



RESPONSIBLE CORPORATE GOVERNANCE:  
TOWARDS A STAKEHOLDER BOARD OF DIRECTORS?

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**Abstract**

The central question posed in this paper will be how to organize board composition in order to ensure a responsible corporate governance both from a CSR and a good governance perspective. Adopting a stakeholder approach to corporate governance, we analyze the arguments given by different theoretical approaches for linking specific board composition with financial performance and CSR, and discuss the empirical research conducted. Despite the inconclusive findings of empirical research, it can be argued that diverse stakeholders on the board will promote CSR activities within the firm, but at the same time will increase *board capital* (which ultimately may lead to a better financial performance). Finally, we propose a model for selecting board members based both on ethical and pragmatic arguments.

**Keywords:** board composition, corporate governance, corporate social responsibility, financial performance, stakeholders.

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**Introduction**

As corporate social responsibility (CSR) has become an increasingly prominent issue for companies, corporate boards of directors are becoming more involved in assessing and shaping company policies and practices on a wide range of social and environmental topics. At the same time that companies' overall CSR performance has come under the spotlight, a parallel "good governance" movement has put the structure, composition and behaviour of corporate boards under scrutiny. Shareholder activists

and other stakeholders are demanding that corporate directors be more active and independent of management, and that corporate boards more accurately reflect a broad range of constituents. But, how does good corporate governance relate to CSR? The present paper attempts to address this question.

Usually, the term corporate governance refers to the system by which organizations are directed and controlled and which specifies the distribution of rights and responsibilities among shareholders and managers and the rules and procedures for making decisions on corporate affairs. However, in a wider

sense, corporate governance also includes the relationships with a broader range of firm stakeholders, both internal (employees) and external (customers, suppliers, etc.). In this regard, Tirole (2001, p. 4) proposes a definition of corporate governance as “the design of institutions that induce or force management to internalize the welfare of stakeholders”. Broadly speaking, we can differentiate between a shareholder perspective and a stakeholder perspective of the firm (Letza et al., 2004; Szwajkowski, 2000; Vinten, 2001). The shareholding model regards the corporation as a legal instrument for shareholders to maximize their own interests, i.e. investment returns. More in line with the CSR strategy is the stakeholding approach that views the corporation as a locus of responsibility in relation to a wide array of stakeholders’ interests or, in words of Tirole (2001, p. 24), as “maximizing the sum of the various stakeholders’ surpluses”.

This stakeholder approach to corporate governance implies a shift in the traditional role of the board of directors as defenders of shareholders’ interests. As the highest governance body, directors are responsible for setting the values and standards within the organization through their decisions regarding strategy, incentives and internal control systems. Thus, a board that commits to CSR and seeks to address the needs of diverse stakeholders may have to adapt its composition and functioning to this new role. However, as noted by Ricart et al. (2005), little attention has been paid so far to the implications of CSR for corporate governance. Academic research has focused until now on two aspects of socially responsible firms: CEO compensation (e.g. Frye et al., 2006; Mahoney and Thorn, 2006; McGuire et al., 2003) and board structure (Ayuso et al., 2007; Hillman et al., 2001; Webb, 2004). In this paper, we will only look at board composition as a governance mechanism for taking into account the stakeholder concerns.

The central question posed in this paper will be how to organize board composition in order to ensure responsible corporate governance both from a CSR and a good governance perspective. This question will be approached in the following way. First, we review the stakeholder approach to corporate governance as an alternative to the shareholder-focused conception of the firm. Second, we focus on the composition of the board of directors, and examine the recommendations made by corporate governance guidelines and codes of best practices. We analyze the arguments given by different theoretical approaches for linking specific board composition with financial performance and CSR, and discuss the empirical research conducted. Finally, we propose a model for selecting board members based both on ethical and pragmatic arguments.

