

The Impact of ESG on Director Career Prospects

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ABSTRACT

This paper studies the relationship between directors' ESG reputation and their career prospects.² I find that directors with better ESG reputations, proxied by their employers' *previous* ESG performance, have better subsequent labor market outcomes. I show this effect is larger for female directors in pro-ESG states, in states that were affected by large natural disasters, and after the Paris Agreement. The results are robust across different ESG reputation measures and labor market outcome measures, and an instrumental variable test is performed to mitigate the endogeneity concern.

Keywords: ESG, corporate decision-making, director, labor market

JEL classification: G30, G34, G39

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² I use the terms career prospects and labor market outcome interchangeably in this paper.

1. Introduction

Environmental, Social, and Governance (ESG) considerations have emerged as critical and inescapable components in corporate decision-making. Given their pivotal role within organizations, directors significantly influence firms' strategic directions, including the integration of ESG principles, yet the impact of ESG on the board of directors is under-explored. This study seeks to explore the nexus between directors' reputations in ESG practices and their subsequent labor market outcomes, aiming to shed light on the broader implications of ESG engagement from the director labor market perspective.

The interest in ESG has surged in recent years. In 2021, the Global Sustainable Investment Alliance (GSIA) reported sustainable and responsible investments (SRI) worth over US\$35.3 trillion.³ This is an increase of 15% over the past two years, equating to 36% of all professionally managed assets worldwide. In 2019 alone, there was an influx of US\$17.67 billion invested in ESG-related products, indicating a staggering 525% increase from 2015, as reported by Morningstar, Inc.⁴ Firms are responding to this increasing interest by demonstrating ESG-related efforts. Based on an ESG survey conducted for NAVEX Global, including 1,250 management and senior level executives in the U.S., U.K., France, and Germany, 88% of publicly traded companies have ESG initiatives in place, followed by 79% of the venture and private equity-backed companies and 67% of privately-owned companies.⁵ Also, in response to the growing demand for information disclosure in ESG (Amel-Zadeh and Serafeim (2018)), 92% of S&P 500 companies and 70% of Russell 1000 companies

³ Although there have been some fluctuations in recent years, there is no doubt that SRI still has substantial AUMs.

⁴ Chung, Juliet, and Dave Michaels. "ESG funds draw SEC scrutiny." *Wall Street Journal* (2019).

⁵ <https://www.navex.com/blog/article/environmental-social-governance-esg-global-survey-findings/>

published sustainability reports in 2020.⁶ Previous studies also document the rationale behind these ESG initiatives from shareholder pressure (Dyck, Lins, Roth, and Wagner (2019)) and financial performance perspectives (Albuquerque, Koskinen, and Zhang (2019), Lins, Servaes, and Tamayo (2017), Albuquerque, Koskinen, Yang, and Zhang (2020), Flammer (2021)).

Most recently, the SEC also adopted rules to enhance and standardize climate-related disclosures for investors.⁷ The increasing emphasis on ESG principles and how firms adapt to these priorities highlights a pivotal shift in corporate governance and strategy. It is natural to ask how ESG performance affects the corporate decision-makers. Previous studies investigated the relationship between firm ESG performance and CEO labor market outcome. For example, Dai, Gao, Lisic, and Zhang (2021) suggest that corporate social performance enhances CEOs' labor market potential after they retire, using the MSCI CSR measure. Lel (2023) shows that CEO labor market outcomes worsened following corporate environmental failures.

On the other hand, directors are also accountable for the firm's ESG performance. The board of directors guides management in allocating resources and arranging goals, so ESG factors are also inevitable for board agenda and strategic planning. For example, the board is responsible for incorporating and overseeing the ESG initiatives and ensuring they serve the firm's long-term goals and profitability. The board of directors can incorporate ESG metrics into executive compensation schemes. Maintaining a good social reputation for the company is an important task for the board (Cai, Gao, Garretta, and Xu (2020)). Directors have an increasingly important role in managing corporate social responsibility (Elkington (2006), Tonello et al. (2011)). Iliev and Roth (2021) also state that the board of

⁶ <https://www.ga-institute.com/index.php?id=9128>

⁷ U.S. Appeals Court temporarily halts SEC climate-disclosure rules, but it imposes potential ESG risks to registrants.

directors plays a vital role in shaping corporate sustainability. Coles and Hoi (2003) show that board actions result in subsequent labor market opportunities.

The important role directors play in firms' ESG performance is well established, yet the impact of ESG on the board of directors is under-explored. This leads me to ask: Does the director labor market assign value to ESG initiatives and outcomes for which directors are potentially responsible? It is an empirical question of whether the labor market values directors' ESG reputation.

This paper fills in this gap by investigating how directors' ESG reputations affect their subsequent labor market outcomes. I construct directors' reputations as the weighted average of the previous ESG performance across the employers they work for. If the labor market values the director's ESG reputation, then a better ESG reputation should lead to better subsequent labor market outcomes for the director. I adopt Refinitiv ESG scores to measure the firm's ESG performance. I find that directors with better ESG reputations get more (independent) board seats and more committee seats, get paid more, and are more likely to obtain a seat on ESG-related committees. The improvements in career prospects are larger for female directors, suggesting the current focus and promotion of ESG performance could potentially reduce gender pay disparities, at least among directors.

I perform several tests to further establish the causal relationship, mainly through the differential effects caused by increasing demands. First, I compare the effects between pro-ESG states and anti-ESG states, and I show that firms in pro-ESG states value the director's ESG reputation more. Thus, an enhanced ESG reputation significantly boosts directors' career opportunities in states supportive of ESG initiatives more so than in those against such principles. This suggests that the anticipation of regulatory requirements heightens a firm's focus on ESG risks, prompting them to prioritize and better compensate directors with better ESG reputations. Second, I use large natural hazards as exogenous shocks on

public and corporate awareness regarding ESG issues. Consequently, companies impacted by such disasters increasingly seek directors with notable ESG reputations and offer higher compensation for their expertise. Third, I show that the effects of the Paris Agreement were larger after its implementation. This escalation is attributed to the Agreement's global push for stringent environmental standards, compelling firms to prioritize sustainability. Consequently, directors with better ESG reputations have become invaluable for guiding companies through compliance and enhancing their environmental stewardship, making their expertise more sought after and better rewarded afterward. The results are robust to different ESG reputation measures and different weighting methods. The results are also robust to endogeneity concerns, supported by the IV test.

This paper contributes to the literature in the following ways. First, this paper examines whether the labor market values the director's ESG reputation and provides empirical evidence that a better ESG reputation improves the subsequent career prospects for directors. Second, this paper not only explores the effect of the overall ESG reputation but also the effects of decomposed pillar reputations. Third, this paper shows that the director's ESG reputation improves the career prospects for female directors with larger magnitudes, suggesting that the focus or promotion of ESG reputation helps close the compensation gap by gender. Additionally, this paper extends the literature on the effect of the local political climate on firm performance and decision-making to include the effect on the directors' labor market. Lastly, this paper offers essential policy implications in terms of ESG initiative adoptions and raises concern about the agency problem since such adoptions also affect directors' career prospects, which is consistent with the concerns proposed by Bebchuk and Tallarita (2022).

The rest of this paper is structured as follows. Section 2 explains the research design and hypothesis development. Section 3 describes sample construction and data sources.

Section 4 presents the summary statistics and the empirical results on how directors' ESG reputation impacts their career prospects using cross-sectional analysis, exogenous shock, and an IV approach to mitigate the endogeneity concern and establish the casual relationship. Section 5 concludes the paper.

2. Research Design and Hypothesis Development

I quantify the director's ESG reputation by averaging the previous ESG performance across the employers he or she works for. If the labor market values the director's ESG reputation, then a better ESG reputation should lead to better subsequent labor market outcomes for the director. Following this argument, I construct the first (main) hypothesis:

H1: Better ESG reputation improves directors' subsequent career prospects.

I use the following Equation (1) to test whether a director's ESG reputation affects his or her career prospects:

$$Career\ Prospect_{i,t} = \beta \times ESG\ reputation_{i,t-1} + \gamma X_{i,t-1} + \theta_i + \tau_t + \varepsilon \quad (1)$$

where i denotes director and t denotes year. $X_{i,t}$ represents the control variables, including average ROA, average firm size, the number of directors currently on board. Besides, I also include director-fixed effect θ_i to control for the time-invariant unobservable director characteristics and year-fixed effect τ_t . I test with different director labor market outcome measures, including (1) the number of boards the director currently serves on (*Busyness*); (2) the number of boards the director currently serves as an independent director (*Independent Board Seat*); (3) the number of committees the director currently serves on (*Number of Committee Seats*); (4) the log value of the director's total compensation (*Compensation*); (5) a dummy variable indicating whether the director currently serves on an ESG-related committee (*ESG Committee*). I use the value-weighted average of the previous year's ESG

performance across the director's employer(s) by market capitalization to construct the director's ESG reputation. I weigh the ESG performance with market capitalization to factor in the concern that the performance of directors on larger companies gains more attention. As for the firm's ESG performance, I adopt the different ESG scores obtained from Refinitiv, including overall ESG scores, combined ESG scores, environmental pillar scores, social pillar scores, and governance pillar scores. Combined ESG scores are the combination of ESG scores and ESG controversies. Environmental pillar score, social pillar score, and governance pillar score capture environmental, social, and governance pillar performance, respectively.

