

**A Good Horse Never Lacks a Saddle:  
Management Quality Practices and Corporate Social Responsibility**

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## *Abstract*

A unique dataset is exploited to provide first insight into the impact of a firm's organizational capital, evident in idiosyncratic managerial quality practices, on corporate social responsibility (CSR). My results suggest, first, that top managers exert significant individual-specific influence in explaining cross-sectional differences in firms' CSR postures. I also show that superior managerial competencies seem to matter more in explaining cross-sectional differences in CSR *strengths*, and the CSR dimensions of *employee relations* and *diversity*. Second, I provide novel evidence that CSR enhances firm performance only in the presence of managers with superior management quality practices. In sum, this study crosses the disciplinary boundaries of behavioral economics, financial accounting, organizational capital and strategic management to demonstrate that idiosyncratic manager competencies map onto corporate social performance, adding credence to the theoretical argument that corporate outcomes are human constructions and reflections of managers' talents and abilities.

*JEL classification:* G32; G34; M14

*Key words:* Corporate social responsibility; Management quality; Management practices; Corporate value; Organizational capital

*Data Availability:* Data used in this study are available from sources identified in the study. SAS Codes are available from the author upon request.

## I. INTRODUCTION

This paper provides first insight into the impact of a firm's organizational capital on firm's nonfinancial performance, evident in corporate social responsibility (CSR). It crosses the disciplinary boundaries of behavioral economics, financial accounting, organizational capital and strategic management to demonstrate that idiosyncratic management competencies map onto corporate social performance, adding credence to the theoretical argument that corporate strategies and decisions are human constructions and reflections of managers' talents and abilities. This study, to my knowledge, is the first of its kind to demonstrate that organization capital, evident in management quality practices (MQP), play a non-negligible role in shaping CSR performance.

This is a timely question for both practitioners and researchers for several reasons. First, CSR has gained greater acceptance by both groups. For instance, a survey by KPMG (2011) shows the number of *Fortune* Global 250 firms that issue stand-alone CSR reports has increased from 52 percent in 2005 to 80 percent in 2008 and 95 percent in 2011. The survey indicates also that 46 percent of the *Fortune* Global 250 use assurance as a strategy for verifying CSR reporting. The Social Investing Forum reports that in the United States, as of 2010, \$3.07 trillion of \$25.1 trillion is managed under the guidelines for Socially Responsible Investment. Second, the relevance of CSR is further reflected in wider press coverage, business textbooks and curricula of business schools (Mahoney and Thorne 2005) as well as in a growing number of publications in major academic journals.<sup>1</sup> Third, this study lends weight to the recommendations of the *Financial Accounting Standards Committee* of the *American Accounting Association* for greater disclosure of nonfinancial performance (Maines et al. 2002) and adds momentum to a growing strand of accounting literature that stresses the role of nonfinancial information (e.g. Banker et al. 2000, Banker et al. 2004, Dhaliwal et al. 2011, Kim et al. 2012, Moser and Martin 2012, and

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<sup>1</sup> Wall Street's increasing social consciousness is evident in Goldman Sachs' market value plunge by nearly \$2.2 billion (on March 14, 2012) following an open letter to *The New York Times* by a resigned executive director (Greg Smith), in which he criticizes the profit-driven culture—at the expense of clients' best interests—as “morally bankrupt”. Similarly, in an international survey of directors and managers from publicly and privately held firms, 85% of U.S. respondents agreed with the statement, “Corporations need to create shareholder value in a way that aligns with society's interests, even if that means sacrificing shareholder value” (p. 2). Corresponding figures were 91% in Germany, 89% in the United Kingdom and China, and 74% in India. Source: Edelman White Paper, last accessed March 16, 2012, at: [http://www.edelman.com/expertise/practices/crisis/docs/white\\_paper\\_final\\_1.pdf](http://www.edelman.com/expertise/practices/crisis/docs/white_paper_final_1.pdf).

Elliott et al. 2012, among others). Fourth, in this study, I respond to calls to control for unobserved managerial competencies in order to successfully uncover the link between CSR and firm performance (e.g. Goss and Roberts 2011; Nelling and Webb 2009; Thomas and Simerly 1994). I also respond to the call by Graham et al. (2011a) who maintain that empirical methods that do not explicitly account for unobservable manager (or firm) heterogeneities could produce biased estimates.

Yet, despite steadily accumulating evidence on the relevance of CSR explaining earnings quality (Kim et al. 2012), equity financing costs (El Ghoul et al. 2011), and firm's disclosure (Dhaliwal et al. 2011), no clear consensus has yet emerged regarding the desirability of CSR activities (Margolis and Walsh 2003). Even if my intention in this paper is neither to polarize the argument on the effects of CSR nor to come to a judgment on the strand of existing studies, I, instead, take a different tack from traditional CSR literature by emphasizing the role of MQP in shaping CSR posture and altering its effect on corporate performance. Three streams of thinking inform the arguments of this study.

The *first* stream stresses that intangible organization capital is a major driver of corporate (and national) growth (e.g. Lev 2001; Black and Lynch 2004; Lev and Radhakrishnan 2005; Berk et al. 2010). Though possible and perhaps desirable, measuring organization capital is easier said than done. Researchers may indeed be dissuaded not only by the lack of consensus in defining organization capital but also by daunting challenges in measuring it. Throughout this paper, I embrace the view of Lev and Radhakrishnan (2005) that organization capital is "an agglomeration of technologies, business practices, process and designs, and incentive and compensation systems" (p. 75) that efficiently drive firm growth and outcomes. With this definition in mind, I use unique survey-based data on MQP at the plant level to proxy for organization capital. Given that organization capital appears to be merely embodied in workforce and management practices (e.g. Jovanovic 1979, Black and Lynch 2005, Bloom and Van Reenen 2007) at the plant -or specific production- level (Dunne et al. 1997), MQP remains relevant and reliable, though admittedly imperfect, proxy of organization capital.

The *second* stream of thinking, which draws on strategic management and behavioral economics literatures, posits that organizational performances and outcomes are primary

reflections of managers' talents and abilities.<sup>2</sup> In their seminal study, Hambrick and Mason (1984) stress that "executives matter" (p. 194) and maintain that managerial unobservable characteristics, such as psychology, experiences, values, and training, offer insight into executives' differences and managerial idiosyncratic experiences and leadership, which, in turn, play a relevant role in shaping organizational performance and corporate outcomes. Chatterjee and Hambrick (2007) add that managers "inject a great deal of themselves – their experiences, preferences, and dispositions" (p. 351) into corporate decisions. While the relevance of management heterogeneity in shaping organizational performance has long received theoretical scholarly attention (e.g. Child 1972; Rosen 1981), existing literature offers relatively small gains in rigorous empirical testing of the effect of idiosyncratic managers' style on corporate outcomes.<sup>3</sup> To be sure, a new line of research, still seeking to gather momentum, stresses that idiosyncratic managerial competencies, traits and attributes play a significant role in explaining firm's productivity and profitability (Bloom and Van Reenen 2007), firm performance (Bennedsen et al. 2011), the performance of buyout transactions (Kaplan et al. 2012), earnings quality (Attig and Pittman 2012), investment sensitivity to cash flows (Attig and Cleary 2012), and cost of debt financing (Rahaman and Al Zaman 2012).

The *third* stream of thinking, emerging from corporate social performance, suggests that firm stakeholders view CSR as an indication of management skills and quality (Bowman and Haire 1975; Alexander and Bucholtz 1978). Chakravarthy (1986) and McGuire et al. (1988), among others, argue that profitability-driven measures of performance do not adequately reflect firm strategic performance and stress the importance of proactive CSR. In the same vein, Waddock and Graves (1997b) show that perceived quality management is associated with quality social performance. Equally important, Staw and Epstein (2000) show that both internal and external legitimacy can be gained through MQP that produce beneficial outcomes that are not "included in traditional accounting measures, such as more satisfied workers, lower

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<sup>2</sup> An alternative view considers the role of managers as symbolic within the organization (Pfeffer and Salancik 1978) and that (larger) organizations appear to be minimally impacted by the managers (Hall 1977). Similarly, Hannan and Freeman (1984) view top management teams as passive agents in the determination of corporate performance.

<sup>3</sup> Several management studies echoed the importance of Hambrick and Mason's (1984) upper echelons proposition and Pfeffer's (1983) emphasis on managers' demographic indicators by testing the impact of managerial demographics (e.g. age, education, management team tenure, organizational tenure) on firm's innovation (Bantel and Jackson 1989), firm performance (Carpenter 2002), and competitive moves (Hambrick et al. 1996), among others.

turnover, or more ethical work relationships” (p. 547). By underscoring the importance of MQP as a form of firms’ intangible “organizational capital” in shaping CSR, my study lends support to CSR theoretical definitions usually couched in terms that refer directly to “corporate actions” requiring managers’ involvement.<sup>4</sup> In addition, by calling attention to the role of the *team* of senior managers I not only depart from extant work that confines managers’ fixed effects to the CEO heterogeneity, but also from most related studies that treat heterogeneity in corporate outcomes as a nuisance parameter in the estimation.<sup>5</sup> For the purpose of this study CSR is defined as managerial actions and practices that are likely to positively affect relevant stakeholders’ interests (e.g. investors, consumers, society, the government and the community).<sup>6</sup> I maintain that firms with high MQP are associated with more (efficient) CSR, which in turn translates into corporate value creation. My premise is that, all else equal, *managers* are those who *conduct* the business, and are usually empowered with the formal authority to formulate corporate strategies and adopt policies and practices.

In accord with my expectations, the overall findings of this paper condense to three crucial points. First, my univariate and multivariate analyses suggest that top managers exert significant individual-specific influence over CSR activities. I also show that superior managerial competencies seem to matter more in explaining cross-sectional differences in CSR *strengths*, and the CSR dimensions of *employee relations* and *diversity*. These findings indicate that superior management competencies are associated with proactive investments in CSR that are

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<sup>4</sup> Wood (1991), for instance, observes that “a company’s social responsibilities are not met by some abstract organizational actor, they are met by individual human actors who constantly make decisions and choices” (p. 690). More recently, Basu and Palazzo (2008) refer explicitly to the determinant role of managers in CSR by stating that CSR is “the process by which *managers within an organization* think about and discuss relationships with stakeholders as well as their roles in relation to the common good, along with their behavioral disposition with respect to the fulfillment and achievement of these roles and relationships” (p. 124).

<sup>5</sup> For instance, much of the existing empirical work (e.g. in financial accounting) attributes unexplained differential in corporate outcomes to the fixed effect in panel data, often labeled as “managerial quality” (e.g. Mundlak 1961). For instance, recent evidence suggests that that manager fixed effects explain much of the variation in executive pay (Graham et al. 2011b) and firms’ voluntary disclosures (Bamber et al. 2010), in investment, financial and organizational practices of firms (Bertrand and Schoar 2003). Our interest in senior managers as a *team* stems from the fact that the management team, particularly in small and medium-sized firms, represents the dominant coalition (Hambrick and Mason 1984).

<sup>6</sup> This definition is built on Carroll’s (1979) definition of CSR that incorporates firm’s actions reflecting ethical, legal, and discretionary responsibilities that positively affect relevant stakeholders’ interests. It reflects also the definition of McWilliams and Siegel (2001) that CSR refers to “actions that appear to further some social good, beyond the interests of the firm and that which is required by law” (p. 117).

socially *desired* and go beyond the firm's objective of making immediate profits. Thus, they are rather likely to enhance firms' social reputation and avoid negative social pressure. This in turn would result in long-term benefits. Second, I provide novel evidence that CSR enhances firm performance only in the presence of managers with superior MQP. This result is salient as it sheds light on the relationship between CSR and corporate performance, suggesting that the heterogeneous (unobservable) manager-specific talents and abilities play a non-negligible role in altering the effects of CSR on corporate performance. Third, my simultaneous analysis suggests that MQP does not bear significantly on corporate value in the presence of the interaction variable between MQP and CSR (ZMQP\*CSR). This new result is interesting because it stresses the need for managers to use reliable channels to signal their superior competencies and translate them into value creation. Indeed, as argued by Bloom and Van Reenen (2007), better management practices may not translate into profit increase and value creation, even if they increase productivity. This might be the case because the high costs of investing in high MQP (e.g. adopting new technologies, hiring qualified managers, training employees) may not outweigh the expected benefits, especially because MQP are unobservable. My result lends support to this proposition and suggests that, rather, it is the signaling of superior MQP to firm's stakeholders that creates value and not MQP per se.

