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The Effect of Independent Director Reputation Incentives on Corporate Social Responsibility: Evidence from China

Lei Yu [1], Daojuan Wang [2] and Qi Wang [1,*]

[1] Business School, Southwest University of Political Science and Law, No.301 Baosheng Avenue, Chongqing 401120, China; smile_7780@126.com

[2] Department of Business and Management, Aalborg University, Room 52, Fibigerstræde 4, 9220 Aalborg East, Denmark; daw@business.aau.dk

* Correspondence: totti0938@sina.com

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Abstract: This paper examines the effect of independent director reputation incentives on corporate social responsibility (CSR). Using an unbalanced panel of 3765 Chinese-listed firms between 2009 and 2014, this study suggests that independent director reputation incentives improve CSR. Furthermore, it is found that this effect is more pronounced in non-state-owned enterprises (non-SOEs) than in state-owned enterprises (SOEs). In addition, our results also show that the effect of independent director reputation incentives on CSR is moderated by firm size, and this effect is much stronger in relatively larger firms. Together, these results suggest that reputation is an effective mechanism that can motivate independent directors to fulfill their role of monitoring and advising CSR, especially in non-SOEs and relatively larger firms. We add new insights to the research on the topics of independent director system, protection of the stakeholders' interests, and CSR enhancement.

Keywords: independent director reputation incentives; corporate social responsibility; stakeholders' interests; property ownership; firm size

1. Introduction

Recently, corporate social responsibility (CSR) has become a source of competitive advantages [1–4]. Therefore, a larger number of companies have an increasing interest in CSR and engage in various CSR activities [5,6]. How to implement CSR is an important task for every firm.

Despite some definitions being used to describe CSR, there is no universal and exact definition for CSR [7]. Carroll (1991) suggests that the word "social" in CSR is vague, and lacking in specific direction as to whom the firm is responsible for [8]. Hence, companies can make their own separate interpretations of CSR, and hardly implement real CSR. However, many studies make explicit or implicit definitions about CSR from the stakeholders' perspective. For example, Clarkson (1995) specifies that corporate responsibility is in stakeholder groups instead of society as a whole, and demonstrates that the definition of CSR can be better assessed by a stakeholder framework [9]. Wu et al. (2015) and Font et al. (2016) further suggest that firms should be responsible to their stakeholders and satisfy or protect the interests of stakeholders to implement CSR [10,11]. Therefore, CSR is described as a corporation's obligation to all of its stakeholders in all its operations and activities, which implies serving the stakeholders' interests as a firm's duty.

While implementing CSR, all stakeholders participating in an enterprise should obtain legitimate benefits, and there is no prima facie priority of one set of interests and benefits over another. However, recently, in many countries, a growing number of companies do not have relatively better performance in CSR, and the stakeholders' interests have been eroded, such as through environment pollution, encroaching on small and medium shareholders' interests, tax evasion, etc. Fernández-Gago et al. (2016) argue that independent directors can enhance CSR implementation and protect the stakeholders' interests [12]. Therefore, many countries have introduced an independent director system as an institutionalized organizational design [13]. Regulatory authorities of these countries expect that independent directors can effectively develop their function in safeguarding the interests of stakeholders. However, in the existing literature, there is no agreement on whether independent directors fully execute their duties and can impact on CSR as expected, and this debate is ongoing. Wang et al. (2016) suggest that companies with more independent directors do not act better in corporate governance than internal directors [14]. Chen et al. (2015) find that boards with a greater proportion of independent directors improve the environment of accounting information and increase the quality of financial reporting [15]. Liu et al. (2016) argue that independent directors' attendance at board meetings lessens the problem of tunneling [16]. Cavaco et al. (2017) find that independent directors have an ambiguous impact on corporate performance. Therefore, the effectiveness of independent directors in CSR remains unclear, and needs further investigation [17].

The main reason for the current disagreement on whether independent directors can play the expected role is that what motivates independent directors to promote CSR is largely unknown. Fama (1980) emphasizes the importance of strong reputation incentives for independent directors' performance [18]. Good reputation not only increases independent directors' influence in the companies that they are employed, but also expands their career opportunities [19]. Masulis and Mobbs (2014) document that independent director reputation incentives significantly affect independent directors' board meeting attendance, their involvement in the board committees, and the likelihood of their remaining on a firm's board [20]. Therefore, reputation incentives play a significant role in independent directors' monitoring and advising behaviors. This means that independent director reputation incentives can improve the company performance and firm value. In the past decades, researchers have given particular attention to the effect of independent director reputation incentives. For example, Sila et al. (2017) find that there is a positive link between independent director reputation incentives and firm transparency [21]. Nevertheless, few studies examine the effect of independent director reputation incentives on CSR. This study expects to fill this gap and contribute to the research on independent director system, protection of the stakeholders' interests, and CSR enhancement. We expect that independent directors with strong reputation incentives can improve CSR based on the consideration that the compensation mechanism for independent directors is underdeveloped, and the legal system is weak in China. This is the focus of our study. In this study, we link the independent director reputation incentives to CSR.

The Chinese market is well-suited for studying the link between independent director reputation incentives and CSR for several reasons, as discussed below.

Firstly, in China, most of the independent directors hold multiple directorships. In 2009, nearly three quarters of companies had appointed independent directors holding multiple directorships. This relatively high percentage provides us with a unique dataset to discuss, since the number of directorships that independent directors hold can signal an independent director's ability and reputation [22,23]. Ahn et al. (2010) suggest that independent directors that take more board seats are more professional and enjoy a higher reputation in the independent director labor market [24]. Furthermore, multiple directorships offer higher compensation and greater opportunities for reputation building. As a result, independent directors with multiple directorships can be motivated to perform more effectively to maintain their reputation and gain more benefits. Therefore, the unique dataset in China enables us to use the number of directorships held by independent directors as a proxy for reputation incentives and investigate its effect.

