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SYMPOSIUM: CORPORATE SUSTAINABILITY IN THE ERA OF SHIFTING FEDERAL PRIORITIES

The Role of the Chief Executive Officer in Firm Environmental Decisions

Timothy D. Hubbard*

*University of Notre Dame

THE ROLE OF THE CHIEF EXECUTIVE OFFICER IN FIRM ENVIRONMENTAL DECISIONS

Timothy D. Hubbard, Ph.D.[*]

ABSTRACT

Investments in environmental programs have not been met with definitive scientific evidence of their positive influence on corporate financial performance; yet, we still see executives investing in such programs. Given this observation, those working on environmental issues should have a firm understanding of the factors that influence an executive's decision to invest, or not invest, in environmental programs. This Article reviews the latest scientific literature on the influence Chief Executive Officers have on firm outcomes, the rationales for investing in environmental programs, and the executive characteristics, social factors, and structures that play into their decision-making process.

INTRODUCTION

Investments in environmental programs are not uniformly implemented across firms. One potential reason is that there has not been widely held agreement among scholars that such investments are consistently profitable. Indeed, studies have found mixed results when examining the impact of environmental programs—and, more

[*] Timothy Hubbard is an Assistant Professor of Management in the Mendoza College of Business at the University of Notre Dame. His research investigates the influence that social and cognitive factors have on the upper echelons of organizations. He earned his Ph.D. in Corporate Strategy at the University of Georgia and also holds degrees from the University of Illinois at Urbana/Champaign and the Thunderbird School of Global Management. He wishes to thank the editorial team at the Fordham Environmental Law Review for their editorial assistance and feedback.

generally, across a large swath of other socially responsible programs.[1] This—combined with the observation that large-scale investments in environmental programs are visible, potentially contestable, and open to scrutiny—may make it difficult for some executives to choose to make such investments. Indeed, research has shown that investing in environmentally and socially responsible programs while firm performance lags significantly increases the likelihood of Chief Executive Officer (CEO) dismissal.[2]

Given these challenges, if we want to better understand the adoption and implementation of environmental programs within firms, we must understand the executives leading the firms. Research increasingly shows the impact that CEOs have on firms. Quantifying this impact, a 2016 study showed that CEOs account for approximately twenty-two percent of variance in firm performance.[3] It is likely that CEOs explain an even greater proportion of variance in more proximal decisions, such as investments in environmental programs and the environmental performance of the firm.

Against this backdrop, if we want to better understand the level of investment in, support for, and care about the environment, environmental lawyers and other stakeholders will have to continue to work with leaders in the upper echelons of firms. To be effective at this, we must continue to better understand CEOs. This Article—a synthesis of a talk I gave at Fordham University Law Review's symposium titled "Corporate Sustainability in the Era of Shifting Federal Priorities"—tries to synthesize the broad scientific literature that examines the characteristics of CEOs, their social environment, and other structures that lead to greater investments in environmental programs.

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1. See John Peloza, *The Challenge of Measuring Financial Impacts from Investments in Corporate Social Performance*, 35 J. MGMT. 1518 (2009).

2. Timothy D. Hubbard et al., *Higher Highs and Lower Lows: The Role of Corporate Social Responsibility in CEO Dismissal*, 38 STRATEGIC MGMT. J. 2255, 2263 (2017).

3. Timothy J. Quigley & Scott D. Graffin, *Reaffirming the CEO effect is significant and much larger than chance: A comment on Fitza*, 38 STRATEGIC MGMT. J. 793, 794 (2017); *see also* Timothy J. Quigley & Donald C. Hambrick, *Has the "CEO effect" increased in recent decades? A new explanation for the great rise in America's attention to corporate leaders*, 36 STRATEGIC MGMT. J. 821 (2014).

Overall, this Article contributes to literature and practice by providing a framework for understanding how executives factor into the execution of environmental and sustainability programs within firms. I begin by discussing the rise and prominence of the CEO. Next, I outline the current state of the literature regarding the linkage between environmental programs and firm financial performance. I then go through some of the motivations for making investments in environmental programs. Finally, I review the current literature on executive characteristics, social factors, and structural factors that influence environmental and social performance of firms. The overarching goal of this Article is to equip readers with an understanding of the state of mind of executives as they navigate the complex landscape of environmental engagement within their firm.