My results are robust to the use of various model specifications, the use of a *set of interview noise controls* to mitigate biases across interviewers and types of interviewees, and to potential endogeneity bias. In particular, my conclusions remain unchanged when I use managers' self-reported number of competitors and firms' succession of corporate control by eldest son (primogeniture) to instrument MQP. While the limits of my survey-based sample and the CSR constructs lead us to be careful not to overreach in my conclusions, overall, my evidence suggests that being good (managers), leads to doing good (socially), which in turn translates into reaping good (financially).

Beyond the contributions stated above, the findings of this study are highly relevant to both practitioners and academics. For academics, by stressing the importance of management styles in shaping corporate social behavior, this study urges future research to closely consider the idiosyncratic unobservable manager-specific influences in explaining cross-sectional differences in other corporate outcomes. Likewise, considering the heterogeneity of other (e.stakeholder-specific styles (e.g. shareholders, customer base, creditors) may be fruitful

avenues for future research. For practitioners and regulators, this study suggests that an effective way to enhance the value of corporate outcomes and protect the interests of firms' stakeholders is to target the individual managers by improving their competencies and articulating their responsibilities.<sup>7</sup> It stands to reason that regulators enhance CSR reporting requirements and accountability—in line with other accounting, financial and governance reporting standards. The findings of this study suggest also that financial analysts and portfolio managers need to pay more attention to firm's management quality in their selection and valuation of stocks. Similarly, the findings suggest that managers and corporate decision makers should project a positive image of the firm's managerial style in order to strengthen its reputation, expand its investor base, and further its growth opportunities.

The rest of this study is organized as follows. In Section 2 I review related studies and describe my main hypotheses. In Section 3 I describe my sample construction and explain my empirical models. Section 4 reports the main results. In section 5 I draw my main conclusions, discuss implications and limitations of my analysis, and directions for future research.

## II. RELEVANT LITERATURE AND HYPOTHESES

*Do Managers Matter?* I premise that CSR, like other corporate decisions and outcomes, is a primary managerial activity. The conceptual root of this premise lies in the argument that managers are usually empowered with the formal authority to formulate corporate strategies and adopt policies and practices (Hosmer 1982; Mintzberg 1978; Clement and Ayres 1976). Early work by Walton (1969) suggests that “when a business organization ‘buys’ a man’s talents, it also purchases, in a real sense, the individual’s values, which shape the direction through which these talents will be expressed” (p. 6). Hambrick and Mason (1984) stress that organizational outcomes—both strategies and effectiveness—are viewed as reflections of the values and cognitive bases of the dominant coalition of the organization (i.e. top managers). Another argument of note is that of managerial discretion (Williamson 1963; Ackerman 1975; Montanari 1978), which is premised on the fact that managers’ actions—in particular, CSR activities—are not entirely formally prescribed by corporate procedures and documents. Rather, they reflect

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<sup>7</sup> This is in accord with the conclusion of Bamber et al. (2010) that initiatives intended to remedy disclosure problems “may be more effective if they target the individual manager” (p. 1134). The Sarbanes-Oxley Act is an example as it holds managers responsible for the firm's financial reports.



the extent of management discretion, which can be viewed as a reflection of managers' cognitions, values, latent managerial skills and perception of the situation (Hambrick and Mason 1984). Managers have discretion to implement corporate actions in response to societal and stakeholder demands (Carroll 1979; Wartick and Cochran 1985). The principle of managerial discretion is echoed by Wood (1991) who emphasizes that managers, as the firm's moral actors, have discretion to "choose the precise methods and modes of corporate response to societal expectations and stakeholder demands" (p. 390). Flannery and May (1994) suggest that CSR (i.e. environmental activities) is largely determined by the management environmental leadership attitudes. Although many theoretical studies concur with the argument that CSR activities are linked to managers' ability in evaluating environmental and stakeholder demands and the implementing of programs to manage social issues, empirical studies remain sparse. Thomas and Simerly (1994) argue that top managers play a critical role in the articulation of firms' posture vis-à-vis its stakeholders and show that the characteristics of top managers are linked to CSR. Waldman et al. (2006) rely on inferences from indirect assessment of the moral and ethical qualities of charismatic leaders to show that CEO attributes relate to CSR activities.

*Do Good Managers Do Good?* Two competing views were encapsulated in debates on the extent to which CSR is beneficial to firms' shareholders (and stakeholders). The first view (positive view of CSR), named by Waddock and Graves (1997a) the *good management hypothesis*, posits that CSR activities improve relationships with key stakeholder groups, including consumers, employees, suppliers, and regulators. In the same vein, investing in CSR may minimize a range of risks (e.g. regulatory risk, supply chain risk, product risk, and as a result the perceived risk of future financial distress), enhance the firm's reputation and build effective links with the firm's stakeholders, and improve firm performance. Indeed, Shane and Spicer (1983) advance that a change in the likelihood of costly sanctions leads investors to revise their perceptions of the probability distribution of future costs and revenues, which, in turn, may increase the specific risk of firms with a poor CSR record.<sup>8</sup> This view is corroborated by the first two predictions of Benabou and Tirole's (2010) theoretical model that (i) CSR activities

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<sup>8</sup> McGuire et al. (1988) argue that a low CSR firm is likely to be associated with more financial risk as it may face relatively more labor and regulatory problems, and customers may not favor its products. Consistent with this view, Chatterji et al. (2009) show that firms with poor social performance are associated with significantly more pollution and regulatory compliance violations than other firms. Hong and Kacperczyk (2009) argue that "sin" firms (e.g., tobacco, alcohol and gaming firms) face higher litigation risk than other firms.

make the firm more profitable and strengthen its market position (in the long-run) as they lead the firm to avoid myopic decisions and (ii) CSR is a mechanism through which shareholders delegate their philanthropy to the firm, which would be also consistent with profit maximization. However, the third prediction of Benabou and Tirole's (2010) model corroborates the competing view that regards CSR activities as discretionary expenditures that can be exploited by incumbent managers to enhance their personal agendas. Indeed, the third prediction of Benabou and Tirole's (2010) model indicates that CSR is initiated by corporate insiders who tend to enhance their own philanthropic reputation (to the detriment of shareholders). This competing view is spurred by Friedman's (1970) assertion that the purpose of a firm's CSR is to increase its profits and that CSR activities are symptomatic of agency cost, which may weaken the firm's competitive position.

Turning to the focus of my study, if I embrace the positive view of CSR, I expect managers with high MQP to be associated with more CSR activities. Indeed, given that MQP can be viewed as the firm's *unique* system that combines human capital and physical assets into a process that efficiently employs firm's resources<sup>9</sup> to manage stakeholders' interests and enhance firms' sustainability, good managers (i.e. those with high MQP) will invest more CSR. This is likely the case because CSR is a nonfinancial performance usually associated with long-term value. More precisely, I expect good management to bear positively on CSR through *two main channels*. The *first* is an information channel through which managers can use CSR activities to signal their superior managerial competencies to stakeholders. This is likely the case because managers' skills and efforts are unobservable (e.g. Lambert 1984). The relevance of CSR in improving firms' information quality is supported by Arvidsson's (2010) survey findings that management teams of major Swedish firms focus on CSR in corporate communication. I expand on the signaling argument to posit that, all else equal, firms with superior managerial practices invest in CSR to improve firms' information quality. Given that "sin" firms receive less coverage from analysts (Hong and Kacperczyk 2009) and that high CSR firms tend to disclose more information (Dhaliwal et al. 2011), I expect managers with superior management competencies to invest more in CSR to enhance (and signal) firms' information quality and

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<sup>9</sup> Such as innovation, R&D, investment, manufacturing, management of human resources (e.g. incentives, monitoring, compensation, hiring and retaining talents), sales, and performance evaluation. This definition of MQP is in accord with the definitions of organization capital by Evenson and Westphal (1995) and Lev and Radhakrishnan (2005).

improve investors' and analysts' trust in the company. As a result, the firm's base of investors as well as Wall Street coverage will increase. An early articulation of this viewpoint was provided by Bruyn (1987, p. 12): "all investment has a social foundation, so that searching for information pertaining to social factors will enhance investors' ability to predict economic outcomes". Supportive evidence is also provided by Brammer et al. (2006) who suggest that altruistic private or institutional investors are willing to forgo returns and hold stocks of socially responsible firms. The launch of the United Nations-backed Principles for Responsible Investment Initiative (UNPRI), a network of international investors working together to put into practice the principles of socially responsible investments, as well as the rise of the socially responsible investment funds lend weight to the role of CSR information argument.

The *second channel* through which MQP influence CSR is the *agency channel*. To the extent that good managers are, as seems reasonable, less inclined to management opportunism,<sup>10</sup> they will invest in CSR to align their interests with those of shareholders and reduce potential agency conflicts. This is likely the case because CSR, as an organizational resource in today's dynamic and complex environment (Orlitzky et al. 2003), necessitates better managerial practices, evident in higher managerial competencies, more efficient organization-wide coordination and forward thinking managerial style (Shrivastava 1995). Benabou and Tirole (2010) suggest that shareholders delegate CSR investment to managers, who can create value (even in the absence of short-term financial performance). Indeed, good managers, through CSR, can improve relationships with key stakeholder groups, and attract and retain customers and qualified employees. In addition, CSR expenditures can demonstrate good use of firms' slack resources (Waddock and Graves 1997). Moreover, I expect good MQP, which are embedded in the organizational capital of the firm (Bloom and Van Reenen 2007) and usually associated with long-term value creation, to invest more in CSR because CSR is inherently a long-term

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<sup>10</sup> I admit that here I am assuming that good managers are associated with good governance. Although there are no solid theoretical grounds to uphold such an assumption, strong support is provided by recent empirical work that shows good managers (i.e. those with high MQP) are associated with less income smoothing (Attig and Pittman 2012), low investment sensitivity to internal cash flows (Attig and Cleary 2012) and higher levels of productivity, profitability, Tobin's Q, and survival rates (Bloom and Van Reenen 2007). In addition, one can defend such an assumption by advocating that by maximizing the utilities of the firm's stakeholders, managers also maximize their own utilities because this can lead to an increase in their job security, compensation, and reputational advantage. However, Hermalin and Weisbach's (1998) model suggests that good managers can gain more discretion and more bargaining power, which may result in a decline in board efficacy.

investment (Johnson and Greening 1999). Investment in CSR by good managers may reduce agency costs because such an investment can reduce the likelihood of costly sanctions (Shane and Spicer 1983) and uncertainty over potential future claims that stem from socially irresponsible behavior (Waddock and Graves 1997a).

The discussion above pleads in favor of a positive association between MQP and CSR, yet the alternative (negative) view of CSR does not support such a relationship. For instance, one can build on the posturing hypothesis of Waddock and Graves (1997a) and argue that CSR is conducted for the sake of “appearing” socially responsible. Therefore CSR investment will increase costs, which will have an adverse effect on stakeholders’ value. Even if CSR is not, per se, harmful to the firm and its shareholders, the lack of an accurate measure of a firm’s social activities or the inability of investors to accurately assess, interpret, and price a firm’s CSR expenditures may decrease their potential beneficial effects.<sup>11</sup> In sum, this view may prevent good managers from investing in CSR.