Secondly, China market possesses characteristics unlike those of the developed markets in some aspects of corporate governance, such as a highly concentrated ownership structure and a weak stakeholders' protection environment, providing the controlling shareholders with the opportunity to pursue their own private benefits by tunneling. Over the past decades, tunneling has become a severe problem in China, and is greatly impairing other stakeholders' interests. Wang et al. (2015) find that most of the Chinese-listed companies perform worse in CSR [2]. To solve this problem, in China, an independent director system has been introduced as a key component of corporate governance reform for improving CSR and protecting stakeholders' interests. In China, independent directors are required to be firm outsiders and, therefore, are more objective and independent [25]. Guidelines for Introducing Independent Directors to the Board of Directors of Listed Companies, published by the China Securities Regulatory Commission, states that independent directors should issue independent opinions on corporate governance and have the duty to remain free from the influence of major shareholders [26–28]. According to these statements, Chinese policymakers have a high expectation that independent directors should be fully independent to protect other stakeholders' interests expropriated by controlling shareholders [13,16]. Therefore, unlike the introduction of the independent director system in the United States, which aims to solve the agency problem between shareholders and managers, the independent director system in China has been viewed as a remedy for the conflicts of interests between controlling shareholders and other stakeholders. However, most existing studies about how to motivate independent directors' role focus on developed markets. These results may not be applicable to emerging markets. China market provides a unique opportunity to study how to motivate the functioning of independent directors in emerging markets.

Thirdly, the unique context of China can enable us to recognize the different effects of independent director reputation incentives on CSR when firms have different characteristics. China's unique property rights system divides listed companies into state-owned enterprises (SOEs) and non-state-owned enterprises (non-SOEs). Firth et al. (2016) find that SOEs do not have the strong incentive to appoint independent directors with rich expertise and good reputation compared with non-SOEs [13]. This can reduce the role of independent directors in SOEs. Therefore, independent director reputation incentives in SOEs and non-SOEs produce different effects. Meanwhile, the effect of independent director reputation incentives may heavily depend upon independent directors' effort distribution. Independent directors with strong reputations must devote time and energy to improve CSR, in order to maintain and enhance their reputation. However, these independent directors do not distribute their time and energy equally across all their directorships. In China, larger companies can increase the likelihood of obtaining future directorships, offer independent directors with the opportunities to enhance their reputation, and so on. It is evident that independent director's reputation rises with firm size. Masulis and Mobbs (2014) find that independent directors have stronger incentives to monitor and advise in relatively larger firms, leading to more of a director's time and energy being captured in these firms [20]. In a word, given the limited time and energy independent directors are able to devote to the firm, they tend to distribute their efforts among the companies considering a firm' relative contribution to their reputation. We further investigate the extent of the association between independent director reputation incentives and CSR in firms of differing sizes.

In this paper, we examine the relationship between independent director reputation incentives and CSR in China. Further analysis explores the moderating effects of property ownership and firm size in this association. Our study finds the following results by using Ordinary Least Square (OLS) regression. Our findings show that independent director reputation incentives can have an important impact in protecting stakeholders and improving CSR. This effect is more pronounced in non-SOEs than in SOEs, and is also much stronger in relatively larger firms. Together, these results provide evidence that reputation is an effective mechanism that can motivate independent directors to fulfill their role of monitoring and advising CSR, especially in non-SOEs and relatively larger firms.

This study makes some important contributions. Firstly, this paper provides new evidence on the influence of independent director reputation incentives. Prior studies have found some factors that can affect independent directors' ability of protecting stakeholders, such as their social connections [29], their personal characteristics [28,30], their compensations [31], and so on. Given the important of reputation incentives, a growing number of studies have focused on the effect of independent director reputation incentives over the past decades [21]. Yet, no studies have examined how independent director reputation incentives affect CSR. This study reveals the effective role of reputation as a strong motivating force in enhancing an independent director's monitoring and advising in CSR. Our results deepen the understanding of the effect of independent director reputation incentives and, also, add to the literature that researches this effect on firm outcome.

Secondly, this paper is the first to identify independent director reputation incentives as the determinant of CSR implementation. Yet, to our knowledge, no exiting research focuses on this issue. We find that independent directors with greater reputation incentives lead to better CSR. Our results contribute to the literature on CSR and, specifically, to the literature on protecting the stakeholders. This study can help inform further efforts to promote CSR practices in China.

In addition, to illustrate more clearly, we further examine the extent of the effect of independent director reputation incentives on CSR in different scenarios for firms' characteristics. Existing studies focus on the effect of independent director reputation incentives without considering moderating factors. This paper not only shows that independent director reputation incentives have an impact on CSR, but also demonstrates that this effect differs in firms with different types of property ownership and differing sizes, making unique contributions to the literature from a testing content perspective.

Finally, this paper is the first to study the effect of independent director reputation incentives in the China's context. To date, most studies on this topic have been conducted in the U.S. context [21], but the extent to which these findings and their explanations hold in emerging countries has been largely unexplored. The China market possesses characteristics similar to those of many emerging markets. Hence, our results should be illuminating for emerging markets.