2.1 Female Directors versus Male Directors

Labor markets are frequently marked by gender pay disparities (Goldin (2014), Blau and Kahn (2017)). The director labor market is no different than other labor markets in terms of gender pay disparities, which also apply, if not worsen. Given that ESG principles inherently advocate for reducing gender pay disparities, it is pertinent to explore whether female directors with a better ESG reputation are rewarded more significantly, thereby potentially narrowing the gender pay gap. This investigates whether an enhanced ESG reputation could serve as a lever for female directors to achieve parity in career opportunities, including remuneration. This approach not only sheds light on the direct impact of ESG adherence on labor market outcomes but also contributes to the broader discourse on achieving gender equality within corporate leadership echelons. If the ESG reputation is rewarded with better labor market outcomes for female directors, then such pay disparities can be narrowed if firms promote more ESG performance. This yields my second hypothesis:

H2: The sensitivity of career prospects on ESG reputation is higher for female directors.

To test hypothesis 2, I create an interaction term between ESG reputation and a dummy variable, *Female*, which equals 1 if the director is female. I compare the effects of ESG reputation on directors’ labor market outcomes between female directors and male directors using the following Equation (2).

$$\begin{aligned} Career\ Prospect_{i,t} = & \beta_1 \times ESG\ reputation_{i,t-1} + \beta_2 \times Female + \beta_3 \times Female \times \\ & ESG\ reputation_{i,t-1} + \gamma X_{i,t-1} + \tau_t + \varepsilon \quad (2) \end{aligned}$$

where i indicates the director, t indicates the year, and $X_{i,t}$ represents the control variables used in the main equation (1). I also add the director’s age, education, and tenure to control for director characteristics. If the ESG reputation is rewarded with better labor market outcomes for female directors, I should observe it from the coefficient on the interaction term.

2.2 Pro-ESG States versus Anti-ESG States

Pro-ESG states are defined as the states which have adopted “pro-ESG” related bills or legislations. The “pro-ESG” bills include investment reporting regarding climate risks, sustainable investing policy, fossil fuel divestment, etc. To date, nine states in the US have adopted such bills (CA, CO, MD, IL, ME, DE, NM, TN, WA), which favor ESG-weighted investing. As suggested in the name, these bills generally direct pension plans to divest from certain high-polluting industries (e.g., fossil fuels or firearms), provide reporting regarding the climate risks associated with their investment portfolios, or adopt sustainable investment policies. On the other hand, anti-ESG movements have also been trending in recent years, and many states have passed or implemented “anti-ESG” bills or legislations that forbid the inclusion of ESG criteria in public investment choices or that limit state agencies from engaging with firms that refuse to deal with fossil fuel or firearm manufacturers, namely 16

states (AL, AR, ID, IN, KS, KY, LA, MT, ND, OK, TN, TX, UT, WV, WY, FL). Firms located in states that exhibit a strong commitment to ESG often place a heightened emphasis on ESG performance. Previous literature has documented the effect of local political climate on firm performance and decision-making (Pirinsky and Wang (2006), Rubin (2008), Almazan et al. (2010), John et al. (2011), Parson et al. (2018)), including CSR activities (Cai et al. (2016), Liang and Renneboog (2017), Attig et al. (2017)). The assumption is that the labor market in pro-ESG states values the director’s ESG reputation more. Therefore, a better ESG reputation is rewarded with more and better subsequent labor market outcomes. This yields my third hypothesis:

H3: The sensitivity of career prospects to ESG reputation is higher in pro-ESG states compared to anti-ESG states.

To test hypothesis 3, I assign a dummy variable, *Pro ESG*, to each director based on whether most of his/her employers are in pro-ESG or anti-ESG states and compare the effects from Equation (3):

$$\text{Career Prospect}_{i,t} = \beta_1 \times \text{ESG reputation}_{i,t-1} + \beta_2 \times \text{Pro ESG} + \beta_3 \times \text{Pro ESG} \times \text{ESG reputation}_{i,t-1} + \gamma X_{i,t-1} + \theta_i + \tau_t + \varepsilon \quad (3)$$

where i indicates the director, t indicates the year, and $X_{i,t}$ represents the control variables used in the main equation (1). If the ESG reputation is rewarded with better labor market outcomes in pro-ESG states, I should observe it from the coefficient on the interaction term.

2.3 Natural Hazards

The occurrence of large natural hazards increases awareness and attention to ESG risks. Firms located in natural-hazards-affected states increasingly recognize the value of directors’ ESG performance for several compelling reasons. For example, natural disasters

underscore the importance of robust risk management strategies. Natural hazards are exogenous and irrelevant to financial performance. They only negatively affect the financial performance, if any, so investigating the effect of ESG reputation before and after natural hazards helps mitigate endogeneity concerns. Directors with a strong focus on ESG are better equipped to anticipate, prepare for, and mitigate the impacts of such events. Also, firms experiencing these large natural disasters have visualized their impact and are more willing to make extra efforts to reduce the possibility of natural disasters happening again by focusing more on sustainability or environmentally friendly business. Again, this is due to the increasing demand for directors with better ESG reputations in pro-ESG states. This yields my fourth hypothesis:

H4: The sensitivity of career prospects to ESG reputation is higher in states that were affected by large natural hazards.

To test hypothesis 4, I assign a dummy variable *Affected* to each director based on whether the majority of his/her employers are located in natural-hazards-affected states and compare the effects from Equation (4).

$$Career\ Prospect_{i,t} = \beta_1 \times ESG\ reputation_{i,t-1} + \beta_2 \times Affected + \beta_3 \times Affected \times ESG\ reputation_{i,t-1} + \gamma X_{i,t-1} + \theta_i + \tau_t + \varepsilon \quad (4)$$

where i indicates the director, t indicates the year, and $X_{i,t}$ represents the control variables used in the main equation (1). If the ESG reputation is rewarded with better labor market outcomes in natural-hazards-affected states, I should observe it from the coefficient on the interaction term.

2.4 The Paris Agreement

Climate change undoubtedly represents one of the most significant and complex challenges confronting the whole human society. To address global climate change and tackle its negative impacts, world leaders adopted an international treaty on climate change, the Paris Agreement in 2015. It marked a watershed moment in the global effort to address climate change, signaling an unequivocal commitment by the international community to pursue a sustainable and low-carbon future. Thus, it is reasonable to assume that the labor market values directors' ESG reputation more in the post-Paris Agreement era, and thereby, a better ESG reputation improves the director's career prospects more after 2015. The enhanced emphasis on ESG metrics is not merely a response to external pressures but a strategic imperative that potentially aligns with the need to mitigate risks and capitalize on opportunities in a rapidly changing business environment. This yields my fifth hypothesis:

H5: The sensitivity of career prospects to ESG reputation is higher after the implementation of the Paris Agreement.

To test hypothesis 5, I assign a dummy variable *After* to each director, which equals 1 after 2015, and compare the effects from Equation (5).

$$\text{Career Prospect}_{i,t} = \beta_1 \times \text{ESG reputation}_{i,t-1} + \beta_2 \times \text{After} \times \text{ESG reputation}_{i,t-1} + \gamma X_{i,t-1} + \tau_t + \varepsilon \quad (5)$$

where i denotes the director, t denotes the year, and $X_{i,t}$ represents the control variables used in the main equation (1) and the director's age, gender, education, and tenure. If the ESG reputation is rewarded with better labor market outcomes after the implementation of the Paris Agreement, I should observe it from the coefficient on the interaction term.

2.5 Instrumental Variable: Executive ESG Pay

I further use a two-stage IV approach to mitigate the endogeneity concerns. The adoption of ESG-linked executive pay is relevant to the directors' ESG reputation and does not directly affect the director's career prospects, thereby satisfying the exclusion restriction.

In the first stage, I regress the director's overall ESG reputation on the instrumental variable (*ESG Pay*) with a full set of controls as below.

First stage:

$$Avg\ ESG\ Score_t = \beta \times ESG\ Pay_{i,t} + \gamma X_{i,t} + \theta_i + \tau_t + \varepsilon \quad (6)$$

where i indicates the director and t indicates the year. *ESG Pay* indicates whether any of the firms the director serves for have linked ESG metrics to executive compensation schemes. $X_{i,t}$ represents the control variables used in the main equation (1). I also include director fixed effects (θ_i) and year fixed effects (τ_t) in the first stage of 2SLS regressions.

The second stage regresses director career prospects on the projected lagged ESG reputation measure $Avg\ \widehat{ESG\ Score}_{i,t-1}$, together with a full set of controls, as below:

Second stage:

$$Career\ Prospect_{i,t} = \beta \times Avg\ \widehat{ESG\ Score}_{i,t-1} + \gamma X_{i,t-1} + \theta_i + \tau_t + \varepsilon \quad (7)$$

where i indicates the director and t indicates the year. $Avg\ \widehat{ESG\ Score}_{i,t-1}$ is the predicted value of $Avg\ ESG\ Score_{i,t-1}$. The control variables used in the second stage of equation (7) are the same as in Equation (1).