THE RISE AND PROMINENCE OF THE CHIEF EXECUTIVE OFFICER

CEOs have become increasingly prominent and influential over the past decades, achieving an almost superstar status. Prominent CEOs such as Steve Jobs, Warren Buffett, and Jack Welch have dominated the news and become part of everyday life for people across the world. Indeed, their pay alone makes them newsworthy: "The median [ratio of their chief executives' pay to the median earnings of employees] is 127 to 1, but some of the most recognized brands are outliers."[4]

Part of this hero status and commensurate compensation is deserved. CEOs of large firms have had an increasing influence on the performance of firms. In the 1950s and 1960s, CEOs accounted for approximately 14% of the variance in a firm's return on assets. This number increased to 18% in the 1970s and 1980s and has now reached almost 23% over the past two decades. Given this rise in the impact a CEO has on firm financial performance—a very distal outcome—their influence on the performance of investments in environmentally focused programs has to be at a similar, or higher, level.

Here we need, however, a word of caution. Recent research has shown that investments in CSR can have severe personal consequences for CEOs.[5] A study of Fortune 500 firms over a five-year period

4. Dean Baker, *Can anything bring CEO pay back down to earth?*, LA TIMES. (Jun. 14, 2018), https://www.latimes.com/opinion/op-ed/la-oe-baker-ceo-pay-20180614-story.html [https://perma.cc/N7SD-KD9U].

5. Hubbard, *supra* note 2, at 2263.

showed that environmental and social performance of the firm alters the effect that firm performance has on CEO dismissal.[6] The research showed that CEOs who invested more in these programs had greater dismissal rates when firm financial performance was low. The effect sizes were quite high: at low levels of financial performance, CEOs were 84% more likely to be dismissed if they invested in these programs. On the other hand, they were 53% less likely to be dismissed if they had strong financial performance.

When taken together, the rise in prominence of CEOs in modern culture, their increasing effect on firm outcomes, and the personal consequences they face from investing in environmental programs underscores how important it is to understand CEOs in the context of investments and stewardship of environmental programs. Indeed, I strongly urge those working on issues of environmental responsibility—from lawyers to investors and regulators—to carefully consider CEOs. They play a significant part in investing in environmental programs and choosing to comply with environmental laws. They do so, however, at great personal risk—especially given the tenuous nature of the relationship between investment in environmental programs and financial performance.

LINKING ENVIRONMENTAL PERFORMANCE TO FINANCIAL PERFORMANCE

There has been wide debate among scholars of strategic management on the financial case for Corporate Social Responsibility (CSR)—including environmental programs. As my colleagues and I have previously summarized:

Some research suggests CSR [including environmental programs] has a positive influence on firm financial performance because it can generate stronger relationships with stakeholders, increase customer loyalty, and positively influence corporate reputation. Other research, however, suggests that CSR initiatives hinder financial performance and come at the expense of shareholders. Still other research finds no relationship between CSR and firm financial performance (internal citations omitted).[7]

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6. *Id*.
7. *Id*.

Indeed, a review by Peloza in 2009[8] looked at 128 studies that explored the CSR–financial outcomes relationship and reported that 59% found a positive relationship, 27% a mixed or neutral relationship, and 14% a negative relationship. Some of the inconsistent findings arise because so much goes into how we define CSR and environmental performance that it clouds the relationship. Indeed, more proximal performance metrics include reduced use[9], operational efficiencies[10], and changes in risk profile.[11] These intermediate measures were found in only twenty five of the 128 studies Peloza examined.

While more proximal performance metrics are important, so is dividing up the measures of environmental and social performance. If, at the broadest level, we separate our actions into those based on stakeholder strategies, such as environmental programs, from social issues, such as nuclear power, we have already shown that stakeholder-focused programs have a positive effect on shareholder value creation.[12] This is in contrast to social-issue-focused programs which diminish shareholder value.[13]

One recent study examined the differences between material and immaterial investments in environmental and social programs.[14] Not all environmental programs are equally beneficial across sectors. For example, air quality programs are deemed material in the transportation and non-renewable resources industries, but not in health care. On the other hand, wastewater management is material for health care and non-renewable resources, but not transportation. The

8. Peloza, *supra* note 1.

9. Craig R. Carter, *Purchasing social responsibility and firm performance: The key mediating roles of organizational learning and supplier performance*, 35 INT'L J. PHYSICAL DISTRIB. & LOGISTICS MGMT. 177, 187 (2005).

10. Sanjay Sharma & Harrie Vredenburg, *Proactive Corporate Environmental Strategy and the Development of Competitively Valuable Organizational Capabilities*, 19 STRATEGIC MGMT. J., 729, 741–42 (1998).

