220	0.09	–
Sweden	115	−0.04	3,618	0.09	−0.13
US	3,710	−0.05	50,468	−0.04	0.00

The table shows descriptive statistics for the full sample at the director-firm-year level (Panel A); the sample collapsed at the firm-year level (Panel B); the subsample of directors whose firm had at least one major ESG issue in the panel data sample (Panel C); the full sample by country (headquarters of the focal firm) (Panel D). Mean differences in Panels B and C are calculated by regressing the variable in column 1 on an indicator variable for intense ESG-related media coverage in the past three years, with standard errors clustered at the director-firm level. In Panel D, the last column shows the mean difference in the net change in other seats between year *t* and *t-3* for director-firm-years with intense negative media attention vs. director-firm-years with normal media attention to ESG issues for each country separately. The *t*-statistic (last column) is calculated by regressing the net change in other seats (*Δ(Other seats)*) on an indicator for intense ESG-related media attention, with standard errors clustered at the director-firm level. Descriptions for all variables are shown in Appendix Table A.1. Significance levels are indicated with ***, **, *, representing 1%, 5%, and 10% significance levels, respectively.





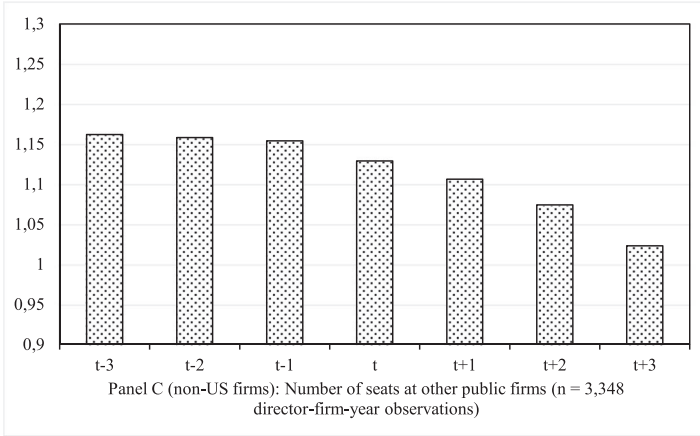


FIGURE 1 The figures show the progression of number of board seats at other public firms for directors whose focal firm experiences intense negative media attention to ESG issues in year *t* (*n* = 5,738). We track ESG issues between years 2010-2015, and directors' other seats in the *t-3* through *t+3* yearly intervals between years 2007-2018. Panel A shows results for all directors, Panel B for US firms, and Panel C for non-US firms

Figure 1 depicts this relationship more clearly. In Panel 1, there is a visible drop in the number of other seats *after* the ESG issue occurs, but not *before* it. For instance, in years *t – 3* through *t – 1*, directors' number of other public seats remain relatively flat (1.2 on average). However, in year *t + 3*, the number of seats has dropped to 1.08, or roughly 10% of the number of other seats held in year *t*. As Panels B and C show, the number of other seats drops visibly more for directors of European firms than it does for directors of US firms.

Finally, Panel D shows univariate results by country. For each country, we show the net change in other seats between year *t – 3* and year *t* (the period for which RRI is tracked) for directors of firms with RRI≥60 versus

directors of firms with RRI<60. Notably, in almost all countries, directors experience a significant drop (last column) in the number of other seats held at public firms' boards if their focal firm has intense negative ESG-related media attention in the past three years. However, there are some exceptions: in the US, directors lose no seats following ESG issues (0.00); in Switzerland, they add seats (0.06); and in Finland, the number of seats is largely unchanged (0.01).[7]

4.2 | Multivariate results

In this section, we present our main empirical model and analyze the effects of intense negative media attention to ESG issues on director career prospects by employing our panel data sample consisting of 129,543 directors worldwide.

4.2.1 | Research design

We estimate similar panel data regressions as in Fos and Tsoutsoura (2014), using as panel identifier director *d* of firm *i* and as time identifier year *t*:

$$y_{d,i,t} = \beta_0 + \beta_1 Intense\_ESG\_Related\_Media\_Coverage[-36,0]_{i,t} + \eta_{Director \times firm} + \delta_{Year} + \varepsilon_{d,i,t} \quad (1)$$

where $y_{d,i,t}$ is the number of directorships at other public firms that director *d* of firm *i* holds in the annual reporting month in BoardEx in year *t*. The indicator variable *Intense_ESG_Related_Media_Coverage* equals one if firm *i* of director *d* has intense negative media coverage to ESG issues in the past three years (the month of the annual report month in BoardEx or any of the 36 months preceding that month), and zero otherwise. The benchmark group consists of director-firm-years with normal levels of ESG-related media coverage in the past three years, including also the directors whose firms do not experience intense negative media attention during the panel data period. Following Fos and Tsoutsoura (2014), we include director-firm fixed effects ($\eta_{Director \times firm}$) and year fixed effects (δ_{Year}). That is, we track the same director over the time he or she serves on a focal firm's board. The director-firm fixed effects remove variation in the number of other seats that is due to observed or unobserved time-invariant director-, firm-, industry-, or country-characteristics, as well as alleviating endogeneity concerns such as low-ability directors matching up with low-quality firms; the time fixed effects account for trends in the director labor market that occur over time such as declining board sizes on average (Ferreira & Kirchmaier, 2013); and $\varepsilon_{d,i,t}$ represents the error term. Standard errors are clustered at the director-firm level (i.e., at the panel identifier level) to be consistent with the included fixed effects (Petersen, 2009).

In additional specifications, we include a vector $X'_{i,t-1}$ which consists of the following time-variant director-, firm-, and country-level control variables: an indicator for whether a director is close to retirement, tenure, ROA, ln(Total assets), past stock performance, Economic Freedom index, the Regulatory Quality and the Control of Corruption indices, the Globalization index, and ln(GDP per capita).

4.2.2 | Multivariate results

Results for estimating equation (1) for all directors are shown in column 1 of Table 2, for EDs (CEO, president, chairman/chairwoman, etc.) in column 2, and for NEDs (independent directors, etc.) in column 3, respectively. The coefficient for *Intense ESG-related negative coverage* for all directors (column 1) is -0.04, which indicates a loss of on average 0.04 other seats if a director's focal firm has intense negative media coverage to ESG issues in the past three years. Although the loss in other seats is statistically significant ($p = 0.017$), the economic significance is rather small as it represents a decline of only 4.2% (0.04/0.96) in other seats. To better understand these losses, we distinguish

TABLE 2 Panel data regressions

PANEL A: Regressions with director-firm and year fixed effects			
Dependent variable:*Directorships at other public firms*	**(1) All directors**	**(2) Executive directors (EDs)**	**(3) Nonexec. directors (NEDs)**
Intense ESG-related media coverage	−0.037**	−0.086***	−0.026
	(−2.38)	(−2.58)	(−1.46)
Constant	1.011***	0.464***	1.124***
	(150.71)	(40.82)	(145.37)
Observations	129,543	21,477	108,066
Controls	No	No	No
Director-firm fixed effects	Yes	Yes	Yes
Number of director-firm fixed effects	28,113	4,948	23,719
Year fixed effects	Yes	Yes	Yes
R-squared	0.880	0.887	0.880

(Continues)

TABLE 2 (Continued)

PANEL B: Controls included			
Dependent variable:*Directorships at other public firms*	**(1)** **All directors**	**(2)** **EDs**	**(3)** **NEDs**
Intense ESG-related media coverage	−0.029*	−0.067**	−0.017
	(−1.79)	(−2.03)	(−0.97)
Director close to retirement (≥70 years)	−0.260***	−0.029	−0.273***
	(−19.37)	(−0.90)	(−18.69)
Time on board (in year *t*)	0.014*	0.039**	0.017*
	(1.91)	(2.50)	(1.94)
Return on Assets	0.096	−0.068	0.132
	(1.28)	(−0.59)	(1.53)
Ln(Total Assets)	−0.000	−0.005	−0.006
	(−0.02)	(−0.21)	(−0.36)
Past 2y market-adjusted stock returns	−0.016***	−0.019**	−0.013**
	(−2.81)	(−1.98)	(−2.07)
Economic Freedom Index	−0.007***	−0.009**	−0.009***
	(−3.11)	(−2.42)	(−3.34)
Regulatory Quality Index	−0.029	0.014	−0.053*
	(−1.11)	(0.29)	(−1.70)
Control of Corruption Index	0.149***	0.216***	0.140***
	(3.57)	(3.18)	(2.85)

(Continues)

TABLE 2 (Continued)

PANEL B: Controls included			
Dependent variable:*Directorships at other public firms*	**(1)** **All directors**	**(2)** **EDs**	**(3)** **NEDs**
Globalization Index	−0.000	0.026*	−0.001
	(−0.02)	(1.81)	(−0.09)
Ln(GDP per capita)	0.073	0.276***	0.095
	(1.29)	(2.86)	(1.47)
Constant	0.574	−4.378**	0.730
	(0.55)	(−2.42)	(0.62)
Observations	110,864	18,334	92,530
Controls	Yes	Yes	Yes
Director-firm fixed effects	Yes	Yes	Yes
Number of director-firm fixed effects	24,420	4,252	20,641
Year fixed effects	Yes	Yes	Yes
R-squared	0.879	0.888	0.878

The table shows results for the following panel data regression: $y_{d,i,t} = \beta_0 + \beta_1 Intense\_ESG\_Related\_Media\_Coverage[-36, 0]_{i,t} + \eta_{Director \times firm} + \gamma X'_{i,t-1} + \delta_{Year} + \varepsilon_{d,i,t}$, where the dependent variable is the number of directorships held on other public firms' boards by director *d* of firm *i* in year *t* (the *Annual Report Date* in BoardEx). The dependent variable captures board seats at other firms' boards (not including the focal firm board seat). The variable *Intense ESG-related media coverage* equals one if a firm has *RRI*≥60 in the past three years (the month of the annual report or any of the 36 months preceding that month), and zero otherwise. The benchmark group consist of director-firm-years with normal ESG-related news coverage (RRI<60) in the past three years. Panel A includes director-firm fixed effects and year fixed effects. Panel B includes all fixed effects as well as a vector $X_{i,\,t-1}$ of the following director-, firm-, and country-level time-variant control variables measured in year *t-1*: *Director close to retirement*, *Time on board* (on focal firm), *Past 2y mkt-adj. stock returns*, *Return on Assets*, *Economic Freedom Index*, *Regulatory Quality Index*, *Control of Corruption Index*, *Globalization Index*, and *ln(GDP per capita)*. The sample covers directors over the time they serve on the board of a Stoxx Europe 600 or S&P 500 firm's board between January 2010 through December 2018. Risk exposure is tracked between January 2007 and December 2018, i.e., three years prior to a director-firm-year observation. Results for all directors are shown in Column 1, for executive directors (EDs) in Column 2, and for nonexecutive (NEDs) directors in Column 3. Controls and type of director (ED vs. NED) are for the focal firm. *t*-statistics are shown in parentheses below reported coefficients and are based on robust standard errors (clustered at the director-firm level). Significance levels are indicated with ***, **, *, representing 1%, 5%, and 10% significance levels, respectively.

between executive (EDs) and nonexecutive directors (NEDs). As shown under columns 2 and 3, the EDs lose a significant portion of their other seats, while the NEDs do not lose seats at a significant rate: the coefficient for EDs is -0.09 and significant at the 1%-level, while it is -0.026 and not significant for NEDs. The loss in seats for EDs is also highly meaningful, representing a loss of on average 16.2% (0.086/0.53) other seats following ESG issues. These losses are comparable to the magnitude of losses reported in other studies, such as Fos and Tsoutsoura (2014) who report that directors lose between 10–30% in other seats following proxy contests.

In Panel B, we include time-variant control variables in equation (1). Results are robust to the inclusion of these controls, except that the coefficient for all directors is rendered borderline significant. In untabulated tests, we change clustering of standard errors to the firm-level, and to the director-level, and find that results in Table 2 are very similar. We also change year fixed effects to year-by-month fixed effects (clustering at the director-firm level) and find consistent results.

4.2.3 | Robustness checks

In Table 3 Panel A, we estimate equation (1) (no time-variant controls) as panel Poisson regressions to account for the notion that the dependent variable is a count variable and is measured over a fixed time period of one year. In this specification, director-firm-year observations for which there is no within-panel variation (i.e., no variation in the number of other seats over time for the same director of the same firm) are dropped automatically. Inference again remains the same: directors lose a significant portion of their seats, and losses are significant for EDs but not for NEDs.