3. Sample Construction

3.1 ESG Reputation of Directors

The sample currently covers S&P 1500 companies from 2007 to 2023. To construct the ESG reputation of directors, I use the value-weighted average of the previous year's ESG performance across their employers by market capitalization, and I also use the equal-weighted average ESG reputation as a robustness check. I obtain firm ESG performance data from Refinitiv (previously Asset4), which contains comprehensive overall ESG scores, combined ESG scores as well as detailed pillar scores. These scores transparently and objectively measure a company's relative ESG performance, commitment, and effectiveness across 10 main themes (resource use, emissions, environmental product innovation, workforce, human rights, community, product responsibility, management, shareholders, and corporate social responsibility strategy), based on publicly reported data. Combined ESG score incorporates the impact of significant and material ESG controversies. The main objective of this score is to discount the ESG performance score based on negative media stories. The environmental pillar mainly focuses on resource use, emissions, and environmental product innovation, while the social pillar consists of workforce, human rights, community, and product responsibility, and the governance pillar contains management, shareholders, and corporate social responsibility strategy.

3.2 Career Prospects of Directors

I obtain director characteristics data from BoardEx and construct the following career labor market outcome variables: (1) the number of boards the director currently serves on (Busyness); (2) the number of boards the director currently serves as an independent director (Independent Board Seat); (3) the number of committees the director currently serves on (Number of Committee Seats); (4) the log value of the director's total compensation

(Compensation); and (5) a dummy variable indicating whether the director currently serves on an ESG-related committee (ESG Committee). My sample reflects the merged intersection of the Refinitiv and BoardEx datasets. The final sample includes 122,334 director-year observations. In general, I include director-fixed effects to control for time-invariant director characteristics and year-fixed effects in my analysis, with some exceptions, and I will explain in detail in empirical results.

3.3 Other Data

I obtain firm characteristics from Compustat and CRSP, including ROA, firm size, and the number of directors currently on board to generate director-level control variables. Besides, I also include the director’s gender, age, education and tenure from BoardEx as control variables. To better test my hypothesis, I obtain the natural hazards damage data from SHELDUS, which provides the county-level hazard data set covering natural U.S. hazards, including thunderstorms, hurricanes, floods, wildfires, tornados, etc. I only include large natural disasters that caused over \$1 billion of damage. I obtain the executive compensation scheme data from Incentive Lab. Variables definitions and constructions are discussed in detail in the Appendix.

4. Empirical Results

4.1 Summary Statistics

Table 1 shows the sample summary statistics. The sample consists of 122,334 director-year observations for S&P 1500 firms from 2007 to 2023, representing the merged intersection of the Refinitiv and BoardEx datasets. On average, a director in my sample currently holds 1.65 board seats, of which around 1.51 board seats are independent, and a director serves on 3.34 committees across firms. Director compensation data are available for a

smaller sample of 58,335 director-year observations – a typical director in my sample makes \$334,423 in total (salary and bonus) annually. Around 6.2% of the directors serve on at least one ESG-related committee. A committee is defined as an ESG-related one if the committee’s name includes ESG keywords, such as “ESG,” “CSR,” “environment-,” “social-,” “sustain-,” and so forth.

[Insert Table 1 here]

Using employers’ market capitalization to construct the director’s ESG reputation, a director has an ESG reputation of 46.44, measured by overall ESG scores, and 43.71 by combined ESG scores. The decomposed pillar reputations are 34.45 for the environmental pillar, 47.69 for the social pillar, and 53.61 for the governance pillar. Alternatively, the director’s overall ESG reputation is 46.31, using equal-weighted previous firm ESG performance.

Around 20% of directors in my sample are female, with an average age of 62.5 and an average tenure of 7.97 years. In a typical firm that directors serve in my sample, the average number of directors on board is 10.53, the average ROA is 0.05, and the log value of the average firm size is 8.995. *Pro ESG* only compares the directors that serve mainly on firms located in pro-ESG states and those that serve mainly on firms located in anti-ESG states, so about 54.2% of directors serve mainly for firms located in pro-ESG states. 66.5% of the directors serve at least one firm located in states that were affected by natural hazards. Within the merged intersection of the main data set and the Incentive Lab data set, around 50.4% of the directors have at least one firm that adopts ESG metrics linked to executive compensation.

4.2 The Effect of Directors' ESG Reputation on Career Prospects

Table 2 presents the effects of directors' ESG reputation on their career prospects across multiple value-weighted average measures, including overall, combined, and decomposed pillar ones. Panel A includes the previous overall ESG scores as the independent variables, and Panel B includes the previous combined ESG scores. Panel C, D, and E show the effects of previous environmental, social, and governance pillar scores, respectively. All panels include the following career prospects as dependent variables: (1) the number of boards the director currently serves on (*Busyness*); (2) the number of boards the director currently serves as an independent director (*Independent Board Seat*); (3) the number of committees the director currently serves on (*Number of Committee Seats*); (4) the log value of the director's total compensation (*Compensation*); (5) a dummy variable indicating whether the director currently serves on an ESG-related committee (*ESG Committee*). Results are shown in Table 2 below.

[Insert Table 2 here]

In Panel A, column (1) shows that the coefficient on *Avg ESG Score* is 0.00139 and statistically significant at the 1 percent level, implying that directors with better overall ESG reputation get more board seats. To be more specific, one standard deviation increase in the overall ESG reputation is followed by about 0.03 increase in the number of board seats. Column (2) includes control variables such as averaged ROA, average firm size, the average number of directors, and the coefficient of the overall ESG reputation remains positive and statistically significant. One standard deviation increase in the overall ESG reputation is followed by about 0.04 increase in the number of board seats. Column (3) and column (4) show similar results for independent board seats. Column (5) shows that the

coefficient on *Avg ESG Score* is 0.00463 and statistically significant at the 1 percent level, implying that directors with better overall ESG reputation also get more committee seats. To be more specific, one standard deviation increase in the overall ESG reputation is associated with a 0.09 increase in the number of committee seats. Column (6) shows the effect remains after considering the financial performance. Column (7) shows a positive effect of the overall ESG reputation on the total compensation of directors. Column (8) adjusts for financial performance and shows that the coefficient on *Avg ESG Score* is 0.00142 and statistically significant at the 1 percent level, implying that directors with better overall ESG reputation earn higher compensation. To be more specific, one standard deviation increase in the overall ESG reputation is associated with a 2.77% increase in the director's total compensation. Columns (9) and (10) show that better ESG reputations increase the likelihood of serving on at least one ESG-related committee for directors.

Panel B presents the estimation results on Equation (1), using the combined ESG reputation. It shows similar effects as demonstrated in Panel A, positive and statistically significant, with smaller magnitudes. As mentioned previously, the combined ESG reputation incorporates the impact of significant and material ESG controversies, so it is not surprising that the magnitude of its effects on director career prospects is generally smaller. Directors with better combined ESG reputations get more (independent) board seats, more committee seats, get paid more, and are more likely to serve on at least one ESG-related committee.

Panels C, D and E present the estimation results on Equation (1), using the environmental pillar, social pillar, and governance pillar reputation, respectively. All three panels show similar effects as demonstrated in Panel A, positive and statistically significant, with smaller magnitudes. Given the effects of overall ESG reputation cover the effects from environmental, social and some governance aspects, it is reasonable that the standalone effects

from the decomposed environmental pillar, social pillar, or governance pillar are smaller. Directors with better environmental, social or governance reputations get more (independent) board seats, more committee seats, get paid more, and are more likely to serve on at least one ESG-related committee.

Overall, my results suggest that labor markets value and reward directors' ESG reputations, which is consistent with my *H1*. Better ESG reputations bring more and better subsequent labor market opportunities for directors. Such findings are robust across different ESG reputation measures and different labor market outcome measures.

4.3 The Effect on Female Directors and Male Directors

Table 3 compares the effect of directors' ESG reputation on their career prospects for female directors and male directors. Gender is time-invariant for a director (at least in my sample), and I still need year-fixed effects to control for unobservable time-invariant characteristics; I adopt the gender indicator, *Female*, which equals 1 if the director is female. Then, I include an interaction term between gender and director ESG reputation to capture the differential effect of director reputation on labor market outcomes between female directors and male directors. Results are shown in Table 3 below.

[Insert Table 3 here]

Table 3 Panel A shows positive and statistically significant coefficients on the overall ESG reputation, unconditional on gender, confirming that directors with better overall ESG reputation get more (independent) board seats and more committee seats, get paid more, and are more likely to secure an ESG-related committee seat. The coefficients on *Female* dummy, though, suggest that, on average, female directors take more committee seats while

getting paid way less than male directors, which further reflects the gender pay disparities I discussed previously. The positive coefficients on the interaction term show that female directors can potentially get additional improvements on their labor market outcomes by demonstrating a strong ESG reputation. Columns (1), (4), and (5) show that, compared to male directors, one standard deviation increase in average overall ESG score is followed by a 0.02 increase in board seats, a 7.12% increase in total compensation for female directors, and a higher likelihood of being on at least one ESG-related committee.