## The stakeholder approach to corporate governance

According to stakeholder theory, companies should design their corporate strategies considering the interests of their stakeholders – groups and individuals who can affect or are affected by the organization’s purpose (Freeman, 1984). In this sense, stakeholders of a firm can be defined as “individuals and constituencies that contribute, either voluntarily or involuntarily, to its wealth-creating capacity and activities, and who are therefore its potential beneficiaries and/or risk bearers” (Post et al., 2002, p. 8). The company can pay attention to these groups for at least two reasons (Donaldson and Preston, 1995). First, it can be considered that their demands have intrinsic value (normative approach), so that the company has the responsibility to meet their legitimate claims. Second, addressing the interests of stakeholders who are perceived to have influence can improve company profitability (instrumental approach). Stakeholder theory is related to the literature of corporate sustainability and CSR, since it provides a convincing theoretical framework for analyzing the relationship between company and society (Clarkson, 1995; Harrison and Freeman, 1999; Mintzberg, 1983). Some authors, like Freeman and Velamuri (2006), even affirm that the main objective of CSR is to create value for stakeholders and to fulfil responsibilities towards them.

With regard to corporate governance, stakeholder theory has led to an alternative approach to the conventional shareholder-wealth-maximizing firm. Compared to the singular goal of raising shareholder returns, the stakeholder firm has multiple objectives related with its diverse stakeholders. The shareholder-maximizing model is premised on the notion that owners risk their investment capital and are the sole residual claimants, while other parties (e.g., employees) are compensated on the basis of their marginal products (i.e., paid wages set by competitive labour markets). The governance process, therefore, is controlling managers and other organizational participants to ensure that they act in the owners’ interests. In contrast, one can argue that multiple firm stakeholders risk their ‘investments’ to achieve their goals, and thus each of them has a legitimate or moral right to claim a share of the value created or the firm’s residual resources (Blair, 1995). Under this view, the governance structure shifts from a principal-agent to a team production problem, and the critical governance tasks become to ensure effective negotiations, coordination, cooperation and conflict resolution to maximize and distribute the joint gains among multiple parties of interest. For a stakeholder firm to be viable over time, it must demonstrate its ability both to achieve the multiple objectives of the different parties and to distribute the

value created in ways that maintain their commitment.

According to the normative stream of stakeholder theory, the consideration of the company's different stakeholder groups can be seen as an ethical demand. Consequently, some authors propose the representation of diverse stakeholders on corporations' boards in order to legitimize (Evan and Freeman, 1993) and safeguard the interests of corporate stakeholders (Freeman and Evan, 1990) and to ensure that their concerns are considered in corporate decision-making (Jones and Goldberg, 1982). According to Luoma and Goodstein (1999), three dimensions of board structure and composition are particularly important in reflecting the degree to which concern about stakeholders has been integrated into corporate decision-making: the presence of stakeholders as directors, their appointment in monitoring or oversight board committees (audit, compensation, executive or nominating), and the existence of a committee composed mainly of stakeholders or dedicated to CSR.

Within the instrumental approach of the stakeholder model, several economic arguments have been proposed to justify this vision of the firm. One of the main arguments is the recognition of the firm-specific investments made by stakeholders. Rajan and Zingales (1998) and Zingales (1998) argue that the company has to safeguard the interests of all who contribute to the general value creation, that is, make specific investments to a given corporation. These firm-specific investments can be diverse and include physical, human and social capital. These specific investments are of little or no value outside of the firm and cannot be protected by full contracts *ex ante*, nor evaluated independently from the firm's functioning.

The problem with these firm-specific investments is that they produce quasi-rents that can be expropriated by some of the firm constituencies (included the external stakeholders). Thus, they can cause a potential conflict among stakeholders that may shrink the cooperation and, therefore, the creation of value. Blair and Stout (1999) claim that it is the board that has to take on the task of governing the firm-specific investments and mediating between investors' possible conflicting interests in firm-specific assets. Recently, Kaufman and Englander (2005) used the team production model to recommend that company board members should represent all those stakeholders that add value, assume unique risks and possess strategic information for the corporation. In sum, the board must have directors who can knowledgeably express the multiple constituents' interests both for ethical and economic reasons. But the question remains: How should the board choose members to represent, either directly or indirectly, the different stakeholder groups?