In Panel B, we re-estimate equation (1) as an OLS panel data regression with firm and year fixed effects. Here, we change clustering to at the firm level to be consistent with the included fixed effects (Petersen, 2009). The results from this specification are generally stronger than for the more stringent director-firm and year fixed effects specification: in column (1) where we examine all directors, the coefficient for *Intense ESG-related media coverage* is -0.103 (which indicates a roughly 10.7% loss in other seats). In column 2, we find that EDs lose a significant portion of their seats (19.9%). In contrast to the other specifications, NEDs also lose seats in this specification: the coefficient for NEDs is -0.105 and significant ($p = 0.001$), which indicates a drop of 10.1% in other seats for these directors.

In Panel C, we estimate equation (1) but include only directors whose firms have at least one year with intense negative media attention to ESG issues during the panel data period and again find that results hold. Additionally, results hold up when we restrict our sample to directors who are not close to retirement (*Close to retirement = 0*) in Panel D.

4.2.4 | Repeated years with stakeholder issues

Next, we turn to investigate how career prospects of directors are affected when a firm is involved in multiple occurrences of (repeated years with) stakeholder issues within the last three and five years, respectively. We construct three indicator variables for the frequency in which a firm is involved in ESG issues; the first variable equals one if a firm has intense negative media attention to ESG issues in one of the past three years, and zero otherwise. We call these observations *One-time violators*. Similarly, the second indicator variable equals one if a firm has intense negative media attention in two out of the three past years; these firms are referred to as *Two-time violators*. Finally, the third variable is an indicator for firms with ESG issues in all three past years; these firms are called *Serial violators*. We then estimate the following equation:

$$y_{d,i,t} = \beta_0 + \beta_1 One\_Time\_Violator_{i,t} + \beta_2 Two\_Time\_Violator_{i,t} + \beta_3 Serial\_Violator_{i,t} + \eta_{Director \times firm} + \delta_{Year} + \varepsilon_{d,i,t} \quad (2)$$

TABLE 3 Robustness checks

PANEL A: Poisson panel data regression			
Dependent variable:*Directorships at other public firms*	**(1) All directors**	**(2) EDs**	**(3) NEDs**
Intense ESG-related media coverage	−0.030**	−0.140***	−0.016
	(−2.19)	(−2.95)	(−1.14)
Observations	79,970	9,982	69,582
Controls	No	No	No
Director-firm fixed effects	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes
PANEL B: OLS panel data regressions with firm and year fixed effects			
Dependent variable:*Directorships at other public firms*	**(1) All directors**	**(2) EDs**	**(3) NEDs**
Intense ESG-related media coverage	−0.103***	−0.108***	−0.105***
	(−3.54)	(−2.48)	(−3.25)
Observations	129,543	21,477	108,066
Controls	No	No	No
Firm fixed effects	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes

(Continues)

TABLE 3 (Continued)

PANEL C: Directors of firms with at least one ESG issue (RRI ≥60) in the panel data sample			
Dependent variable:*Directorships at other public firms*	**(1) All directors**	**(2) EDs**	**(3) NEDs**
Intense ESG-related media coverage	−0.034**	−0.072**	−0.026
	(−2.05)	(−2.02)	(−1.43)
Constant	1.250***	0.659***	1.355***
	(58.45)	(17.00)	(55.65)
Observations	14,906	2,232	12,674
Controls	No	No	No
Director-firm fixed effects	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes
PANEL D: Young directors (Close to retirement = 0)			
Dependent variable:*Directorships at other public firms*	**(1) All directors**	**(2) EDs**	**(3) NEDs**
Intense ESG-related media coverage	−0.028*	−0.074**	−0.015
	(−1.77)	(−2.21)	(−0.81)
Constant	0.936***	0.417***	1.049***
	(131.50)	(34.91)	(126.60)
Observations	111,710	19,445	92,265
Controls	No	No	No
Director-firm fixed effects	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes

Panel A reports results for estimating equation (1) as a panel Poisson regression; Panel B for estimating an OLS panel data model with firm and year fixed effects; Panel C for estimating equation (1) for the subsample of directors whose firms experience at least one ESG issue during the sample period; and Panel D for the subsample of young directors. The dependent variable in all panels is the number of directorships held on other public firms' boards by director *d* of firm *i* in year *t*. The variable *Intense ESG-related media coverage* equals one if a firm has *RRI*≥60 in the past three years, and zero otherwise. The benchmark group consist of firms with no major ESG issues in the past three years. All columns include director-firm fixed effects as well as year fixed effects. Risk exposure is tracked between January 2007 and December 2018, and directors between 2010 and 2018 (inclusive). Results for all directors are shown in Column 1, for EDs in Column 2, and for NEDs in Column 3. *t*-statistics are shown in parentheses below reported coefficients and are based on robust standard errors (clustered at the director-firm level, except in Panel B where they are clustered at the firm level to be consistent with the included fixed effects (Petersen, 2009)). Descriptions for all variables are shown in Appendix Table A.1. Significance levels are indicated with ***, **, *, representing 1%, 5%, and 10% significance levels, respectively.

where $y_{d,i,t}$ is the number of directorships director *d* of firm *i* holds at other public firms' boards in year *t*. Fixed effects are the same as in Equation (1) and standard errors are clustered at the director-firm level. Observations for director-firm-years with no ESG issues in the previous three years are again included as the benchmark group.

In Table 4, results for all directors (column 1), EDs (column 2), and NEDs (column 3), respectively, are reported. Notably, the coefficients for the indicators across all three columns indicate that directors lose more seats the more frequently a firm is involved in ESG issues. Directors of serial violator firms (i.e., firm had at least one issue each year over the past three years) exhibit losses in other seats of 0.071 (or roughly 7.2%) relative to director-firm-year observations with no issues. In comparison, directors of one-time violators lose only 0.033 (3.4%) other seats. The loss in other seats is again significant only for EDs. EDs whose firms are one-time violators lose 0.072 other seats (or 13.6%); EDS of two-time violators lose 0.102 (20.0%); and EDs of serial violators lose on average 0.182 (34.3%) other seats relative to EDs of firms with no issues in the past three years. Taken together, these findings suggest that director penalties are proportional to how recurring the negative ESG issues are. Put differently, the more often a firm is exposed to intense negative media attention to ESG issues, the more other seats the firm's directors lose.

Columns 4–6 expand these results by including information for the past five years. Here, serial violators are firms that have violations in three, four, or five consecutive years, of intense negative media coverage to ESG issues. One- and two-time violators are as in columns 1–3, observed over the past five years. Since we now track RRI in the past five years, we lose almost 30,000 director-firm-year observations in the beginning of the time period (the RepRisk data is available only from 2007 onwards). That is, we track RRI between January 2007 through December 2018, and directors between January 2012 to December 2018. As shown across all three columns, results are somewhat weaker for firms which are one-, two-, and three-time violators in columns 1–3, but are strong for directors of firms that are four- and five-time violators. Indeed, for violators with four or five events in the past five years, all directors including also the NEDs lose other seats at significant rates, suggesting that the even the reputations of NEDs are not shielded from a company repeatedly damaging its stakeholder relations.

In Appendix Table B.1, we conduct a similar test as in Table 4 but instead measure issues according to the year in which they occur relative to year *t*. To be precise, we construct indicators for whether a firm has intense negative media to ESG issues in the past year (zero otherwise); two years ago (13-24 months); and three years (25-36 months) ago, respectively. As shown under columns 1–3, the longer the time it has been since the issue occurred, the more seats a director loses. This could be because many firms employ staggered board systems in which directors are up for re-election each third year (Fos & Tsoutsoura, 2014). Finally, in columns 4–6 we track issues by year for the past five years and find similar results: most of the losses in other seats seem to occur around the third year.

5 | COUNTRY-LEVEL CHANNELS FOR REPUTATIONAL PENALTIES FOLLOWING ESG ISSUES

In this section, we investigate whether director reputation penalties can vary by country characteristics. As noted by Djankov et al. (2008), countries differ in how they construct mechanisms to protect shareholders' and stakeholders' interests. Liang and Renneboog (2017) assert that this is mirrored in the importance firms place on ESG practices across countries: firms in civil-law countries — where stakeholders' interests are more readily protected by laws and institutions (Tirole, 2001) — have significantly higher environmental and social performance than firms in the more shareholder-oriented common-law countries, which often rely on ex post disciplining of misbehavior. Additionally, Lel and Miller (2019) provide evidence that firms located in common-law countries discipline (reward) directors for shareholder unfriendly (friendly) actions, while they find little evidence that directors of firms located in civil-law countries are affected by such actions. We posit that in countries which put a higher emphasis on protecting stakeholders' rights, directors are more readily disciplined in the director labor market for ESG issues. We focus on four country-level channels: legal origin (as well as US versus European firms); environmental, social, and governance norms in a country; cultural factors; and bank-based versus market-based economies.

TABLE 4 Repeated issues

Dependent variable:*Directorships at other public firms*	(1) All directors	(2) EDs	(3) NEDs	(4) All directors	(5) EDs	(6) NEDs
One-time violator (issue in 1/3 previous years)	−0.033**	−0.072**	−0.021			
	(−2.21)	(−2.23)	(−1.31)			
Two-time violator (issues in 2/3 previous years)	−0.042*	−0.106**	−0.028			
	(−1.69)	(−2.28)	(−1.00)			
Serial violator (issues in 3/3 previous years)	−0.071**	−0.182***	−0.047			
	(−2.20)	(−3.10)	(−1.30)			
One-time violator (issue in 1/5 previous years)				−0.032*	−0.095**	−0.015
				(−1.70)	(−2.27)	(−0.72)
Two-time violator (issues in 2/5 previous years)				−0.047*	−0.069	−0.034
				(−1.74)	(−1.37)	(−1.12)
Serial violator (issues in 3/5 previous years)				−0.070*	−0.097	−0.052
				(−1.86)	(−1.25)	(−1.25)
Serial violator (issues in 4/5 previous years)				−0.138***	−0.170**	−0.118***
				(−3.59)	(−2.30)	(−2.73)
Serial violator (issues in 5/5 previous years)				−0.134***	−0.169**	−0.114**
				(−3.22)	(−2.28)	(−2.42)

(Continues)

TABLE 4 (Continued)

Dependent variable:*Directorships at other public firms*	(1) All directors	(2) EDs	(3) NEDs	(4) All directors	(5) EDs	(6) NEDs
Constant	1.012***	0.465***	1.124***	0.970***	0.454***	1.072***
	(150.64)	(40.90)	(145.25)	(162.88)	(43.24)	(157.14)
Observations	129,543	21,477	108,066	100,654	16,396	84,258
Controls	No	No	No	No	No	No
Director-firm and year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Number of director-firm fixed effects	28,113	4,948	23,719	24,932	4,274	21,077
R-squared	0.880	0.887	0.880	0.894	0.900	0.893

The table shows results for panel data regressions where the dependent variable is the number of directorships held on other public firms' boards. The main independent variables in columns 1–3 are indicator variables for "one-time violators" (RRI≥60 in one of the past three years), "two-time violators" (RRI≥60 in two of the past three years), and "serial violators" (RRI≥60 in all past three years). Columns 4–6 track RRI in the past five years and include also indicators for RRI≥60 in four, and five, out the past five years, respectively. The benchmark group consist of firm-years with no ESG violations in the past three years (columns 1–3; five years in columns 4–6). Results for all focal firm directors are shown in Columns 1 and 4, for EDs in Columns 2 and 5, and for NEDs in Columns 3 and 6. All columns include director-firm fixed effects and year fixed effects. *t*-statistics are shown in parentheses below reported coefficients and are based on robust standard errors (clustered at the director-firm level). Descriptions for all variables are shown in Appendix Table A.1. Significance levels are indicated with ***, **, *, representing 1%, 5%, and 10% significance levels, respectively.

5.1 | Legal origin and US vs. non-US firms

5.1.1 | US versus non-US firms

We begin by investigating the effects that country-level adherence to stakeholder-orientation has on director reputational penalties by contrasting US to non-US (European) firms in Table 5. As European firms and institutional investors tend to have more focus on ESG than their US counterparts (Dyck et al., 2019), one would expect the reputations of the directors in these countries to be more negatively affected by ESG issues. As shown in columns 1–3, where we estimate equation (1) for US firms, directors are not disciplined in the director labor market following intense negative media attention to ESG issues. In contrast, directors of European firms lose a significant portion of their other seats following ESG issues (columns 4–6): our estimate is that they lose roughly 6.4% in other seats. Again, EDs lose more seats (-0.089; 18.0%) than NEDs do (-0.044; 4.3%). These results hold up when we include control variables (see Appendix Table B.2 Panel A). This evidence is consistent with Dyck et al. (2019), who report that European countries, including common-law countries such as UK, rank very high on environmental and social rankings, while US ranks low.