While the net effect of MQP on CSR may thus appear to be an empirical issue, I am more inclined toward the perspective that good managers will invest more in CSR. In particular, if I accept the view that CSR is likely to be proactive in nature rather than defensive (i.e. in response to external pressure) then, all else equal, superior management is likely to be associated with high CSR score. Supportive evidence is provided by Waddock and Graves (1997b) who show that perceived quality of management (of specific primary stakeholders) reflects firm’s social performance. In addition, managers can invest in CSR to build intangible, yet valuable, reputation not only to enhance the perceived image of their talents and skills, but also to improve firm’s competitive advantage. Supportive argument is provided by McGuire et al. (1990) and Weiner and Mahoney (1981) who suggest that perceptions of firm quality lower a firm’s financing costs. Such perceptions depend not only on a firm’s financial performance but also on corporate ethical and social postures. Accordingly, my first and main hypothesis is as follows:

*H<sub>1</sub>: CSR is positively related to MQP.*

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<sup>11</sup> Chatterji et al. (2009) suggest that CSR performance measures are at best a noisy indicator of a firm’s true CSR activities.

Carroll (1979) conceptualizes CSR as a multidimensional construct that reflects (i) economic responsibility to investors, (ii) legal responsibility to the government or the law, (iii) ethical responsibilities to the society, and (iv) discretionary responsibility to the community. Griffin and Mahon (1997) suggest that the aggregate CSR score may mask the relevance of the different dimensions of CSR. Galema et al. (2008) and Benabou and Tirole (2010) stress the need to consider the effects of the individual dimensions of social responsibility. Supporting evidence for the relevance of examining individual components of CSR is provided by Waddock and Graves (1997b) who show that the dimensions of owners, employees, customers, and (marginally) communities, but not the environmental considerations, are related to quality management. In light of this line of reasoning I expect MQP to load differently on the individual dimensions of CSR. In particular, I expect MQP to have more (less) significant effect on the dimensions of CSR that are socially desired (expected). My premise is that the socially expected dimensions of CSR (i.e. community relations, human rights, product characteristics, and environmental performance) relate, to some extent, to the firm's ethical responsibility and usually do not extend beyond compliance behavior. Therefore, these dimensions reflect firms' ability to respond to social pressure, and thereby are less likely to create a competitive advantage. Rather, they help the company achieve *legitimacy* (e.g. Arvidsson 2010, and references therein).

The two other dimensions of CSR (i.e. employee relations and diversity) are socially *desired* and go beyond the firm's objective of making immediate profits. Stated differently, managers with superior competencies tend to adopt managerial practices that are likely to enhance their social reputation and avoid negative social pressure. For instance, these two dimensions capture management commitment to employees and their value to the firm as evidenced, among other things, in employees' involvement and participation in management decision-making, cash profit-sharing program with firm's workforce, union relations, employees' diversity and promotions. The proactive nature of investing in employee relations and diversity will be beneficial over the long run. For instance, even though investing in these dimensions may not lead to an increase in profit (e.g. it may increase labor costs), it will likely increase employees' loyalty and dedication, and attract qualified human capital, which will strengthen firms' productivity and competitive advantage. Moreover, these two dimensions are particularly relevant to MQP because they embody many dimensions of organizational capital

(e.g. incentives and compensation systems governing its human resources and production process). In sum, all else equal, my second hypothesis is as follows:

*H<sub>2</sub>: desired (expected) CSR dimensions are (not) positively related to MQP.*

To shed further light on the idiosyncratic manager-specific influences on firms' socially responsible behavior, I investigate the impact of MQP on CSR strengths and concerns. I use this disaggregation of CSR score into its positive (strengths) and negative (concerns) components for two reasons. First, the aggregation of "strengths" and "concerns" into a single CSR score may obscure distinct constructs (Mattingly and Berman 2006). In addition, and in line with the argument of Chatterji et al. (2009), summing strengths and concerns may overlook the cross-sectional variation in CSR behavior. Kim et al. (2012, p. 24) state, "a firm with five strengths and five concerns is surely different from a firm with one strength and one concern". Second, and in light of the evidence of Goss and Roberts (2011), by decomposing CSR scores into total strengths and total concerns I can provide insight into the extent to which management quality determines the nature of CSR investment. For the purpose of this study I hypothesize that good managers are more likely to invest in CSR strengths than to reduce CSR concerns. This might be plausibly the case because implementing CSR strengths is more costly, yet more beneficial, than avoiding CSR concerns (Hart 1995) and requires more effort and ability. A possible explanation can be found in the argument that CSR concerns relate to industry standards or minimum social performance levels expected by the public; they do not lead to any competitive advantage (e.g. Figge et al. 2002; Block and Wagner 2011). Stated differently, because CSR strength is proactive in nature (and not in response to social pressure), I expect higher managerial quality to be associated with more overt socially responsible behaviors. Supportive evidence is provided by Goss and Roberts' (2011) findings of the strategic use of CSR by firms that attempt to mitigate the downside risk of negative events (concerns) by investing in strengths. All else equal, my third hypothesis is as follows:

*H<sub>3</sub>: CSR strengths (concerns) are (not) positively related to MQP.*

### **III. DATA AND RESEARCH DESIGN**

#### **Sample Selection**

My original sample is drawn from three separate databases. First, from Bloom and Van Reenen (2007), I obtain the sample of 290 medium-sized U.S. manufacturing firms with 50 to 10,000 employees. These data provide scores (one to five scale) on 18 different management practices for each sample firm, grouped in four areas: incentives (rewarding employees for performance), monitoring (tracking and reviewing individual performance), operations (introducing modern manufacturing techniques), and targets (setting appropriate targets). These scores are then converted to z-scores by normalizing by practice to mean zero and standard deviation one. Bloom and Van Reenen (2007) provide a detailed description of the survey instrument used to obtain robust measure of management practices.<sup>12</sup> Second, I match this sample with KLD STATS (from KLD Research & Analytics, Inc database), which I use to extract CSR scores. KLD is considered the leading authority on social research and indexes for institutional investors, and its database is widely used in studies of CSR (e.g. Deckop et al. 2006; Waddock 2003; Sharfman 1996). Third, I use COMPUSTAT to collect additional financial information for my sample firms. After these screenings, my final sample contains 190 medium-sized U.S. manufacturing firms and 1088 firm-year observations over the period 2001-2009. I am implicitly assuming that MQP is relatively sticky and does not change significantly within firms over time.

By comprising only U.S. manufacturing firms my sample provides at least three advantages. First, excluding firms in services reduces systematic biases as they employ different processes and structures (Thomas and Simerly 1994). Second, because of the preponderance of medium-sized manufacturing companies in the American corporate landscape (and elsewhere), my empirical analysis of a sample of these firms grants the research question important practical and theoretical significance. Third, I suspect that top management teams exert more effective influence in medium-sized firms (e.g. Miller 1991; Miller and Droge 1986). In addition, compared to large firms, medium-sized manufacturing firms tend to be less heterogeneous

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<sup>12</sup> The survey, run in the summer of 2004 from the Centre for Economic Performance at the London School of Economics, had a response rate of 54%. The survey's construct overcomes the three main hurdles of surveys: scoring management practices, collecting accurate responses, and obtaining interviews with managers. For instance, in order to avoid potential bias in managerial responses, Bloom and Van Reenen (2007) use a double-blind survey tool, where managers did not know the interviewers, and the interviewers did not know the performance of the firm being surveyed. In addition, they validate their survey by resurveying firms and interviewing different managers in different plants using different interviewers in the same firms.

across plants (Bloom and Van Reenen 2007). Overall, my final sample is subject to the same selection effects as the sample of Bloom and Van Reenen (2007), as indicated by the sample validation tests discussion in the next section. Below I present a description of my key variables.

### **Management Quality Practices (ZMQP)**

I use the Management Scores data in Bloom and Van Reenen (2007) to measure the MQP of the firm. Bloom and Van Reenen use 18 different practices in their evaluation, as illustrated in Appendix A. Each practice is assigned a score from one (worst practice) to five (best practice). The 18 management practices are then grouped into four managerial areas: operations (OPE), which is about the introduction of modern management techniques; monitoring (MON), which is about tracking and reviewing individual performance; targets (TAR), which is about setting appropriate targets; incentives (INC), which is about rewarding employees for better performance. A standardized z-score (with mean 0 and variance 1) is then constructed for each managerial area. Bloom and Van Reenen aggregate the four components to obtain the aggregate management score (MQP):

$$ZMQP = ZOPE_{STD} + ZMON_{STD} + ZTAR_{STD} + ZINC_{STD} \quad (1)$$

The subscript STD stands for the standardized measure of the score of the managerial area. A higher value of MQP indicates better management practice.

### **Corporate Social Responsibility (CSR)**

KLD evaluates each firm along 13 different categories of CSR strengths or concerns, using surveys, financial statement information, reports from media, government documents, regulatory filings, proxy statements, and peer-reviewed legal journals. KLD's 13 different categories of CSR are grouped into two major categories: qualitative issue areas and controversial business issues. As illustrated in Appendix B, qualitative issue areas include: the community, corporate governance, diversity, employee relations, the environment, human rights, and product characteristics. Controversial business issues include: alcohol, gambling, tobacco, firearms, the military, and nuclear power. Because qualitative issue areas and controversial business issues are inherently different, I examine them separately as well. I



capture a firm's involvement in controversial business issues with a dummy variable that takes the value of 1 if a firm is involved in any of the six controversial business areas. For each qualitative issue area, I calculate a score equal to the number of strengths minus the number of concerns. I then sum the qualitative issue areas' scores to obtain an overall CSR score (CSRS). This approach is commonly adopted in CSR literature (e.g. Attig et al. 2011; Kim et al. 2012; El Ghoul et al. 2011; Goss and Roberts 2011, among many others).

## Regression Models

To analyze the impact of managerial quality on CSR activities I run variations of the following model:

$$CSRS = \alpha + \beta_1 ZMQP + \beta_2 Z + FIX + \varepsilon, \quad (2)$$

where *CSRS* is the decile rank transformations of firms' scores on CSR. Firms are ranked annually and assigned to deciles based on *their* CSR scores. Then, in my regression analysis, the raw values of CSR are replaced by the corresponding annual decile ranks scaled to lie between 0 (lowest rank) and 1 (highest rank). A higher value of *CSRS* indicates that firms' net CSR performance is relatively higher. This transformation is useful because, first, it mitigates the potential issue of the change in CSR rating method over time.<sup>13</sup> Second, the rank transformation mitigates the influence of outliers and non-linearities in the analysis. It should be noted that my results are not sensitive to this transformation, as they hold when I use the original CSR construct.

*ZMQP* is the overall z-score of management quality practices that is expected to underline the heterogeneity in CSR across my sample firms. *FIX* stands for time and industry fixed effects. *Z* is a vector of control variables. Consistent with prior related empirical research, I control for the following variables:

*SIZE* is the natural logarithm of total assets in millions of U.S. dollars (*SIZE*). Large firms, all else equal, tend to have fewer resource constraints, more financial flexibility, lower uncertainty, and lower information asymmetry than small firms. In turn, these characteristics will likely enhance their ability to invest in CSR to build socially responsible reputations in

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<sup>13</sup> In our sample the correlation between the computed CSR score and CSR rank-transformed score is 82.77%. More details on the construction of the CSR variables can be found in Attig et al. (2011).

order to respond to the societal expectations of their stakeholders. This assumption is in line with the view of Watts and Zimmerman (1986) that large firms are more visible and subject to more public pressure, and are more politically visible (Dowling and Pfeffer 1975). I therefore expect larger firms to invest in CSR in order to maintain their reputation and avoid public pressure and sanctions that would result from deviant CSR conduct.

AGE is the log of firm age (FAGE). Compared to younger ones, older firms are expected to be on strong footing, associated with less financial uncertainty, and more likely to meet stakeholders' expectations. They are also expected to have better internal efficiencies and better ability to acquire knowledge (about firms' environment) and respond more strategically to environmental opportunities and constraints. Accordingly, older firms are deemed to have more CSR activities than younger firms.

LEVERAGE is firms' leverage measured as the ratio of long-term debt to total assets (LEVR). The relation between leverage and CSR is *a priori* unclear as there are competing arguments on its effect. For instance, leverage can reduce managerial agency costs by controlling managers' discretionary activities (e.g. Stulz 1990; Jensen and Meckling 1976), which may reduce firm's engagement in CSR activities. Similarly, high leverage reduces the availability of slack resources and the incentives of risk-averse management to undertake risky investment. This, in turn, can adversely affect CSR investments because they usually depend on the availability of slack resources and their associated outcomes can be uncertain (i.e. risky investment). This is likely the case because the benefits from CSR depend on a changing regulatory environment and on accurate assessments of a firm's CSR investments (Attig et al. 2011). Alternatively, because leverage can create incentives for self-interested managers to invest in negative net present value projects at the expense of creditors (Jensen and Meckling 1976), it can be positively associated with CSR activities. This can be the case when self-interested managers implement CSR activities to benefit themselves at the cost of lenders and other stakeholders.