## **Board composition and its effect on financial performance and CSR**

Board composition is a central issue in the multiplicity of corporate governance guidelines and codes of best practices that have been published at the international and national level. Most of these guidelines are directed at increasing board accountability to shareholders and improving board effectiveness. There have also emerged voluntary codes of conduct that include governance as part of a larger corporate social responsibility agenda. Usually, these governance recommendations call for more board independence, and in some instances also for increased board diversity and better response to stakeholders.

Board composition has also been a focus of much of the academic research on corporate governance, particularly with regard to its effects on corporate performance. Compared to the extant research on the board-financial performance relationship, much less attention has been paid to the question of how specific board attributes influence CSR. Next, we review the arguments put forward by different theoretical approaches (mainly agency theory and resource dependency theory) for linking specific board composition with financial performance and CSR, and examine the empirical research conducted so far.

### **Independent directors**

A common recommendation in corporate governance codes is to increase the proportion of independent directors on the board. The vast majority of governance research has argued for this prescription from an agency theory perspective. Agency theorists see the primary function of boards of directors as monitoring the actions of managers on behalf of shareholders (Eisenhardt, 1989; Jensen and Meckling, 1976). Board independence – the degree to which board members are dependent on the current CEO or organization – is considered key to the effectiveness of board monitoring (Fama and Jensen, 1983; Jensen and Meckling, 1976). Boards consisting primarily of insiders (current or former managers/employees of the firm) or dependent outside directors (directors who have business relationships with the firm and/or family or social ties with the CEO) are considered to be less effective in monitoring because of their dependence on the organization. Independent boards – those primarily consisting of independent outside directors – are thought to be the most effective at monitoring because their incentives are not compromised by dependence on the CEO or the organization. Although some empirical support has been found for this hypothesis linking independent boards with firm performance, other research does not support this

position (see Table 1).

An alternative perspective would suggest that inside directors have more and better information which allows them to evaluate managers more effectively (Baysinger and Hoskisson, 1990). This approach fits with resource dependence theory. Resource dependence theorists view a firm as an open system, dependent on external organizations and environmental contingencies (Pfeffer and Salancik, 1978). Proponents of this perspective see corporate boards as providers of four types of resources: advice and counsel, legitimacy, channels for communicating information between the firm and external organizations, and preferential access to commitments or support from important elements outside the firm (Hillman et al. 2000). By linking the firm with its external environment, resources help reduce external dependency (Pfeffer and Salancik, 1978), diminish environmental uncertainty (Pfeffer, 1972) and lower transaction costs (Williamson, 1984), and ultimately improve firm performance. Both inside and outside directors may bring important linkages and resources to the board, but directors who have ties to the current CEO/organization will be more motivated to provide resources (Hillman and Dalziel, 2003).<sup>1</sup> Despite the empirical support for this assertion (e.g. Kesner, 1987; Westphal, 1999), a recent meta-analysis of fifty-four studies showed no statistically significant relationship between board dependence and the firm's financial performance (Dalton et al., 1998).

With regard to CSR, most recommendations favour the role of independent directors because they will tend to be more sensitive to society's needs (Ibrahim and Angelidis, 1994; Ibrahim et al., 2003). In addition, outside directors may be more knowledgeable about the changing demands of various stakeholders and may feel freer to advocate costly or unpopular decisions, such as those that involve compliance issues (Johnson and Greening, 1999; Zahra et al., 1993). Although some empirical support has been found for a better CSR performance of firms with independent boards, several studies found no relationship between board independence and CSR (see Table 1).

#### **INSERT TABLE 1 HERE**

Although similar in its discussion of the relationship between board composition and financial performance, agency theory may suggest the opposite argument. Assuming that CSR offers no obvious direct financial benefit to shareholders, agents are more likely than principals to invest in CSR because they have no direct residual claims on a firm's income (Wang and Coffey, 1992). Furthermore, agents may be driven by self-interests to pursue CSR activities, such as membership of a social elite, immortality and distracting from mismanagement (Coffey and Wang,

1998). Thus, following agency theory logic, inside or dependent directors will have a stronger interest in CSR than independent directors. In contrast, boards dominated by independent directors will be more effective in monitoring and limiting managerial opportunism linked to CSR.