5.1.2 | Legal origin

The results in Table 5 could be partly explained by legal origin, whereby common-law countries put relatively less emphasis on stakeholders' welfare than do firms in civil-law countries (Liang & Renneboog, 2017). Therefore, in Table 6 Panel A, we contrast directors of firms located in English common-law countries to directors of firms located in civil-law countries. We find that only directors in the latter subgroup lose seats at significant rates following ESG issues. Results are qualitatively the same when we include control variables (Appendix Table B.2, Panel B). It is worth pointing out that the results in Table 6 are generally not as strong as in Table 5, indicating that the results are driven mostly by differences between US and non-US firms, and not by common- versus civil-law country firms. A possible explanation is that some European common-law countries also have high E&S rankings; for example, the UK scores high on the environmental protection index by Yale university despite being a common-law country.

To expand this analysis, we partition firms into subsamples based on a refined categorization of the firm's home country legal tradition (La Porta et al., 2008): (1) English common-law, (2) French civil-law, (3) German civil-law, and (4) Scandinavian civil-law countries.[8] Firms located in "Socialist" origin countries are excluded from this analysis. The rationale behind splitting countries by civil-law type is that Liang and Renneboog (2017) find that firms in Scandinavian civil-law countries score on average the highest on E&S rankings, followed by firms in French civil-law, German civil-law, and English common-law countries, in that order. Therefore, it is plausible that firms in Scandinavian civil-law countries could be the most sensitive to ESG issues, and thus directors in these countries are disciplined the most for such issues.

We report results in Table 6 Panel B. Again, we find that directors of firms located in English common-law countries do not lose seats following ESG issues at significant rates. In contrast, in German civil-law countries, EDs lose a significant portion (35.1%) of their other seats after ESG controversies; in French civil-law countries, (all) directors lose 11% of their other seats (column 7); and in Scandinavian civil-law countries, EDs lose wholly 43% of their other seats. Interestingly, the losses for directors in French civil-law countries appear to be driven by losses for NEDs, while EDs actually add seats. In short, these results suggest that EDs bear the main accountability for ESG-related corporate misbehavior in Scandinavian and German civil-law countries; in French civil-law countries this accountability falls on NEDs; while directors in common-law countries are not disciplined.

Overall, these findings suggest that it is only directors in the more stakeholder-oriented civil-law countries (and especially the European countries) who lose seats for stakeholder-unfriendly corporate actions, consistent with Lel and Miller (2019) who document the opposite finding for shareholder-unfriendly actions.

TABLE 5 Other directorships in listed companies, US versus non-US firms

	US firms			Non-US (European) firms		
Dependent variable:*Directorships at other public firms*	(1) All directors	(2) EDs	(3) NEDs	(4) All directors	(5) EDs	(6) NEDs
Intense ESG-related media coverage	−0.013	−0.077	−0.003	−0.058***	−0.089**	−0.044*
	(−0.58)	(−1.52)	(−0.12)	(−2.63)	(−2.15)	(−1.76)
Constant	1.067***	0.470***	1.152***	0.976***	0.467***	1.109***
	(109.67)	(25.89)	(106.34)	(105.61)	(32.64)	(100.76)
Observations	54,178	6,626	47,552	75,365	14,851	60,514
Controls	No	No	No	No	No	No
Director-firm and year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Number of director-firm fixed effects	10,345	1,367	9,203	17,855	3,592	14,592
R-squared	0.872	0.855	0.873	0.886	0.898	0.885

The table shows results for estimating equation (1), where the dependent variable is the number of directorships held on other public firms' boards. Columns 1–3 show results for firms headquartered in the US, and Columns 4–6 for firms located in non-US (European) countries. The variable *Intense ESG-related media coverage* equals one if a firm has $RRI \geq 60$ in the past three years, and zero otherwise. The benchmark group consist of director-firm-years with no major ESG issues in the past three years. Results for all focal firm directors are shown in Columns 1 and 4, for EDs in Columns 2 and 5, and for NEDs in Columns 3 and 6. All columns include director-firm fixed effects and year fixed effects. *t*-statistics are shown in parentheses below reported coefficients and are based on robust standard errors (clustered at the director-firm level). Descriptions for all variables are shown in Appendix Table A.1. Significance levels are indicated with ***, **, *, representing 1%, 5%, and 10% significance levels, respectively.

TABLE 6 Other directorships in listed companies, by legal origin

PANEL A: By legal origin	Firms located in common-law countries			Firms located in civil-law countries		
Dependent variable: *Directorships at other public firms*	**(1)**	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**
	All directors	**EDs**	**Non-EDs**	**All directors**	**EDs**	**Non-EDs**
Intense ESG-related media coverage	−0.016	−0.075*	−0.005	−0.061**	−0.091*	−0.047*
	(−0.79)	(−1.72)	(−0.22)	(−2.54)	(−1.88)	(−1.75)
Constant	0.988***	0.578***	1.082***	1.045***	0.383***	1.170***
	(92.13)	(29.74)	(88.16)	(120.48)	(28.27)	(116.76)
Observations	56,396	9,813	46,583	71,666	11,192	60,474
Controls	No	No	No	No	No	No
Director-firm and year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes

PANEL B: By legal origin type	English common-law countries			German civil-law countries			French civil-law countries			Scandinavian civil-law countries		
Dependent variable: *Directorships at other public firms*	**(1)**	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**	**(9)**	**(10)**	**(11)**	**(12)**
	All dirs.	**EDs**	**NEDs**	**All dirs.**	**EDs**	**NEDs**	**All dirs.**	**EDs**	**NEDs**	**All dirs.**	**EDs**	**NEDs**
Intense ESG-related media coverage	−0.016	−0.075*	−0.005	−0.052	−0.146**	−0.020	−0.080**	0.012	−0.082*	0.036	−0.280***	0.075
	(−0.79)	(−1.72)	(−0.22)	(−1.51)	(−2.08)	(−0.52)	(−2.09)	(0.19)	(−1.93)	(0.66)	(−3.47)	(1.27)
Constant	1.045***	0.383***	1.170***	0.778***	0.358***	0.895***	1.102***	0.750***	1.184***	1.065***	0.588***	1.129***
	(120.48)	(28.27)	(116.76)	(48.75)	(15.09)	(47.00)	(68.85)	(24.72)	(64.53)	(37.06)	(8.85)	(37.15)
Observations	71,666	11,192	60,474	18,980	4,048	14,932	28,384	4,947	23,437	9,032	818	8,214
Controls	No	No	No	No	No	No	No	No	No	No	No	No
Director-firm and year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

(Continues)

TABLE 6 (Continued)

PANEL C: By board structure	Sole board system			Mixed board system			Dual board system		
Dependent variable: *Directorships at other public firms*	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	All directors	EDs	NEDs	All directors	EDs	NEDs	All directors	EDs	NEDs
Intense ESG-related media coverage	−0.011	−0.063	−0.001	−0.076	0.039	−0.078	−0.071**	−0.136**	−0.038
	(−0.56)	(−1.48)	(−0.07)	(−1.49)	(0.33)	(−1.46)	(−2.35)	(−2.51)	(−1.07)
Constant	1.058***	0.440***	1.171***	1.258***	1.031***	1.297***	0.766***	0.344***	0.900***
	(126.54)	(31.85)	(121.83)	(55.55)	(19.91)	(52.00)	(58.02)	(16.53)	(58.17)
Observations	78,931	11,955	66,976	17,270	1,822	15,448	27,458	6,523	20,935
Controls	No	No	No	No	No	No	No	No	No
Director-firm and year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

The table shows results for the baseline model equation (1), where the dependent variable is the number of directorships held on other public firms' boards in year *t*. The variable Intense ESG-related media coverage equals one if a firm has RRI≥60 in the past three years, and zero otherwise. The benchmark group consist of director-firm-years with no major ESG issues in the past three years. Panel A shows results for common- versus civil-law countries; Panel B for legal origin by type; and Panel C for countries by the type of board structure (Adams & Ferreira, 2007). All columns include director-firm fixed effects and year fixed effects. *t*-statistics are shown in parentheses below reported coefficients and are based on robust standard errors (clustered at the director-firm level). Descriptions for all variables are shown in Appendix Table A.1. Significance levels are indicated with ***, **, *, representing 1%, 5%, and 10% significance levels, respectively.

5.1.3 | Board structure

We extend our analysis to cover the system of board structure in place in a country. Board structures are primarily used to separate the monitoring and advising role of directors (Adams & Ferreira, 2007). In a sole board system, these roles are mostly combined, while in a dual board system they are often separated. For example, in Germany where a dual board system is used, employee and government representatives often serve on the supervisory board, while managers serve on the managing board. Such an arrangement effectively separates between directors' monitoring (supervisory, i.e., nonexecutive) and advising (managing, i.e., executive) roles. This allows stakeholders to affect corporate decisions as they serve on the board of a company. Thus, we expect that directors of firms in countries with dual board systems, where stakeholders should have more say on corporate actions, are more readily disciplined for ESG issues. We divide each firm into one of three groups: firms located in countries with a sole board structure system (US, UK, Italy, Norway, and Sweden, etc.); countries with a mixed board structure system (e.g., Finland, France, and Switzerland); and countries with a dual board structure system (such as Austria, Belgium, Denmark, Germany, Netherlands, and Spain). The classification is based on Table I in Adams and Ferreira (2007).

We report results for this analysis in Panel C of Table 6. As shown across columns 1–6, directors of firms located in countries with either a sole- or a mixed board system are not disciplined at significant rates for ESG issues. In contrast, directors of firms located in countries with a dual board system (columns 7–9) lose a significant portion of their seats at other firms' boards. A closer examination of these losses reveals that the decline in career prospects mainly occurs for EDs, i.e., the directors with an advising and managing role.

5.2 | Stakeholder-orientation, cultural values, and bank-based versus market-based economies

We proceed by investigating additional country-level channels for variation in director reputational penalties following ESG issues. We focus on the environmental, social, and governance norms in a country; a country's cultural factors; and the type of financial system present in a country (bank-based versus market-based (Levine, 2002)). The country variables we employ in this section are time-invariant by nature, hence we are forced to work with subsamples (as the director-firm fixed effects would otherwise capture this information). For each country-level variable of interest, we contrast firms whose home country scores greater than the median on the selected variable to firms whose home country score lower or equal to the median for this same variable. We then estimate equation (1) for each subsample separately.

5.2.1 | Stakeholder-orientation of a country

We begin by examining differences in the stakeholder-orientation of the country. First, we investigate whether the protection of employees, proxied for using the Employment Laws index and the Collective Bargaining index by Botero et al. (2004), respectively, is related to director career prospects following ESG issues. As mentioned in Dyck et al. (2019), these measures capture the social (S) aspect of ESG. The results for this analysis are reported in columns 1–4 of Table 7. As shown in columns 1 and 3, directors of firms located in countries that score high (greater than the median) on employee protection (these countries include Sweden, France, Finland, Germany, etc.) lose a significant portion of their other seats when their focal firm is subject to an ESG controversy. In contrast, directors of firms located in countries which score low (US, UK, etc.) do not lose seats at significant rates.