11. Mark P. Sharfman & Chitru S. Fernando, *Environmental Risk Management and the Cost of Capital*, 29 STRATEGIC MGMT. J., 569, 569–92 (2008).

12. Amy J. Hillman & Gerald D. Keim, *Shareholder Value, Stakeholder Management, and Social Issues: What's The Bottom Line?*, 22 STRATEGIC MGMT. J. 125, 126–29 (2001).

13. *Id*. at 136.

14. Mozaffar Khan et al., *Corporate Sustainability: First Evidence on Materiality*, 91 THE ACCOUNTING REV. 1697, 1697–724 (2016).

authors of the study used Sustainability Accounting Standards Board ("SASB") standards to assess the materiality on an industry-by-industry basis. The study finds that firms with good ratings on material sustainability issues outperform firms with poor ratings on these issues. In contrast, firms with good ratings on immaterial sustainability issues do not significantly outperform firms with poor ratings on the same issues. Understanding the materiality of the environmental programs on a sector-by-sector basis can help generate a business case that is more palatable for executives.

MOTIVATIONS FOR INVESTING IN ENVIRONMENTAL PROGRAMS

Given the less than certain nature of the business case for investing in environmental and social programs, the question remains: Why do executives invest in sustainability? This question is especially relevant given the current political climate where environmental regulations are being dismantled at an unprecedented rate. Indeed, in 2016, then United States presidential candidate Donald Trump said "We are cutting the regulation at a tremendous clip. I would say 70% of regulations can go."[15] Regulations did, indeed, have a material effect on the quantity and quality of environmental programs. It is in times like these, however, that we need to better understand the individuals making the decisions—especially considering that they will have more latitude as regulation decreases.

There are many reasons for executives to invest in environmental programs including the espoused values of the firm, instrumental motivations, the stewardship perspective of the firm's leadership, stakeholder-focused insurance-like motivations, and institutional and stakeholder pressures. I will explain each of these in turn.

First, a firm's espoused values can serve as a guidepost for executives when making environmental decisions. Some firms have a stronger environmental mindset and message than others. The rise of B corporations—"a label meant to reflect a firm's ethical, social,

15. Chris Kaufman, *Republican Trump says 70 percent of federal regulations 'can go,'* REUTERS, (Oct. 6, 2016), https://www.reuters.com/article/us-usa-election-trump-regulations/republican-trump-says-70-percent-of-federal-regulations-can-go-idUSKCN12629R [https://perma.cc/HKG3-KJEY].

environmental practices"[16]—is an example of a trend. Over 2,500 companies have been certified as B corporations as of August 2018.[17] Ben & Jerry's ice cream company was founded with social and environmental responsibility at the core of the business and it was an early adopter of the B corporation status. Executives of these firms are expected to make decisions in line with those espoused values. These types of values are, however, generally set at the founding of the company and are extremely sticky. As a person working in or interacting with a firm, understanding this baseline level of interest in social programs can serve as a guidepost for how interactions on environmental stewardship may play out.

Second, some executives have an instrumental motivation to invest in environmental programs.[18] This is founded on the business case, or the belief in the business case for environmental investments.[19] As I discussed above, however, the business case is far from clear. As such, the institutional motivations are difficult to identify on a broad basis. Research is increasingly clear that believing in the relationship between corporate social responsibility and corporate financial performance leads to the tendency to invest in CSR.[20] As future empirical research digs deeper into the types of investments—from material to stakeholder-focused—it can be hoped that we will see better support for a business case for environmental programs. This is not to say that on a project-by-project basis there are not business cases for environmentally friendly programs at firms; instead, based on the current state of scientific literature, the broadest of business cases is not well established.

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16. *Choosing plan B*, THE ECONOMIST (Aug. 9, 2018), https://www.economist.com/business/2018/08/09/danone-rethinks-the-idea-of-the-firm [https://perma.cc/8UZF-5PTV].

17. *Id*.

18. Thomas Donaldson & Lee E. Preston, *The Stakeholder Theory of the Corporation: Concepts, Evidence, and Implications*, 20 ACAD. MGMT. REV. 65, 71 (1995).

19. Sebastian Hafenbrädl & Daniel Waeger, *Ideology and the Micro-foundations of CSR: Why Executives Believe in the Business Case for CSR and how this Affects their CSR Engagements*, 60 ACAD. MGMT. J. 1582 (2017).

20. *Id*. at 1600.