Table 3 Panel B, C and D explore the effects further with the decomposed environmental, social and governance pillar reputation. Even though all three pillars contribute to the improvement of labor market outcomes, the reputation of the social pillar dominates the other two and affects career prospects the most.

The results in Table 3 suggest that the career prospects of female directors are more sensitive to better ESG reputations, which is consistent with my *H2*.

4.4 The Effect in Pro-ESG States versus Anti-ESG States

Table 4 compares the effect of directors' ESG reputation on their career prospects in pro-ESG states versus anti-ESG states. I construct an indicator *Pro ESG* that equals 1 if the majority of the firms the director serves this year are located in pro-ESG states. *Pro ESG* equals 0 if the majority of the firms the director serves this year are located in anti-ESG states. If the majority of the firms are located in neither pro-ESG states nor anti-ESG states, then the interaction term is missing. In other words, I only compare the effect in pro-ESG states with the effect in anti-ESG states. Then, I include an interaction term between *Pro ESG* and director ESG reputation to capture the differential effect of director reputation on labor market outcomes between pro-ESG states and anti-ESG states. Results are shown in Table 4 below.

[Insert Table 4 here]

Based on Panel A, the coefficients on the overall ESG reputation alone indicate that in states with a negative stance towards ESG, directors' ESG reputations have no significant impact on their career opportunities and may even detrimentally affect them. This is consistent with my story since firms in anti-ESG states face less regulatory pressure and, thereby, are less likely to reward directors for performing better in ESG. On the other hand, the coefficients on the interaction term are mostly positive and statistically significant, suggesting the labor market in pro-ESG states values directors' ESG reputation. To be more specific, Column (1) shows that one standard deviation increase in average overall ESG score is followed by a 0.03 increase in board seats, a 0.05 increase in independent board seats, an 0.12 increase in committee seats, and an 4.96% increase in total compensation for directors.

Table 4 Panel B, C and D explore the effects further with the decomposed environmental, social and governance pillar reputation. Even though all three pillars contribute to the improvement of labor market outcomes, the environmental pillar reputation dominates the other two and affects career prospects the most.

The results in Table 4 suggest that the degree of emphasis placed on ESG reputation varies significantly between labor markets in pro-ESG states and those in anti-ESG states, and the sensitivity of career prospects to ESG reputation is higher in pro-ESG states, which is consistent with my *H3*.

4.5 The Effect in Natural-Hazard-Affected States

Table 5 presents the comparison of the effect of directors' ESG reputation on their career prospects in states that were affected by large natural hazards and the effect in other

states. The recorded large natural hazards are those that caused total damages of at least \$1 billion. A firm located in those affected states is a natural-hazard-affected firm. I construct an indicator variable, *Affected*, that equals 1 if the director serves on any natural-hazard-affected firm after these disasters happened. In other words, *Affected* is set to 0 for directors associated with firms in states that have not experienced any recorded natural disaster, as well as for instances prior to the occurrence of these disasters in affected states. Then, I include an interaction term between *Affected* and director ESG reputation to capture the differential effect of director reputation in natural-hazard-affected states before and after such events, as well as in other states. Results are shown in Table 5 below.

[Insert Table 5 here]

Table 5 Panel A shows positive and statistically significant coefficients on the overall ESG reputation in unaffected states, as well as in affected states before the natural hazards. Most of the coefficients on the interaction term are positive and statistically significant, implying that the labor market values directors' ESG reputation more after natural disasters happen. Compared to the unaffected states, directors with one standard deviation increase in overall ESG reputation get 0.044 more board seats, 0.03 more independent board seats, 0.073 more committee seats, and a 2.36% increase in total compensation.

Table 5 Panel B, C and D explore the effects further with the decomposed environmental, social and governance pillar reputation. Both environmental and social pillars contribute to the improvement of labor market outcomes; however, the reputation of the environmental pillar affects career prospects more. This is because natural hazards affect the environmental aspects the most and firms want to hire directors who are more experienced with environmental issues after getting hit by a natural disaster.

The results in Table 5 suggest that the labor market emphasizes ESG reputation following natural disasters by rewarding directors with better ESG reputations. This can be attributed to heightened awareness and expectations around corporate transparency and resilience, which is consistent with my $H4$.

4.6 The Effect Before and After the Paris Agreement

To address global climate change and tackle its negative impacts, world leaders adopted an international treaty on climate change, the Paris Agreement, in 2015. This will possibly cause an upward shift in the career opportunities for directors with better ESG reputations. Table 6 presents an analysis of how the impact of directors' ESG reputation on their career outcomes has shifted following the implementation of the Paris Agreement. The indicator variable *After* is set to 1 for observations after 2015 and 0 otherwise. I include an interaction term between *After* and director ESG reputation to capture the differential effect of director reputation before and after the implementation of the Paris Agreement. Results are shown in Table 6 below.

[Insert Table 6 here]

Table 6 Panel A shows positive and statistically significant coefficients on the overall ESG reputation before the implementation of the Paris Agreement. After 2015, the coefficients on the interaction term are positive and statistically significant, implying that the sensitivity of directors' labor market outcomes on their ESG reputation increases. Besides the existing effects before 2015, after the implementation of the Paris Agreement, one standard deviation increase in overall ESG reputation brings directors with 0.033 more board

seats, 0.042 more independent board seats, a 2.77% increase in total compensation and a higher likelihood of serving on an ESG-related committee.

Table 6 Panel B, C, and D explore the effects further with the decomposed environmental, social and governance pillar reputation. Environmental pillar and social pillar reputations affect the subsequent labor market outcomes more after 2015.

The results in Table 6 suggest that the directors' career prospects are more sensitive to their ESG reputation after the implementation of the Paris Agreement, probably due to its global call for more rigorous environmental standards and sustainability practices. This agreement symbolizes a worldwide commitment to climate action, thus elevating expectations for corporate governance in environmental stewardship. Consequently, directors with a strong ESG reputation may be viewed as more valuable for leading companies towards compliance with these enhanced global standards, influencing their career prospects positively, which is consistent with my *H5*.

4.7 Instrumental Variable: Executive ESG Pay

Table 7 shows the 2SLS regression results.⁸ Column (1) shows that *ESG Pay* is positive and statistically significant, suggesting that working for firms with executive compensation packages linked to ESG metrics improves the director's ESG reputation. The second-stage results in column (2) – (4) show that the coefficients on *Avg ESG Score*_{*i,t-1*} remain significantly positive, suggesting that my results are robust to endogeneity concerns. The F-statistics are also higher than 10, which mitigates the weak instrument concern.

[Insert Table 7 here]

⁸ The standard errors will be further checked with bootstrapping.

4.8 Robustness check: Equal-weighted ESG Reputation

As a robustness check, I use an alternative weighting method (equally weighted) to construct the director's ESG reputation and Table 8 presents the effect of this ESG reputation measure on directors' career prospects for S&P 1500 firms from 2007 to 2023. Column (1) shows one standard deviation increase in the director's ESG reputation is associated with a 0.013 increase in board seats. Column (5) shows an increase in the director's ESG reputation is associated with a higher likelihood of serving on an ESG-related committee. This confirms the effect of directors' ESG reputation on director career prospects.

[Insert Table 8 here]

5. Conclusion

In conclusion, this paper investigates whether the director's labor market values the director's ESG reputation and how it affects the director's labor market outcomes. I use the weighted average previous ESG performance of the employer(s) to quantify the director's ESG reputation. I show that a better ESG reputation of directors improves the director's subsequent career prospects, which implies that the labor market values the director's ESG reputation. I show this effect is larger for female directors in pro-ESG states, in states that were affected by large natural disasters, and after the Paris Agreement. The results are robust to different ESG reputation measures and different weighting methods. The results are also robust to endogeneity concerns, supported by the IV test.

The findings are important for the following reasons. First, this paper examines whether the labor market values the director's ESG reputation. Even though firms talk as if they care about ESG issues, it is an open empirical question whether they factor in ESG

reputation when they hire or reward directors, and this paper confirms that they do value the director's ESG reputation by showing better ESG reputation improves the subsequent career prospects for directors. To empirically test it, this paper proposes a plausible director reputation measure, which averages the ESG performance across previous employer(s). Second, this paper not only explores the effect of the overall ESG reputation but also the effects of decomposed pillar reputations. Third, this paper shows the director's ESG reputation improves the career prospects more for female directors, suggesting that the focus or promotion of ESG reputation helps close the compensation gap by gender. Additionally, this paper extends the literature on the effect of the local political climate on firm performance and decision-making to include the effect on the directors' labor market. Lastly, this paper also offers essential policy implications, since the board of directors often monitors executives on behalf of shareholders and can also integrate ESG metrics into executive compensation, now that employer's ESG performance can affect the director's career prospects, they might also take advantage of it and not act for the best interests of shareholders, thus provide useful implications for shareholders to consider before they push firms to adopt ESG initiatives.

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Table 1 Summary Statistics

This table provides summary statistics. The sample consists of 122,334 director-year observations across S&P 1500 firms from 2007 to 2023. Director career prospects are from BoardEx. Different measures of director ESG reputation are constructed from firm ESG performance, and ESG scores from Refinitiv are used. *ESG Pay* is constructed based on executive compensation data from Incentive Lab. Controls are generated from BoardEx, Compustat, and CRSP. The Appendix provides detailed variable descriptions and data sources.