PROFITABILITY is the ratio of operating income to sales (MARG). I use this ratio to control for firms' profitability, which may reflect their financial performance and resources availability for CSR investment. In addition, relatively large profits tend, *ceteris paribus*, to be associated with better managerial practices, which may enhance managerial discretionary investment in CSR.

## IV. EMPIRICAL EVIDENCE

### Sample Validation Test and Univariate Analysis

I start my analysis by taking a closer look at the cross-sectional distribution of the aggregate z-score of management quality (Figure 1) as well as the cross-sectional distribution of the scores on the four areas of management practices: *operations*, *monitoring*, *targets*, and *incentives* (Figure 2). Notably, both figures suggest a large variation in the scores of the aggregate measures of MQP and its individual components. I then examine whether my sample is consistent with the original sample of Bloom and Van Reenen (2007) and whether it is likely to provide valid inferences. I run this “validation test” because I lost about 100 firms from the original sample of U.S. manufacturing firms in Bloom and Van Reenen (2007). The objective of this “validation test” is to show that the scores of management quality in my sample are not just “cheap talk” by examining the extent to which the Darwinian selection process (of competition) and the Carnegie effect (of family ownership) explain the heterogeneity in the management practices in my CSR sample.

The *Darwinian selection process* refers to the impact of product market competition that will drive inefficient firms out of the market and allocate greater market share to the more efficient firms (e.g. Bloom and Van Reenen 2007, and references therein). I therefore expect better management practices in more competitive environments. To this end I use the managers’ self-reported number of competitors to group my sample firms into those with more than two competitors and those with fewer than two competitors. I then run, as shown in Panel A of Table 1, mean and median comparison tests of the z-score of MQP across these two subsamples. As expected, and in line with the evidence in Bloom and Van Reenen (2007), more intense product market competition is associated with better management practices. The same conclusion emerges from comparing the scores on the areas of MQP (except for monitoring, ZMON).

In Panel B of Table 1 I examine the effect of the *Carnegie Effect* on the distribution of ZMQP. The *Carnegie Effect* (primogeniture) refers to the succession of corporate control (e.g.

CEO) by heir (eldest son).<sup>14</sup> All else equal, the successive generation is sometimes less able than the first generation (founders) because successors are prone to being less hardworking and less ethical than the founders, which will adversely impact corporate outcomes. In my sample, I expect, as in Bloom and Van Reenen (2007), firms that select the CEO based on primogeniture to be poorly managed compared to the other firms. Notably, the mean and median comparison tests indicate that primogeniture firms score significantly lower (on the aggregate measure of management quality as well as on the four areas of management quality practices) than other firms. This result is again in line with the evidence of the original sample in Bloom and Van Reenen (2007). Both tests of Table 1 and the variability in the scores of management practices across the cross-section of firms indicate that my sample adequately captures the heterogeneity in management quality. This, in turn, provides grounds to examine the effect of managerial quality on CSR, as my premise is that MQP heterogeneity explains CSR variability.

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**Table 1 goes here**  
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While Panel C of Table 1 displays summary statistics for my key variables (MQP and CSR), Panel D presents the sample breakdown by year. With the exceptions of the years 2001 and 2002, the number of observations is relatively evenly distributed across years. The distribution of the aggregate score of CSR (CSRS) is, to some extent, comparable to those reported in related studies (e.g. El Ghouli et al. 2011; Attig et al. 2011). The sample breakdown by year (Panel D) suggests that, except for the years 2003 and 2004, the observations are fairly evenly dispersed over the sample period. I also notice a tendency to a positive association between CSR and MQP, as both variables seem to display a decreasing tendency over my sample period.

To provide preliminary insights into the relationship between firm MQP and CSR, I conduct univariate tests. I first split the sample according to whether the MQP (or one of its four specific types of practice) is above or below the sample median and perform mean and median comparison tests to assess differences in managerial quality across the two subsamples. Results are reported in Panel E of Table 1. Interestingly, the mean and median comparison tests indicate

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<sup>14</sup> The Carnegie Effect is named after the famous industrialist Andrew Carnegie, who gave away most of his wealth to non-family members.

that firms with above-median ZMQP display significantly higher CSR scores than firms with below-median ZMQP. This finding is in line with my main hypothesis as it suggests that higher managerial competencies are associated with more CSR activities. When I run these tests on the four areas of MQP I find that only the variation in target and incentive management practices impact CSR activities. One can argue that incentive practices have a significant effect on CSR because the incentive dimension gives strong rewards to managers with both ability and effort. One can contend also that the impact of target on CSR is likely to be driven by defining corporate targets in terms of more holistic goals consistently throughout the organizational structure of the firm (Bloom and Van Reenen 2007). To close this section I provide in Panel F of Table 1 the pairwise correlation coefficients between all key variables used in this study. Generally, the pairwise correlation coefficients among the control variables are low. I also note the positive correlation between ZMQP and CSR. In sum, Panel F suggests that multicollinearity does not seem to be affecting my multivariate regression results.

### **Multivariate Results**

To examine the impact of MQP on CSR, I run several specifications of my regression model (Equation 2). OLS estimates, along with their heteroscedasticity-consistent t-stat, are presented in Table 2. In model 1 I run a baseline regression without including ZMQP, then I add it in model 2. The estimated coefficient of profitability is of expected signs but not significant. The estimated coefficient of SIZE is also positive yet not significant, suggesting that the argument of “political visibility” of large firms cannot be carried too far. For instance, larger firms may benefit from higher market power and thus more profitability, which may reduce their interest in a socially responsible reputation. In contrast, smaller firms seem to be more concerned about enhancing their CSR reputation, plausibly to signal the quality of their non-financial information and secure better financing conditions. Firm leverage (LEVR) and firm age (FAGE) load negatively and significantly on CSR. This result suggests that younger firms tend to pay more attention to CSR activities, plausibly to enhance their competitive position.

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**Table 2 goes here**  
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Turning to the focus of this study, the estimated coefficient of the management quality z-score is positive and significant. The inclusion of ZMQP in my model is associated with an

increase of 8 percent in the Adj-R<sup>2</sup>. Moreover, the sign and significance of ZMQP remain unchanged when I run a variety of (untabulated) specifications (e.g. with and/or without year and industry effects). This result provides further support for the findings of univariate analysis and suggests that managers with higher managerial competencies (i.e. high z-score) tend to invest more in CSR. This finding is interesting as it stresses that corporate managers are responsible, at least in part, for maintaining firms' socially responsible postures. More broadly, this result provides direct evidence for the relevance of managerial idiosyncratic quality in shaping corporate outcomes, lending support to Bloom and Van Reenen's (2007) conclusion that MQP is embedded in the organizational capital of the firm.

I now examine the impact of the individual areas of MQP on CSR. Namely, I re-run Model 2 of Table 2 by replacing the ZMQP with, separately, the scores on monitoring (ZMON), operations (ZOPE), targets (ZTAR), and incentives (ZINC). Results are reported, respectively, in columns 3-6 of Table 2. Interestingly, and in line with my findings from the univariate analysis, all the areas of management practices seem to matter for corporate socially responsible behavior as they load positively and significantly on CSR.

In Table 3 I examine the impact of ZMQP on the individual components of CSR. Namely, I report the impact of ZMQP and the individual areas of MQP (ZOPE, ZMON, ZTAR, and ZINC) on the six dimensions of CSR: community relations, diversity, environmental performance, employee relations, human rights, and product characteristics. Interesting results emerge from Table 3. The dimensions of community relations (*CSRS\_COMM*), human rights (*CSRS\_HUMR*), and product characteristics (*CSRS\_PROD*) do not seem to be of relevance to managers with superior managerial skills, as ZMQP does not load significantly on these dimensions. Surprising evidence comes into view from the negative and significant estimated coefficient of ZMQP on the dimension of environmental performance (*CSRS\_ENVM*). Perhaps most importantly, the aggregate score of MQP (ZMQP) as well as the scores on the different areas of MQP load positively and significantly on the CSR dimensions of employee relations (*CSRS\_EMPL*) and diversity (*CSRS\_DIVR*).

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**Table 3 goes here**

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A few explanations can be put forward to elucidate the novel evidence reported in Table 3. First, in line with my second hypothesis, managers do not seem to have a direct impact on the socially *expected* CSR (i.e. community relations, human rights and product characteristics). However, while the dimension of environmental performance is also socially expected, its negative and significant coefficient should be cautiously interpreted. This dimension of CSR relates to firm's actions towards the environment (e.g. efficient use of energy, pollution prevention, cleaner technologies). Promoting environmental performance is, all else equal, expected to improve firms' production processes, which will enhance their productivity and competitiveness (i.e. Porter hypothesis). Intuitively, one would expect good managers to manage environmental risk by enhancing firms' environmental CSR reputation. However, this does not seem to be the case in my sample firms, possibly because the dimension of environmental CSR is less important to the stakeholders of (my sample) manufacturing firms than to firms in more environmentally sensitive industries (e.g. chemicals, energy). Therefore, investing in CSR activities to enhance environmental reputation of manufacturing firms may not be perceived by investors and stakeholders as relevant. In addition, stakeholders (investors in particular) may associate "greenwashing" campaigns (e.g. extensive disclosure of environmental CSR compliances and actions) by firms that aim to boost their image as environmentally friendly firms with poor environmental performance.<sup>15</sup> Indeed, in a recent study Cho et al. (2012) find that environmental performance is negatively related to both reputation scores and membership in the Dow Jones Sustainability Index (DJSI). In sum, in my sample, investment in environment CSR can be interpreted as social betterment (Frederick 1994) and associated with some form of inefficiency. With this consideration in mind, the negative

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<sup>15</sup> British Petroleum (BP) "greenwashing" campaign provides a reasonably good example. In 2002 alone BP spent US\$200 million on a campaign to boost its image as an environmentally friendly firm. Yet the firm's actual environmental record has been disastrous, as evidenced by a series of major accidents: in 2005, an explosion at the Texas City Refinery killed 15 people and injured 180; in 2006, oil leaks were discovered at the Prudhoe Bay operations on Alaska's North Slope; and in 2010, an explosion at one of its oil wells in the Gulf of Mexico killed 11 people and led to the largest marine oil spill in the history of the petroleum industry.

and significant coefficient of ZMQP on CSRS\_ENVI can plausibly suggest that good managers do not invest in CSRS\_ENVI, because this dimension is less relevant to my sample firms.

The other important results stem from the positive and significant relationship between ZMQP and employee relations (*CSRS\_EMPL*) and ZMQP and diversity (*CSRS\_DIVR*). This evidence is also in accord with my second hypothesis. Arguably, the positive and significant effect of MQP on *CSRS\_EMPL* and ZMQP and *CSRS\_DIVR* is consistent with managers' ability to strategically invest in proactive CSR. To some extent, these findings corroborate those of Brammer et al. (2006) who show that environmental and community indicators are negatively correlated with stock returns and that employment indicator is (weakly) positively related.

In Table 4 I report the results of the impact of MQP on CSR strengths and concerns. Of relevance to the focus of this study is the striking evidence that management quality has a positive and statistically significant impact only on CSR strengths. Moreover, only the areas of MQP monitoring (ZMON) and operations (ZOPE) load positively and significantly on CSR strengths. The fact that most of the estimates of MQP in the regression of CSR concerns are insignificant, while most load positively and significantly in the regression of CSR strengths is a pertinent result. This is true not only because this result argues in favor of my underlying premise on the relevance of managerial heterogeneity in shaping CSR, but also because it suggests that managerial competencies are more likely to increase CSR strengths than to reduce CSR concerns. This result accords with my third hypothesis, indicating that higher managerial quality is likely to be associated with more overt socially responsible behaviors. This result corroborates, to some extent, Hart's (1995) proposition that sustainable organizations will have a competitive advantage and achieve differentiation if they have a proactive CSR strategy and is in accord with Goss and Roberts' (2011) findings.