#### **Female and minority directors**

Numerous governance guidelines advocate increased representation by women and minorities on corporate boards of directors to better reflect the gender and racial diversity of their customers, employees, and other stakeholders. The request for greater boardroom diversity is based primarily on normative grounds of equity and fairness (Carter et al., 2007). Corporations, organizations and individuals seldom publicly dispute the proposition that women and ethnic minorities deserve equitable opportunities to serve on the board and in upper management positions. But at the same time, several arguments are made for the business case for board diversity. Agency theory suggests that a more diverse board is a better monitor of managers because board diversity increases board independence (Carter et al., 2007). According to this view, diverse directors are less likely to collude with other directors to subvert shareholders than more homogeneous boards are. Furthermore, board diversity can increase board independence because people with different gender, ethnicity or cultural background might ask questions that would not be asked by directors with more traditional backgrounds. Other propositions for promoting board diversity can be supported by resource dependence theory, since a more diverse board appears to increase the resources brought in by individual board members and the organization's access to external resources. Hence, board diversity has been advocated as a mean of providing new insights and perspectives, increasing creativity and innovation, enhancing board decision-making and promoting more effective global relationships (Carter et al., 2003; van der Walt and Ingley, 2003). Consequently, most researchers assume a positive relationship between board diversity and organizational performance. However, empirical studies analyzing the effects of the gender and ethnicity characteristics of board members have produced mixed results (see Table 2). Whereas Carter et al. (2003) and Erhardt et al. (2003) found significant positive relationships between the presence of women and ethnic minorities (i.e. African, Hispanic, Asian and Native Americans) on corporate boards and their impact on firm performance or shareholder wealth, other studies found negative or no statistically significant relationships between board diversity and financial performance.

Female and minority directors are also usually assumed to play an important role in favouring CSR

strategies. Since resource dependence theory suggests that board members bring resources to the organization as a result of their individual background, an increased representation of women and ethnic minorities will increase board attention to CSR issues of racial and gender imbalances. Some studies also affirm that female directors tend to be more sensitive to CSR than their male counterparts (e.g. Ibrahim and Angelidis, 1994). In any case, as members of underrepresented groups in corporations, women and minority directors are expected to be more interested in the welfare of various stakeholders. As shown in Table 2, several studies support this view.

### INSERT TABLE 2 HERE

#### *Stakeholder directors*

Although codes of corporate governance increasingly refer to stakeholders' interests, they seldom propose including representatives of non-shareholder stakeholders in the board. So far, not much attention has been paid either to stakeholder directors in corporate governance research. The dominant theoretical perspective, agency theory, does not offer many arguments for adding stakeholder directors to the board. As Kassinis and Vafeas (2002) point out, environmental (and CSR) policies give rise to a different set of conflicts from the "agency conflict": management and shareholder interests are relatively aligned and focused on maximizing profits, and opposed to the interests of the community at large (or other stakeholders). Following their argumentation, it is not important to discern and separate directors who are likely to protect shareholders over management, but instead to discern those directors who are likely to protect the community over management and shareholders. Nonetheless, as in the case of female and minority directors, it can also be argued that a more plural board is a more independent board.

Resource dependency theory provides a better argument for including stakeholder directors on the boards. Different stakeholder directors can provide valuable resources because of their business relationships with the firm (for instance, customers, suppliers and creditors) or non-business connections (government officials, academics and community representatives) (Luoma and Goodstein, 1999). Even though this argument seems convincing, there has been very little research examining the performance effects of specific stakeholder directors (an exception is Hillman (2005)). A particular case are employee representatives on the board.<sup>2</sup> Originally justified as a form of industrial democracy or democracy at the company level, today workers participation is mainly emphasized as a contribution to value creating and necessary organizational change (Hagen and Huse, 2006). While some authors argue that board employee

representation is dependent on executive managers and contributes to managerial entrenchment (e.g. Hollandts 2007), others highlight that employees, as internal stakeholders, can provide exclusive company information that may improve board efficiency (e.g. Hagen and Huse, 2006). Empirical research on employee representation on the board and its effect on company performance has shown mixed and partly contradictory results (see Table 3).