In columns 5–6, we employ a measure of a country's environmental norms (Dyck et al., 2019): the Environmental Performance Index (EPI) by Yale University[9]. Overall, we expect directors of firms located in more environmentally

TABLE 7 Stakeholder-orientation of the country

Dependent variable:*Directorships at other public firms*	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Employment Laws Index		Collective Bargaining Index		EPI Index by Yale University		Left or center political orientation	
	>Median	≤Median	>Median	≤Median	>Median	≤Median	>Median	≤Median
Intense ESG-related media coverage	−0.06**	−0.02	−0.06**	−0.02	−0.07***	−0.01	−0.01	−0.05**
	(−2.34)	(−0.85)	(−2.34)	(−0.85)	(−2.87)	(−0.33)	(−0.57)	(−2.37)
Constant	0.97***	1.05***	0.97***	1.05***	1.00 ***	1.03***	1.06***	0.97***
	(94.00)	(118.54)	(94.00)	(118.54)	(97.22)	(114.88)	116.25	(97.42)
Observations	59,799	68,583	59,799	68,583	61,531	65,359	63,086	65,296
Controls	No	No	No	No	No	No	No	No
Director-firm fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Number of director-firm fixed effects	14,180	13,707	14,180	13,707	14,144	13,225	12,534	15,353

(Continues)

TABLE 7 (Continued)

Dependent variable: *Directorships at other public firms*	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
	Anti-Self Dealing Index		Public Sector Ethics Index		Corporate Sector Ethics Index		Corporate Governance Index	
	>Median	≤Median	>Median	≤Median	>Median	≤Median	>Median	≤Median
Intense ESG-related media coverage	−0.03	−0.04**	−0.07***	−0.02	−0.08***	−0.00	−0.08**	−0.03
	(−0.61)	(−2.29)	(−2.61)	(−1.12)	(−3.24)	(−0.20)	(−2.38)	(−1.64)
Constant	0.98***	1.02***	0.91***	1.05***	0.99***	1.03***	0.81***	1.05***
	(51.22)	(141.58)	(75.03)	(131.27)	(92.48)	(119.46)	(50.86)	(142.00)
Observations	17,273	111,664	39,485	89,522	57,428	71,579	19,825	109,182
Controls	No	No	No	No	No	No	No	No
Director-firm fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Number of director-firm fixed effects	4,009	23,987	9,281	18,731	13,304	14,708	4,613	23,399

The table shows results for estimating equation (1), where the dependent variable is the number of seats held on other public firms' boards. The variable *Intense ESG-related media coverage* equals one if a firm has intense media coverage to ESG issues (*RRI*≥60) in the past three years, and zero otherwise. The benchmark group consist of firm-years with no major ESG issues in the past three years. All columns show results for all directors (executive and nonexecutive) at the focal firm. The sample is split into high vs. low based on the median for the specific country-level time-invariant variable of interest: ">Median" shows results for the sub-sample of firms scoring greater than the median, and "≤Median" shows results for firms scoring lower than or equal to the median. The Employment Laws and the Collective Bargaining indices are from Botero et al. (2004); the Environmental Protection Index (EPI) is by Yale University (https://epi.yale.edu/); the Left or center political orientation is from Botero et al. (2004) (higher values correspond to more rightist governments); the Anti-self dealing index is from Djankov et al. (2008); and the Public Sector Ethics, the Corporate Sector Ethics, and the Corporate Governance indices are from Kaufmann (2004). *t*-statistics are shown in parentheses below reported coefficients and are based on robust standard errors (clustered at the director-firm level). Descriptions for all variables are shown in Appendix Table A.1. Significance levels are indicated with ***, **, *, representing 1%, 5%, and 10% significance levels, respectively.

conscious countries to more readily be disciplined for ESG issues. Our findings are in line with these expectations (columns 5–6): the coefficient for directors of firms located in high-EPI countries (such as the UK, Switzerland, the Nordic countries, and the Netherlands) is negative and significant, while is it negative but not significant for directors of firms in low-EPI countries (US, Portugal, Italy, etc.). This suggests that directors in more environmentally-friendly countries are disciplined more harshly for ESG issues than directors of firms in less environmentally-friendly countries.

In columns 7–8, we divide firms based on the leftist- versus rightist-orientation of the government in a country. The index is from Botero et al. (2004, Table 3), and higher (lower) values represent more rightist- (leftist-) orientation. As we expect more leftist-oriented countries to also care more about stakeholders' interests, we also expect directors in these countries to be more likely to lose seats for ESG issues. Indeed, the results in columns 7–8 support this argument: in countries which score below the median on this index (Austria, Belgium France, Italy, etc.), i.e., the more leftist-oriented, directors lose seats at significant rates following ESG issues. In contrast, in countries which score greater than the median (US, Sweden, etc.), i.e., are more rightist-oriented, directors do not lose seats.

In columns 9–10, we employ the anti-self dealing measure by Djankov et al. (2008), which is a measure of a country's shareholder-orientation. We expect that directors of firms in countries that score low on this measure, i.e., countries that are less shareholder-oriented (more stakeholder-oriented), lose seats following ESG issues. We find that directors of firms in countries which score high on this measure do not lose seats at significant rates following ESG issues, while directors of firms in countries with low scores (less shareholder-oriented) do.

Finally, we employ proxies for the governance (G) norms in a country: the ethical behavior of the public sector, the ethical behavior of the corporate sector, and the overall corporate governance in a country by Kaufmann (2004). Here, higher values correspond to higher ethics (or better corporate governance). Our expectation is that directors in countries with high G norms are more likely to lose seats for ESG issues. Results for dividing the sample by medians based on these three proxies are reported in columns 11–16. As shown in columns 11, 13, and 15, directors of firms in countries with high G norms (e.g., the Nordic countries) lose a significant portion of their seats at other public firms following ESG issues. In contrast, directors of firms in countries with low G norms do not lose seats. Finally, in Appendix Table B.3, we re-estimate all regressions in Table 7 but byincluding also the time-variant control variables and find very similar results for all specifications.

Overall, the results in this section are in line with the argument that director reputation penalties vary by country characteristics. More precisely, directors of firms in more stakeholder-oriented countries (higher ESG norms) are disciplined more harshly for ESG-related corporate misbehavior than directors in less stakeholder-oriented countries.

5.2.2 | Cultural factors

In Table 8, we consider variation in cultural factors across countries, and the effects of such variation on director discipline following ESG issues. To do this, we employ the six variables used by Hofstede et al. (1991). The Individualism variable measures the degree to which a country is oriented toward being individualistic; the Indulgence variable measures the degree to which people in a society value leisure time; Long Term Orientation measures the degree to which a society encourages new ways to prepare for the future; the Uncertainty Avoidance variable measures the degree to which a society aims to protect itself against an uncertain future; the Masculinity variable measures how much a society focuses on competition; and the Power Distance variable measures the degree to which individuals agree with the notion that power is distributed unequally (Hofstede et al., 1991).

Across all columns, we show results for estimating equation (1) when dividing the sample into countries which score high (greater than the median) versus low (lower than or equal to the median) on the six Hofstede cultural dimension variables (Hofstede et al., 1991), respectively. We begin by showing results for the Individualism variable in column 1. We find that directors of firms located in less individualistic countries lose a significant portion of their other seats, but directors of firms in countries that score high on Individualism do not. Similarly, in column 2, we find that directors of firms in countries with low values on Indulgence are disciplined for ESG issues, while directors in countries with

TABLE 8 Cultural values

Dependent variable: *Directorships at other public firms*	(1)	(2)	(3)	(4)	(5)	(6)
	Hofstede Individualism measure		Hofstede Indulgence measure		Hofstede Long-term Orientation measure	
	>Median	≤Median	>Median	≤Median	>Median	≤Median
Intense ESG-related media coverage	−0.012	−0.058***	−0.025	−0.039**	−0.060***	−0.008
	(−0.57)	(−2.64)	(−0.57)	(−2.30)	(−2.65)	(−0.37)
Constant	1.069***	0.974***	1.037***	1.005***	1.013***	1.015***
	(110.03)	(105.03)	(58.75)	(138.43)	(100.57)	(112.95)
Observations	54,285	74,722	20,624	108,313	63,747	65,190
Controls	No	No	No	No	No	No
Director-firm fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Number of director-firm fixed effects	10,366	17,646	4,819	23,177	14,778	13,218

(Continues)

TABLE 8 (Continued)

Dependent variable: *Directorships at other public firms*	(7)	(8)	(9)	(10)	(11)	(12)
	Hofstede Uncertainty Avoidance measure		Hofstede Power Distance measure		Hofstede Masculinity measure	
	>Median	≤Median	>Median	≤Median	>Median	≤Median
Intense ESG-related media coverage	−0.064***	−0.015	−0.054	−0.032*	−0.040	−0.037*
	(−2.53)	(−0.78)	(−1.37)	(−1.85)	(−1.45)	(−1.92)
Constant	0.959***	1.051***	1.05***	1.00***	0.859***	1.084***
	(86.21)	(125.13)	(63.70)	(137.01)	(75.30)	(131.91)
Observations	51,792	77,215	26,162	102,845	41,674	87,333
Controls	No	No	No	No	No	No
Director-firm fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Number of director-firm fixed effects	12,293	15,719	6,402	21,610	9,843	18,169

The table shows results for estimating equation (1), where the dependent variable is the number of seats held on other public firms' boards. The variable *Intense ESG-related media coverage* equals one if a firm has intense media coverage to ESG issues (*RRI*≥60) in the past three years, and zero otherwise. The benchmark group consist of firm-years with "normal" or high levels of ESG risk exposure. All columns show results for focal firm directors. The sample is split into high vs. low based on the median for the specific country-level time-invariant variable of interest: ">Median" shows results for the sub-sample of firms scoring greater than the median, and "≤Median" shows results for firms scoring lower than or equal to the median. Cultural variables are from https://hi.hofstede-insights.com/national-culture (Hofstede et al., 1991). *t*-statistics are shown in parentheses below reported coefficients and are based on robust standard errors (clustered at the director-firm level). Descriptions for all variables are shown in Appendix Table A.1. Significance levels are indicated with ***, **, *, representing 1%, 5%, and 10% significance levels, respectively.

high values for this variable are not. In column 3, we find that directors are disciplined only in countries with a focus on long-term orientation, and in column 4, we find similar results for countries with high Avoidance of uncertainty. Finally, as reported under columns 5 and 6, the emphasis a country places on masculinity and power distance, respectively, does not appear to be significantly related to the degree to which directors are disciplined for ESG issues.

5.2.3 | Bank-based versus market-based systems

Finally, we study whether the role of banks versus markets in allocating resources in an economy affects the degree to which directors are disciplined for stakeholder issues. In market-based economies, capital is allocated primarily by investors in financial markets, whereas in bank-based economies capital is foremostly allocated by banks (Beck & Levine, 2002; Levine, 2002). More specifically, in bank-based economies banks tend to form long relationships with the firms they allocate capital to (Levine, 2002), thus serving the role as an important stakeholder in the firm. In contrast, in more market-based economies firms tend to have transient investors and a stronger focus on protecting shareholders' rights (Demirgüç-Kunt & Levine, 2001). Hence, we expect directors of firms in more bank-oriented economies to be more likely to lose seats following ESG issues than directors of firms in more market-based economics.

We use the Structure-Aggregate measure in Beck and Levine (2002) to divide countries into bank- versus market-based economies. Countries which score greater than the median on this index are considered "market-based", while countries which score lower or equal to the median are considered "bank-based".

In Panel A of Table 9, we show results for contrasting market-based (US, UK, among others) to bank-based economies (Germany, Denmark, Spain, France, Italy, Portugal, among others). We find that directors in market-based economies do not lose seats at significant rates following ESG issues (under columns 1–3). In contrast, as depicted in columns 4–6, directors of firms in bank-based economies lose a significant portion of their other seats.

In Panel B, we employ four proxies for the banking environment in a country: the percentage of bank ownership by foreign investors; the percentage of bank ownership by the government, the capital stringency in a country; and the official supervisory power index (how much power supervisory authorities have in overseeing and regulating banks), respectively. All proxies are attained from Barth et al. (2013). As shown in column 2, in countries with a lower percentage of foreign bank ownership (higher domestic ownership), directors lose a significant portion of their seats following ESG issues. Furthermore, in countries with a higher percentage of government ownership in banks, directors also lose a significant portion of their seats. Finally, directors of firms in countries with low capital stringency and low official supervisory power, respectively, lose seats following ESG issues.

Overall, these results are again in line with the argument that in countries which put a higher emphasis on protecting stakeholders' welfare (here proxied for using bank-based economies), directors are more readily disciplined for ESG issues.

5.3 | Additional analysis

5.3.1 | Seats at private firms' boards

In Appendix Tables B.4, we re-estimate the results in Table 2 using as dependent variable the seats at private firms' boards. As shown in Panel A (director-firm and year fixed effects included) and Panel B (also controls included), directors do not lose a significant portion of their seats held on private firms' boards (measured at conventional significant levels). A potential explanation for this finding is that large public firms place a greater value on their reputation compared to smaller private firms and could therefore be more reluctant to elect a director with a tarnished reputation to their board. In contrast, smaller private firms may be willing to elect a prestigious and experienced director of a large public company to serve on their board even in the case when one of the director's firms has intense negative media attention to ESG issues.

