The effect of CEOs’ turnover on the CSP of French firms.

Abstract

This paper examines the relationship between turnover among chief executive officers (CEOs) and corporate sustainability performance (CSP) by identifying the influence of two major types of succession to the top job (internal or external promotion) and the reasons for change. Our model also integrates the firm’s past prioritization of CSP and the impact of a company’s participation in the Global Reporting Initiative (GRI). Upper echelons theory and agency theory frameworks are adopted to understand CSP. Using an analysis of panel data for 88 public companies across 13 years in France, we find that a change of chief executive has a positive and significant effect on CSP five years after the change. This positive effect is stronger when the new CEO is recruited from outside the firm. The impact on CSP is invariably positive and significant, except for voluntary departures. The arrival of a new CEO affects CSP less when the firm has already achieved a high standard of CSP and participates in the GRI. These results are obtained after controlling CSP determinants already validated in the literature (financial performance, size, profitability, etc.).

The findings show that expectations of CEOs are not solely economic and financial but also concern CSP. In terms of governance, they should prompt shareholders looking to strengthen CSP to choose new CEOs from outside the firm and to encourage the firm to participate in the GRI.
**Key words:** corporate sustainability performance (CSP), turnover, CEO, GRI, corporate governance

**Abbreviations:**

CEO: chief executive officer

CFP: corporate financial performance

CSP: corporate sustainability performance

CSR: corporate social responsibility

GRI: global reporting initiative

NGO: non-governmental organization

ROA: return on assets
Introduction

On Friday 18 September 2015, the US Environmental Protection Agency (EPA) accused the German car maker Volkswagen of deliberately circumventing the rules in force for countering atmospheric pollution. The firm has to recall nearly 500,000 cars of various models sold in the United States since 2008 and faces a record fine of close to €18 billion. On Monday 21 September, Volkswagen shares plummeted by more than 17% – the largest dive in its history. Two days later, Martin Winterkorn, Volkswagen’s CEO since 2007, stood down. Matthias Müller took over from him on Friday 25 September.

This story is full of lessons. It underscores how unethical behaviour (cheating, lack of integrity) can entail dramatic consequences for business. It also shows that such goings on may lead to a change in corporate leadership. In the Volkswagen example, the change of CEO is probably intended to send a positive signal to stakeholders – customers, regulators, investors and so on – in an attempt to restore confidence. The new leader’s mission is therefore to ensure better compliance with ethical rules in future, while maintaining the firms’ economic and financial health. In other words, it is expected that the change of leadership will eventually bring about better performance, both financially and in CSR. This change in leadership rests on the idea that by changing CEO the firm will be able to change its behaviour in terms of ethics and bolster its corporate sustainability performance (CSP). But do business leaders actually impact CSP? Is a change of CEO enough to improve CSP?

Before going any further, and for greater clarity, the notions of CSR and CSP need to be defined. Like Aguinis and Glavas (2012), we use the following definition of CSR: ‘context-specific organizational actions and policies that take into account stakeholders’ expectations
and the triple bottom line of economic, social, and environmental performance’. The performance of policies and actions implemented by firms in the area of CSR make up corporate sustainability performance (CSP). So CSR bears fundamentally on the directions, policies and actions put in place by the firm, whereas CSP bears on how effective and how efficient those actions are in bringing about economic, social and environmental changes.

This research examines the question of the impact of CEO change in listed companies on CSP. It formulates the main hypothesis that globally a change of CEO has a positive impact on CSP. Just as a change of CEO has a direct positive impact on financial performance (CFP), it is to be expected that it also has a positive influence on the CSR dimension of performance (CSP). This hypothesis draws its theoretical justification from agency theory and is underpinned by the ‘social impact hypothesis’.

However, several parameters may moderate the positive impact of the new CEO on CSP. In our study, we specifically consider four factors that might affect CSP. First, as the tumultuous story of Volkswagen shows, the change of leader may occur in a context of crisis in conjunction with ethical issues (suspicion of fraud, CEO’s legal quandaries, etc.) In other cases, the change is expected and more peaceable: completion of term of office, retirement, etc. It might well be thought that the effects of a change of CEO on CSP differ with the reasons for that change of CEO (Meng et al., 2013).

Moreover, it can be imagined that the effects of a change of CEO will be greater on CSP when driven by a desire for a change of strategy or when the company or CEO are in difficulties (poor financial performance, legal problems) (Meng et al., 2013). In this type of situation, the firm seeks to make a break with the past by recruiting a new CEO. This
intention to make a fresh start, or on the contrary the search to maintain the status quo, may also be manifest in the choice of new leader from inside or outside the firm. From the shareholders point of view, internal promotions are associated with a commitment to the status quo whereas external recruitment is much more indicative of readiness to change (Boeker, 1997; Boeker and Goodstein, 1993; Brady and Helmich, 1984). It is expected therefore that external recruitment of a new CEO has a bigger impact on CSP than internal recruitment.