Third, some executives take a stewardship perspective, rather than an economic perspective to running their firm.[21] This perspective is founded on "a moral imperative for managers to 'do the right thing,' without regard to how such decisions affect firm performance."[22] This moral imperative enables executives to ignore the potential downside risks of investing in environmental programs within their firms. Executives that take a stewardship perspective choose to identify with high value commitments and have higher order needs including achievement and self-actualization.[23] Stewards of their organizations take the necessary long-term orientation to invest in environmental programs that the self-serving economic man chooses not to. As such, strategic management scholars use stewardship theory to explain some of the differences in investment levels within environmental programs.[24]

Fourth, there has been a lot of discussion in the strategic management literature on the idea that investments in environmental and social programs can have an insurance-like ability.[25] In this perspective, environmental performance can build goodwill in the minds of stakeholders. This goodwill serves as a type of insurance that allows for stakeholders to maintain support for organizations following small transgressions. As such, executives can choose to invest in environmental programs in order to protect their organizations in the future if they happen to suffer an environmental mishap.

Fifth, there are institutional and stakeholder pressures to take a more environmental and social approach to business. A recent example typifies this type of pressure. In January 2018, numerous CEOs received letters from Larry Fink, the CEO of BlackRock—the world's largest investment management firm. In that letter Mr. Fink asked

21. *See* James H. Davis et al., *Toward a stewardship theory of management*, 22 ACAD. MGMT. REV. 20 (1977)

22. Abagail McWilliams et al., *Corporate Social Responsibility: Strategic Implications*, 43 J. MGMT. STUDIES 1, 3 (2006).

23. Davis, *supra* note 21, at 28.

24. *See* Davis, *supra* note 21.

25. *See* Paul C. Godfrey et al., *The Relationship between Corporate Social Responsibility and Shareholder Value: An Empirical Test of the Risk Management Hypothesis*, 30 STRATEGIC MGMT. J. 425 (2009).

CEOs "How are we managing our impact on the environment?"[26] The letter received wide attention[27] and is an exemplar of the potential influence that institutions and stakeholders can have on the future environmental performance of firms.

Finally, one interesting and potentially fruitful line of investigation on the antecedents of investments in environmental programs is the study of the personal dispositions of executives making these decisions. That is, there is something about the executives themselves leads them to tend to invest more or less in sustainability. The next section delves deeper into the current strategic management literature focused on individual differences of CEOs and how they manifest in decisions to invest in environmental and social performance.

EXECUTIVE CHARACTERISTICS

Research into the characteristics of executives has yielded many fruitful findings in the broad strategic management literature.[28] Only recently, however, has there been major work on understanding how the individual differences that CEOs possess influence their choice to invest in environmental and social programs. At this point in the strategic management literature, most studies focus on the broad construct of CSR or Corporate Social Performance (CSP).[29] Within that construct lies the focus of this essay: firm environmental responsibility, investment, and performance. Typically, at best, these studies publish supplemental results that separate out environmental performance from the other broad categories. Thus, some of the findings reported here investigate the broader construct of CSR, the results, however, should still be applicable in the context of environmental investment and performance.

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26. Larry Fink, *Larry Fink's Annual Letter to CEOs: A Sense of Purpose*, BLACKROCK (2018), https://www.blackrock.com/corporate/investor-relations/larry-fink-ceo-letter [https://perma.cc/NQ76-DFT5].

27. Interview with John Ydstie, Correspondent, NPR (Jan. 16, 2018) (transcript available at https://www.npr.org/2018/01/16/578422424/blackrock-ceo-says-companies-need-to-do-more-than-deliver-profits [https://perma.cc/G7RP-WU75]).

28. SYDNEY FINKELSTEIN ET. AL., STRATEGIC LEADERSHIP: THEORY AND RESEARCH ON EXECUTIVES, TOP MANAGEMENT TEAMS, AND BOARDS (2009).

29. Herman Aguinis & Ante Glavas, *What We Know and Don't Know About Corporate Social Responsibility: A Review and Research Agenda*, 38 J. MGMT. 932 (2012).

Studies on executive decision making are typically founded in two theoretical streams: those which focus on the agency of the executive[30] and those which focus on how individual differences influence information processing.[31] Both of these theories allow for executive characteristics to influence firm decisions. In this section, I review recent studies that examine how political ideology, narcissism, hubris, charisma, ability, intellectual stimulation, and fair market ideology all influence an executive's choice to invest in environmental and social programs.