The remainder of our paper is organized as follows. Section 2 introduces the institutional background of independent director reputation incentives in China. Our hypotheses are developed in Section 3. Section 4 describes our sample and our research design. Section 5 discusses the regression results. Section 6 concludes this paper.

2. Institutional Background

Chinese-listed companies have a concentrated ownership structure, and they are plagued by conflicts of interests between controlling shareholders and other stakeholders. This enables the controlling shareholders to pursue their private benefits at the expense of other stakeholders by tunneling [32]. Over the past decades, tunneling has become a severe problem in China, and can hinder the effectiveness of corporate governance. Therefore, tunneling is the focus of current Chinese corporate governance system [33,34].

In China, as most internal directors are appointed by controlling shareholders, they cannot always be relied upon by other stakeholders to represent them when conflicts of interests between controlling shareholders and other stakeholders arise [13]. Independent directors are more likely to protect the stakeholders' interests compared with internal directors, due to their objectivity and independence [35]. Thus, to protect stakeholders is viewed as one of the most essential purposes that Chinese policymakers hold in establishing an independent director system. Specially in 2001, the China Securities Regulatory Commission published Guidelines for Introducing Independent Directors to the Board of Directors of Listed Companies, which clearly states the independent directors' rights and duties on company operating. Specifically, independent directors are required to be concerned with the interests of stakeholders and issue independent opinions on corporate governance. In the statements, the China Securities Regulatory Commission rules that independent directors can hold the positions of independent director in no more than five listed companies, and should pay special attention to the legitimate rights and interests of stakeholders, and have a duty to remain free from the influence of controlling shareholders.

Independent directors are appointed mainly to monitor and advise the firms they serve [36–40]. Reputation incentives could offer one explanation for why some independent directors are more effective in their role [21]. Fama (1980) suggests that good reputation brings opportunities for additional appointments to independent directors and increases their human capital [18]. Independent directors are rewarded more due to good reputation. Thus, independent directors are more concerned with their public reputation in the independent director labor market [27]. Masulis and Mobbs (2014) emphasize that reputation creates strong incentives for independent directors, and document that reputation incentives positively affect the independent directors' attention and effort devoted to their directorships [20]. In a word, independent director reputation incentives have the effect on corporate governance.

In China, there are mainly three incentive mechanisms to induce independent directors to monitor and advise. These mechanisms are compensation mechanism, reputation mechanism, and legal system. In terms of compensation mechanism, different firms offer the same compensation to different independent directors [41]. This means that independent directors have no incentives to fulfill their expected roles for higher compensation. In addition, the legal system is weak, and rarely employed to discipline independent directors in China. Given the analysis above, these two mechanisms are not the effective motivational vehicles for promoting independent directors' function in China. Until now, most of the independent directors in China are academics [42]. These academics often have good personal ethical standards, and inculcate these standards into the companies they serve. In China, Confucian culture greatly impacts people's mindset, in which reputation and ethics are important for a person, particularly for the people who are celebrities and work in the academic field. Therefore, these independent directors pay more attention to their reputation than other directors. Moreover, since reputation means a lot, as it directly affects an independent director's value as perceived by people, it has an impact on the likelihood of their obtaining future directorships. Especially, because the independent director labor market is relatively underdeveloped in China, reputation is a vital way to assess and select the independent directors, representing a valuable asset for independent directors themselves. Independent directors have incentives to maintain and enhance their reputation as effective monitors and advisors. Hence, the monitoring and advising of independent directors in China have relied mainly on reputation incentives, rather than legal and compensation mechanisms. For instance, Ma and Khanna (2016) suggest that reputational concerns motivate independent directors to openly disagree with management strategies presented in corporate proposals [43]. Based on these, we argue that preserving and enhancing reputation is a primary motivation for independent directors in China, and further investigate the effect of independent director reputation incentives on CSR.

3. Hypothesis Development

The concentrated ownership enabled the controlling shareholders to expropriate other stakeholders' interests in China. Most internal directors and managers are appointed by controlling shareholders, and may not protect other stakeholders' interests. Compared with internal directors, independent directors are more independent and objective, making them more likely to support other stakeholders and improve CSR. Liu et al. (2016) further show that independent directors can preventing the expropriation of other stakeholders by controlling shareholders effectively [16]. Independent directors can not only monitor CSR implementation in the firm, but also provide relevant consultation about CSR.

Reputation can be a valuable asset for independent directors [44], which not only sends a positive signal to the market about their ability, expertise, and integrity, but also facilitates their access to various resources [22,23]. Therefore, reputation is an effective incentive for independent directors. Sila et al. (2017) emphasize the importance of strong reputation incentives in influencing the independent directors' behaviors [21]. Masulis and Mobbs (2014) report that director reputation incentives significantly affect independent directors' board meeting attendance, and their attention and action in board committees [20]. Independent directors with a higher reputation tend to put more effort and perform their duties more competently in the boards. In China, protecting the interests of stakeholders and implementing CSR are important board duties, and independent directors mainly represent the other stakeholders' interests other than the controlling shareholders. Thus, our first hypothesis is proposed as follows.