The evidence of Table 4 substantiates also the evidence of Kim et al. (2012). Indeed, these authors find that while firms with stronger scores are less likely to engage in real activities manipulation and are less likely to be subject to SEC actions against firms' CEOs/CFOs, those with higher CSR concerns scores are more likely to make opportunistic accounting decisions through discretionary accruals.

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**Table 4 goes here**  
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## Sensitivity Tests

In this section I subject my main finding—that heterogeneity in managerial styles matters in determining corporate social behavior—to additional sensitivity tests to ensure the robustness of my conclusions. Although not an original focus of this study, but as an additional control variable, I include a test for the impact of ownership structure evident in the presence of family ownership (FAMC). One can hold the view that family owners are often associated with corporate wrongdoings and agency costs and, thus, may be less committed to corporate social behavior. Yet, controlling families may engage in CSR activities to project a positive image and mask potential agency problems within their firms. A supportive argument of the positive effect of family ownership on CSR can be drawn from the alternative view that associates family ownership with some advantages over dispersed ownership (e.g. Anderson and Reeb 2003). By embracing this view, one can contend that family firms are more socially minded than non-family firms, and that CSR activities in family firms are more beneficial to their stakeholders than CSR in non-family firms. In addition, family management's commitment to long-term objectives and to the reputation of the family business—usually associated with multi-generation business experience—will likely strengthen firms' engagement in CSR activities and improve the associated economic benefits.

To test for the impact of family control, I set a dummy variable that takes the value 1 if the firm is a closely controlled family firm (i.e. family controls more than 50 percent and the CEO is a family member), and 0 otherwise. Results are reported in model 1 of Table 5. The estimated coefficient of FMAC is positive and statistically significant, corroborating the findings of Block and Wagner (2011), Block (2010), Deniz and Suarez (2005), and Stavrou et al. (2007) who show that family firms are associated with higher levels of CSR than non-family firms. To some extent, the estimated coefficient of FMAC pleads in favor of the argument that controlling families tend to care more about long-term (financial and non-financial) goals and preserving the family business (Arregle et al. 2007). One way to do this is by enhancing their socially responsible reputation to further their social capital (Pearson et al. 2008) and strengthen their resources and capabilities in order to hand over to the next family generation. Of more relevance to the focus of my study, ZMQP-estimated coefficient in model 1 of Table 5 remains

positive and significant, indicating that my previous findings remain unchanged after controlling for family ownership.<sup>16</sup>

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**Table 5 goes here**

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In model 2 of Table 5 I control for percentage of firms' managers with an MBA degree (MMBA). All else equal, I expect managers' education to play an important role in firms' CSR activities because higher education improves managers' receptivity to innovation and their ability to lead the organization to positive outcomes (Hambrick and Mason 1984). Higher degrees are expected to provide managers with more skills to manage the resources of the firm, implement its strategic orientation and meet stakeholders' expectations. Evidence supportive of the relevance of higher managerial education is provided by Cho et al. (1994) who document a positive relationship between firms' competitive behavior and higher managerial education, and Bantel and Jackson (1989) who show that firms' level of innovation is positively associated with higher levels of education. Bertrand and Schoar (2003) find that CEOs with an MBA degree are associated with higher return on assets than non-MBA CEOs. However, in light of recent white-collar corporate scandals (e.g. Enron), critics pointed to, among other things, MBA programs for stressing managers' selfish behavior (e.g. Bamber et al. 2010, and references therein). Bhagat et al. (2011) show also that hiring new CEOs with MBA degrees leads to short-term improvements, but does not affect firm's operating performance in the long term. Based on these arguments, managers with MBAs may be less inclined to invest in CSR. The estimated coefficient of MMBA is positive and significant. More important is the positive and significant coefficient of ZMQP, which maintains its sign and significance. Similar results are obtained when I control for the percentage of the firm's workforce with an academic degree (WDEG). I do not, however, report these results because the sample size decreases to 822 firm-year observations.

In model 3 of Table 5 I control for a *set of interview noise controls* (NOIZ) to mitigate biases across interviewers and types of interviewees (Bloom and Van Reenen 2007). Namely, I control

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<sup>16</sup> Results of model 1 in Table 5 remain unchanged when I relax the condition of CEO-family member and when I examine the situation where the family firm is closely held by the *founder*, who is the major shareholder and the CEO of the firm.

for interviewer dummies, seniority, gender, tenure, and number of countries worked in of the manager who responded, day of the week the interview was conducted, time of day of the interview, duration of the interview, and an indicator of the reliability of the information as coded by the interviewer. The inclusion of these *noise controls* actually increases the management coefficient (as in Bloom and Van Reenen 2007). This result remains unchanged when I control concurrently for family ownership (FAMC), managers' education (MMBA) and noise controls (NOIZ) as shown by model 4, in which FAMC loses its significance. The other columns of Table 5 display the results of the impact of ZMQP on, respectively, *CSRS\_COMM*, *CSRS\_DIVR*, *CSRS\_ENVM*, *CSRS\_HUMR*, *CSRS\_EMPL*, *CSRS\_PROD*, *CSRS\_S*, and *CSRS\_C*. Interestingly, the estimated coefficient of ZMQP across the different models is in accord with the reported results in Tables 3 and 4, suggesting that my previous findings are robust to the use of FAMC, MMBA and NOIZ as additional control variables.

In Panel A of Table 6 I examine the stability of my results over time. Namely, I expand my sample to the period 1995-2009 and divide the sample into three consecutive five-year subsample periods: 1995 to 1999, 2000 to 2004, and 2005 to 2009. The impact of ZMQP on CSR remains positive and significant across the three subsamples.<sup>17</sup>

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**Table 6 goes here**  
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*Endogeneity issue:* Although my results, so far, are insightful and in line with recent evidence on the relevance of the idiosyncratic managerial influences on corporate outcomes (e.g. Bamber et al. 2011; Bloom and Van Reenen 2007; Bertrand and Schoar 2003), they should be interpreted with caution as I cannot rule out alternative explanations. For instance, one can argue that, in the spirit of Orlitzky et al. (2003) and Shrivastava (1995), CSR can be an organizational resource that helps firms build managerial competencies. This “reinforcing spiral” (Miles and Snow 1978) may occur over time, where managers “pick strategies to suit their competences, successors are picked to suit the strategies” (Michel and Hambrick 1992, p. 33). In line with the “alignment of beliefs” argument (Van den Steen, 2005) one can maintain that socially-minded firms will attract socially-minded managers (i.e. competent managers with

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<sup>17</sup> Our findings remain qualitatively unchanged when clustering the error term by firm and time (Thompson 2010). Results are available upon request from the author.

beliefs similar to those of the firm). Similarly, socially-minded firms will provide incentives (or feedback) to their managers to increase their efforts to utilize corporate resources in efficient ways in order to maintain the socially responsible reputation of the firm. To cope with this issue, I implement Instrumental Variables (IV) analysis to address the endogeneity issue. As in Bloom and Van Reenen (2007), I instrument MQP with the firm's CEO succession policy (primogeniture) and market competition (COMP). I namely use a dummy variable that takes the value 1 for firms in which the eldest son becomes the CEO and use managers' self-reported number of competitors (COMP) for market competition. Results of the first and second stage of the 2sls are reported in Panel B of Table 6. The estimated coefficient of (the instrumented) ZMQP is still significant and positive, providing further support for the importance of idiosyncratic management quality in shaping CSR.

Overall, the consistently positive and significant effect of superior managerial competencies on CSR suggests that MQP may alter the relationship between CSR and corporate performance, and provide, at least in part, explanation for the mixed evidence in this area. This question is addressed in the following section.

### **Corporate Performance and CSR Revisited**

Research devoted to probing the relationship between CSR and corporate performance does not speak with one voice. One view regards CSR activities as discretionary expenditures that can be exploited by incumbent managers to enhance their personal agendas (e.g. Friedman 1970), which may adversely affect corporate performance (CP). Alternatively, investing in CSR may minimize a range of risks (e.g. regulatory risk, supply chain risk, product risk, and as a result the perceived risk of future financial distress), enhance the firm's reputation and build effective links with its stakeholders, and improve internal efficiency and managerial competencies (see discussion in Attig et al. (2011), and references therein). As a result, CSR activities will load positively on CP. Margolis and Walsh (2003) show that 48 of 109 reviewed studies do not find a distinguishable relationship between CSR and financial performance, and 54 (7) document a positive (negative) relationship. Goss and Roberts (2011, p. 1794) state, "From a research perspective, adequately controlling for management motivation is likely to be critical to successfully uncovering the link between CSR and firm performance."

In light of the evidence from this study, I hypothesize that CSR investments are more valuable for firms with higher managerial competencies. However, CSR can be endogenously related to corporate performance. For instance, firms with high corporate performance tend to invest more in CSR, and firms invest in CSR to enhance corporate performance (e.g. Waddock and Graves, 1997a). To control for this bias, I simultaneously estimate the equations of CSR and Tobin's Q (my proxy for corporate performance), while instrumenting ZMQP with COMP and PRIM.

Namely, I run the following system of equations:

$$TOBQ = \gamma_0 + \gamma_1 CSRS + \gamma_2 ZMQP + \gamma_3 CSRS * ZMQP + CONTROLS_{TOBQ} + NOIZ + FIX + \omega \quad (3)$$

$$CSRS = \alpha + \beta_1 ZMQP + CONTROLS_{CSRS} + NOIZ + FIX + \varepsilon$$

where TOBQ is my proxy for corporate performance measured by Tobin's Q (ratio of market-to-book of the firm, as in Bebchuk et al. 2011). CSRS and ZMQP stand for firms' aggregate scores on, respectively, CSR and MQP. CONTROLS include firm size (SIZE), leverage (LEVR), firm age (FAGE), the ratio of R&D over sales (RDSA), the ratio of capital expenditure over property, plant and equipment (CPEX), percentage of managers with MBA degree (MMBA), and family ownership (FAMC). Results are reported in Panel C of Table 6. Upon casual examination of these results two features are immediately apparent: First, the estimated coefficient of CSRS loses its significance.<sup>18</sup> Second, and perhaps most importantly, the estimated coefficient (CSRS\*ZMQP) is positive and significant (with t-stat of 1.97). This result is salient as it suggests that CSR is associated with value creation in the presence of managers with superior management competencies (i.e. high MQP). This evidence sheds light, at least partially, on the mixed evidence on the relationship between CSR and corporate performance. Namely, it suggests that the heterogeneous (unobservable) manager-specific talents and abilities play a non-negligible role in altering the effects of CSR on corporate performance.

Another result of interest relates to the estimated coefficient of ZMQP. Although not the focus of this study, the non-significant effect of ZMQP on corporate performance (TOBQ) suggests, as seems reasonable and in line with the argument in Bloom and Van Reenen (2007, p.

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<sup>18</sup> In fact, when I examine the impact of CSRS on TOBQ independently of MQP, its coefficient is positive and (marginally) significant.

1357), that better management practices may not translate into profit increase and value creation, even if they increase productivity. For instance, the high costs of investing in high MQP (e.g. adopting new technologies, hiring qualified managers, training employees) may not outweigh the expected benefits, especially because MQP are unobservable. Stated differently, it appears from the sign and significance of the estimated coefficients of ZMQP and CSRS\*ZMQP that in order for managers to translate their management practices into value (creation) they should signal their superior MQP to their stakeholders. CSR would be one channel for doing that.

## V. CONCLUSION

In this paper I attempt to stress the importance of idiosyncratic management quality in shaping corporate social responsibility. I premise that managers are responsible for maintaining firms' socially responsible postures, because CSR, like other corporate decisions and outcomes, is primarily a managerial activity. My univariate and multivariate analyses suggest that top managers exert significant individual-specific influence over CSR activities. Interestingly, I also find that the managerial competencies seem to matter more in explaining cross-sectional differences in CSR strengths, and the CSR dimensions of employee relations and diversity. These findings indicate that superior management competencies are associated with proactive investments in CSR that are likely to enhance firms' social reputation and avoid negative social pressure, which would result in long-term benefits. I also provide novel evidence suggesting that CSR enhances firm performance only in the presence of managers with superior talents and abilities. My empirical analysis stresses the need for managers to use reliable channels to signal their superior competencies and translate them into value creation. My results are robust to the use of various model specifications and to endogeneity bias.