Political ideology is defined as a "set of beliefs about the proper order of society and how it can be achieved."[32] Two factors play an important role in aligning an executive with either a more liberal or more conservative orientation.[33] First, executives differ on their level of openness versus resistance to change. Second, they differ on their acceptance versus rejection of inequality. Both of these two factors form an executive's overall political ideology. Ideology has been linked to many outcomes in strategic management such as tax avoidance,[34] research and development investment,[35] and CEO pay. Political ideology—both at the CEO level[36] and the organizational level[37]—has also seen support for influencing corporate social

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30. See Michael C. Jensen & William H. Meckling, *Theory of the Firm: Managerial Behavior, Agency Costs, and Ownership Structure***,** J. FIN. ECONS., 305 (1976); Kathleen M. Eisenhardt, *Agency theory: An Assessment and Review*, 14 ACAD. MGMT. REV., 57–74 (1989).

31. See Donald C. Hambrick & Phyllis A. Mason, *Upper Echelons: The Organization as a Reflection of Its Top Managers*, 9 ACAD. MGMT. REV. 193 (1984).

32. Robert S. Erikson & Kent L. Tedin, AMERICAN PUBLIC OPINION 64 (Taylor & Francis, 6th ed. 2000).

33. John T. Jost et al., *Political Ideology: Its Structure, Functions, and Elective Affinities*, 60 ANNUAL REV. OF PSYCHOL. 307 (2009).

34. See Dane M. Christensen et al., *Top management conservatism and corporate risk strategies: Evidence from managers' personal political orientation and corporate tax avoidance*, 36 STRATEGIC MGMT. J.1918 (2014).

35. See Irena Hutton et al., *Corporate Policies of Republican Managers*, 49 J. FIN. & QUANTITATIVE ANALYSIS 1279 (2014).

36. See M.K. Chin et al., *Political Ideologies of CEOs: The Influence of Executives' Values on Corporate Social Responsibility*, 58 ADMIN. SCI. Q. 197 (2013).

37. See Abhinav Gupta et al., *Red, blue, and purple firms: Organizational political ideology and corporate social responsibility*, 38 STRATEGIC MGMT. J. 1018 (2017).

responsibility. Political ideologies of CEOs are manifested in their firms' CSR profiles with more liberal CEOs having higher scores in Corporate Social Performance—of which environmental performance is one indicator. This effect was shown to be amplified by the CEO's level of power within the organization. It is also important to note that more conservative CEOs are more willing to invest in CSR when recent firm performance is high; liberal CEOs' CSR performance, on the other hand, is less contingent on recent performance. When interacting with executives, environmental lawyers may wish to consider the executive's political ideology—especially given its power to predict a firm's environmental and social performance and the convenience and accessibility of records of political donations.

Personality factors also contribute to CEO decision making and investment strategies. Narcissism is a personality factor that has received much attention in the strategic management literature.[38] Narcissists "have a high need for attention and praise as well as a strong desire to have their positive self-views reinforced."[39] They need their self-image to be reinforced constantly from external sources. As mentioned above, investments in Corporate Social Responsibly are highly visible. As such, research has shown that firms led by narcissistic CEOs have higher levels of Corporate Social Performance. [40] This effect, however, has to be taken into context. Narcissists tend to invest in programs that derive public praise, not necessarily because of their linkage to a business case. As such, their firm's financial performance suffers as they make more investments in CSR. Their media profile, however, increases dramatically. Thus, overall, when working with narcissistic CEOs, framing environmental investment decisions as worthy of public praise may be one tool to influence them.

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38. *See* David H. Zhu & Guoli Chen, *CEO Narcissism and the Impact of Prior Board Experience on Corporate Strategy*, 60 ADMIN. SCI. Q. 31 (2015); William J. Wales et al., *In Pursuit of Greatness: CEO Narcissism, Entrepreneurial Orientation, and Firm Performance Variance*, 50 J. MGMT. STUDIES 1041 (2013);
Pankaj C. Patel & Danielle Cooper, *The harder they fall, the faster they rise: Approach and avoidance focus in narcissistic CEOs*, 35 STRATEGIC MGMT. J. 35, 1528 (2013).

39. Oleg V. Petrenko et al., *Corporate Social Responsibility or CEO Narcissism? CSR Motivations and Organizational Performanc*e, 37 STRATEGIC MGMT. J. 262, 263 (2016).

40. *Id*.

Hubris is another psychological factor that plays an important role in CEO decision making. Hubris is defined as extreme pride coupled with immense self-confidence.[41] Recent research divided environmental and social performance into responsible and irresponsible activities.[42] Researchers examined CEOs of Standard & Poor 1500 firms over a decade. Their results showed that CEO hubris leads to higher levels of irresponsible investments (defined as concerns in Kinder, Lydenberg, Domini & Co., Inc. ratings) and lower level of responsible investments (those categorized as strengths in the rankings).[43] Hubristic CEOs prefer to make investments that are not dependent on other stakeholders—such as environmental programs—in order to maintain control of their organizations. Furthermore, they prefer internal financing and are poor at estimating how much resources are required for specific investments. As such, they have a double handicap: they overestimate how much environmental programs would cost and assume that they would only have internal resources available for such investments.