TABLE 9 Bank-based versus market-based economies

PANEL A: Market-based versus bank-based economics						
Dependent variable: ***Directorships at other public firms***	**(1)**	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**
	Market-based economies			**Bank-based economies**		
Intense ESG-related media coverage	−0.017	−0.076*	−0.006	−0.066***	−0.096**	−0.051*
	(−0.83)	(−1.74)	(−0.26)	(−2.75)	(−1.96)	(−1.89)
Constant	1.052***	0.394***	1.175***	0.966***	0.566***	1.063***
	(119.43)	(28.19)	(115.65)	(85.75)	(27.67)	(82.29)
Observations	68,931	10,719	58,212	50,090	9,137	40,953
Controls	No	No	No	No	No	No
Director-firm and year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Number of director-firm fixed effects	13,778	2,340	11,712	11,873	2,178	9,909

(Continues)

TABLE 9 (Continued)

PANEL B: Country-level banking variables								
Dependent variable: ***Directorships at other public firms***	**(1)**	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**
	Foreign owned banks (%)		**Government owned banks (%)**		**Capital stringency**		**Official supervisory power**	
	>Median	**≤Median**	**>Median**	**≤Median**	**>Median**	**≤Median**	**>Median**	**≤Median**
Intense ESG-related media coverage	−0.039	−0.052**	−0.066***	−0.012	−0.012	−0.061***	−0.015	−0.062**
	(−0.44)	(−2.22)	(−2.78)	(−0.55)	(−0.53)	(−2.67)	(−0.69)	(−2.41)
Constant	0.821***	0.962***	0.943***	1.051***	1.060***	0.961***	1.036***	0.966***
	(36.60)	(89.52)	(92.86)	(114.74)	(111.24)	(96.82)	(113.69)	(78.75)
Observations	13,548	53,869	60,601	64,062	56,805	65,479	61,435	43,999
Controls	No	No	No	No	No	No	No	No
Director-firm and year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Number of director-firm fixed effects	3,433	12,479	14,322	12,674	10,942	15,485	12,225	10,191

The table shows results for estimating equation (1), where the dependent variable is the number of seats held on other public firms' boards. The variable *Intense ESG-related media coverage* equals one if a firm has intense media coverage to ESG issues (*RRI*≥60) in the past three years, and zero otherwise. The benchmark group consist of firm-years with no major ESG issues in the past three years. All columns show results for all focal firm directors. The sample is split into high vs. low based on the median for the specific country-level time-invariant variable of interest: ">Median" shows results for the sub-sample of firms scoring greater than the median, and "≤Median" shows results for firms scoring lower than or equal to the median. Market- versus bank-based economies are as in Beck & Levine (2002), and banking-related variables are from Barth et al. (2013). *t*-statistics are shown in parentheses below reported coefficients and are based on robust standard errors (clustered at the director-firm level). Descriptions for all variables are shown in Appendix Table A.1. Significance levels are indicated with ***, **, *, representing 1%, 5%, and 10% significance levels, respectively.

In Appendix Table B.5, we re-estimate equation (1) separately for US versus European firms but change the dependent variable to the number of seats held on private firms' boards. Results are very similar to those reported in Appendix Table B.4: directors do not seem to lose seats at private firms' boards following ESG issues.

5.3.2 | High risk exposure

In a final set of robustness tests, we re-estimate equation (1) (untabulated) and include an indicator for high risk exposure (50≤RRI≤59). Including this indicator does not change inference: the coefficient for *Intense ESG-related media coverage* enters negatively and significantly, while it is negative but not significant for the high risk exposure indicator. This indicates that the relationship between RRI and director career prospects is non-linear, that is, only more severe ESG issues have a negative impact on the career prospects of directors. Results are similar when we partition the sample into US versus European firms: only EDs of European firms lose seats following intense negative media coverage (but not following high risk exposure) to ESG issues.

6 | CONCLUSIONS

This paper investigates whether the career prospects of directors are adversely affected by environmental, social, and governance (ESG) controversies. A theoretical motivation (Fama & Jensen, 1983; Levit & Malenko, 2016) for such an effect is that if corporate misbehavior affecting stakeholders signals a breakdown in the monitoring, advising, or managing effectiveness of directors, this could negatively impact directors' attractiveness as board members in the director labor market. Prior literature documents that directors lose seats at other firms' boards following costly economic misconduct such as financial fraud, bankruptcy, and class action lawsuits (Ertimur et al., 2012; Fich & Shivdasani, 2007; Gilson, 1990), as well as following proxy contests (Fos & Tsoutsoura, 2014). Whereas prior literature mainly focuses on studying director reputation following corporate misconduct that harms shareholders, it has largely ignored studying the effects on director reputation of corporate misbehavior harmful to stakeholders. Our paper aims to fill this gap in the literature by investigating how ESG issues affect directors' career prospects. Additionally, while Lel and Miller (2019) report that shareholder-unfriendly actions hurt the reputations of directors only in the more shareholder-oriented common-law countries, we investigate whether reputational penalties to directors following ESG issues vary by the stakeholder-friendliness of a firm's home country.

We identify stakeholder issues using RepRisk, which screens the media for ESG-related negative news and quantifies the impact, reach, and severity of these issues into their Reputational Risk Index (RRI). Our large international sample comprises 129,543 directors of S&P 500 and Stoxx Europe 600 firms. Employing panel-data regressions with director-firm and year fixed effects, i.e., tracking the same director within the same firm over time, we document that directors lose a significant portion of their seats at other public firms when a director's focal firm has been exposed to intense media attention to ESG issues at any time during the past three years. These losses are concentrated among executive directors. In contrast, we find little evidence that nonexecutive directors are disciplined. This suggests that it is mostly the advising and managing directors (Adams & Ferreira, 2007), and not the monitoring directors, who lose seats following ESG controversies. In addition, losses are more severe for directors of firms with repeated issues. The results are robust to using alternative estimation methods such as a Poisson panel data model and an OLS firm fixed effects model, and to including important time-variant control variables.

Furthermore, we document significant cross-country variation in director penalties: directors are disciplined only in the more stakeholder-oriented European countries (many of which use the civil-law legal origin system), and not in the US (a common-law country). These results are consistent with Lel and Miller (2019) who document that directors lose more seats following shareholder-unfriendly actions in shareholder-oriented countries than in stakeholder-oriented countries, and with Liang and Renneboog (2017) who find that firms in civil-law countries invest more in their stakeholder relations than do firms in common-law countries.

This paper contributes to recent literature examining corporate governance and the director labor market (Ertimur et al., 2012; Fich & Shivdasani, 2007; Gilson, 1990; Lel & Miller, 2019; Levit & Malenko, 2016; Srinivasan, 2005) by documenting that negative stakeholder-related issues can have an adverse effect on career prospects and that such reputational penalties vary by the type of director and by the stakeholder-friendliness and social norms of a firm's home country.

ACKNOWLEDGEMENTS

* This paper previously circulated under the title "Corporate Social Responsibility and Director Reputation". The authors thank Niklas Ahlgren, Rüdiger Fahlenbrach, Eliezer Fich, Mikko Leppämäki, Eva Liljeblom, Thomas Noe, Charlotte Østergaard, Luc Renneboog, Konrad Raff, Lisa Schopohl, Sami Torstila, Sami Vähämaa, Kam-Ming Wan, Yaoyi Xi, and Bünyamin Önal as well as seminar participants at the 2018 FMA Annual Meeting in San Diego, the 2018 Nordic Finance Network (NFN) workshop in Lund, the 2017 FMA Annual Meeting in Boston, the 2017 GSF Seminar in Helsinki, and the 2018 and 2017 November Brown Bag seminars at Hanken for valuable comments that helped improve the paper. Niclas Meyer also thanks OP Group Research Foundation (grant nr. 201600098 and 20170020), the Foundation for Economic Education (170257, 190260, and 190261), the Hanken Support Foundation (197-4992), Society of Swedish Literature in Finland (2078), and the Foundation of Jakob Palmstierna (SIFR, Institute for Financial Research, Stockholm) (1) for financial support for his doctoral dissertation (this paper is part of the dissertation). All remaining errors are of course our own.

NOTES

[1] In our sample consisting of directors of large US and European public firms, the average total compensation for a director is 338,144 dollars (median is 101,000 dollars).

[2] Adams and Ferreira (2007) note that in many civil-law countries, companies are required to have a dual board structure with stakeholders serving on the so-called supervisory board. Additionally, the authors point out that even in more shareholder-oriented countries such as the US, many states allow directors to legally go beyond their fiduciary duty to consider the impact of their decisions on stakeholders. This suggests that the interest of the shareholders and boards may not always be aligned.

[3] In total, the directors of Volkswagen held 38 seats at other public firm's boards one year prior to the emission scandal (the annual report date in BoardEx for Volkswagen for year 2014 is December 1st). At the end of year 2017 (annual report date is December 1st), the same directors held only 16 other directorships. This represents a loss of roughly 58% in other seats over the three-year period.

[4] https://www.nytimes.com/2021/05/26/business/exxon-mobil-climate-change.html

[5] Adams and Ferreira (2007) point out that in firms located in countries with a single board system (such as the in the US) the two roles are intertwined, but in countries with dual board systems (such as Germany) these roles are separated more clearly by dividing the board into a management board and supervisory board (monitoring roles). We use the variable ned in BoardEx to distinguish between executive and nonexecutive directors. In BoardEx, the roles of executive directors (EDs) include "CEO", "President", "CFO", "Chairman", "CIO", "COO", "Chief Sustainability Officer", "Director-Labour", "Group CEO". The roles of nonexecutive directors (NEDs) include "Independent Director", "Chairman (Nonexecutive)", and "Director-Supervisory Director".

[6] Adams and Ferreira (2007) point out that in firms located in countries where with sole board systems (such as the in the US) the two roles are intertwined, but in countries with dual board systems (such as Germany) these roles are separated more clearly by dividing the board into a management board and supervisory board (monitoring roles). We use the variable ned in BoardEx to distinguish between executive and nonexecutive directors. In BoardEx, the roles of executive directors (EDs) include "CEO", "President", "CFO", "Chairman", "CIO", "COO", "Chief Sustainability Officer", "Director-Labour", "Group CEO", among others. The roles of nonexecutive directors (NEDs) include e.g., "Independent Director", "Chairman (Nonexecutive)", and "Director-Supervisory Director".

[7] The number of director-firm year observations with intense negative media attention in Finland is very small ($n = 31$), which makes inference problematic.

[8] We are forced to work with subsamples instead of interaction terms as the director-firm fixed effects already capture the time-invariant information on legal origin.

[9] https://epi.yale.edu/

REFERENCES

Adams, R. B. (2017). *Boards, and the Directors Who Sit on Them*, *1*, 291–382. https://doi.org/10.1016/BS.HECG.2017.11.007

Adams, R. B., & Ferreira, D. (2007). A theory of friendly boards. *The Journal of Finance*, *62*(1), 217–250. https://doi.org/10.1111/j.1540-6261.2007.01206.x

Adams, R. B., Licht, A. N., & Sagiv, L. (2011). Shareholders and stakeholders: How do directors decide? *Strategic Management Journal*, *32*(12), 1331–1355. https://doi.org/10.1002/SMJ.940

Baier, P., Berninger, M., & Kiesel, F. (2020). Environmental, social and governance reporting in annual reports: A textual analysis. *Financial Markets, Institutions & Instruments*, *29*(3), 93–118. https://doi.org/10.1111/FMII.12132

Barth, J. R., Caprio, G., & Levine, R. (2013). Bank regulation and supervision in 180 countries from 1999 to 2011. *Journal of Financial Economic Policy*, *5*(2), 111–219. https://doi.org/10.1108/17576381311329661

Beck, T., & Levine, R. (2002). Industry growth and capital allocation: Does having a market- or bank-based system matter? *Journal of Financial Economics*, *64*(2), 147–180. https://doi.org/10.1016/S0304-405X(02)00074-0

Bénabou, R., & Tirole, J. (2010). Individual and corporate social responsibility. *Economica*, *77*(305), 1–19. https://doi.org/10.1111/j.1468-0335.2009.00843.x

Berg, F., Fabisik, K., & Sautner, Z. (2021). Is history repeating itself? The (un)predictable past of ESG ratings. In *SSRN Electronic Journal*. Elsevier BV. https://doi.org/10.2139/SSRN.3722087

Berg, F., Koelbel, J., & Rigobon, R. (2022). Aggregate confusion: The divergence of ESG ratings. Review of Finance rfac033 In *Working Paper* (Massachusetts Institute of Technology). Elsevier https://doi.org/10.1093/rof/rfac033

Botero, J. C., Djankov, S., Porta, R. L., Lopez-de-Silanes, F., & Shleifer, A. (2004). The regulation of labor. *The Quarterly Journal of Economics*, *119*(4), 1339–1382. https://doi.org/10.1162/0033553042476215