Hypothesis 1. *Independent director reputation incentives are positively related to CSR.*

China's unique property rights system divides listed companies into state-owned enterprises (SOEs) and non-state-owned enterprises (non-SOEs). The state, which represents the largest shareholder in SOEs, have more resources than private large shareholders in non-SOEs. Therefore, SOEs have no incentive to hire the independent directors with high reputation to send the positive signal in the market, legitimize firm business, and gain the resources support from the stakeholders. Meanwhile, due to governmental intervention, even though those independent directors are hired, their power is relatively weak, and it is difficult for them to exert their corresponding roles in SOEs. This means that SOEs reduce the independent directors' role in corporate governance. However, non-SOEs have strong incentives to employ independent directors with a better reputation in order to obtain more stakeholders' support and recognition. Also, compared with non-SOEs, SOEs place more emphasis on the maximization of social welfare than personal wealth. Liu et al. (2016) suggest that the potential loss of political reputation and possible demotion due to poor performance discourages management from colluding with large shareholders and aggressively expropriating other stakeholders in SOEs [16]. Obviously, tunneling is more severe in non-SOEs than in SOEs. Hence, independent directors in non-SOEs are concerned with more serious tunneling and solving it. This provides a better chance for independent directors with a high reputation to fully play their monitoring and advertising role in CSR. Given these, we predict that independent director reputation incentives promote better CSR, with the effect being more pronounced in non-SOEs. Hence, we propose our second hypothesis as follows.

Hypothesis 2. *Independent director reputation incentives have more pronounced impact on CSR in non-SOEs than in SOEs.*

Independent directors with a strong reputation must devote time and energy to improve CSR. However, because independent directors usually hold multiple directorships, they have limited capacity and time, and are not able to function as effective monitors and advisors [45]. Independent directors with multiple directorships face a dilemma of how to allocate their limited energy and time across their directorships. This means that reputation incentives of independent directors are affected by their effort distribution. More likely, independent directors do not give equal effort to all of their boards. Independent directors tend to distribute their efforts among the firms considering a firm's relative contribution to their reputation. In China, larger companies offer independent directors opportunities to enhance their reputation, increasing high likelihood of obtaining future directorships, and so on. Hence, independent directors devote more time and energy to larger firms. Masulis and Mobbs (2014) demonstrate that independent directors with multiple appointments show increased board attendance and more board committee memberships at the relatively larger firms they serve [20]. This means that independent directors act more vigorously in relatively larger firms. Given these, we argue that independent directors on multiple boards have stronger reputation incentives to monitor and advise CSR in relatively larger firms. Our third hypothesis is proposed as follows.

Hypothesis 3. *Independent director reputation incentives have a stronger effect on CSR in relatively larger firms.*

4. Materials and Methods

4.1. Sample Selection

We were able to obtain data about CSR from 2009 and onwards. Hence, our sample consists of firms listed on the Shanghai and Shenzhen stock exchanges during 2009–2014. This paper excludes financial companies, because they have substantially different governance and performance systems compared with non-financial companies in China. Finally, after excluding observations with omitted variables, a final sample with 3765 firm-year observations is obtained. CSR data is from CSR rating report provided by Rankins CSR Ratings (RKS). We obtain all other data from the China Stock Market and Accounting Research (CSMAR) database.

4.2. Research Methodology

In order to test our hypotheses, we estimate the following models using OLS regression.

Model 1.

$$CSR = \beta_0 + \beta_1 IDS + \beta_2 Size + \beta_3 SOE + \beta_4 ROA + \beta_5 LEV + \beta_6 ESHR + \beta_7 FSHR + \beta_8 Board + \beta_9 Out + \beta_{10} Pay + \beta_{11} DUAL + \varepsilon$$

Model 2.

$$CSR = \beta_0 + \beta_1 IDS + \beta_2 Size + \beta_3 IDS \times Size + \beta_4 SOE + \beta_5 ROA + \beta_6 LEV + \beta_7 ESHR + \beta_8 FSHR + \beta_9 Board + \beta_{10} Out + \beta_{11} Pay + \beta_{12} DUAL + \varepsilon$$

In these two models, the dependent variable is corporate social responsibility (*CSR*), which is measured by using the rating data of CSR provided by Rankins CSR Ratings (RKS), the leading independent CSR-rating entity in China. RKS provides a score system for the different aspects of CSR from stakeholders' perspective. RKS data is composed of three parts: "Macrocosm", "Content", and "Technique". "Macrocosm" includes the overall strategy, governance, and information disclosure in CSR reporting. "Content" has four principal dimensions: (1) "Economic Performance", (2) "Labor and Human Rights", (3) "Consumption", and (4) "Community Participation". "Technique" relates to the depth, coverage, and consistency of CSR reporting.

The explanatory variable is independent director reputation incentives (*IDS*). The existing literature mainly uses firm size to measure this [13,22]. These studies find that reputation incentives are related to firm size, and further show that independent directors will perform more vigorously in relatively larger companies. However, firm size cannot reflect independent directors' talents and abilities. We argue that the number of directorships that independent directors hold can be a good proxy of independent director reputation incentives for three reasons. Firstly, multiple directorships can be an effective evaluation for independent directors' value in China. Independent directors that take more board seats are more valuable in the independent director labor market, which reflects a higher demand for their services. Secondly, reputation, proxied by the number of directorships held by the independent directors, can imply their ability and expertise, which raises their incentives to exert effort and to be viewed as careful monitors and valuable board advisors. Thirdly, independent directors in China are required to hold the directorships in no more than five listed companies, and they only can work in one company continuously for six years. Meanwhile, the recruitment of independent directors in Chinese market is based on reputation. Hence, independent directors have an incentive to maintain and enhance their multiple directorships. Multiple directorships offer higher visibility, greater opportunities for reputation building, and higher compensation. Independent directors with more directorships may be more experienced, offer better monitoring service, provide better advice, and make valuable contributions to board decision-making aimed at enhancing firm performance. Therefore, multiple directorships can be a natural source of independent director reputation incentives. We thus select the number of directorships held by independent directors as a proxy for independent director reputation incentives, and find empirical evidence that independent directors with greater reputation incentives lead to better CSR. Our measure is *directorships per independent director*, which is the average number of board seats held by each independent director in a firm.