Charismatic CEOs are characterized by their ability to influence followers and build a shared organizational identity.[44] Their ability to set a vision for the company is accompanied by their ability to have that vision permeate throughout their organization. Furthermore, charismatic CEOs tend to espouse prosocial values. These prosocial values—including, as Wowak and colleagues describe, "integrity, justice, and marinating societal good"—increase the likelihood that CEOs will consider many different stakeholders in their decision-making process, leading to a tendency for charismatic CEOs to perform better on environmentally and socially responsible

41. Mathew L. A. Hayward & Donald C. Hambrick, *Explaining the Premiums Paid for Large Acquisitions: Evidence of CEO Hubris*, 42 ADMIN. SCI. Q. 103, 106 (1997); *see also* Nathan J. Hiller & Donald C. Hambrick, *Conceptualizing executive hubris: The role of (hyper-)core self-evaluations in strategic decision-making*, 26 STRATEGIC MGMT. J. 297 (2005).

42. Yi Tang et al., *How CEO Hubris Affects Corporate Social (Ir)responsibility*, 36 STRATEGIC MGMT. J. 1338, 1339 (2015).

43. *Id*. at 1348–51.

44. Adam J. Wowak et al., *Earthquake or Glacier? How CEO Charisma Manifests in Firm Strategy Over Time*, 37 STRATEGIC MGMT. J. 586, 588 (2016).

dimensions.[45] These effects have been shown to increase over the tenure of a charismatic CEO. Charismatic leaders, therefore, have the benefit of looking at environmental issues from a number of different perspectives and being able to influence their organizations to implement environmental solutions.

CEO ability, or the capability of a CEO to translate firm resources into profits, is another factor that has been shown to have an influence on the level of Corporate Social Performance.[46] Investments in environmental and social programs are complex and may take time to materialize into financial returns—if at all. Given the relationship between CSR and CEO dismissal, investing in CSR has to be coupled with strong financial performance, lest a CEO face dismissal. CEO ability—their latent overall quality—thus enables certain CEOs to make investments in these programs. They are the ones who are better positioned to capitalize on these investments and steward them through their lifecycles. These CEOs are also typically on longer time horizons; that is, they don't need to demonstrate extremely short-term profits like CEOs with lower abilities. This all leads to higher environmental and social performance.

CEO intellectual stimulation is another factor that has been shown to influence CSR decisions. CEO intellectual stimulation "involves leader actions geared toward the arousal and change in problem awareness and problem solving on the part of followers, as well as beliefs and values."[47] Research has shown a positive relationship between CEO intellectual stimulation and what the authors term "strategic CSR," of which environmental performance is the strongest component.[48] Leaders with higher levels of intellectual stimulation will consider the environment more broadly and possess complex mental maps that allow them to move beyond basic profit and loss strategies.

Finally, a recent study investigated the role that fair market ideology has in the tendency for executives to engage in environmentally and

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45. David A. Waldman et al., *Components of CEO Transformational Leadership and Corporate Social Responsibility*, 43 J. MGMT. STUDIES 1703, 1707 (2006); Wowak et al., *supra* note 43, at 591.

46. Yuan Yuan et al., *CEO Ability and Corporate Social Responsibility*, J. BUS. ETHICS. 1 (July 2017)

47. Waldman et al., *supra* note 44, at 1709.

48. *Id*. at 1715–17.

socially responsible programs.[49] Fair market ideology is one's proclivity to support, even idealize, the market economy system. It is typically formed early in life, through formal education. Fair market ideology influences two mediators that explain the relationship to the tendency to invest in environment and social programs. First, it helps strengthen the belief in the linkage between CSR and corporate financial performance. Instead of relying on a factual business case for environmental programs, an executive's worldview is able to substitute. Second, fair market ideology reduces moral outrage. It does this by lowering an executive's moral emotions—that is, reducing their awareness of moral issues. This reduction in moral outrage cancels out the effect of belief in fair market ideology on the tendency to invest in environmental and social programs within firms. Overall, the study shows that executives who have a strong belief in fair market values are subject to opposing influences vis-à-vis investments in environmental programs. Stakeholders working with these executives should be aware that they are predisposed to believe in the business case, and that this case can be strengthened by focusing on the moral aspects of environmental protections.