Brochet, F., & Srinivasan, S. (2014). Accountability of independent directors: Evidence from firms subject to securities litigation. *Journal of Financial Economics*, *111*(2), 430–449. https://doi.org/10.1016/J.JFINECO.2013.10.013

Cai, X., Gao, N., Garrett, I., & Xu, Y. (2020). Are CEOs judged on their companies' social reputation? *Journal of Corporate Finance*, *64*, https://doi.org/10.1016/j.jcorpfin.2020.101621

Cai, Y., Pan, C. H., & Statman, M. (2016). Why do countries matter so much in corporate social performance? *Journal of Corporate Finance*, *41*, 591–609. https://doi.org/10.1016/j.jcorpfin.2016.09.004

Cheng, I.-H., Hong, H., & Shue, K. (2013). *Do managers do good with other people's money?* https://doi.org/10.3386/w19432

Demirgüç-Kunt, A., & Levine, R. (2001). *Bank-based and market-based financial systems: a cross-country comparison*. Financial Structure and Economic Growth. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=569255

Deng, X., Kang, J., & Low, B. S. (2013). Corporate social responsibility and stakeholder value maximization: Evidence from mergers. *Journal of Financial Economics*, *110*(1), 87–109. https://doi.org/10.1016/j.jfineco.2013.04.014

Djankov, S., La Porta, R., Lopez-de-Silanes, F., & Shleifer, A. (2008). The law and economics of self-dealing. *Journal of Financial Economics*, *88*(3), 430–465. https://doi.org/10.1016/j.jfineco.2007.02.007

Dyck, I. J. A., Lins, K. V., Roth, L., & Wagner, H. F. (2019). Do institutional investors drive corporate social responsibility? International evidence. *Journal of Financial Economics*, *131*(3), 693–714. https://doi.org/10.1016/j.jfineco.2018.08.013

Edmans, A. (2011). Does the stock market fully value intangibles? Employee satisfaction and equity prices. *Journal of Financial Economics*, *101*(3), 621–640. https://doi.org/10.1016/j.jfineco.2011.03.021

Ertimur, Y., Ferri, F., & Maber, D. A. (2012). Reputation penalties for poor monitoring of executive pay: Evidence from option backdating. *Journal of Financial Economics*, *104*(1), 118–144. https://doi.org/10.1016/J.JFINECO.2011.12.004

Fahlenbrach, R., Low, A., & Stulz, R. M. (2017). Do independent director departures predict future bad events? *The Review of Financial Studies*, *30*(7), 2313–2358. https://doi.org/10.1093/RFS/HHX009

Fama, E. F., & Jensen, M. C. (1983). Separation of ownership and control. *Journal of Law and Economics*, *26*(2), 301–325.

Ferreira, D., & Kirchmaier, T. (2013). *Corporate boards in Europe: Size, independence and gender diversity* (M. Belcredi & G. Ferrarini (eds.)). Cambridge University Press.

Fich, E. M., & Shivdasani, A. (2007). Financial fraud, director reputation, and shareholder wealth. *Journal of Financial Economics*, *86*(2), 306–336. https://doi.org/10.1016/j.jfineco.2006.05.012

Flammer, C. (2015). Does corporate social responsibility lead to superior financial performance? A Regression discontinuity approach., *61*(11), 2549–2568. https://doi.org/10.1287/MNSC.2014.2038

Fos, V., & Tsoutsoura, M. (2014). Shareholder democracy in play: Career consequences of proxy contests. *Journal of Financial Economics*, *114*(2), 316–340. https://doi.org/10.1016/J.JFINECO.2014.07.009

Francis, B., Hasan, I., & Wu, Q. (2015). Professors in the Boardroom and Their Impact on Corporate Governance and Firm Performance. *Financial Management*, *44*(3), 547–581. https://doi.org/10.1111/FIMA.12069

Friedman, M. (1970). (September 13) A Friedman doctrine-The social responsibility of business is to increase its profits. *The New York Times*, 17-undefined.

Gilson, S. C. (1990). Bankruptcy, boards, banks, and blockholders: Evidence on changes in corporate ownership and control when firms default. *Journal of Financial Economics*, *27*(2), 355–387. https://doi.org/10.1016/0304-405X(90)90060-D

Helland, E. (2006). Reputational penalties and the merits of class-action securities litigation*. *The Journal of Law and Economics*, *49*(2), 365–395. https://doi.org/10.1086/505371

Hofstede, G., Hofstede, J. G., & Minkov, M. (1991). *Culture and organizations: Software of the mind*. The McGraw Hill Companies.

Karpoff, J. M., Lee, S. D., & Martin, G. S. (2008). The consequences to managers for financial misrepresentation. *Journal of Financial Economics*, *88*(2), 193–215. https://doi.org/10.1016/j.jfineco.2007.06.003

Kaufmann, D. (2004). Corruption, governance and security: Challenges for the rich countries and the world. In *Working Paper* (Natural Resource Governance Institute). https://doi.org/10.2139/ssrn.605801

Kiesel, F., & Lücke, F. (2019). ESG in credit ratings and the impact on financial markets. *Financial Markets, Institutions & Instruments*, *28*(3), 263–290. https://doi.org/10.1111/FMII.12114

Krüger, P. (2015). Corporate goodness and shareholder wealth. *Journal of Financial Economics*, *115*(2), 304–329. https://doi.org/10.1016/j.jfineco.2014.09.008

La Porta, R., Lopez-de-Silanes, F., & Shleifer, A. (2008). The economic consequences of legal origins. *Journal of Economic Literature*, *46*(2), 285–332. https://doi.org/10.1257/jel.46.2.285

La Porta, R., Lopez-de-Silanes, F., Shleifer, A., & Vishny, R. (2000). Investor protection and corporate governance. *Journal of Financial Economics*, *58*(1–2), 3–27. https://doi.org/10.1016/S0304-405X(00)00065-9

La Porta, R., Lopez-de-Silanes, F., Shleifer, A., & Vishny, R. W. (1998). Law and finance. *Journal of Political Economy*, *106*(6), 1113–1155. https://doi.org/10.1086/250042

Lel, U., & Miller, D. (2019). The labor market for directors and externalities in corporate governance: Evidence from the international labor market. *Journal of Accounting and Economics*, *68*(1), 101222. https://doi.org/10.1016/J.JACCECO.2018.12.001

Levine, R. (2002). Bank-based or market-based financial systems: Which is better? *Journal of Financial Intermediation*, *11*(4), 398–428. https://doi.org/10.1006/JFIN.2002.0341

Levit, D., & Malenko, N. (2016). The labor market for directors and externalities in corporate governance. *The Journal of Finance*, *71*(2), 775–802. https://doi.org/10.1111/jofi.12287

Liang, H., & Renneboog, L. (2017). On the foundations of corporate social responsibility. *The Journal of Finance*, *72*(2), 853–910. https://doi.org/10.1111/jofi.12487

Lins, K. V., Servaes, H., & Tamayo, A. (2017). Social capital, trust, and firm performance: The value of corporate social responsibility during the financial crisis. *The Journal of Finance*, *72*(4), 1785–1824. https://doi.org/10.1111/jofi.12505

Macintosh, J. C. C. (1999). The issues, effects and consequences of the Berle–Dodd debate, 1931–1932. *Accounting, Organizations and Society*, *24*(2), 139–153. https://doi.org/10.1016/S0361-3682(97)00055-X

Masulis, R. W., & Mobbs, S. (2014). Independent director incentives: Where do talented directors spend their limited time and energy? *Journal of Financial Economics*, *111*(2), 406–429. https://doi.org/10.1016/J.JFINECO.2013.10.011

Masulis, R. W., & Reza, S. W. (2015). Agency problems of corporate philanthropy. *Review of Financial Studies*, *28*(2), 592–636. https://doi.org/10.1093/rfs/hhu082

Petersen, M. A. (2009). Estimating standard errors in finance panel data sets: Comparing approaches. *Review of Financial Studies*, *22*(1), 435–480. https://doi.org/10.1093/rfs/hhn053

Srinivasan, S. (2005). Consequences of financial reporting failure for outside directors: Evidence from accounting restatements and audit committee members. *Journal of Accounting Research*, *43*(2), 291–334. https://doi.org/10.1111/J.1475-679X.2005.00172.X

Tirole, J. (2001). Corporate governance. *Econometrica*, *69*(1), 1–35.

AUTHOR BIOGRAPHIES

Professor of Accounting and Finance Gonul Colak, University of Sussex Business School, 9SL, Jubilee Building, Falmer, Brighton, UK BN1 9RH Professor of Finance Gonul Colak, Department of Finance and Economics, Hanken School of Economics, Arkadiankatu 22, 00101 Helsinki, Finland E-mail: G.Colak@sussex.ac.uk; gonul.colak@hanken.fi Personal webpage: https://gonulcolak.org/ SSRN page: https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=329865

Emeritus Professor Kent Hickman, Gonzaga University, Spokane WA 99258, US E-mail: hickman@gonzaga.edu SSRN page: https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=566245

Dean and Professor of Finance Timo Korkeamäki, Aalto University School of Business, 02150 Espoo, Finland E-mail: timo.korkeamaki@aalto.fi SSRN page: https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=4422661

Assistant Professor Niclas Meyer, Department of Finance and Economics, Hanken School of Economics, Arkadiankatu 22, 00101 Helsinki, Finland Email: niclas.meyer@hanken.fi SSRN page: https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=3572245

How to cite this article: Colak, G., Hickman, K., Korkeamäki, T., & Meyer, N. O. (2022). ESG Issues and Career Prospects of Directors: Evidence from the International Director Labor Market. *Financial Markets, Institutions & Instruments*, *31*, 147–203. https://doi.org/10.1111/fmii.12168

APPENDIX A

TABLE A.1 Description of variables

Variable Name	Variable Description	Source
REPRISK VARIABLES:		
Reputational Risk Index (RRI)	The current Reputational Risk Exposure of firm *i* in month *m* of year *t*. The variable shows a firm's risk exposure to stakeholder (ESG) issues, with values ranging from -1-100. A value of -1 indicates that the firm has no risk incidents, a value between 0 and 24 indicates low level of risk exposure, between 25 and 49 medium level, 50 and 59 high level, 60 and 74 very high level, and over 75 indicates extremely high risk exposure.	RepRisk
Intense ESG-related media attention (= 1)	An indicator for whether the RRI is greater than or equal to 60 (i.e., very high or extremely high risk exposure), and zero otherwise.	RepRisk
Normal ESG-related media coverage (= 1)	An indicator for whether the RRI is lower than 60, and zero otherwise.	RepRisk
DIRECTOR VARIABLES		
Directorships at other public firms	The total number of directorships director *i* holds at other listed firms' boards at the annual reporting date (month *m*) in year *t*. We calculate this by subtracting the total number of listed boards (as reported in BoardEx) minus one (the focal firm's board seat).	BoardEx

(Continues)

TABLE A.1 (Continued)

Variable Name	Variable Description	Source
Directorships at private firms	The total number of directorships director *i* holds at private firms' boards at the annual reporting date (month *m*) in year *t*.	BoardEx
Close to retirement (= 1)	An indicator variable that equals 1 if a director is close to retirement (aged 70 years or more) in year *t*, and 0 otherwise.	BoardEx
Time on board	The time (in years) a director has served on the focal firm's board.	BoardEx
Executive director (= 1)	An indicator variable for executive directors (EDs). We use the variable "ned" in BoardEx.	BoardEx
Nonexecutive director (= 1)	An indicator variable for nonexecutive directors (NEDs). We use the variable "ned" in BoardEx.	BoardEx
FIRM-SPECIFIC VARIABLES		
ROA	Return on assets defined as the operating income before depreciation (OIBDP) divided by the average of total assets (AT) in years 2010 through 2018.	Compustat
Ln(Sales)	The natural logarithm of sales (SALE) in US dollars.	Compustat
Ln(Total assets)	The natural logarithm of total assets (AT) in US dollars.	Compustat
Past two years market-adjusted stock returns	The market-adjusted monthly total stock return over the past two years (months -24 through -1 relative to a director-firm-year observation entering the panel sample in month *m* of year *t*). For Stoxx 600 firms, the returns are calculated using the formula ln((PRCCD(/AJEXDI)*TRFD[End of month])/((PRCCD/AJEXDI)*TRFD)[End of previous month] (data is from COMPUSTAT). For S&P 500 firms, the returns are the variable "ret" in the CRSP database. Returns are calculated as $[(1+r_{-24})(1+r_{-23})\ldots(1+r-1)-1]$.	Compustat and CRSP
COUNTRY-SPECIFIC VARIABLES		
Legal origin	The legal origin of a country — either common-law versus civil-law, or the type of legal origin (English common-law, French civil-law, German civil-law, or Scandinavian civil-law). The information is gathered from Appendix B in Liang and Renneboog (2017) and is based on La Porta et al. (2008).	(Djankov et al., 2008; Liang & Renneboog, 2017)
Anti-self-dealing index	The anti-self-dealing index. Higher values correspond to higher investor (shareholder) protection in a country.	(Djankov et al., 2008)