VARIABLES	(1) N	(2) mean	(3) sd	(4) p25	(5) p50	(6) p75
Director Career Prospects:						
<i>Busyness</i>	122,334	1.65	0.92	1	1	2
<i>Independent Board Seat</i>	102,108	1.51	0.987	1	1	2
<i>Number of Committee Seats</i>	102,108	3.341	2.219	2	3	4
<i>Compensation (in dollars)</i>	58,335	334423	504367	85000	117000	273000
<i>Ln(Compensation)</i>	58,335	12.01	1.1	11.35	11.67	12.52
<i>ESG Committee</i>	102,199	0.062	0.242	0	0	0
Director ESG Reputation:						
<i>Avg ESG Score</i>	122,334	46.44	19.51	31.18	44.99	61.96
<i>Avg C ESG Score</i>	122,334	43.71	17.64	30.64	42.59	56.13
<i>Avg E Pillar Score</i>	122,334	34.45	28.49	6.56	30.15	59.33
<i>Avg S Pillar Score</i>	122,334	47.69	21.95	30.96	46.22	64.56
<i>Avg G Pillar Score</i>	122,334	53.61	21.95	38.52	55.96	70.67
<i>Equal-weighted ESG Score</i>	122,334	46.31	18.71	31.5	44.87	60.89
Other Variables:						
<i>Female</i>	122,334	0.2	0.4	0	0	1
<i>Pro ESG</i>	57,710	0.542	0.498	0	1	1
<i>Affected</i>	122,334	0.665	0.472	0	1	1
<i>ESG Pay</i>	34,272	0.504	0.5	0	1	1

Table 1 (continued)

VARIABLES	(1) N	(2) mean	(3) sd	(4) p25	(5) p50	(6) p75
Controls						
Avg ROA	121,487	0.05	0.07	0.014	0.043	0.082
Avg Firm Size	121,494	8.995	1.537	7.91	8.931	10.02
Avg Number of Directors	122,334	10.53	2.457	9	10	12
Age	119,922	62.5	8.448	57	63	69
Tenure	110,353	7.971	5.254	3	7	12
Education	114,919	1.865	0.747	1	2	2

Table 2 The Effect of Director ESG Reputation on Career Prospects

This table presents the effect of directors' ESG reputation on their career prospects for S&P 1500 firms from 2007 to 2023. A director's ESG reputation is constructed as the value-weighted average (by market capitalization) of firm ESG performance across all the firms he/she served last year. This table includes multiple director ESG reputation measures, generated with different ESG perspectives. Refinitiv ESG scores are used to quantify the firm's ESG performance. Panel A uses the weighted average of the overall ESG score, Panel B uses the weighted average of the combined ESG score, and Panel C, D, and E use the weighted average of the environmental, social, and governance pillar scores, respectively. All panels include the following career prospects as dependent variables: (1) the number of boards the director serves on (*Busyness*); (2) the number of boards the director serves as an independent director (*Independent Board Seat*); (3) the number of committees the director serves on (*Number of Committee Seats*); (4) the log value of the director's total compensation (*Compensation*); (5) a dummy variable indicating whether the director serves on an ESG-related committee (*ESG Committee*). Controls are generated from BoardEx, Compustat, and CRSP. Other variables are defined in the Appendix. All specifications include director and year fixed effects. Heteroskedasticity robust standard errors are reported in parentheses below each coefficient. Continuous variables are winsorized at 1% and 99%. ***, **, and * correspond to statistical significance at the 1%, 5%, and 10% levels for two-tailed tests, respectively.

Panel A: Average ESG score

Dependent Variables	Busyness		Independent Board Seat		Number of Committee Seats		Ln(Compensation)		ESG Committee	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
<i>Avg ESG Score</i> _{t-1}	0.00139*** (0.00025)	0.00205*** (0.00027)	0.00155*** (0.00031)	0.00228*** (0.00033)	0.00463*** (0.00068)	0.00474*** (0.00073)	0.00387*** (0.00037)	0.00142*** (0.00036)	0.00024*** (0.00008)	0.00017** (0.00008)
Controls		X		X		X		X		X
Director FE	X	X	X	X	X	X	X	X	X	X
Year FE	X	X	X	X	X	X	X	X	X	X
Observations	100,066	88,023	84,984	76,626	84,984	76,626	49,145	42,751	85,067	76,667
R-squared	0.75284	0.76409	0.75433	0.76457	0.74137	0.74873	0.81526	0.82402	0.66464	0.66923
Adjusted R-squared	0.708	0.720	0.709	0.720	0.694	0.701	0.785	0.795	0.603	0.606

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Table 2 (continued)

Panel B: Average combined ESG score

Dependent Variables	Busyness		Independent Board Seat		Number of Committee Seats		Ln(Compensation)		ESG Committee	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
<i>Avg CESG Score_{t-1}</i>	0.00081*** (0.00023)	0.00128*** (0.00025)	0.00052* (0.00028)	0.00116*** (0.00029)	0.00160*** (0.00062)	0.00178*** (0.00066)	0.00209*** (0.00031)	0.00051 (0.00031)	0.00020*** (0.00007)	0.00020*** (0.00008)
Controls		X		X		X		X		X
Director FE	X	X	X	X	X	X	X	X	X	X
Year FE	X	X	X	X	X	X	X	X	X	X
Observations	100,066	88,023	84,984	76,626	84,984	76,626	49,145	42,751	85,067	76,667
R-squared	0.75275	0.76394	0.75420	0.76436	0.74114	0.74853	0.81466	0.82392	0.66463	0.66925
Adjusted R-squared	0.708	0.720	0.709	0.719	0.694	0.700	0.784	0.794	0.603	0.606

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Panel C: Average environmental pillar score

Dependent Variables	Busyness		Independent Board Seat		Number of Committee Seats		Ln(Compensation)		ESG Committee	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
<i>Avg E Pillar Score_{t-1}</i>	0.00108*** (0.00017)	0.00153*** (0.00018)	0.00126*** (0.00020)	0.00167*** (0.00021)	0.00369*** (0.00045)	0.00378*** (0.00048)	0.00227*** (0.00024)	0.00057** (0.00024)	0.00024*** (0.00005)	0.00019*** (0.00005)
Controls		X		X		X		X		X
Director FE	X	X	X	X	X	X	X	X	X	X
Year FE	X	X	X	X	X	X	X	X	X	X
Observations	100,066	88,023	84,984	76,626	84,984	76,626	49,145	42,751	85,067	76,667
R-squared	0.75289	0.76416	0.75440	0.76463	0.74148	0.74884	0.81504	0.82394	0.66471	0.66928
Adjusted R-squared	0.708	0.720	0.709	0.720	0.694	0.701	0.784	0.795	0.603	0.606

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Table 2 (continued)

Panel D: Average social pillar score

Dependent Variables	Busyness		Independent Board Seat		Number of Committee Seats		Ln(Compensation)		ESG Committee	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
<i>Avg S Pillar Score_{t-1}</i>	0.00128*** (0.00022)	0.00173*** (0.00024)	0.00162*** (0.00027)	0.00207*** (0.00028)	0.00552*** (0.00059)	0.00569*** (0.00063)	0.00291*** (0.00033)	0.00076** (0.00032)	0.00023*** (0.00007)	0.00017** (0.00007)
Controls		X		X		X		X		X
Director FE	X	X	X	X	X	X	X	X	X	X
Year FE	X	X	X	X	X	X	X	X	X	X
Observations	100,066	88,023	84,984	76,626	84,984	76,626	49,145	42,751	85,067	76,667
R-squared	0.75286	0.76407	0.75439	0.76459	0.74160	0.74896	0.81498	0.82394	0.66466	0.66924
Adjusted R-squared	0.708	0.720	0.709	0.720	0.694	0.701	0.784	0.795	0.603	0.606

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Panel E: Average governance pillar score

Dependent Variables	Busyness		Independent Board Seat		Number of Committee Seats		Ln(Compensation)		ESG Committee	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
<i>Avg G Pillar Score_{t-1}</i>	0.00011 (0.00015)	0.00030* (0.00015)	0.00016 (0.00017)	0.00035** (0.00018)	0.00021 (0.00040)	0.00004 (0.00042)	0.00159*** (0.00021)	0.00092*** (0.00020)	0.00007 (0.00005)	0.00009* (0.00005)
Controls		X		X		X		X		X
Director FE	X	X	X	X	X	X	X	X	X	X
Year FE	X	X	X	X	X	X	X	X	X	X
Observations	100,066	88,023	84,984	76,626	84,984	76,626	49,145	42,751	85,067	76,667
R-squared	0.75270	0.76383	0.75418	0.76429	0.74110	0.74849	0.81470	0.82403	0.66459	0.66922
Adjusted R-squared	0.708	0.719	0.709	0.719	0.694	0.700	0.784	0.795	0.603	0.606

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Table 3 Female Directors versus Male Directors

This table presents the effect of directors' ESG reputation on their career prospects for female directors and male directors. Director ESG reputation is the weighted average (by market capitalization) of the ESG performance across all the firms the director served last year. *Female* is an indicator variable, which equals 1 if the director is female. Panel A uses the weighted average of the overall ESG score, and Panel B, C and D use the weighted average of the environmental, social, and governance pillar scores, respectively. The interaction term is *Female* multiplied by director ESG reputation. The dependent variables are (1) the number of boards the director serves on (*Busyness*); (2) the number of boards the director serves as an independent director (*Independent Board Seat*); (3) the number of committees the director serves on (*Number of Committee Seats*); (4) the log value of the director's total compensation (*Compensation*); (5) a dummy variable indicating whether the director serves on an ESG-related committee (*ESG Committee*). Controls are generated from BoardEx, Compustat, and CRSP. Other variables are defined in the Appendix. All specifications include year-fixed effects. Heteroskedasticity robust standard errors are reported in parentheses below each coefficient. Continuous variables are winsorized at 1% and 99%. ***, **, and * correspond to statistical significance at the 1%, 5%, and 10% levels for two-tailed tests, respectively.