SOCIAL FACTORS

Another interesting line of research examines the social factors surrounding investment in and performance of environmental programs. CEOs do not make decisions in a vacuum. Instead, they are surrounded by their families, shareholders, stakeholders, and their company's boards of directors. Each of these groups has been shown to have an influence on firm-level environmental and social performance.

In one of the more interesting studies, researchers have investigated the influence that having a daughter has on the decision for CEOs to invest in CSR—including performance in environmental practices.[50] This research is rooted in the female socialization hypothesis that

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49. Hafenbrädl et al., *supra* note 19, at 1599.

50. See Henrik Cronqvist & Frank Yu, *Shaped by their daughters: Executives, female socialization, and corporate social responsibility*, 126 J. FIN. ECONS., 543 (2017).

"suggests an attitudinal shift arises from parenting daughters."[51] When a firm's CEO has a daughter, the level of environmental performance is about 5.2% higher, compared to a median firm.

Another social factor is shareholder activism—the process by which shareholders use shareholder proposals to express their disapproval of a firm's actions.[52] In a recent survey of 300 directors of United States publicly traded firms, over eighty percent of directors agreed with the statement that activism creates a "negative distraction for management and the board."[53] Furthermore, while it is potentially intuitive that shareholders may use shareholder proposals to increase the level of environmental and social performance within the firm, research shows that the opposite often occurs.[54] The authors of the study explain that "rather than pressuring firms to improve [Corporate Social Performance], activism may merely engender diversion of resources away from [Corporate Social Performance] into political activities used by managers to resist external pressures and retain discretion."[55]

Powerful stakeholders also serve as another social influencer on the behavior of CEOs. The CEO hubris study discussed above had another finding that has implications for the social effects of stakeholders. The researchers showed that dependence on stakeholders for resources dampens the negative effects of hubris on environmental and social investments.[56] Resource dependence, thus, can serve as a social check on CEOs who, based on their personality, may be ill-disposed to engage in responsible investments, while preferring irresponsible investments.

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51. Ebonya L. Washington, *Female Socialization: How Daughters Affect Their Legislator Fathers' Voting on Women's Issues*, 98 AM. ECON. ASS'N 311, 313 (2008).

52. See Maria Goranova & Lori Verstegen Ryan, *Shareholder Activism: A Multidisciplinary Review*, 40 J. OF MGMT. 1230 (2014).

53. NYSE GOVERNANCE SERVICES, THE EFFECT OF SHAREHOLDER ACTIVISM ON CORPORATE STRATEGY: A 2016 NYSE GOVERNANCE SERVICES/EVERCORE/SPENCER STUART SURVEY REPORT 4 (2016), https://www.nyse.com/publicdocs/Shareholder_Engagement_Survey_Report_2016.pdf [https://perma.cc/UYW3-5VFX].

54. See David Parthiban et al., *Investor activism, managerial responsiveness, and corporate social performance*, 28 STRATEGIC MGMT. J. 91 (2007).

55. *Id*. at 97.

56. Tang, *supra* note 40, at 1352.

The board capital—the collective experience, knowledge, and networks of the directors serving on a corporation's board—has been shown to be an influential factor on increasing the level of environmental disclosure in firms.[57] Boards with high levels of human and social capital are able to advise CEOs better than those with lower levels of board capital. They are able to take a wider view of the company and the environment—and consider multiple stakeholders more effectively. As such, they are more likely to be able to recognize the benefits of environmental disclosures and convince executives to implement such disclosures.

STRUCTURES

Another factor that can play into a CEO's choice to invest in programs to support the natural environment is the pay structure of the executive.[58] Specifically, the short-term and long-term pay structure influence the level of performance of environmental programs. Short-term pay includes, for example, the bonuses awarded to a CEO in a given year. Long-term pay includes restricted stock and stock options. The results of an analysis of the Standard & Poor's 500 firms in 2001 show that short-term-focused pay decreases the level of performance in environmentally friendly programs, while long-term-focused pay increases the level.[59] This provides evidence that the compensation a CEO receives does have influence on their propensity to invest in and steward environmentally friendly programs within their firms.

Beyond the compensation structure of the CEO, the structure of the firm can have an impact on the level of CSR, including environmentally friendly programs.[60] Decentralization—"when decision-making power involves individuals at various organizational levels"[61]—shifts decision making from a few key people down to

57. Mohammad Badrul Muttakin et al., *The Effect of Board Capital and CEO Power on Corporate Social Responsibility Disclosures*, 150 J. BUS. ETHICS 41, 53 (2018).