(Continues)

TABLE A.1 (Continued)

Variable Name	Variable Description	Source
Employment Laws index	A measure of the protection of employees' rights. Higher values represent more protection (higher stakeholder-orientation).	(Botero et al., 2004)
Collective Bargaining index	A measure of the degree of collective bargaining and protection of employees in a country. Higher values represent more protection (higher stakeholder-orientation).	(Botero et al., 2004)
Environmental Protection index (EPI)	The Environmental Protection Index by Yale University (https://epi.yale.edu/). Measures the overall focus on environmental issues in a country. Higher values represent a higher focus on environmental issues (higher stakeholder-orientation). Data is from Dyck et al. (2019) Table 5.	(Dyck et al., 2019)
Left or center political orientation	The extent to which a country is leftist or rightist politically oriented. Higher values proxy for more right-leaning governments (more capitalistic/shareholder-oriented).	(Botero et al., 2004)
Public Sector Ethics index	Measure of the ethics of the public sector. Higher values represent higher ethics (higher stakeholder-orientation).	(Kaufmann, 2004)
Corporate Sector Ethics index	A measure of the ethics of the corporate sector. Higher values represent higher ethics (higher stakeholder-orientation).	(Kaufmann, 2004)
Corporate Governance index	Measure of the extent to which corporations protect minority shareholders, train employees, delegate authority, and reduce nepotism. Higher values represent higher corporate governance.	(Kaufmann, 2004)
Power Distance	"The extent to which the less powerful members of institutions and organisations within a country expect and accept that power is distributed unequally" (Hofstede, https://www.hofstede-insights.com). Higher values indicate that power is more centralized and that control is disliked.	(Hofstede et al., 1991)
Individualism	"The degree of interdependence a society maintains among its members" (Hofstede, https://www.hofstede-insights.com). Higher values correspond to societies that rely more on individualism, where contracts are based on mutual advantage, and hiring and promotion are based mostly on merits.	(Hofstede et al., 1991)

(Continues)

TABLE A.1 (Continued)

Variable Name	Variable Description	Source
Masculinity	"A high score (more masculine) indicates that the society will be driven by competition, achievement and success, with success being defined by the winner/best in field – a value system that starts in school and continues throughout organizational life" (Hofstede, https://www.hofstede-insights.com). Higher values correspond to societies which value competition, while lower values correspond to societies in which people place more emphasis on doing what they like to do.	(Hofstede et al., 1991)
Uncertainty Avoidance	"The extent to which the members of a culture feel threatened by ambiguous or unknown situations and have created beliefs and institutions that try to avoid these" (Hofstede, https://www.hofstede-insights.com). Higher values stand for societies in which rules are favored, people like to work and feel busy, and precision and punctuality are important.	(Hofstede et al., 1991)
Long Term Orientation	"The extent to which the members of a culture feel threatened by ambiguous or unknown situations and have created beliefs and institutions that try to avoid these" (Hofstede, https://www.hofstede-insights.com)". Societies with low values represent societies that value traditions and norms and why away from societal change.	(Hofstede et al., 1991)
Indulgence	"The extent to which people try to control their desires and impulses" (Hofstede, https://www.hofstede-insights.com)". Societies with high values try to enjoy life more and act more on impulses.	(Hofstede et al., 1991)
Economic Freedom index	The Economic Freedom Index shows the degree of freedom of a country's economy. Higher values correspond to freer economies.	www.heritage.org
Control of Corruption	The level of corruption in a country. Higher values stand for higher control of corruption.	World Bank (World Governance Indicators)
Regulatory Quality	The regulatory quality in a country. Higher values stand for higher regulatory quality.	World Bank (World Governance Indicators)

(Continues)

TABLE A.1 (Continued)

Variable Name	Variable Description	Source
Ln(GDP per capita)	The GDP per capita in a country (in US dollars)	World Bank
Globalization index	The Globalization index by ETH Zürich KOF Swiss Economic Institute. Higher values represent more globalized economies.	ETH Zürich KOF Swiss Economic Institute
Bank-based versus market-based economies (Structure-Aggregated)	Principal component of the variables Structure-Activity (ln(Total value traded/Commercial bank claims on the private sector)) and Structure-Size (ln(Market capitalization/Commercial bank claims on the private sector)). See Beck and Levine (2002) for a more detailed description.	(Beck & Levine, 2002)
Foreign owned banks (%)	The percentage of bank ownership by foreign investors.	(Barth et al., 2013)
Government owned banks (%)	The percentage of bank ownership by governments.	(Barth et al., 2013)
Capital stringency	Overall capital stringency in a country.	(Barth et al., 2013)
Official supervisory power	The official supervisory power index by Barth et al. (2013).	(Barth et al., 2013)

Appendix Table A.1 shows the names and descriptions for the variables used in this paper, as well as the sources.

TABLE A.2 Stakeholder issues and ESG categories, as used by RepRisk

ENVIRONMENTAL	SOCIAL		GOVERNANCE
ENVIRONMENTAL	**COMMUNITY**	**EMPLOYEE RELATIONS**	**CORPORATE GOVERNANCE**
Global pollution	Human rights abuses	Forced labor	Corruption, bribery
Local pollution	Corporate complicity	Child labor	Extortion, money laundering
Impacts on ecosystems/landscapes	Local participation issues	Freedom of association	Executive compensation issues
Overuse/wasting of resources	Social discrimination	Collective bargaining issues	Misleading communication
Waste issues		Discrimination in employment	Fraud
Animal mistreatment		Health and safety issues	Tax evasion
		Poor employment issues	Tax optimization
			Anti-competitive practices
CROSS-CUTTING ISSUES			
Controversial products and services Products (health and environmental issues) Violation of national standards Violation of international standards Supply chain issues			

The table shows the different topics for the ESG categories (Environmental, Social, and Governance). The source is RepRisk's homepage: https://www.reprisk.com/our-approach#process.

APPENDIX B

TABLE B.1 Panel data regressions: By year

PANEL A: Panel data regressions with director-firm and year fixed effects						
	(1)	(2)	(3)	(4)	(5)	(6)
Dependent variable:*Directorships at other public firms*	**All directors**	**EDs**	**NEDs**	**All directors**	**EDs**	**NEDs**
Intense ESG-related media attention in prior year	−0.010	−0.079***	0.003	−0.009	−0.064**	0.001
	(−0.77)	(−2.91)	(0.22)	(−0.71)	(−2.22)	(0.09)
Intense ESG-related media attention two years ago	−0.025*	−0.036	−0.021	−0.017	−0.010	−0.017
	(−1.90)	(−1.45)	(−1.47)	(−1.31)	(−0.38)	(−1.14)
Intense ESG-related media attention three years ago	−0.040***	−0.068***	−0.032**	−0.035**	−0.026	−0.033**
	(−2.82)	(−2.61)	(−1.97)	(−2.50)	(−0.90)	(−2.10)
Intense ESG-related media attention four years ago				−0.049***	−0.064**	−0.040***
				(−3.58)	(−2.56)	(−2.61)
Intense ESG-related media attention five years ago				−0.024	−0.014	−0.022
				(−1.60)	(−0.48)	(−1.36)
Constant	1.012***	0.465***	1.124***	0.970***	0.453***	1.072***
	(150.68)	(40.93)	(145.29)	(163.58)	(43.80)	(157.68)
Observations	129,543	21,477	108,066	100,654	16,396	84,258
Controls	No	No	No	No	No	No
Director-firm and year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Number of director-firm fixed effects	28,113	4,948	23,719	24,932	4,274	21,077
R-squared	0.880	0.887	0.880	0.894	0.900	0.893

(Continues)

TABLE B.1 (Continued)

PANEL B: Controls included						
Dependent variable:*Directorships at other public firms*	**(1) All directors**	**(2) EDs**	**(3) NEDs**	**(4) All directors**	**(5) EDs**	**(6) NEDs**
Intense ESG-related media attention in prior year	−0.007	−0.076***	0.008	−0.009	−0.076***	0.005
	(−0.51)	(−2.81)	(0.55)	(−0.71)	(−2.70)	(0.33)
Intense ESG-related media attention two years ago	−0.021	−0.040	−0.016	−0.017	−0.022	−0.015
	(−1.54)	(−1.59)	(−1.04)	(−1.28)	(−0.81)	(−0.97)
Intense ESG-related media attention three years ago	−0.041***	−0.057**	−0.035**	−0.035**	0.003	−0.037**
	(−2.77)	(−2.09)	(−2.09)	(−2.37)	(0.10)	(−2.23)
Intense ESG-related media attention four years ago				−0.051***	−0.061**	−0.045***
				(−3.59)	(−2.36)	(−2.78)
Intense ESG-related media attention five years ago				−0.027*	−0.016	−0.028
				(−1.75)	(−0.58)	(−1.61)
Constant	0.564	−4.393**	0.724	−0.525	−5.222***	0.097
	(0.54)	(−2.43)	(0.61)	(−0.52)	(−2.77)	(0.09)
Observations	110,864	18,334	92,530	86,021	13,965	72,056
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Director-firm and year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Number of director-firm fixed effects	24,420	4,252	20,641	21,673	3,674	18,359
R-squared	0.879	0.888	0.878	0.894	0.898	0.893

The table shows results for panel data regressions where the dependent variable is the number of seats held on other public firms' boards. The main independent variables are indicators for whether a director's firm has intense media coverage to ESG issues in the monthly intervals [-12m, 0m], [-24m, -13m], and [-36m, -25m] relative to a director-firm-year observation in year *t*. Columns 4–6 include also indicators for intense media coverage to ESG issues in the intervals [-48m, -37m] and [-60m, -49m]. The benchmark group consist of firm-years with no ESG violations in the past three (columns 1–3), or past five years (columns 4–6). Results for all focal firm directors are shown in Columns 1 and 4, for executive directors (EDs) in Columns 2 and 5, and for nonexecutive directors (NEDs) in Columns 3 and 6. Panel A includes directors-firm fixed effects and year fixed effects, while Panel B includes all fixed effects as well as controls (same as in Table 2 but not reported to save space). *t*-statistics are shown in parentheses below reported coefficients and are based on robust standard errors (clustered at the director-firm level). Descriptions for all variables are shown in Appendix Table A.1. Significance levels are indicated with ***, **, *, representing 1%, 5%, and 10% significance levels, respectively.

TABLE B.2 Panel data regressions with controls included: US vs. non-US; Civil- vs. common-law

PANEL A: Controls included: US versus non-US firms						
Dependent variable:*Directorships at other public firms*	**US firms**			**Non-US firms**		
	(1) All directors	**(2) EDs**	**(3) NEDs**	**(4) All directors**	**(5) EDs**	**(6) NEDs**
Intense ESG-related media coverage	−0.004	−0.052	0.003	−0.050**	−0.077*	−0.037
	(−0.19)	(−1.02)	(0.14)	(−2.25)	(−1.85)	(−1.44)
Constant	20.284***	4.823	27.566***	0.117	−3.125	0.918
	(2.96)	(0.32)	(3.48)	(0.08)	(−1.47)	(0.55)
Observations	49,774	6,067	43,707	61,090	12,267	48,823
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Director-firm fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes

(Continues)

TABLE B.2 (Continued)

PANEL B: Controls included: common-law versus civil-law countries						
Dependent variable:*Directorships at other public firms*	**Firms located in common-law countries**			**Firms located in civil-law countries**		
	(1) All directors	**(2) EDs**	**(3) NEDs**	**(4) All directors**	**(5) EDs**	**(6) NEDs**
Intense ESG-related media coverage	−0.008	−0.056	0.002	−0.057**	−0.078	−0.044
	(−0.38)	(−1.33)	(0.09)	(−2.30)	(−1.59)	(−1.59)
Constant	−0.200	−6.605*	−1.508	−0.334	−6.190*	0.605
	(−0.06)	(−1.72)	(−0.37)	(−0.17)	(−1.80)	(0.28)
Observations	64,883	10,110	54,773	45,681	8,111	37,570
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Director-firm fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes

The table shows results for estimating equation (1), where the dependent variable is the number of directorships held on private firms' boards. The variable *Intense ESG-related media coverage* equals one if a firm has had intense negative ESG-related media coverage in the news ($RRI \geq 60$) in the past three years, and zero otherwise. The benchmark group consists of director-firm-years with no major negative ESG-related news coverage in the past three years. Panel A shows results for US versus non-US firms, while Panel B shows results for common- versus civil-law countries. Both panels include a vector ($X_{i,\,t-1}$) containing director-, firm-, and country-level time-variant control variables (same as in Table 2) measured in year *t-1*. Risk exposure is tracked between January 2007 and December 2018. Results for all directors are shown in Columns 1 and 4, for executive directors (EDs) in Columns 2 and 5, and for nonexecutive (NEDs) directors in Columns 3 and 6. Results for US firms (S&P 500) are shown in columns 1–3, and for non-US firms (Stoxx 600) in columns 4–6. *t*-statistics are shown in parentheses below reported coefficients and are based on robust standard errors (clustered at the director-firm level). Descriptions for all variables are shown in Appendix Table A.1. Significance levels are indicated with ***, **, *, representing 1%, 5%, and 10% significance levels, respectively.