Although directors with a business background can leverage their experience on CSR adoption from other boards (Kakabadse et al., 2006; Kassinis and Vafeas, 2002; Webb, 2004), the inclusion of stakeholder directors will presumably lead to more explicit recognition of stakeholder issues and thus CSR. In addition to the argument of resource dependence theory, some authors refer to stakeholder theory in their call for board directors as representatives and protectors of a broad range of stakeholders (Hillman et al., 2001; Wang and Dewhirst, 1992). Kassinis and Vafeas (2002) suggest that stakeholder directors, such as academics, members of the military and clergy, and politicians have interests that are more closely aligned with the interests of the community at large. Thus, the role of stakeholders' representatives is to enhance not only corporate financial performance, but also, more important, corporate social performance. As shown in Table 3, the few empirical studies that have been conducted so far deliver mixed results for this assertion.

### INSERT TABLE 3 HERE

#### *Towards a stakeholder board*

Empirical findings on the effects of board composition support different corporate governance theories. The coexistence of different theoretical approaches can be explained by the fact that each perspective emphasizes a different role of the board of directors. Whereas agency theory focuses on the monitoring or control function of the board, resource dependency theory stresses the role of the board as a provider of resources (Hillman and Dalziel, 2003). There is general consensus in the corporate governance literature that outside directors, especially those without any other affiliation with the firm, will be more effective in evaluating management based on their increased objectivity (Dalton et al., 1998). From the literature reviewed, it becomes evident that directors from a variety of constituencies and with a variety of expertise will be more effective in performing the resource provision function.<sup>3</sup>

Stakeholder theory introduces a new role of the board: balancing stakeholder interests (Kakabadse and Kakabadse, 2007). As referred earlier, stakeholder theory has both normative (moral/ethical) and

instrumental (profit/wealth-enhancing) implications. From the normative viewpoint, we can argue that if the function of the board is to protect the interests of the corporation's stakeholders, the board should comprise members that are representative of these stakeholders. Including stakeholders on corporate boards can be a formal mechanism that acknowledges the importance of their relationship with the firm (Mitchell and Agle, 1997) and ensures that the interests and well-being of constituents other than shareholders are given legitimate consideration in board decision-making (Luoma and Goodstein, 1999). Furthermore, the institutionalization of stakeholders inclusion on the board will become an important element of the firm's CSR strategy, by formally introducing non-economic considerations into corporate decision-making.

Stakeholder directors are likely to be knowledgeable about the interests of the groups from which they are drawn and to bring a broader perspective on the interests of stakeholders in general (Hillman et al., 2001). At the same time, firms with stakeholders on their boards are signalling their commitment to stakeholders in a visible way. This may in turn provide increased legitimacy for the firm and increase a firm's linkages to important external and internal contingencies. Hence, from the instrumental viewpoint, including stakeholders on corporate boards increases what Hillman and Dalziel (2003) call *board capital*. This capital consists of both human capital (expertise, experience, knowledge, reputation and skills) and relational capital (ties to strategically relevant organizations). Ultimately, the presence of various stakeholder directors will secure an increased provision of relevant resources by the board and facilitate the firm's interactions with its multiple stakeholder groups.

In our view, stakeholder theory suggests incorporating various firm's stakeholders on the board, both to give them a legitimate voice and to respond better to the resource dependencies the firm faces. In order to differentiate among stakeholder types, we adopt the classification made by Rodriguez et al. (2002): *consubstantial*, *contractual* and *contextual* stakeholders. *Consubstantial* stakeholders are the stakeholders that are essential for the business's existence (shareholders and investors, strategic partners, employees). *Contractual* stakeholders, as their name indicates, have some kind of formal contract with the business (financial institutions, suppliers and sub-contractors, customers). *Contextual* stakeholders are representatives of the social and natural systems in which the business operates and play a fundamental role in obtaining business credibility and, ultimately, the acceptance of their activities (public administration, local communities, countries and societies, knowledge and opinion makers). Firms must assess the stakeholders that are relevant to them

because of their specific business and environment and select board members who represent them adequately, also bearing in mind diversity issues such as giving equal opportunities to women and ethnic minorities. These stakeholders, in turn, will be able to provide the needed board capital, i.e. human and relational capital, to allow the firm to create value. Table 4 shows the different types of stakeholder directors and outlines the kinds of resources and linkages which the director is expected to bring to the board.