58. John R. Deckop et al., *The Effects of CEO Pay Structure on Corporate Social Performance*, 32 J. MGMT. 329 (2006).

59. *Id*.

60. Elaine M. Wong, Margaret E. Ormiston & Philip E. Tetlock, *The Effects of Top Management Team Integrative Complexity and Decentralized Decision Making on Corporate Social Performance*, 54 ACAD. MGMT. J. 1207 (2011).

61. *Id*. at 1210.

many individual managers. These individual managers are then better able to integrate local knowledge and understand stakeholders at a more nuanced level than top managers. This leads them to implement more environmentally and socially friendly programs. This effect is then carried across the firm and, as has been shown in a study of Fortune 500 firms from the late 1990s to early 2000s, leads to higher levels of investments in such programs.[62]

Another structural determinant of the level of social and environmental activities is the age of the firm.[63] Young ventures—those less than eight years old[64]—suffer from a liability of newness, whereby they "lack sophisticated operating processes and routines, systems and structures for efficient internal communications, and the knowledge to establish stable relationships with clients, suppliers, and other stakeholders."[65] Their liability of newness makes it difficult for them to appropriate value from their social and environmental activities. We see in young ventures that CSR activities don't yield greater financial performance. A long-term orientation, however, is one mechanism that can overcome the negative relationship between CSR and financial performance for young ventures. Long-term orientations focus on the future, encompass a wider field of vision, and are typically associated with more complex investments. This shifts investments from more superficial investments to those that have a longer-term, more impactful effect on financial performance. As stakeholders work with young firms, an understanding of their temporal orientation can help convince managers of the economic value of environmental investments and programs.

CONCLUSION

Executives are a critical factor in deciding to invest in environmental programs, stewarding those programs, and managing the relationships necessary to make them successful. Implementing these programs

62. *Id*.
63. Taiyuan Wang & Pratima Bansal, *Social Responsibility in New Ventures: Profiting from a Long-Term Orientation*, 33 STRATEGIC MGMT. J. 1135 (2012).
64. Shaker A. Zahra, *Technology Strategy and New Venture Performance: A Study of Corporate-Sponsored and Independent Biotechnology Ventures*, 11 J. BUS. VENTURING 289 (1996).
65. Wang & Bansal, *supra* note 62, at 1137–38.

does not come without their personal risks—poor performance following higher levels of environmental and social performance is a major determinant of CEO dismissal.[66] As I have shown, a number of different factors play important roles in the mind of the manager. Personality factors such as narcissism, hubris and charisma all influence CEO decisions. Their values—such as liberalism and fair market ideology—shape their world view, and their decisions regarding environmental investments. Finally, cognitive factors such as their ability and intellectual stimulation weigh in on their capacity to deliver on environmental projects. Beyond these individual factors, social factors are also important. I reviewed articles that showed that daughters, shareholder activists, and powerful stakeholders all serve as influencers of executive decisions in this area. Finally, there are structural factors that are important such as a CEO's pay structure, the centralization of the organization, and the age and time orientation of the firm. While the studies I have reviewed typically examine each factor in isolation, the consistency of their predictions with other factors shows broad trends that can help those working with a variety of executives to better understand how they think about complex environmental projects.

66. Hubbard et al., *supra* note 2, at 2255.

Table: Summary of CEO Factors Influencing Environmental Investment and Performance

Category	Factors that Increase Environmental and Social Performance
Personality Factors	CEO Liberalism (Chin, Hambrick & Trevino, 2013) CEO Narcissism (Petrenko, Aime, Ridge & Hill, 2016) CEO Hubris [reduces] (Tang, Qian, Chen & Shen, 2015) CEO Charisma (Wowak et al., 2016) CEO Ability (Yuan, Tian, Lu & Yu, 2017) CEO Intellectual Stimulation (Waldman, Siegel, & Javidan, 2006) Fair Market Ideology (Hafenbradl & Waeger, 2017)
Social Factors	Having a Daughter (Cronqvist & Yu, 2017) Shareholder Activism [reduces] (David, Bloom & Hillman, 2007) Powerful Stakeholders (Tang, Qian, Chen & Shen, 2015) Board Capital (Muttakin, Khan & Mihret, 2018)
Structural Factors	CEO Long-Term Pay Structure (Deckop, Merriman & Gupta, 2006) Decentralized Structure (Wong, Ormiston & Tetlock, 2011) Long-Term Orientation (Wang & Bansal, 2012)