Moderating variables are firm size (*Size*) and property ownership (*SOE*). Previous studies have focused on the effect of independent director reputation incentives without considering moderating factors. The efficiency of independent directors in monitoring and advising CSR is influenced by firm characteristics [28]. In China, property ownership and firm size are remarkable characteristics of a firm. Here, we further introduce property ownership and firm size as potential moderators of the relationship between independent director reputation incentives and CSR. *Size* equals the logarithm of a firm's total assets. *SOE* equals 1 if a company is state owned, and 0 otherwise.

Extant studies argue that firm characteristics and board characteristics have an impact on CSR [45–50]. Following these studies, we include the control variables related to firm characteristics and board characteristics. Variables about firm characteristics include corporate performance (*ROA*), leverage ratio (*LEV*), managerial ownership (*ESHR*), and ownership structure (*FSHR*). *ROA* equals operating profits divided by total assets. *LEV* equals total liabilities divided by total assets. *ESHR* is measured by the percentage of shares held by the executives in the board. *FSHR* measures the shareholding ratio of the largest shareholder. Variables about board characteristics include board size (*Board*), independent director percentage (*Out*), independent directors' compensation (*Pay*), and CEO duality (*DUAL*). *Board* equals the total number of directors in the board. *Out* is the percentage of independent directors in the board. *Pay* is measured by the logarithm of a firm's independent directors' compensation. *DUAL* equals 1 if the chairman of the board and the CEO are the same person, and 0 otherwise. Meanwhile, we control for the fixed effect of industry and year.

All variable definitions are shown in Table 1.

Table 1. Variable definitions.

Variable	Definition
CSR	Rating score of CSR from RKS
IDS	The average number of directorships held by each independent director in a firm
Size	The logarithm of a firm's total assets
SOE	If a company is state owned, *SOE* equals 1, and 0 otherwise
ROA	Operating profits divided by total assets
LEV	Total liabilities divided by total assets
ESHR	The percentage of shares held by the executives in the board
FSHR	The shareholding ratio of the largest shareholder
Board	The total number of directors in the board
Out	The percentage of independent directors in the board
Pay	The logarithm of a firm's independent directors' compensation
DUAL	If the chairman of the board and the CEO are the same person, *DUAL* equals 1, and 0 otherwise

5. Results

Table 2 displays the descriptive statistics of our sample. All variables are winsorized at 1% and 99% to reduce the influence of extreme values. In Table 2, the mean value of *CSR* is 34.343 and the standard deviation is 10.693. This shows that there is a large gap in the performance of *CSR* among the companies. Regarding the variable of *IDS*, the mean value is 2.012, and the standard deviation is 1.365, which suggest that independent directors with multiple directorships in the listed companies have become a common phenomenon in China. Regarding the variable of *Out*, the mean value is 0.338 and the standard deviation is 0.049, indicating that the proportion of independent directors in every firm is about one-third, basically in line with the relevant requirements of the law.

Table 2. Descriptive statistics.

Variables	Mean	Median	Max	Min	SD
CSR	34.343	31.698	73.146	17.069	10.693
IDS	2.012	1.920	3.333	1	1.365
SOE	0.213	0	1	0	0.391
ROA	0.046	0.039	0.123	−0.248	0.059
LEV	0.517	0.496	1.698	0.080	0.296
Size	20.369	18.521	25.823	20.098	1.212
ESHR	0.095	0	0.542	0	0.174
FSHR	0.364	0.357	0.648	0.142	0.132
Board	9.354	9	17	4	1.925
Out	0.338	0.333	0.5	0.3	0.049
Pay	9.981	10.412	12.54	8.695	0.654
DUAL	0.103	0	1	0	0.356

Table 3 presents the correlations between variables. To eliminate disparities among the variables, we standardize all variables. Before conducting regression tests, multicollinearity is examined by using Pearson analysis. In Table 3, we can see that *CSR* and *IDS* are significantly and positively related. This result suggests that the reputation mechanism has the incentives effectiveness for independent directors. The correlation coefficients between various explanatory variables are below 0.5, indicating that there is no serious multicollinearity problem in the regression model.

Table 3. Correlation matrix.

Variables	*CSR*	*IDS*	*SOE*	*ROA*	*LEV*	*Size*	*ESHR*	*FSHR*	*Board*	*Out*	*Pay*	*DUAL*
CSR	1	0.23 ***	−0.13 **	0.21 ***	0.08 ***	0.15 ***	0.11 *	0.22 ***	0.31	0.15	0.07	−0.04
IDS	0.23 ***	1	−0.15 ***	0.03 **	−0.11 **	0.02 ***	0.14	0.21	0.06 ***	0.14 **	0.22 ***	0.11
SOE	−0.13 **	−0.15 ***	1	0.09	−0.06 **	0.18 ***	0.09	0.34 ***	0.08	0.11	0.07	0.14 ***
ROA	0.21 ***	0.03 **	0.09	1	0.21 ***	0.31 ***	0.08 *	0.19 ***	0.16 ***	0.12 *	0.13 ***	−0.07
LEV	0.08 ***	−0.11 **	−0.06 **	0.21 ***	1	0.22 ***	0.14 **	0.11 **	0.09	0.21 ***	0.06 ***	−0.11 **
Size	0.15 **	0.02 ***	0.18 ***	0.31 ***	0.22 ***	1	0.34	0.22 *	0.11 ***	0.16 ***	0.03 ***	0.16 **
ESHR	0.11 *	0.14	0.09	0.08 *	0.14 **	0.34	1	0.18	0.11 *	−0.01	0.04	0.07 ***
FSHR	0.22 ***	0.21	0.34 ***	0.19 ***	0.11 **	0.22 *	0.18	1	0.25 **	−0.04	0.12	0.08*
Board	0.31	0.06 ***	0.08	0.16 ***	0.09	0.11 ***	0.11 *	0.25 **	1	−0.22 ***	0.02 **	−0.12 ***
Out	0.15	0.14 **	0.11	0.12 *	0.21 ***	0.16 ***	−0.01	−0.04	−0.22 ***	1	0.03	0.11 ***
Pay	0.07	0.22 ***	0.07	0.13 ***	0.06 ***	0.03 ***	0.04	0.12	0.02 **	0.03	1	0.03
DUAL	−0.04	0.11	0.14 ***	−0.07	−0.11 **	0.16 **	0.07 ***	0.08 *	−0.12 ***	0.11 ***	0.03	1