Panel A: Average ESG score

Dependent Variables	(1) Busyness	(2) Independent Board Seat	(3) Number of Committee Seats	(4) Ln(Compensation)	(5) ESG Committee
<i>Avg ESG Score</i> _{t-1}	0.00865*** (0.00021)	0.00901*** (0.00025)	0.01833*** (0.00054)	0.00366*** (0.00034)	0.00117*** (0.00006)
Female	0.09483*** (0.02190)	0.30244*** (0.02380)	0.46135*** (0.05368)	-0.63809*** (0.03023)	-0.00395 (0.00586)
Female × <i>Avg ESG Score</i> _{t-1}	0.00114*** (0.00044)	0.00028 (0.00047)	0.00036 (0.00107)	0.00365*** (0.00053)	0.00051*** (0.00013)
Controls	X	X	X	X	X
Year FE	X	X	X	X	X
Observations	86,020	75,423	75,423	42,434	75,466
R-squared	0.05706	0.06221	0.05503	0.11223	0.02474
Adjusted R-squared	0.0568	0.0619	0.0547	0.112	0.0244

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Panel B: Average environmental pillar score

Dependent Variables	(1) Busyness	(2) Independent Board Seat	(3) Number of Committee Seats	(4) Ln(Compensation)	(5) ESG Committee
<i>Avg E Pillar Score</i> _{t-1}	0.00642*** (0.00014)	0.00629*** (0.00017)	0.01327*** (0.00037)	0.00315*** (0.00022)	0.00093*** (0.00004)
Female	0.14269*** (0.01277)	0.29598*** (0.01365)	0.46781*** (0.03101)	-0.50663*** (0.01911)	0.00762** (0.00297)
Female × <i>Avg E Pillar Score</i> _{t-1}	0.00035 (0.00029)	-0.00004 (0.00031)	-0.00037 (0.00071)	0.00150*** (0.00035)	0.00037*** (0.00008)
Controls	X	X	X	X	X
Year FE	X	X	X	X	X
Observations	86,020	75,423	75,423	42,434	75,466
R-squared	0.06018	0.06334	0.05702	0.11356	0.02728
Adjusted R-squared	0.0599	0.0630	0.0567	0.113	0.0270

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Panel C: Average social pillar score

Dependent Variables	(1) Busyness	(2) Independent Board Seat	(3) Number of Committee Seats	(4) Ln(Compensation)	(5) ESG Committee
<i>Avg S Pillar Score</i> _{t-1}	0.00722*** (0.00018)	0.00714*** (0.00021)	0.01482*** (0.00047)	0.00338*** (0.00030)	0.00060*** (0.00005)
Female	0.07811*** (0.01927)	0.25552*** (0.02086)	0.39074*** (0.04742)	-0.61523*** (0.02773)	0.00046 (0.00573)
Female × <i>Avg S Pillar Score</i> _{t-1}	0.00162*** (0.00037)	0.00085** (0.00040)	0.00143 (0.00093)	0.00320*** (0.00047)	0.00045*** (0.00012)
Controls	X	X	X	X	X
Year FE	X	X	X	X	X
Observations	86,020	75,423	75,423	42,434	75,466
R-squared	0.05660	0.06040	0.05390	0.11263	0.02050
Adjusted R-squared	0.0563	0.0601	0.0536	0.112	0.0202

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Panel D: Average governance pillar score

Dependent Variables	(1) Busyness	(2) Independent Board Seat	(3) Number of Committee Seats	(4) Ln(Compensation)	(5) ESG Committee
<i>Avg G Pillar Score</i> _{t-1}	0.00223*** (0.00016)	0.00308*** (0.00019)	0.00663*** (0.00042)	-0.00002 (0.00028)	0.00101*** (0.00004)
Female	0.15335*** (0.02263)	0.38178*** (0.02424)	0.56490*** (0.05455)	-0.56246*** (0.02924)	0.01303** (0.00559)
Female × <i>Avg G Pillar Score</i> _{t-1}	0.00022 (0.00038)	-0.00141*** (0.00040)	-0.00167* (0.00091)	0.00229*** (0.00047)	0.00015 (0.00011)
Controls	X	X	X	X	X
Year FE	X	X	X	X	X
Observations	86,020	75,423	75,423	42,434	75,466
R-squared	0.03710	0.04583	0.04196	0.10734	0.02510
Adjusted R-squared	0.0368	0.0455	0.0417	0.107	0.0248

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Table 4 Pro-ESG States versus Anti-ESG States

This table presents the effect of directors' ESG reputation on their career prospects in pro-ESG states versus anti-ESG states. Director ESG reputation is the weighted average (by market capitalization) of the ESG performance across all the firms the director served last year. *Pro ESG* is an indicator variable, which equals 1 if the majority of the firms the director serves this year are located in pro-ESG states. Panel A uses the weighted average of the over-all ESG score, and Panel B, C and D use the weighted average of the environmental, social, and governance pillar scores, respectively. The dependent variables are (1) the number of boards the director serves on (*Busyness*); (2) the number of boards the director serves as an independent director (*Independent Board Seat*); (3) the number of committees the director serves on (*Number of Committee Seats*); (4) the log value of the director's total compensation (*Compensation*); (5) a dummy variable indicating whether the director serves on an ESG-related committee (*ESG Committee*). Controls are generated from BoardEx, Compustat, and CRSP. Other variables are defined in the Appendix. All specifications include director and year fixed effects. Heteroskedasticity robust standard errors are reported in parentheses below each coefficient. Continuous variables are winsorized at 1% and 99%. ***, **, and * correspond to statistical significance at the 1%, 5%, and 10% levels for two-tailed tests, respectively.

Panel A: Average ESG score

Dependent Variables	(1) Busyness	(2) Independent Board Seat	(3) Number of Committee Seats	(4) Ln(Compensation)	(5) ESG Committee
<i>Avg ESG Score</i> _{t-1}	0.00009 (0.00054)	0.00042 (0.00063)	-0.00106 (0.00145)	-0.00087 (0.00061)	0.00039** (0.00018)
Pro ESG	0.34776*** (0.05674)	0.29383*** (0.06824)	0.73517*** (0.14902)	0.29490*** (0.06868)	0.02762* (0.01657)
Pro ESG × <i>Avg ESG Score</i> _{t-1}	0.00165** (0.00066)	0.00240*** (0.00079)	0.00629*** (0.00178)	0.00254*** (0.00078)	0.00042* (0.00022)
Controls	X	X	X	X	X
Director FE	X	X	X	X	X
Year FE	X	X	X	X	X
Observations	41,151	35,438	35,438	19,732	35,456
R-squared	0.78895	0.79504	0.76698	0.84608	0.71147
Adjusted R-squared	0.746	0.753	0.719	0.818	0.652

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Panel B: Average environmental pillar score

Dependent Variables	(1) Busyness	(2) Independent Board Seat	(3) Number of Committee Seats	(4) Ln(Compensation)	(5) ESG Committee
<i>Avg E Pillar Score</i> _{t-1}	0.00015 (0.00036)	0.00024 (0.00041)	0.00002 (0.00095)	-0.00070* (0.00040)	0.00038*** (0.00012)
Pro ESG	0.36820*** (0.04902)	0.33921*** (0.05949)	0.83797*** (0.12785)	0.29693*** (0.05862)	0.02216 (0.01440)
Pro ESG × <i>Avg E Pillar Score</i> _{t-1}	0.00145*** (0.00046)	0.00179*** (0.00054)	0.00500*** (0.00123)	0.00269*** (0.00055)	0.00037** (0.00015)
Controls	X	X	X	X	X
Director FE	X	X	X	X	X
Year FE	X	X	X	X	X
Observations	41,151	35,438	35,438	19,732	35,456
R-squared	0.78905	0.79508	0.76714	0.84632	0.71154
Adjusted R-squared	0.746	0.753	0.719	0.819	0.652

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Panel C: Average social pillar score