#### INSERT TABLE 4 HERE

Our proposal for stakeholder directors is similar to Hillman et al. (2000) taxonomy of the resource dependence role of directors. But while Hillman and colleagues focus on a firm's need for resources from the *external* environment, we also consider *internal* resources. In this sense, our proposal for a stakeholder board is more in line with Kaufman and Englander (2005) board selection criteria based on a team production model: the board should represent stakeholders that add value, assume unique risks and possess strategic information. However, we emphasize that consubstantial, contractual and contextual stakeholders of the firm contribute to its wealth creation and should be included in the governance board, and that the board also has the responsibility to reflect societal diversity.

#### Conclusion

The present paper attempts to explore the question of how to organize board composition in order to ensure responsible corporate governance. Since CSR suggests that companies have responsibilities that go beyond the interests of their shareholders, it advocates a stakeholder approach to corporate governance. In contrast to the conventional shareholder-wealth-maximizing firm, the stakeholder approach to corporate governance views the firm as a socio-economic organization built to create wealth for its multiple constituencies, and, ultimately, calls for representing the different stakeholders on the board. From an ethical point of view, having stakeholder directors on the board ensures that their rights and legitimate expectations will be respected. From an economic perspective, a board that replicates the firm's internal and external stakeholders fosters their commitment in contributing to value creation and guarantees that their firm-specific investments will not be "expropriated" and their assumed risks will be properly protected. Directors who represent the firm's internal and external stakeholders will also bring strategic information to the board. This argument connects with the managerial perspective and, in particular, resource dependency theory, since directors

from a variety of constituencies will be able to provide important resources in order to assist the firm in creating and sustaining competitive advantage. Despite the inconclusive findings of empirical research, it can be argued that diverse stakeholders on the board will promote the firm's CSR activities, but, at the same time, will increase *board capital* (which ultimately may lead to a better financial performance).

The present paper makes several contributions. First, it challenges the often-made assumption that good corporate governance focuses exclusively on shareholders' interests and argues for taking stakeholders' interest into account. Second, it seeks to reconcile different corporate governance theories and connect economic and managerial argumentations. Third, it makes a proposal that is relevant for both researchers and practitioners. For scholars, it shows the relevance of board directors as providers of important resources and adds a new role of the board: balancing stakeholders' interests. For practitioners, it suggests a normative and strategic dimension when selecting directors in order to ensure responsible corporate governance, both from a CSR and a good governance perspective.

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## Footnotes

<sup>1</sup> In line with Hillman and Dalziel (2003), we refer to resource dependence theory in the sense of dependence of the firm on both external and internal resources. This interpretation is more in line with the resource-based theory of the firm.

<sup>2</sup> Many European countries have laws concerning mandatory codetermination that allow employees to select up to one third of the (supervisory) board members (Osterloh et al., 2007).

<sup>3</sup> Hillman and Dalziel (2003) argue that other board roles considered in the corporate governance literature like "strategy" and "service", can be understood as part of the provision of resources function.

**Table 1.** Empirical studies on the effects of independent directors on financial performance and corporate social responsibility (CSR)