Overall, my analysis substantiates the argument that idiosyncratic management competencies map onto corporate social performance and, more broadly, lend support to the proposition that organizations are reflections of their managers' talents and abilities. My study provides impetus for future CSR studies to examine the role of managerial heterogeneity in explaining the mixed evidence on the relationship between CSR and corporate performance. Equally important, my findings invite future researchers to explore the implications of managerial heterogeneity on other corporate outcomes and choices.

For practitioners and regulators, this study suggests that an effective way to enhance the value of corporate outcomes and protect the interests of firms' stakeholders is to target the individual managers by improving their competencies and articulating their responsibilities. The findings of this study suggest that financial analysts and portfolio managers need to pay more attention to manager-specific styles in their selection and valuation of stocks. Similarly, the findings of this study suggest that managers and corporate decision makers should project a positive image of the firm's managerial style in order to strengthen the firm's reputation, expand its investor base, and further its growth opportunities.

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## Appendix A. Bloom and Van Reenen's (2007) Management Practice Dimensions

This table lists the 18 management practices on which a firm's aggregate management score (MQP) is based. This table is based on Table 1 of Bloom and Van Reenen (2010, p. 1393). Some sample questions are not included in this table.

	Practice	Practice type	Example of questions
1	Introduction of modern manufacturing techniques	Operations	Can you describe the production process for me? What kinds of lean modern manufacturing processes have you introduced? Can you give me specific examples? How do you manage inventory levels? What is done to balance the line?
2	Rationale for introduction of modern manufacturing techniques	Operations	Can you talk through the rationale to introduce these processes? What factors led to the adoption of these lean modern management practices?
3	Process problem documentation	Operations	How do you go about improving the manufacturing process itself? How do problems typically get exposed and fixed? Talk me through the process for a recent problem. Do the staff ever suggest process improvements?
4	Performance tracking	Monitoring	Tell me how you track production performance. What kind of key performance indicators (KPIs) would you use for performance tracking? How frequently are these measured?
5	Performance review	Monitoring	How do you review your KPIs? Tell me about a recent meeting. Who is involved in these meetings? Who gets to see the results of this review?
6	Performance dialogue	Monitoring	How are these meetings structured? Tell me about your most recent meeting. During these meeting, how many useful data do you have? How useful do you find problem-solving meetings?
7	Consequence management	Monitoring	What happens if there is a part of the business or a manager who isn't achieving agreed-upon results? Can you give me a recent example? What kind of consequences would follow such an action?
8	Target balance	Targets	What types of targets are set for the company? What are the goals for your plant? Tell me about the financial and non-financial goals. What do company headquarters (CHQ) managers emphasize to you?
9	Target interconnection	Targets	What is the motivation behind your goals? How are these goals cascaded down to the individual workers? What are the goals of the top management team? Do they even know what they are??
10	Target time horizon	Targets	What kind of time scale are you looking at with your targets? How are long-term goals linked to short-term goals? Could you meet all your short-run goals but miss your long-run goals?
11	Targets are stretching	Targets	How tough are your targets? On average, how often would you say that you meet your targets? Are there any targets that are obviously too easy (will always be met) or too hard (will never be met)?



12	Performance clarity	Monitoring	What are your targets, i.e., do they know them exactly? Does everyone know their targets? How do people know about their own performance compared to other people's performance?
13	Managing human capital	Targets	Do senior managers discuss attracting and developing talented people? Do senior managers get any rewards for bringing in and keeping talented people in the company?
14	Rewarding high performance	Incentives	How does your appraisal system work? Tell me about the most recent round. How does the bonus system work? Are there any non-financial rewards for top performers?
15	Removing poor performers	Incentives	If you had a worker who could not do his job what would you do? Could you give me a recent example? How long would underperformance be tolerated? Do you find any workers who lead a sort of charmed life?
16	Promoting high performers	Incentives	Can you rise up the company rapidly if you are really good? Are there any examples you can think of? What about underperformers – do they get promoted more slowly?
17	Attracting human capital	Incentives	What makes it distinctive to work at your company as opposed to your competitors? If you were trying to sell your firm to me how would you do this?
18	Retaining human capital	Incentives	If you had a star performer who wanted to leave what would the company do? Could you give me an example of a star performer being persuaded to stay after wanting to leave?

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## Appendix B. Definitions of Qualitative Issue Areas

I consider six qualitative issue areas: Community, Diversity, Employee Relations, Environment, Human Rights, and Product Characteristics. Each area has a set of strengths and concerns as detailed below. I calculate a score for each area equal to the number of strengths minus the number of concerns. I also calculate an overall CSR score equal to the sum of all areas' scores. The CSR scores are not comparable over time because several item ratings were added and dropped by KLD. Accordingly, I convert the CSR scores into decile ranks computed each year.

	<b>Concerns</b>	<b>Strengths</b>
Community	Investment Controversies Negative Economic Impact Indigenous Peoples Relations Tax Disputes Other Concern	Charitable Giving Innovative Giving Non-US Charitable Giving Support for Housing Support for Education Indigenous Peoples Relations Volunteer Programs Other Strength
Diversity	Controversies Non-Representation Other Concern	CEO, Promotion Board of Directors Work/Life Benefits Women & Minority Contracting Employment of the Disabled Gay & Lesbian Policies Other Strength
Employee Relations	Union Relations Health & Safety Concern Workforce Reductions Retirement Benefits Concern Other Concern	Union Relations No-Layoff Policy Cash Profit Sharing Employee Involvement Retirement Benefits Strength Health & Safety Strength Other Strength
Environment	Hazardous Waste Regulatory Problems Ozone Depleting Chemicals Substantial Emissions Agricultural Chemicals Climate Change Other Concern	Beneficial Products & Services Pollution Prevention Recycling Clean Energy Communications Property, Plant and Equipment Other Strength
Human rights	South Africa Northern Ireland Burma Concern Mexico Labor Rights Concern Indigenous Peoples Relations Concern Other Concern	Positive Record in South Africa Indigenous Peoples Relations Strength Labor Rights Strength Other Strength
Product characteristics	Product Safety Marketing/Contracting Concern Antitrust Other Concern	Quality R&D/Innovation Benefits to Economically Disadvantaged Other Strength

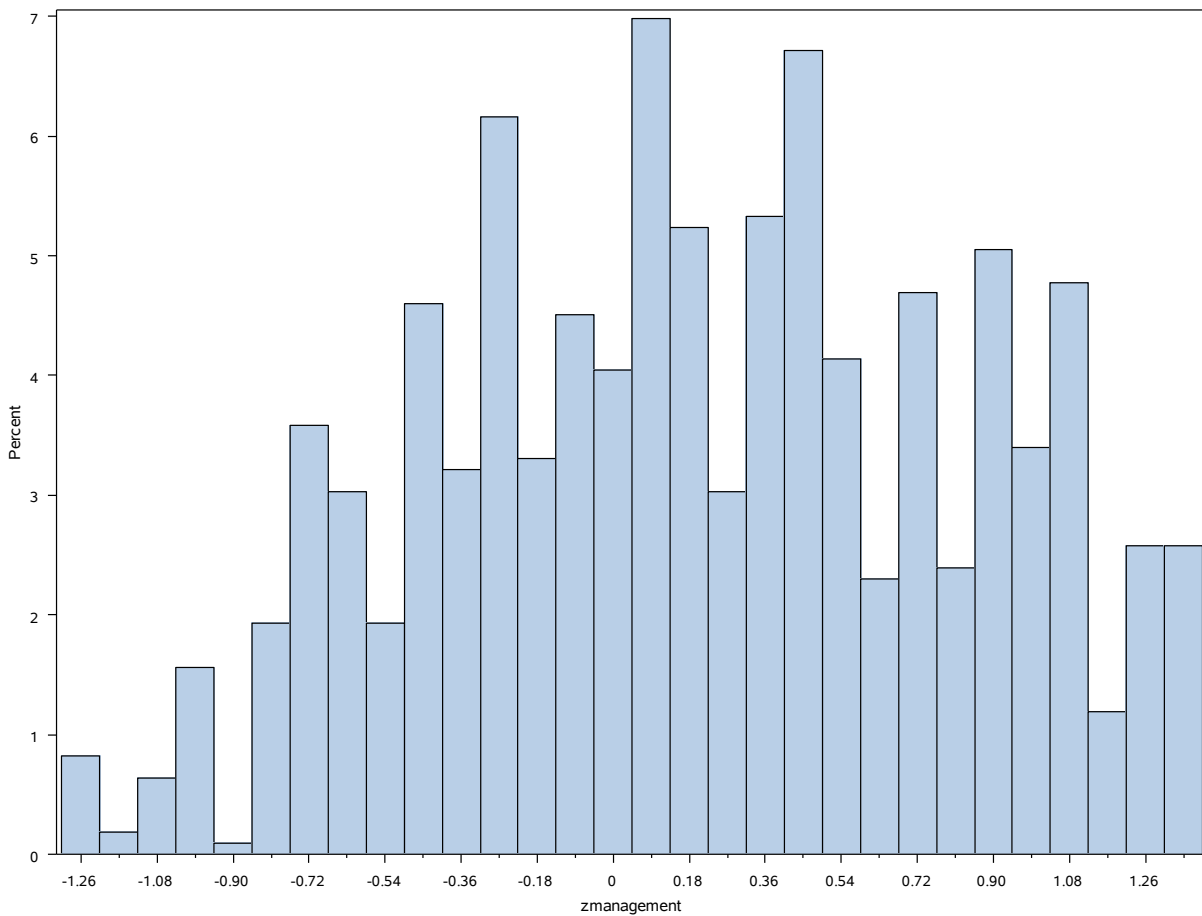
## Appendix C. Variables Definitions

Variables	Description	Source
<b>Panel A: Key test Variables</b>		
ZMQP	is a survey-based score on the firm's overall management quality practices. ZMQP is my <i>key test</i> variable.	Bloom and Van Reenen (2007)
ZMON	is a survey-based score on the firm's monitoring management quality. See Appendix A for a sample of questions	As above
ZOPE	is a survey-based score on the firm's operations management quality. See Appendix A for a sample of questions	As above
ZTAR	is a survey-based score on the firm's target management quality. See Appendix A for a sample of questions	As above
ZINC	is a survey-based score on the firm's incentives management quality. See Appendix A for a sample of questions	As above
<b>Panel B: Dependent Variables</b>		
CSRS	is the yearly decile rank transformation of firm's CSR score. CSR score equals the sum of the Community, Diversity, Employee, Environment, Human Rights, and Product Characteristics qualitative issues areas scores.	KLD Research & Analytics, Inc.
CSRS_S	is the yearly decile rank transformation of firm's CSR strengths score. The CSR strengths score is equal to the number of strengths in the Community, Diversity, Employee, Environment, Human Rights, and Product Characteristics qualitative issues areas.	As above
CSRS_C	is the yearly decile rank transformation of firm's CSR concerns score. The CSR concerns score is equal to the numbers of concerns in the Community, Diversity, Employee, Environment, Human Rights, and Product Characteristics qualitative issues areas.	As above
TOBQ	Following Bebchuk et al. (2011), I calculate Tobin's Q as $(data199*data25+data6-data60-data74)/data6$ , where data199 is the stock price at the end of the fiscal year, data25 is the number of shares outstanding, data6 is the book value of total assets, data60 is the book value of equity, and data74 is the amount of deferred taxes. If data74 is missing, it is set to zero.	Author's calculation
<b>Panel C: Control Variables</b>		
SIZE	is log of total assets	COMPUSTAT
LEVR	the ratio of long-term debt to total assets	As above
MARG	is the ratio of operating income to sales	As above
FAGE	is the log of firm's age	Bloom and Van Reenen (2007)
YEAR	Year dummy variables	Author's calculation
INDU	Industry dummy variables. I use Fama-French 17 industries classification to construct 7 industry dummies in my sample.	As above
COMP	Managers' self-reported number of competitors (COMP).	Bloom and Van Reenen (2007)
FAMC	When family members jointly own the firm's largest shareholding block	As above