Dependent Variables	(1) Busyness	(2) Independent Board Seat	(3) Number of Committee Seats	(4) Ln(Compensation)	(5) ESG Committee
<i>Avg S Pillar Score</i> _{t-1}	0.00019 (0.00050)	0.00108* (0.00058)	0.00171 (0.00131)	-0.00173*** (0.00060)	0.00021 (0.00018)
Pro ESG	0.35429*** (0.05482)	0.38261*** (0.06611)	0.90703*** (0.14283)	0.32369*** (0.06782)	0.01594 (0.01632)
Pro ESG × <i>Avg S Pillar Score</i> _{t-1}	0.00150** (0.00061)	0.00070 (0.00072)	0.00293* (0.00161)	0.00208*** (0.00076)	0.00019 (0.00021)
Controls	X	X	X	X	X
Director FE	X	X	X	X	X
Year FE	X	X	X	X	X
Observations	41,151	35,438	35,438	19,732	35,456
R-squared	0.78898	0.79493	0.76695	0.84603	0.71141
Adjusted R-squared	0.746	0.752	0.719	0.818	0.652

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Panel D: Average governance pillar score

Dependent Variables	(1) Busyness	(2) Independent Board Seat	(3) Number of Committee Seats	(4) Ln(Compensation)	(5) ESG Committee
<i>Avg G Pillar Score_{t-1}</i>	-0.00040 (0.00030)	-0.00057* (0.00034)	-0.00255*** (0.00080)	0.00056 (0.00037)	0.00014 (0.00010)
Pro ESG	0.40931*** (0.05150)	0.32610*** (0.06223)	0.84678*** (0.13386)	0.43937*** (0.06056)	0.01883 (0.01479)
Pro ESG × <i>Avg G Pillar Score_{t-1}</i>	0.00047 (0.00041)	0.00164*** (0.00048)	0.00380*** (0.00111)	0.00011 (0.00051)	0.00022* (0.00012)
Controls	X	X	X	X	X
Director FE	X	X	X	X	X
Year FE	X	X	X	X	X
Observations	41,151	35,438	35,438	19,732	35,456
R-squared	0.78885	0.79490	0.76689	0.84597	0.71142
Adjusted R-squared	0.746	0.752	0.719	0.818	0.652

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Table 5 Natural Hazards

This table presents the effect of directors' ESG reputation on their career prospects in states that experienced natural disasters and in other states. Director ESG reputation is the weighted average (by market capitalization) of the ESG performance across all the firms the director served last year. *Affected* is an indicator variable, which equals 1 if any firm the director serves is located in natural disaster affected states after such event. Panel A uses the weighted average of the over-all ESG score, and Panel B, C and D use the weighted average of the environmental, social, and governance pillar scores, respectively. The dependent variables are (1) the number of boards the director serves on (*Busyness*); (2) the number of boards the director serves as an independent director (*Independent Board Seat*); (3) the number of committees the director serves on (*Number of Committee Seats*); (4) the log value of the director's total compensation (*Compensation*); (5) a dummy variable indicating whether the director serves on an ESG-related committee (*ESG Committee*). Controls are generated from BoardEx, Compustat, and CRSP. Other variables are defined in the Appendix. All specifications include director and year fixed effects. Heteroskedasticity robust standard errors are reported in parentheses below each coefficient. Continuous variables are winsorized at 1% and 99%. ***, **, and * correspond to statistical significance at the 1%, 5%, and 10% levels for two-tailed tests, respectively.

Panel A: Average ESG score

Dependent Variables	(1) Busyness	(2) Independent Board Seat	(3) Number of Committee Seats	(4) Ln(Compensation)	(5) ESG Committee
<i>Avg ESG Score</i> _{t-1}	0.00056 (0.00040)	0.00135*** (0.00048)	0.00222** (0.00106)	0.00058 (0.00054)	0.00012 (0.00013)
Affected	-0.07732** (0.03080)	-0.04871 (0.03937)	-0.02029 (0.08588)	-0.03210 (0.04951)	-0.00801 (0.00907)
Affected × <i>Avg ESG Score</i> _{t-1}	0.00226*** (0.00045)	0.00141*** (0.00054)	0.00378*** (0.00119)	0.00121** (0.00060)	0.00009 (0.00014)
Controls	X	X	X	X	X
Director FE	X	X	X	X	X
Year FE	X	X	X	X	X
Observations	88,023	76,626	76,626	42,751	76,667
R-squared	0.76424	0.76462	0.74888	0.82407	0.66924
Adjusted R-squared	0.720	0.720	0.701	0.795	0.606

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Panel B: Average environmental pillar score

Dependent Variables	(1) Busyness	(2) Independent Board Seat	(3) Number of Committee Seats	(4) Ln(Compensation)	(5) ESG Committee
<i>Avg E Pillar Score_{t-1}</i>	0.00058** (0.00028)	0.00121*** (0.00034)	0.00199*** (0.00075)	-0.00008 (0.00037)	0.00017** (0.00009)
Affected	-0.02229 (0.02511)	-0.00529 (0.03280)	0.06085 (0.07024)	-0.01281 (0.04211)	-0.00443 (0.00706)
Affected × <i>Avg E Pillar Score_{t-1}</i>	0.00142*** (0.00032)	0.00069* (0.00039)	0.00263*** (0.00086)	0.00096** (0.00042)	0.00002 (0.00010)
Controls	X	X	X	X	X
Director FE	X	X	X	X	X
Year FE	X	X	X	X	X
Observations	88,023	76,626	76,626	42,751	76,667
R-squared	0.76429	0.76466	0.74899	0.82401	0.66928
Adjusted R-squared	0.720	0.720	0.701	0.795	0.606

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Panel C: Average social pillar score

Dependent Variables	(1) Busyness	(2) Independent Board Seat	(3) Number of Committee Seats	(4) Ln(Compensation)	(5) ESG Committee
<i>Avg S Pillar Score_{t-1}</i>	0.00040 (0.00034)	0.00127*** (0.00041)	0.00332*** (0.00090)	0.00036 (0.00050)	0.00007 (0.00011)
Affected	-0.07390** (0.02973)	-0.04470 (0.03832)	-0.02699 (0.08303)	0.00205 (0.04990)	-0.01197 (0.00899)
Affected × <i>Avg S Pillar Score_{t-1}</i>	0.00208*** (0.00040)	0.00125*** (0.00048)	0.00366*** (0.00106)	0.00058 (0.00057)	0.00016 (0.00013)
Controls	X	X	X	X	X
Director FE	X	X	X	X	X
Year FE	X	X	X	X	X
Observations	88,023	76,626	76,626	42,751	76,667
R-squared	0.76423	0.76464	0.74911	0.82397	0.66925
Adjusted R-squared	0.720	0.720	0.701	0.795	0.606

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Panel D: Average governance pillar score

Dependent Variables	(1) Busyness	(2) Independent Board Seat	(3) Number of Committee Seats	(4) Ln(Compensation)	(5) ESG Committee
<i>Avg G Pillar Score_{t-1}</i>	-0.00030 (0.00025)	0.00001 (0.00029)	-0.00034 (0.00067)	0.00056 (0.00037)	0.00018** (0.00008)
Affected	-0.01079 (0.02683)	-0.00282 (0.03454)	0.14784** (0.07442)	0.00887 (0.04372)	0.00445 (0.00775)
Affected × <i>Avg G Pillar Score_{t-1}</i>	0.00089*** (0.00030)	0.00051 (0.00036)	0.00055 (0.00080)	0.00050 (0.00042)	-0.00014 (0.00009)
Controls	X	X	X	X	X
Director FE	X	X	X	X	X
Year FE	X	X	X	X	X
Observations	88,023	76,626	76,626	42,751	76,667
R-squared	0.76389	0.76431	0.74858	0.82406	0.66924
Adjusted R-squared	0.720	0.719	0.701	0.795	0.606

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Table 6 The Paris Agreement

This table presents the effect of directors' ESG reputation on their career prospects before and after the Paris Agreement. Director ESG reputation is the weighted average (by market capitalization) of the ESG performance across all the firms the director served last year. *After* is an indicator variable, which equals 1 if it is after the Paris Agreement (2015). Panel A uses the weighted average of the over-all ESG score, and Panel B, C and D use the weighted average of the environmental, social, and governance pillar scores, respectively. This table includes the following career prospects as dependent variables: (1) the number of boards the director serves on (*Busyness*); (2) the number of boards the director serves as an independent director (*Independent Board Seat*); (3) the number of committees the director serves on (*Number of Committee Seats*); (4) the log value of the director's total compensation (*Compensation*); (5) a dummy variable indicating whether the director serves on an ESG-related committee (*ESG Committee*). Controls are generated from BoardEx, Compustat, and CRSP. Other variables are defined in the Appendix. All specifications include year fixed effects. Heteroskedasticity robust standard errors are reported in parentheses below each coefficient. Continuous variables are winsorized at 1% and 99%. ***, **, and * correspond to statistical significance at the 1%, 5%, and 10% levels for two-tailed tests, respectively.