TABLE B.3 Country characteristics, control variables included

PANEL A: Country characteristics with controls								
Dependent variable:	**(1)**	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**
Directorships at other public firms	**Employment Laws Index**		**Collective Bargaining Index**		**EPI Index by Yale University**		***Left or center political orientation***	
	>Median	**≤Median**	**>Median**	**≤Median**	**>Median**	**≤Median**	**>Median**	**≤Median**
Intense ESG-related media coverage	−0.05**	−0.01	−0.05**	−0.01	−0.06**	−0.00	−0.00	−0.04*
	(−2.09)	(−0.40)	(−2.09)	(−0.40)	(−2.41)	(−0.07)	(−0.20)	(−1.91)
Observations	47,939	62,444	47,939	62,444	51,108	59,756	55,496	54,887
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Director-firm fixed and year effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
	(9)	**(10)**	**(11)**	**(12)**	**(13)**	**(14)**	**(15)**	**(16)**
	Anti-Self Dealing Index (Djankov et al., 2008)		**Public Sector Ethics Index (Kaufmann, 2004)**		**Corporate Sector Ethics Index (Kaufmann, 2004)**		**Corporate Governance Index**	
	>Median	**≤Median**	**>Median**	**≤Median**	**>Median**	**≤Median**	**>Median**	**≤Median**
Intense ESG-related media coverage	−0.02	−0.03*	−0.06**	−0.01	−0.08***	0.01	−0.06**	−0.02
	(−0.43)	(−1.72)	(−2.31)	(−0.65)	(−3.05)	(0.23)	(−2.08)	(−0.98)
Observations	15,109	95,755	33,299	77,565	47,514	63,350	16,817	94,047
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Director-firm fixed and year effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

(Continues)

TABLE B.3 (Continued)

PANEL B: Cultural variables (Hofstede et al., 1991) with controls						
Dependent variable:	**(1)**	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**
Directorships at other public firms	**Hofstede Individualism measure**		**Hofstede Indulgence measure**		**Hofstede Long-term Orientation measure**	
	>Median	**≤Median**	**>Median**	**≤Median**	**>Median**	**≤Median**
Intense ESG-related media coverage	−0.004	−0.050**	−0.026	−0.028*	−0.051**	−0.002
	(−0.19)	(−2.25)	(−0.56)	(−1.67)	(−2.22)	(−0.07)
Observations	49,774	61,090	17,022	93,842	53,570	57,294
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Director-firm fixed and year effects	Yes	Yes	Yes	Yes	Yes	Yes
	(7)	**(8)**	**(9)**	**(10)**	**(11)**	**(12)**
	Hofstede Masculinity measure		**Hofstede Power Distance measure**		**Hofstede Uncertainty Avoidance measure**	
	>Median	**≤Median**	**>Median**	**≤Median**	**>Median**	**≤Median**
Intense ESG-related media coverage	−0.038	−0.027	−0.058	−0.024	−0.059**	−0.008
	(−1.44)	(−1.34)	(−1.34)	(−1.39)	(−2.31)	(−0.38)
Observations	35,655	75,209	20,317	90,547	41,629	69,235
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Director-firm fixed and year effects	Yes	Yes	Yes	Yes	Yes	Yes

(Continues)

TABLE B.3 (Continued)

PANEL C: Banking variables with controls						
Dependent variable:	**(1)**	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**
Directorships at other public firms	**Market-based systems**			**Bank-based systems**		
Intense ESG-related media coverage	−0.008	−0.056	0.002	−0.062**	−0.085*	−0.048*
	(−0.40)	(−1.32)	(0.07)	(−2.52)	(−1.70)	(−1.73)
Observations	62,444	9,689	52,755	41,382	7,731	33,651
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Director-firm and year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes

	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**
	Foreign owned banks (%)		**Government owned banks (%)**		**Capital stringency**		**Official supervisory power**	
	>Median	**≤Median**	**>Median**	**≤Median**	**>Median**	**≤Median**	**>Median**	**≤Median**
Intense ESG-related media coverage	−0.100	−0.044*	−0.062**	−0.001	−0.004	−0.051**	−0.009	−0.058**
	(−0.87)	(−1.87)	(−2.54)	(−0.04)	(−0.18)	(−2.22)	(−0.40)	(−2.15)
Observations	10,091	45,990	49,721	58,352	52,213	53,999	55,588	36,306
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Director-firm and year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

The table shows results for re-estimating regressions in Tables 7, 8, and 9 including control variables. The sample is split into high vs. low based on the median for the specific country-level of interest: ">Median" shows results for firms scoring greater than the median and "≤Median" shows results for firms scoring lower than or equal to the median. *t*-statistics are shown in parentheses below reported coefficients and are based on robust standard errors (clustered at the director-firm level). Descriptions for all variables are in Appendix Table A.1. Significance levels are indicated with ***, **, *, representing 1%, 5%, and 10% significance levels, respectively.

TABLE B.4 Seats at private firms' boards

PANEL A: No controls			
Dependent variable: ***Directorships at private firms***	**(1)**	**(2)**	**(3)**
	All directors(at focal firm)	**EDs(at focal firm)**	**NEDs(at focal firm)**
Intense ESG-related media coverage	−0.008	0.088**	−0.026
	(−0.42)	(2.03)	(−1.21)
Constant	1.898***	1.932***	1.883***
	(180.17)	(83.57)	(161.72)
Observations	129,543	21,477	108,066
Controls	No	No	No
Director-firm fixed effects	Yes	Yes	Yes
Number of director-firm fixed effects	28,113	4,948	23,719
Year fixed effects	Yes	Yes	Yes

(Continues)

TABLE B.4 (Continued)

PANEL B: Controls included			
Dependent variable: ***Directorships at private firms***	**(1)**	**(2)**	**(3)**
	All directors(at focal firm)	**EDs(at focal firm)**	**NEDs(at focal firm)**
Intense ESG-related media coverage	−0.005	0.109**	−0.030
	(−0.26)	(2.39)	(−1.37)
Director close to retirement (≥70 years)	−0.101***	−0.067	−0.107***
	(−5.46)	(−0.96)	(−5.45)
Time on board (in year *t*)	−0.000	−0.000	−0.012
	(−0.01)	(−0.01)	(−0.92)
Return on Assets	0.121	0.017	0.120
	(0.97)	(0.10)	(0.82)
Ln(Total Assets)	−0.015	0.020	−0.027
	(−0.72)	(0.35)	(−1.17)
Past two years market-adjusted stock returns	−0.007	−0.027	−0.002
	(−0.81)	(−1.43)	(−0.23)
Economic Freedom Index	−0.014***	−0.017*	−0.014***
	(−3.24)	(−1.80)	(−2.83)
Regulatory Quality Index	−0.029	0.013	−0.039
	(−0.67)	(0.15)	(−0.82)
Control of Corruption Index	0.056	0.213	0.013
	(0.79)	(1.57)	(0.15)

(Continues)

TABLE B.4 (Continued)

PANEL B: Controls included			
Dependent variable: ***Directorships at private firms***	**(1)**	**(2)**	**(3)**
	All directors(at focal firm)	**EDs(at focal firm)**	**NEDs(at focal firm)**
Globalization Index	0.030**	0.071**	0.024
	(2.07)	(2.23)	(1.55)
Ln(GDP per capita)	0.237***	0.531***	0.174*
	(2.64)	(3.18)	(1.74)
Constant	−2.010	−9.004**	−0.731
	(−1.07)	(−2.19)	(−0.36)
Observations	110,864	18,334	92,530
Controls	Yes	Yes	Yes
Director-firm fixed effects	Yes	Yes	Yes
Number of director-firm fixed effects	24,420	4,252	20,641
Year fixed effects	Yes	Yes	Yes

The table shows results for estimating equation (1), where the dependent variable is the number of directorships held on private firms' boards. The variable *Intense ESG-related media coverage* equals one if a firm has had intense negative ESG-related media coverage in the news ($RRI \geq 60$) in the past 3 years, and zero otherwise. The benchmark group consists of director-firm-years with no major ESG issues in the past three years. Panel A includes director-firm and year fixed effects, while Panel B includes all fixed effects as well as a vector ($X_{i,\,t-1}$) containing director-specific, firm-level, and country-level time variant control variables (same as in Table 2). Risk exposure is tracked between January 2007 and December 2018. Results for all directors are shown in Column 1, for executive directors (EDs) in Column 2, and for nonexecutive (NEDs) directors in Column 3. *t*-statistics are shown in parentheses below reported coefficients and are based on robust standard errors (clustered at the director-firm level). Descriptions for all variables are shown in Appendix Table A.1. Significance levels are indicated with ***, **, *, representing 1%, 5%, and 10% significance levels, respectively.

TABLE B.5 Seats at private firms' boards: US versus non-US firms

PANEL A: No controls						
Dependent variable: ***Directorships at private firms***	**US firms**			**Non-US (European) firms**		
	(1) All directors	**(2) EDs**	**(3) NEDs**	**(4) All directors**	**(5) EDs**	**(6) NEDs**
Intense ESG-related media coverage	0.012	−0.048	0.028	−0.022	0.123	−0.069
	(0.39)	(−0.65)	(0.87)	(−0.43)	(1.37)	(−1.22)
Constant	2.417***	2.216***	2.433***	3.975***	4.721***	3.799***
	(122.36)	(39.06)	(117.94)	(164.21)	(89.42)	(140.78)
Observations	40,469	4,696	35,773	36,446	6,513	29,933
Controls	No	No	No	No	No	No
Director-firm fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes

(Continues)

TABLE B.5 (Continued)

PANEL B: Controls included						
Dependent variable: ***Directorships at private firms***	**US firms**			**Non-US (European) firms**		
	(1) All directors	**(2) EDs**	**(3) NEDs**	**(4) All directors**	**(5) EDs**	**(6) NEDs**
Intense ESG-related media coverage	−0.005	−0.090	0.010	−0.007	0.203**	−0.081
	(−0.18)	(−1.26)	(0.33)	(−0.13)	(2.14)	(−1.37)
Constant	−8.001	−38.657**	−3.663	1.747	5.037	2.379
	(−1.29)	(−2.34)	(−0.57)	(0.46)	(0.43)	(0.58)
Observations	36,206	4,172	32,034	29,413	5,369	24,044
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Director-firm fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes

The table shows results for estimating equation (1), where the dependent variable is the number of directorships held on private firms' boards. The variable *Intense ESG-related media coverage* equals one if a firm has had intense negative ESG-related media coverage in the news ($RRI \geq 60$) in the past three years, and zero otherwise. The benchmark group consists of director-firm-years with no major negative ESG-related news coverage in the past three years. Panel A includes director-firm and year fixed effects, while Panel B includes all fixed effects as well as a vector ($X_{i,\,t-1}$) containing director-, firm-, and country-level control variables (same as in Table 2). Results for all directors are shown in Columns 1 and 4, for EDs in Columns 2 and 5, and for NEDs in Columns 3 and 6. Results for US firms (S&P 500) are shown in columns 1–3, and for non-US firms (Stoxx 600) in columns 4–6. *t*-statistics are shown in parentheses below reported coefficients and are based on robust standard errors (clustered at the director-firm level). Descriptions for all variables are in Appendix Table A.1. Significance levels are indicated with ***, **, *, representing 1%, 5%, and 10% significance levels, respectively.