PRIM	When the eldest son of the family in a family-controlled firm (FAMC) becomes the CEO	As above
MMBA	is the log of percentage managers with an MBA degree	As above
WDEG	is the percentage of the firm's workforce with an academic degree	As above
NOIZ	a set of interview noise controls that includes interviewer dummies, seniority, gender, tenure and number of countries worked in of the manager who responded, day of the week the interview was conducted, time of day the interview was conducted, duration of the interview, and an indicator of the reliability of the information as coded by the interviewer.	Bloom and Van Reenen (2007)
RDSA	the ratio of R&D over sales	COMPUSTAT
RDSA	the ratio of capital expenditure over property, plant and equipment	As above

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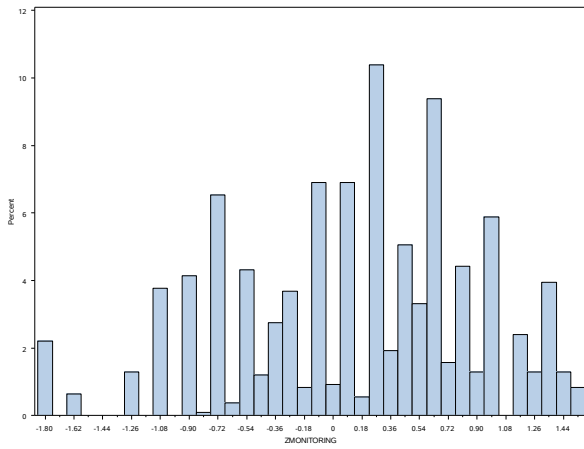
## Distribution of Aggregate Scores on Management Quality Practices



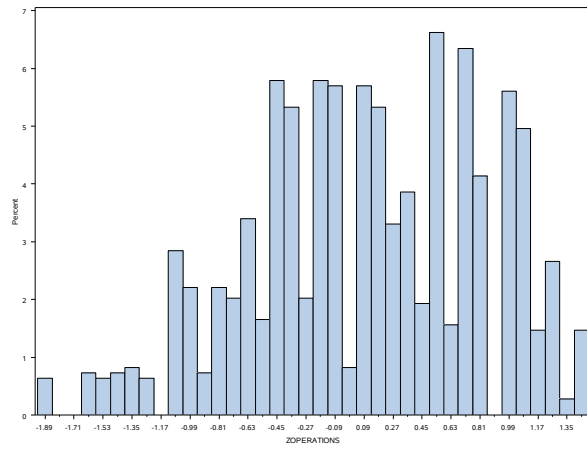
**Figure 1: Distribution of the z-scores of four categories of management quality practices score**

This figure depicts the distribution of the management quality practices z-score for 190 U.S. firms (1088 firm-year observations). The original data were obtained from Bloom and Van Reenen (2007).

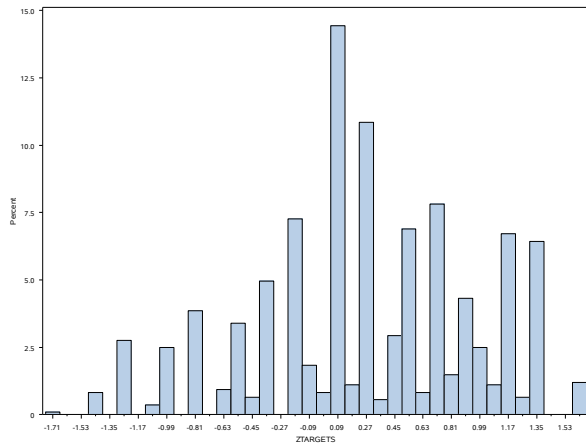
**Distribution of the Scores on the Management Area of MONITORING**



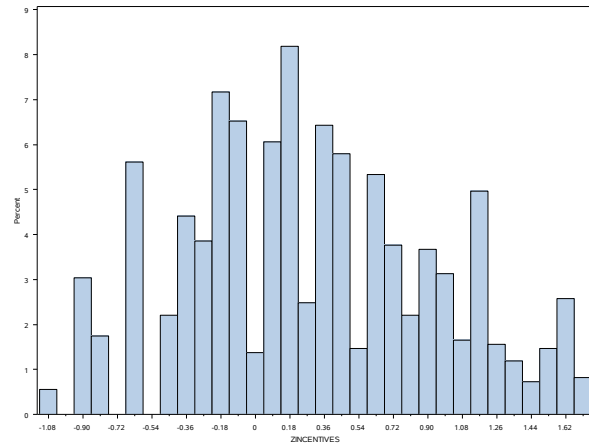
**Distribution of the Scores on the Management Area of OPERATIONS**



**Distribution of the Scores on the Management Area of TARGETS**



**Distribution of the Scores on the Management Area of INCENTIVES**



**Figure 2: Distribution of the z-scores of four categories of management quality practices score**

This figure depicts the distribution of the z-score of the four areas of management practices – operations, monitoring, targets, incentives – for 190 U.S. firms (1088 firm-year observations). The original data were obtained from Bloom and Van Reenen (2007).

**Table 1. Validation Test and Univariate Analysis**

Panel A of this table presents the distribution of management quality practices across different structures of product market competition, defined based on managers' self-reported number of competitors. Panel B examines the impact of different forms of ownership structures (primogeniture firms vs. other firms). Panel C presents summary statistics for my key variables. Panel D displays the sample breakdown by year. Panel E presents the results of univariate analysis and Panel F pair-wise correlation coefficients between key regression variables. Variables definitions and data sources are presented in Appendix C.

<b>Panel A: Effect of Competition</b>						
	<b>Less than two competitors</b>		<b>More than two competitors</b>		<b>Test for differences in</b>	
	<b>Mean</b>	<b>Median</b>	<b>Mean</b>	<b>Median</b>	<b>Mean</b>	<b>Median</b>
ZMQP	-0.174	0.002	0.221	0.206	0.0001	<.0001
ZMON	0.101	0.263	0.130	0.239	0.7356	0.8019
ZOPE	-0.117	-0.150	0.109	0.128	0.0087	0.050
ZTAR	-0.332	-0.259	0.288	0.292	<.0001	<.0001
ZINC	-0.153	-0.197	0.306	0.287	<.0001	<.0001

<b>Panel B: Effect of primogeniture (Carnegie Effect)</b>						
	<b>Primogeniture firms</b>		<b>Other firms</b>		<b>Mean</b>	<b>Median</b>
	ZMQP	-0.529	-0.754	0.217	0.202	<.0001
ZMON	-0.841	-1.056	0.141	0.241	<.0001	<.0001
ZOPE	-0.798	-0.979	0.112	0.169	<.0001	<.0001
ZTAR	-0.237	-0.589	0.273	0.281	<.0001	0.0026
ZINC	-0.427	-0.622	0.300	0.219	<.0001	<.0001

<b>Panel C : Sample distribution of MQP and CSR</b>					
	<b>Mean</b>	<b>Median</b>	<b>Q1</b>	<b>Q3</b>	<b>Stdev</b>
ZMQP	0.208	0.183	-0.253	0.690	0.622
ZMON	0.129	0.239	-0.324	0.616	0.745
ZOPE	0.101	0.128	-0.442	0.696	0.722
ZTAR	0.267	0.281	-0.149	0.726	0.692
ZINC	0.291	0.218	-0.213	0.758	0.648
CSRS	-0.23	0	-1	0	1.996

<b>Panel D : Distribution of ZMQP and CSRS by year</b>							
<b>Year</b>	<b>ZMQP</b>				<b>CSRS</b>		
	<b>N</b>	<b>Mean</b>	<b>Median</b>	<b>St. Dev</b>	<b>Mean</b>	<b>Median</b>	<b>St. Dev</b>
2001	45	0.259	0.206	0.617	1.111	1	1.991
2002	46	0.286	0.251	0.655	0.978	1	2.256
2003	150	0.190	0.182	0.641	-0.160	0	1.542
2004	157	0.222	0.202	0.626	-0.414	-1	1.601
2005	149	0.206	0.181	0.622	-0.302	-1	1.968
2006	143	0.205	0.183	0.616	-0.308	-1	2.124
2007	127	0.199	0.181	0.623	-0.291	-1	2.197
2008	136	0.204	0.193	0.612	-0.434	-1	2.197
2009	135	0.188	0.170	0.617	-0.489	-1	1.985

<b>Panel E : Univariate tests</b>						
	<b>High Management Quality</b>		<b>Low Management Quality</b>		<b>Test for differences in</b>	
	<b>Mean</b>	<b>Median</b>	<b>Mean</b>	<b>Median</b>	<b>Mean</b>	<b>Median</b>
ZMQP	0.625	0.667	0.580	0.544	0.008	0.003
ZMON	0.606	0.544	0.600	0.667	0.695	0.762
ZOPE	0.615	0.630	0.591	0.544	0.152	0.120
ZTAR	0.643	0.772	0.559	0.541	<.0001	<.0001
ZINC	0.628	0.769	0.578	0.544	0.003	0.001

<b>Panel F : Correlation Table</b>						
	ZMQP	CSRS_RT	SIZE	LEVR	FAGE	MARG
ZMQP	1					
CSRS	0.13	1				
SIZE	-0.07	-0.06	1			
LEVR	-0.2	-0.1	0.32	1		
FAGE	-0.11	-0.1	0.28	0.03	1	
MARG	0.08	0.01	0.18	-0.02	0.17	1

**Table 2. Impact of Management Quality Practices on Corporate Social Responsibility**

This table reports the OLS estimates of the quality of management practices on corporate social responsibility. The sample is composed of 1088 firm-year observations representing 190 unique firms over the period 2001-2009. Variables description is provided in Appendix C. *t*-values based on heteroscedasticity-consistent standard errors are in parentheses.

	Model :					
	(1)	(2)	(3)	(4)	(5)	(6)
Intercept	0.734*** (8.52)	0.739*** (8.61)	0.737*** (8.66)	0.734*** (8.55)	0.738*** (8.61)	0.742*** (8.61)
SIZE	0.006 (0.63)	0.005 (0.52)	0.006 (0.62)	0.006 (0.66)	0.004 (0.45)	0.004 (0.49)
LEVR	-0.132*** (-3.63)	-0.115*** (-3.04)	-0.117*** (-3.11)	-0.120*** (-3.21)	-0.118*** (-3.22)	-0.117*** (-3.09)
FAGE	-0.034*** (-3.40)	-0.032*** (-3.24)	-0.033*** (-3.35)	-0.033*** (-3.34)	-0.031*** (-3.08)	-0.033*** (-3.32)
MARG	0.034 (0.70)	0.024 (0.51)	0.024 (0.51)	0.028 (0.60)	0.024 (0.51)	0.024 (0.50)
ZMQP		<b>0.033** (2.41)</b>				
ZMON			<b>0.028** (2.45)</b>			
ZOPE				<b>0.023** (2.03)</b>		
ZTAR					<b>0.028** (2.31)</b>	
ZINC						<b>0.029** (2.15)</b>
YEAR	YES	YES	YES	YES	YES	YES
INDU	YES	YES	YES	YES	YES	YES
N	1088	1088	1088	1088	1088	1088
<i>Adj.R</i> <sup>2</sup>	0.050	0.054	0.054	0.053	0.054	0.053



**Table 3: The Effect of MQP on the Different Dimensions of CSR**

This table reports the OLS estimates of the effect of MQP (ZMQP) and its four areas (ZMON, MOPE, ZTAR, and ZINC) on the individual components of CSRS: community relations (CSRS\_COMM), diversity (CSRS\_DIVR), employee relations (CSRS\_EMPL), environmental performance (CSRS\_ENVI), human rights (CSRS\_HUMN), and product characteristics (CSRS\_PROD). The sample is composed of 1088 firm-year observations representing 190 unique firms over the period 2001-2009. While I control for the same control variables as in equation (2) I report the estimated coefficient of the variables of interest for space convenience. Variables description is provided in Appendix C. *t*-values based on heteroscedasticity-consistent standard errors are in parentheses.