***, **, * represent the significance level of 1%, 5%, 10%, respectively.

Table 4 reports OLS regression results with industry and year fixed effects. Column (1) presents the result of the univariate test. The regression coefficient of *IDS* is 0.678, significant at the 1% level in Column (1). In Column (2), we include some control variables related to firms' characteristics, such as *Size*, *SOE*, *ROA*, *LEV*, *ESHR*, and *FSHR*. The regression coefficient of *IDS* remains positive and significant at the 1% level in Column (2). Finally, in Column (3), we further include a series of control variables related to boards' characteristics and find that the regression coefficient of *IDS* is 0.784, still significant at the 1% level. Together, these results indicate that independent director reputation incentives have a positive impact on CSR, which proves that the reputation mechanism can motivate independent directors, effectively, to play the expected role in CSR, and supports hypothesis 1.

In Column (2) and (3), it is noted that *SOE*, *ROA*, *LEV*, and *Size* are significantly related to *CSR*. This means that the characteristics of the companies have an impact on CSR. In addition, the regression coefficients of *ESHR* and *FSHR* are significantly positive, suggesting that major shareholders and managers are the main decision-makers in CSR. However, the regression coefficients of *Board*, *Out*, and *DUAL* are not significant, implying that boards' characteristics cannot affect their roles in protecting stakeholders. *Pay* is not significantly associated with *CSR*. This result shows that compensation mechanism cannot motivate independent directors' performance in CSR.

Table 4. Regression results.

	(1)	(2)	(3)
	CSR	***CSR***	***CSR***
Intercept	0.112 *** (3.892)	0.093 *** (2.901)	0.392 *** (2.986)
IDS	0.678 *** (4.143)	0.389 *** (3.561)	0.784 *** (2.951)
Size		0.891 *** (3.134)	0.052 *** (3.561)
SOE		−0.008 *** (−3.501)	−0.378 *** (−3.601)
ROA		0.109 ** (2.672)	0.892 ** (2.489)
LEV		0.093 * (2.231)	0.231 * (2.141)
ESHR		0.122 ** (2.035)	0.491 ** (2.491)
FSHR		0.419 ** (2.191)	0.081 *** (3.111)
Board			0.134 (1.872)
Out			0.281 (1.238)
Pay			0.892 (1.912)
DUAL			−0.881 (−1.051)
IND/Year	Control	Control	Control
Adjusted *R2*	0.256	0.423	0.492
F-value	11.032 ***	10.962 ***	12.298 ***

***, **, * represent the significance level of 1%, 5%, 10%, respectively.

In order to further explore the different effects of independent director reputation incentives on CSR under different types of property ownership, we divide the sample into two groups, i.e., SOEs (*SOE* = 1) and non-SOEs (*SOE* = 0). Table 5 reports the regression results for the moderating effect of property ownership. These results are based on OLS regression with industry and year fixed effects. In Table 5, Column (1) presents the regression result using the subsample of SOEs and Column (2) presents the regression result using the subsample of non-SOEs. The regression coefficient of *IDS* is 0.871 and not significant in Column (1). However, the regression coefficient of *IDS* is 0.613 in Column (2), and is significant at the 1% level. We find a significant difference between the regression coefficients of *IDS* in these two columns, suggesting that the effect of independent director reputation incentives on CSR is more pronounced in non-SOEs than in SOEs. This finding is consistent with hypothesis 2. The possible reason could be that the independent director system for non-SOEs in China is more market-oriented and standardized.

Table 5. Regression results (the moderating role of property ownership).

	(1)	(2)
	***CSR*(*SOE* = 1)**	***CSR*(*SOE* = 0)**
Intercept	0.123 *** (3.672)	0.076 * (2.111)
IDS	0.871 (1.472)	0.613 *** (3.672)
Size	0.567 *** (3.781)	0.823 *** (3.561)
ROA	0.451 *** (3.167)	0.729 *** (3.231)
LEV	0.356 * (2.271)	0.041 * (2.226)
ESHR	0.897 ** (2.071)	0.986 ** (2.631)
FSHR	0.203 *** (3.632)	0.912 *** (3.987)
Board	0.281 (1.761)	0.521 (1.771)
Out	0.022 (1.481)	0.461 (1.231)
Pay	0.323 (1.461)	0.980 (1.871)
DUAL	−0.812 (−1.301)	−0.899 (−1.113)
IND/Year	Control	Control
Adjusted *R2*	0.452	0.421
F-value	10.008 ***	11.635 ***