	Positive findings	Neutral or negative findings
Financial performance	<ul style="list-style-type: none"> <li>• Baysinger and Butler (1985): Firms with more outside board members performed better than those with a majority of insiders on the board.</li> <li>• Ezzamel and Watson (1993): Outside directors are positively associated with firm profitability.</li> <li>• Rosenstein and Wyatt (1990): An increase in stock price was correlated with the addition of outsiders to the board of directors.</li> </ul>	<ul style="list-style-type: none"> <li>• Agrawal and Knoeber (1996): More outsiders on the board are negatively related to performance.</li> <li>• de Andres et al. (2005): There is no relationship between the proportion of outsider directors and firm value.</li> <li>• Dulewicz, and Herbert (2004): There is no relationship between the proportion of outside or executive directors on the board and company performance.</li> </ul>
CSR	<ul style="list-style-type: none"> <li>• Ibrahim and Angelidis (1995), Ibrahim et al. (2003): Outside directors exhibit greater concern about the philanthropic component of corporate responsibility than inside directors.</li> <li>• Johnson and Greening (1999): Outside director representation is positively related to corporate social performance.</li> <li>• Webb (2004): Socially responsible firms tend to have boards with more outsiders.</li> <li>• Zahra et al. (1993): The percentage of outside directors is positively associated with corporate social responsibility.</li> </ul>	<ul style="list-style-type: none"> <li>• Chapple and Ucbasaran (2007): The ratio of outsiders/insiders on the board is not related to CSR activity.</li> <li>• McKendall et al. (1999): The proportion of inside directors to outside directors is not related to environmental law violations.</li> <li>• Wang and Dewhirst (1992): Inside and outside directors do not differ in their stakeholder orientation.</li> </ul>

**Table 2.** Empirical studies on the effects of independent directors on financial performance and corporate social responsibility (CSR)

	Positive findings	Neutral or negative findings
Financial performance	<ul style="list-style-type: none"> <li>• Carter et al. (2003): Presence of women or minorities on corporate boards positively affects firm value.</li> <li>• Erhardt et al. (2003): Ethnic and gender representation on boards increases firm financial performance.</li> </ul>	<ul style="list-style-type: none"> <li>• Shrader et al. (1997): Presence of women on the board is negatively related to firm financial performance.</li> <li>• Zahra and Stanton (1988): Female and ethnic minority representation on boards is not associated with firm financial performance.</li> </ul>
CSR	<ul style="list-style-type: none"> <li>• Coffey and Wang (1998), Wang and Coffey (1992): Proportion of women (and minority directors) is positively related to corporate philanthropy.</li> <li>• Webb (2004): Socially responsible firms have more women on the board.</li> <li>• Williams (2003): Firms with a higher proportion of women on their boards engage to a greater extent in charitable giving.</li> <li>• Siciliano (1996): Firms with more women on the board have higher levels of social performance.</li> </ul>	<ul style="list-style-type: none"> <li>• Stanwick and Stanwick (1998): The percentage of women and minorities on the board of directors is not linked to the firm's corporate social performance.</li> </ul>

**Table 3.** Empirical studies on the effects of stakeholder directors on financial performance and corporate social responsibility (CSR)

	Positive findings	Neutral or negative findings
Financial performance	<ul style="list-style-type: none"> <li>FitzRoy and Kraft (2005): Introduction of parity codetermination has a slight positive effect on productivity.</li> <li>Hillman (2005): Firms with ex-politicians on the board are associated with better market performance, especially within heavily regulated industries.</li> </ul>	<ul style="list-style-type: none"> <li>FitzRoy and Kraft (1993): Board codetermination has a negative effect on productivity and no significant effect on profits.</li> </ul>
CSR	<ul style="list-style-type: none"> <li>Kassinis and Vafeas (2002): The presence of stakeholder directors decreases the likelihood of firms violating environmental laws.</li> <li>Siciliano (1996): Firms with boards representing diverse occupational backgrounds have higher levels of social performance.</li> </ul>	<ul style="list-style-type: none"> <li>Hillman et al. (2001): The presence of stakeholder directors is not related to stakeholder performance.</li> <li>Webb (2004): Socially responsible firms are not likely to have more board members involved with non-profit organizations.</li> </ul>

**Table 4.** Board capital of stakeholder directors

Director category	Resources provided
Representative of consubstantial stakeholders <sup>1</sup>	Expertise on the firm itself. Firm-specific knowledge in areas such as finance, law, technology, science, etc.
Representative of contractual stakeholders	Specialized expertise on law, banking, insurance, etc. Channels of communication to product or supply market. Access to resources, such as financial capital and legal support.
Representative of contextual stakeholders	Non-business perspectives on issues, problems and ideas. Channels of communication to community.

<sup>1</sup> We refer to representatives of non-shareholder stakeholders since representation of shareholders' interests has been extensively treated in corporate governance literature.