	CSRS_COMM					CSRS_DIVR					CSRS_EMPL				
ZMQP	0.00 (-0.01)					0.04*** (3.68)					0.06*** (4.59)				
ZMON	-0.001 (-0.3)					0.042*** (4.27)					0.051*** (4.26)				
ZOPE	-0.003 (-0.87)					0.038*** (3.91)					0.057*** (4.53)				
ZTAR	-0.009** (-1.93)					0.045*** (4.06)					0.050*** (3.88)				
ZINC	0.010 (1.44)					0.025** (2.21)					0.049*** (3.83)				
YEAR	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
INDU	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Adj.R <sup>2</sup>	0.051	0.051	0.051	0.053	0.054	0.108	0.113	0.109	0.112	0.100	0.118	0.117	0.120	0.114	0.112
	CSRS_ENVI					CSRS_HUMN					CSRS_PROD				
ZMQP	-0.02*** (-2.28)					-0.01 (-0.75)					-0.012 (-1.03)				
ZMON	-0.026*** (-2.76)					-0.003 (-0.6)					-0.018** (-2.05)				
ZOPE	-0.027*** (-3.06)					-0.009* (-1.75)					-0.026*** (-2.78)				
ZTAR	-0.009 (-0.9)					-0.001 (-0.2)					-0.028*** (-2.95)				
ZINC	-0.020* (-1.75)					-0.001 (-0.13)					0.014 (1.29)				
YEAR	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
INDU	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Adj.R <sup>2</sup>	0.096	0.098	0.098	0.093	0.095	0.060	0.060	0.061	0.060	0.060	0.118	0.120	0.122	0.123	0.118

**Table 4: Impact of the Management Quality Practices on CSR Strengths and Concerns**

This table reports the OLS estimates of the effects of z-score management quality and its specific areas of management practices on the scores of *strengths* and *concerns* of CSR. The sample is composed of 1088 firm-year observations representing 190 unique firms over the period 2001-2009. Variables description is provided in Appendix C. *t*-values based on heteroscedasticity-consistent standard errors are in parentheses.

	CSR Strengths					CSR Concerns				
	(1)	(2)	(3)	(4)	(5)	(1)	(2)	(3)	(4)	(5)
Intercept	0.558*** (11.88)	0.557*** (11.91)	0.556*** (11.86)	0.557*** (11.87)	0.435*** (6.00)	0.436*** (6.04)	0.437*** (6.06)	0.438*** (6.05)	0.437*** (6.04)	0.435*** (6.00)
SIZE	0.032*** (6.66)	0.032*** (6.77)	0.032*** (6.79)	0.032*** (6.60)	0.022*** (2.89)	0.022*** (2.87)	0.021*** (2.83)	0.021*** (2.81)	0.022*** (2.86)	0.022*** (2.89)
LEVR	-0.055*** (-3.02)	-0.056*** (-3.09)	-0.057*** (-3.14)	-0.059*** (-3.25)	0.098*** (3.12)	0.098*** (3.10)	0.099*** (3.15)	0.101*** (3.23)	0.100*** (3.19)	0.098*** (3.12)
FAGE	-0.002 (-0.35)	-0.002 (-0.44)	-0.002 (-0.42)	-0.002 (-0.32)	0.034*** (3.83)	0.034*** (3.80)	0.034*** (3.85)	0.034*** (3.85)	0.034*** (3.70)	0.034*** (3.83)
MARG	-0.052* (-1.87)	-0.052* (-1.86)	-0.050* (-1.81)	-0.050* (-1.81)	-0.100** (-2.34)	-0.101** (-2.36)	-0.101* (-2.36)	-0.103** (-2.41)	-0.101** (-2.38)	-0.100** (-2.34)
ZMQP	<b>0.016**</b> <b>(2.07)</b>					-0.013 (-1.09)				
ZMON		<b>0.013**</b> <b>(2.04)</b>					-0.010 (-1.14)			
ZOPE			<b>0.012*</b> <b>(1.91)</b>					-0.007 (-0.69)		
ZTAR				0.009 (1.26)					-0.009 (-0.81)	
ZINC					-0.012 (-1.10)					-0.012 (-1.10)
YEAR	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
INDU	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
N	1088	1088	1088	1088	1088	1088	1088	1088	1088	1088
Adj.R <sup>2</sup>	0.091	0.091	0.090	0.089	0.093	0.081	0.081	0.081	0.081	0.081

**Table 5. Robustness Checks**

This table reports the OLS estimates of the effects of z-score management quality (ZMQP) on CSRS, its dimensions (community relations (CSRS\_COMM), diversity (CSRS\_DIVR), employee relations (CSRS\_EMPL), environmental performance (CSRS\_ENVI), human rights (CSRS\_HUMN), and product characteristics (CSRS\_PROD), CSR strengths, and CSR concerns. The sample is composed of 1088 firm-year observations representing 190 unique firms over the period 2001-2009. In this table I augment my regression analysis with new variables to test the robustness of my findings. Namely, I control for the proportion of managers with an MBA degree (MMBA), firms that are closely controlled by families (FAMC), and a vector of noise variables (NOIZ). Variables description is provided in Appendix C. *t*-values based on heteroscedasticity-consistent standard errors are in parentheses.

	Aggregate CSR Score				Individual CSR Components						CSR	CSR
	(1)	(2)	(3)	(4)	COMM	DIVR	EMPY	ENVM	HUMN	PROD	STRH	CONC
Intercept	0.752*** (8.78)	0.714*** (8.36)	1.005*** (8.28)	0.971*** (8.07)	1.231*** (18.44)	0.654*** (6.57)	1.050*** (8.05)	1.056*** (11.17)	1.224*** (19.45)	1.235*** (11.74)	0.653*** (9.26)	0.253** (2.48)
SIZE	0.004 (0.44)	0.005 (0.55)	-0.001 (-0.07)	-0.002 (-0.22)	-0.017*** (-3.60)	0.049*** (6.11)	-0.023** (-2.35)	-0.036*** (-4.77)	-0.016*** (-2.98)	-0.055*** (-6.21)	0.026*** (4.74)	0.020** (2.44)
LEVR	-0.102*** (-2.73)	-0.117*** (-3.09)	-0.132*** (-3.67)	-0.127*** (-3.58)	0.010 (0.52)	0.021 (0.74)	-0.206*** (-5.22)	0.010 (0.34)	-0.010 (-0.44)	-0.048 (-1.45)	-0.051*** (-2.80)	0.103*** (3.27)
FAGE	-0.035*** (-3.48)	-0.032*** (-3.26)	-0.047*** (-4.12)	-0.049 (-4.29)	-0.020*** (-3.60)	-0.014 (-1.55)	-0.054*** (-4.45)	-0.039*** (-3.61)	0.000 (-0.04)	-0.029*** (-3.52)	-0.001 (-0.17)	0.054*** (5.68)
MARG	0.032 (0.68)	0.025 (0.54)	0.011 (0.23)	0.020 (0.42)	0.022** (2.07)	-0.113*** (-2.90)	0.236*** (4.10)	0.077** (2.42)	0.050** (2.14)	-0.112*** (-2.92)	-0.036 (-1.27)	-0.092** (-2.27)
ZMQP	0.032** (2.36)	0.027* (1.91)	0.055*** (3.77)	0.046*** (3.09)	0.003 (0.53)	0.055*** (4.25)	0.055*** (3.61)	-0.004 (-0.40)	-0.009 (-1.01)	0.014 (1.23)	0.019*** (2.33)	-0.026** (-2.11)
FAMC	0.132*** (4.02)			0.114*** (3.14)	0.032*** (2.59)	0.021 (0.67)	0.149*** (3.72)	0.071*** (3.96)	0.022 (0.09)	-0.010 (-0.30)	0.059*** (2.60)	-0.049 (-1.41)
MMBA		0.003*** (2.83)		0.005*** (4.36)	0.001** (2.13)	0.002* (1.94)	0.000 (-0.03)	-0.002 (-0.74)	0.001** (2.00)	-0.003 (-1.02)	0.004*** (4.96)	0.003** (2.34)
NOIZ			YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
YEAR	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
INDU	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
N	1088	1088	1088	1088	1088	1088	1088	1088	1088	1088	1088	1088
Adj.R <sup>2</sup>	0.064	0.057	0.104	0.116	0.101	0.146	0.148	0.197	0.104	0.204	0.136	0.133

**Table 6. Additional Robustness Checks: Endogeneity**

This table reports the OLS estimates of the effects of z-score management quality (ZMQP) on CSRS. The sample is composed of 1088 firm-year observations representing 190 unique firms over the period 2001-2009. In Panel A I reproduce my analysis over three consecutive five-year subsample periods: 1995 to 1999, 2000 to 2004, and 2005 to 2009. In Panel B I instrument ZMQP with primogeniture (PRIM) and competition (COMP) and run 2sls estimation. Panel C displays results of simultaneous analysis in which I simultaneously estimate the equations of corporate performance (Tobin's Q) and CSR, and I instrument ZMQP with primogeniture (PRIM) and competition (COMP). Variables description is provided in Appendix C. *t*-values are in parentheses.

	Panel A: Different sub-periods			Panel B: 2sls Estimation		Panel C: CSR and Tobin's Q Simultaneous Analysis	
	Period: 95-99	Period: 00-04	Period: 05-09	1 <sup>st</sup> stage	2 <sup>nd</sup> stage	CSR	TOBQ
Intercept	1.269*** (3.28)	0.750*** (3.83)	1.077*** (7.76)	-0.481** (-2.00)	0.971*** (7.84)	1.035*** (7.29)	1.868 (0.76)
SIZE	0.038 (0.80)	-0.003 (-0.19)	0.000 (0.04)	0.066*** (3.50)	-0.002 (-0.22)	-0.022* (-1.81)	-0.253*** (-3.52)
LEVR	0.051 (0.32)	-0.087 (-1.41)	-0.143*** (-3.12)	-0.441*** (-6.04)	-0.127*** (-2.96)	0.003 (0.04)	0.247 (1.12)
FAGE	-0.047 (-0.44)	-0.020 (-1.06)	-0.064*** (-4.93)	-0.044* (-1.95)	-0.049*** (-4.42)	-0.037*** (-2.86)	0.038 (0.39)
MARG	-0.546 (-1.42)	0.117* (1.69)	-0.013 (-0.22)	0.290*** (3.04)	0.020 (0.35)	-0.050 (-0.75)	
ZMQP	<b>0.143***</b> <b>(5.47)</b>	<b>0.043*</b> <b>(1.88)</b>	<b>0.060***</b> <b>(3.23)</b>		<b>0.046***</b> <b>(3.12)</b>		-0.236 (-0.67)
FAMC	-0.222*** (-2.90)	0.035 (0.63)	0.153*** (3.37)	0.386*** (4.77)	0.114*** (2.85)		2.214*** (7.19)
MMBA	-0.013*** (-4.46)	0.006*** (2.74)	0.004*** (2.71)	0.023*** (15.14)	0.005*** (2.86)	0.082* (1.78)	0.152 (0.60)
RDSA						-0.001 (-0.30)	-0.007 (-0.73)
CPEX							<b>-0.356</b> <b>(-0.15)</b>
CSRS						<b>0.305***</b> <b>(4.19)</b>	<b>0.652</b> <b>(0.85)</b>
CSRS*ZMQP							<b>0.175**</b> <b>(1.97)</b>
<b><i>Instruments</i></b>							
PRIM				-1.028*** (-8.04)		YES	YES
COMP				0.165*** (6.24)		YES	YES
P-value of the F-test (instruments =0)				0.0001			
NOIZ	YES	YES	YES	YES	YES	YES	YES
YEAR	YES	YES	YES	YES	YES	YES	YES
INDU	YES	YES	YES	YES	YES	YES	YES
N	130	428	690	1088	1088	1088	1088
Adj.R <sup>2</sup>	0.798	0.126	0.166	0.269	0.116	0.094	0.282