***, **, * represent the significance level of 1%, 5%, 10%, respectively.

In addition, we argue that the relationship between independent director reputation incentives and CSR can be moderated by firm size. Table 6 shows the regression results for the moderating effect of firm size. These reported results are based on OLS regression with industry and year fixed effects. In Column (1), the regression coefficient of *IDS* is 0.784, significant at the 1% level. As shown in Column (2), the regression coefficient of $IDS \times Size$ is 0.881, significant at the 1% level. These results show that firm size strengthens the effect of independent director reputation incentives on CSR, supporting hypothesis 3. This further means that the effect of independent director reputation incentives in China are affected by independent directors' effort distribution. A possible explanation, as discussed earlier, could be that independent directors distribute more energy and time to larger companies, due to the attractiveness of these firms in terms of more future directorship opportunities, better reputation, and various accessible resources.

Table 6. Regression results (the moderating role of firm size).

	(1)	(2)
	CSR	*CSR*
Intercept	0.392 *** (2.986)	0.145 *** (3.682)
IDS	0.784 *** (2.951)	0.476 *** (3.871)
Size	0.052 *** (3.561)	0.076 *** (3.901)
IDS×Size		0.881 *** (3.921)
SOE	−0.378 *** (−3.601)	−0.421 *** (−4.231)
ROA	0.892 ** (2.489)	0.782 ** (2.671)
LEV	0.231 * (2.141)	0.812 *** (3.821)
ESHR	0.491 ** (2.491)	0.623 ** (2.652)
FSHR	0.081 *** (3.111)	0.902 ** (2.901)
Board	0.134 (1.872)	0.562 (1.331)
Out	0.281 (1.238)	0.823 (1.301)
Pay	0.892 (1.912)	0.712 (1.792)
DUAL	−0.881 (−1.051)	−0.382 (−1.891)
IND/Year	Control	Control
Adjusted *R2*	0.592	0.601
F-value	12.298 ***	11.982 ***

***, **, *represent the significance level of 1%, 5%, 10%, respectively.

To avoid the possible effect of the endogeneity problem between independent director reputation incentives and CSR, we use IDS_{t-1} to substitute for *IDS*. Regression results with *IDS* substituted by IDS_{t-1} are presented in Table 7. A fixed effect model is applied due to the results of the Hausman test. The results in Column (1), (2), and (3) show that the regression coefficients of IDS_{t-1} are significantly positive, still supporting hypothesis 1. The regression coefficient of IDS_{t-1} is 0.691 and insignificant in Column (4), but the regression coefficient of IDS_{t-1} in Column (5) is 0.325, significant at the 1% level. Therefore, hypothesis 2 is, thus, still supported. Column (6) shows that the regression coefficient of $IDS_{t-1} \times Size$ is 0.612, significant at the 1% level, which still supports hypothesis 3. Hence, we conclude that using IDS_{t-1} to substitute for *IDS* as the explanatory variable keeps our conclusions unchanged.

Further, an alternative measure of CSR, which is the comprehensive evaluation index of CSR (*CSRS*), is used to substitute for *CSR* to test the robustness of our findings, as well as to further explore the effect of independent director reputation incentives on CSR. *CSRS* can reflect the capabilities and offerings of the firms to satisfy interest demands of stakeholders. This measure is calculated based on the balance sheets, cash flow statements, and income statements. Table 8 reports the regression results using *CSRS* as the dependent variable. A fixed effect model is applied due to the results of the Hausman test. From the results in Columns (1), (2), and (3), we can see that regression coefficients of *IDS* are positive and significant, still supporting hypothesis 1. In Column (4), the regression coefficient of *IDS* is 0.433 and not significant, but the regression coefficient of *IDS* is 0.328 and significant at the 1% level in Column (5), supporting hypothesis 2. In Column (6), the regression coefficient of $IDS \times Size$

is 0.642 and significant at the 1% level, which still supports hypothesis 3. These findings do not change our conclusions.

Table 7. Robustness check (*IDS* substituted by IDS_{t-1}).

	(1)	(2)	(3)	(4)	(5)	(6)
	CSR	***CSR***	***CSR***	***CSR(SOE* = 1)**	***CSR(SOE* = 0)**	***CSR***
Intercept	0.121 *** (4.091)	0.627 *** (3.891)	0.616 *** (3.401)	0.231 *** (3.881)	0.372 *** (4.212)	0.327 *** (3.221)
IDS_{t-1}	0.982 *** (4.443)	0.313 *** (3.781)	0.431 *** (2.901)	0.691 (1.432)	0.325 *** (3.821)	0.562 *** (4.219)
Size		0.582 *** (3.601)	0.321 *** (3.601)	0.098 ** (2.532)	0.115 ** (2.601)	0.281 *** (3.632)
$IDS_{t-1} \times Size$						0.612 *** (4.431)
SOE		−0.213 * (−2.080)	−0.456 *** (−3.121)			0.391 *** (3.781)
ROA		0.092 ** (2.682)	0.524 ** (2.351)	0.829 *** (3.561)	0.722 *** (3.823)	0.612 *** (3.982)
LEV		0.341 *** (3.512)	0.699 * (2.271)	0.445 *** (3.921)	0.691 *** (4.231)	0.591 * (2.329)
ESHR		0.387 ** (2.561)	0.127 ** (2.522)	0.781 ** (2.622)	0.113 ** (2.791)	0.583 *** (4.321)
FSHR		0.096 ** (2.632)	0.092 *** (4.111)	0.087 *** (3.911)	0.382 *** (3.701)	0.521 *** (3.733)
Board			0.452 (1.911)	0.212 (1.291)	0.182 (1.432)	0.325 (1.695)
Out			0.411 (1.321)	0.511 (1.813)	0.344 (1.712)	0.112 (1.073)
Pay			0.773 (1.732)	0.301 (1.822)	0.541 (1.231)	0.278 (1.806)
DUAL			−0.320 (−1.622)	−0.098 (−1.391)	−0.521 (−1.421)	−0.302 (−1.754)
IND/Year	Control	Control	Control	Control	Control	Control
Adjusted *R2*	0.252	0.409	0.562	0.472	0.532	0.592
F-value	11.231 ***	14.920 ***	9.021 ***	1.082 ***	11.442 ***	13.901 ***
Hausman test	36.121 ***	34.861 ***	38.233 ***	58.928 ***	53.822 ***	59.892 ***