Panel A: Average ESG score

Dependent Variables	(1) Busyness	(2) Independent Board Seat	(3) Number of Committee Seats	(4) Ln(Compensation)	(5) ESG Committee
<i>Avg ESG Score</i> _{<i>t</i>-1}	0.00780*** (0.00033)	0.00757*** (0.00037)	0.01786*** (0.00081)	0.00360*** (0.00042)	0.00068*** (0.00007)
<i>After</i> × <i>Avg ESG Score</i> _{<i>t</i>-1}	0.00168*** (0.00037)	0.00216*** (0.00042)	0.00062 (0.00094)	0.00142*** (0.00055)	0.00093*** (0.00009)
Controls	X	X	X	X	X
Year FE	X	X	X	X	X
Observations	86,020	75,423	75,423	42,434	75,466
R-squared	0.05723	0.06256	0.05503	0.11170	0.02567
Adjusted R-squared	0.0570	0.0623	0.0547	0.111	0.0254

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Panel B: Average environmental pillar score

Dependent Variables	(1) Busyness	(2) Independent Board Seat	(3) Number of Committee Seats	(4) Ln(Compensation)	(5) ESG Committee
<i>Avg E Pillar Score</i> _{t-1}	0.00579*** (0.00023)	0.00535*** (0.00026)	0.01272*** (0.00057)	0.00315*** (0.00029)	0.00056*** (0.00005)
After × <i>Avg E Pillar Score</i> _{t-1}	0.00105*** (0.00025)	0.00138*** (0.00029)	0.00070 (0.00064)	0.00051 (0.00036)	0.00067*** (0.00006)
Controls	X	X	X	X	X
Year FE	X	X	X	X	X
Observations	86,020	75,423	75,423	42,434	75,466
R-squared	0.06037	0.06366	0.05703	0.11335	0.02827
Adjusted R-squared	0.0601	0.0634	0.0567	0.113	0.0280

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Panel C: Average social pillar score

Dependent Variables	(1) Busyness	(2) Independent Board Seat	(3) Number of Committee Seats	(4) Ln(Compensation)	(5) ESG Committee
<i>Avg S Pillar Score</i> _{t-1}	0.00636*** (0.00029)	0.00604*** (0.00034)	0.01516*** (0.00074)	0.00359*** (0.00039)	0.00027*** (0.00007)
After × <i>Avg S Pillar Score</i> _{t-1}	0.00177*** (0.00033)	0.00190*** (0.00038)	-0.00004 (0.00084)	0.00076 (0.00049)	0.00064*** (0.00009)
Controls	X	X	X	X	X
Year FE	X	X	X	X	X
Observations	86,020	75,423	75,423	42,434	75,466
R-squared	0.05673	0.06069	0.05387	0.11203	0.02092
Adjusted R-squared	0.0565	0.0604	0.0536	0.112	0.0206

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Panel D: Average governance pillar score

Dependent Variables	(1) Busyness	(2) Independent Board Seat	(3) Number of Committee Seats	(4) Ln(Compensation)	(5) ESG Committee
<i>Avg G Pillar Score</i> _{t-1}	0.00256*** (0.00027)	0.00283*** (0.00031)	0.00764*** (0.00067)	0.00007 (0.00035)	0.00056*** (0.00006)
After × <i>Avg G Pillar Score</i> _{t-1}	-0.00044 (0.00032)	-0.00006 (0.00036)	-0.00209*** (0.00079)	0.00067 (0.00047)	0.00074*** (0.00008)
Controls	X	X	X	X	X
Year FE	X	X	X	X	X
Observations	86,020	75,423	75,423	42,434	75,466
R-squared	0.03712	0.04568	0.04201	0.10704	0.02607
Adjusted R-squared	0.0369	0.0454	0.0417	0.107	0.0258

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Table 7 Instrumental Variable: Executive ESG Pay

This table presents the 2SLS regression results. The sample consists of director-year-level observations from 2007 to 2023. The instrumental variable *ESG Pay* is an indicator variable, which equals 1 if any of the firms the director serves for have linked ESG metrics to executive compensation schemes. The dependent variable in the first stage Column (1) is the director’s reputation, measured by *Avg ESG Score_{t-1}*. The dependent variables in the second stage are (1) the number of boards the director serves on (*Busyness*); (2) the number of boards the director serves as an independent director (*Independent Board Seat*); (3) the number of committees the director serves on (*Number of Committee Seats*); (4) the log value of the director’s total compensation (*Compensation*); (5) a dummy variable indicating whether the director serves on an ESG-related committee (*ESG Committee*). The key independent variable is director ESG reputation, measured by *Avg ESG Score_{t-1}*, predicted by the first stage. Control variables are the same as the main regressions in Table 2. Other variables are defined in the Appendix. All specifications include director and year fixed effects. Heteroskedasticity robust standard errors are reported in parentheses below each coefficient. Continuous variables are winsorized at 1% and 99%. ***, **, and * correspond to statistical significance at the 1%, 5%, and 10% levels for two-tailed tests, respectively.

VARIABLES	First stage			Second stage		
	(1) <i>Avg ESG Score_{t-1}</i>	(2) Busyness	(3) Independent Board Seat	(4) Number of Committee Seats	(5) Ln(Compensation)	(6) ESG Committee
<i>ESG Pay_{t-1}</i>	0.60416*** (0.16321)					
<i>Avg ESG Score_{t-1}</i>		0.05590** (0.02371)	0.04982* (0.02727)	0.14963** (0.06990)	0.05882 (0.04812)	0.00514 (0.00884)
F-Statistics		17.06	12.88	12.88	3.583	13.15
Controls	X	X	X	X	X	X
Director FE	X	X	X	X	X	X
Year FE	X	X	X	X	X	X
Observations	24,366	24,366	21,427	21,427	13,912	21,438

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Table 8 Equal-weighted ESG Reputation

This table presents the effect of directors' ESG reputation on their career prospects for S&P 1500 firms from 2007 to 2023. An alternative way to construct directors' ESG reputation is by *equal-weighted* average. This table reports the results by using *equal-weighted* average of the overall ESG score across all the firms the director served last year. The dependent variables are (1) the number of boards the director serves on (*Busyness*); (2) the number of boards the director serves as an independent director (*Independent Board Seat*); (3) the number of committees the director serves on (*Number of Committee Seats*); (4) the log value of the director's total compensation (*Compensation*); (5) a dummy variable indicating whether the director serves on an ESG-related committee (*ESG Committee*). Controls are generated from BoardEx, Compustat, and CRSP. Other variables are defined in the Appendix. All specifications include director and year fixed effects. Heteroskedasticity robust standard errors are reported in parentheses below each coefficient. Continuous variables are winsorized at 1% and 99%. ***, **, and * correspond to statistical significance at the 1%, 5%, and 10% levels for two-tailed tests, respectively.

Dependent Variables	(1) Busyness	(2) Independent Board Seat	(3) Number of Committee Seats	(4) Ln(Compensation)	(5) ESG Committee
<i>ESG reputation</i> _{t-1}	0.00066** (0.00028)	0.00049 (0.00033)	0.00115 (0.00074)	0.00029 (0.00036)	0.00015* (0.00008)
Controls	X	X	X	X	X
Director FE	X	X	X	X	X
Year FE	X	X	X	X	X
Observations	88,023	76,626	76,626	42,751	76,667
R-squared	0.76384	0.76429	0.74850	0.82391	0.66922
Adjusted R-squared	0.719	0.719	0.700	0.794	0.606

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Appendix: Variable Definitions

VARIABLES	Description and Data Source
Director Career Prospects (<i>Source: BoardEx</i>):	
Busyness	Number of board seats currently holding.
Independent Board Seat	Number of independent seats currently holding.
Number of Committee Seats	Number of committees the director serves on.
Compensation (in dollars)	Director's total compensation.
Compensation (log)	Director's total compensation (in log value).
ESG Committee	Dummy variable indicating whether the director serves on an ESG-related committee, when the name includes "ESG," "CSR," "environment," "social," or "sustain".
ESG (<i>Source: Refinitiv</i>):	
ESG Score	A score from 0 to 100, measures companies' ESG performance based on reported data in the public domain across three pillars and 10 different ESG topics.
Combined ESG Score	A score from 0 to 100, a combination of ESG score and ESG controversies.
E Pillar Score	A score from 0 to 100, capturing environmental pillar performance in particular.
S Pillar Score	A score from 0 to 100, capturing social pillar performance in particular.
G Pillar Score	A score from 0 to 100, capturing governance pillar performance in particular.
Director ESG Reputation	A score from 0 to 100, measures director' ESG reputation, averaged (value-weighted or equal-weighted) across all the firms the director served at the last period.
Controls (<i>Source: BoardEx, Compustat, CRSP</i>):	
ROA	Net income divided by total assets. <i>Source: Compustat</i>
Firm Size	The natural logarithm of one plus total assets. <i>Source: Compustat</i>
Number of Directors	Number of directors serve on a firm.
Age	Director age.
Education	Director education level, 0 indicates N/A, 3 indicates PhD.
Tenure	Tenure year.
Other variables:	
Female	An indicator variable, equals to 1 if director is female.
Pro ESG	An indicator variable, equals to 1 if the majority of the firms the director serves this year are located in pro-ESG states.
Affected	An indicator variable, equals to 1 if any firm the director serves is located in natural disaster affected states after such event.

ESG Pay

An indicator variable, equals to 1 if any of the firms the director serves for have linked ESG metrics to executive compensation schemes.