***, **, * represent the significance level of 1%, 5%, 10%, respectively.

Table 8. Robustness check (*CSR* is substituted by *CSRS*).

	(1)	(2)	(3)	(4)	(5)	(6)
	CSRS	***CSRS***	***CSRS***	***CSRS(SOE* = 1)**	***CSRS(SOE* = 0)**	***CSRS***
Intercept	0.138 *** (3.673)	0.071 *** (4.032)	0.095 *** (3.723)	0.233 *** (3.482)	0.309 *** (3.897)	0.112 *** (3.433)
IDS	0.498 *** (3.562)	0.632 *** (4.031)	0.329 *** (3.633)	0.433 (1.923)	0.328 *** (4.523)	0.822 *** (3.622)
Size		0.012 *** (3.709)	0.062 *** (3.772)	0.038 * (2.153)	0.192 ** (2.711)	0.045 ** (2.572)
$IDS \times Size$						0.642 *** (4.451)
SOE		−0.698 ** (−2.652)	−0.499 *** (−3.893)			−0.482 *** (3.729)
ROA		0.704 *** (4.412)	0.691 *** (3.122)	0.829 *** (3.991)	0.622 *** (3.911)	0.645 *** (4.212)
LEV		0.101 *** (3.349)	0.301 ** (2.498)	0.098 *** (3.623)	0.457 *** (3.938)	0.291 *** (3.532)
ESHR		0.088 *** (4.221)	0.091 ** (2.656)	0.133 * (2.201)	0.092 *** (4.342)	0.721 *** (3.154)
FSHR		0.518 ** (2.891)	0.354 *** (3.378)	0.431 *** (3.761)	0.356 *** (3.783)	0.533 *** (3.835)
Board			0.455 (1.783)	0.239 (1.239)	0.109 (1.789)	0.461 (1.371)
Out			0.477 (1.363)	0.323 (1.622)	0.664 (1.763)	0.209 (1.388)
Pay			0.508 (1.875)	0.221 (1.131)	0.339 (1.391)	0.692 (1.783)
DUAL			−0.602 (−1.209)	−0.336 (−1.442)	−0.721 (−1.722)	−0.383 (−1.575)
IND/Year	Control	Control	Control	Control	Control	Control
Adjusted *R2*	0.192	0.392	0.359	0.302	0.323	0.419
F value	9.892 ***	11.431 ***	10.341 ***	11.881 ***	13.591 ***	12.871 ***
Hausman test	41.932 ***	50.931 ***	54.213 ***	44.421 ***	41.342 ***	58.653 ***

***, **, * represent the significance level of 1%, 5%, 10%, respectively.

6. Conclusions

Understanding whether reputation creates strong incentives for independent directors to effectively function in corporate governance is an important topic. In recent years, there has been a considerable increase in the studies in the literature concerning the effect of independent director reputation incentives. However, few studies examine the link between independent director reputation incentives and CSR. This is our focus. Therefore, we explore whether and how independent director reputation incentives arising from multiple directorships affect CSR. Meanwhile, these prior studies focus on the effect of independent director reputation incentives without considering moderating factors. We further introduce property ownership and firm size as the potential moderators on the relationship between independent director reputation incentives and CSR.

Using Chinese-listed companies in the Shanghai and Shenzhen stock exchange from 2009 to 2014, this study shows that independent director reputation incentives can enhance CSR implementation, and this effect is more pronounced in non-SOEs than in SOEs. In addition, we find that the effect of independent director reputation incentives on CSR is moderated by firm size, and this effect is much stronger in relatively larger firms. Together, we conclude that reputation is an effective mechanism that can motivate independent directors to fulfill their role of monitoring and advising CSR, especially in non-SOEs and relatively larger firms.

This paper has some theoretical and managerial implications. Theoretically, our findings show that when we discuss how to motivate independent directors' performance in CSR, it is necessary to consider the reputation mechanism. Our paper shows that reputation incentives have a strong influence on independent directors' behaviors, and represent an important dimension of independent director incentives. This study also provides some suggestions that may be of use to regulators and policymakers, in their attempts to enhance independent directors' performance effectively in CSR. They can better prompt independent directors to fulfill their duties in CSR by establishing an effective reputation mechanism. In fact, our results provide evidence for current requirements on an independent director reputation incentives mechanism, and help inform further efforts to promote CSR practices in China.

There are still some limitations in our study. On the one hand, this paper may be constrained to a Chinese context and not be generalizable to non-Chinese markets. Future research with the other markets' data will enhance the external validity of our results. On the other hand, this study examines the extent of the association between independent director reputation incentives and CSR, only considering the moderating roles of property ownership and firm size. Future studies may consider more other firms' characteristics that can affect this relationship.

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