Not all firms have the same level of commitment to CSR. Some have implemented strategies that are already bearing fruit and enabling them to achieve higher standards of CSP, whereas others have given lower priority to CSR and report more modest performances. According to a pendulum effect (Finkelstein et al., 2009) it can be thought that a firm that already has a good level of CSP pursues objectives other than improving its CSP when it recruits a new leader. By contrast, a firm with a low level of CSP might, among other things, ask its new CEO to make good such a weakness. This is why this research examines the impact of the firm’s past prioritization of CSP on the positive connection between change of CEO and CSP.

Lastly, it is observed that some firms commit themselves to reporting approaches directed at sustainable development; this is notably the case of GRI (Global Reporting Initiative) reference frames. This research investigates the impact of GRI membership on the positive connection between leadership change and CSP.

Overall, this research examines the effect of four variables on the positive relation between leadership change and CSP: the reason for the change, whether the new CEO is recruited internally or externally, the firm’s past prioritization of CSP and whether the firm has signed
up to the GRI. The resulting hypotheses are tested on a sample of 88 French companies listed on the Paris stock exchange over a 13-year period (1999–2011) and having experienced 102 changes of CEO in all. The results enable us to better understand the conditions in which a change of CEO may lead to improved CSP. To the best of our knowledge, it is one of few studies to have jointly investigated a specific governance mechanism (namely, change of CEO) and CSP in an advanced economy. This work enhances our understanding of the determinants of CSP, especially in the domain of corporate governance.

The remainder of the paper is organized as follows. Section 1 presents the background and motivation for the research while section 2 is about the development of our hypotheses. The third section sets out the method of the empirical study for testing the hypotheses. The fourth section details and analyses the findings. Section 5 provides a discussion of the results and underscores the contributions made by this research. The conclusion provides a summary answer to our research question and opens up perspectives for future study.

1. Background and Motivation

The literature on strategy ascribes considerable importance to the influence of the CEO on corporate strategy and results. This is true for CSR and its results in terms of performance (CSP). We wish to attribute a time dynamic to this viewpoint by examining the impact of a change of CEO on CSP. We begin, therefore, by specifying how the notions of CSR and CSP hinge together. Then we present the main determinants of CSP highlighted by the literature, with special emphasis on the role of the CEO. This will enable us to introduce the main proposition of this research which is that the change of CEO has a positive influence on CSP.
From CSR to CSP

Three waves of CSR development are identified and provide a better understanding of the linkages between CSR (processes and orientation) and CSP (Pandey, 2014). The first wave of CSR raised the question of ‘the principle of legitimacy’. The emphasis is on why CSR exists. The literature broadly emphasizes the principle of legitimacy and managerial discretion as the rationale for greater social responsibilities of businesses (Bowen, 1953; Davis, 1960; McGuire, 1963, 1969). Three primary questions that scholars tried to address in the first wave of CSR development were: (1) What is the rationale behind the social responsibility of businesses? (2) To whom are corporations responsible? and (3) For what exactly are they responsible?

The second wave deals with corporate social responsiveness. The key questions identified in CSR are: Can the firm respond? Will it respond? How does it respond? To what extent does it respond? And to what effect? (Frederick, 1994; Sethi, 1979; Nasi et al., 1997). The third wave bears on an important aspect that was missing from the CSR model: corporate social / sustainability performance (CSP). Two major theoretical developments / models, one from Carroll’s 1979 CSP model and another from Wood’s 1991 CSP model are the hallmarks of CSR development during the third phase. Wood (1991) revisited Carroll’s CSP model and its extensions and proposed her CSP model in terms of three structural categories: principles, processes and outcomes.

Like Aguinis and Glavas (2012), we use the following definition of CSR: ‘context-specific organizational actions and policies that take into account stakeholders’ expectations and the triple bottom line of economic, social, and environmental performance’. The performance of
policies and actions implemented by firms in the area of CSR make up corporate sustainability performance (CSP). It gives rise to various operationalizations in the literature. For some commentators, the firm’s CSP can be evaluated by analysing the information the firm communicates about its efforts in the area of CSR (e.g. Khan et al., 2013; Meng et al., 2013), the underlying idea being that the more a firm communicates on the issue, the more effort it puts into it; conversely, if the firm makes little effort or is open to criticism in terms of CSR, it will avoid addressing the subject at any length in its communication. For others, the firm’s presence in ethical funds or highly sustainable performance funds (such as the Dow Jones Sustainability World Index) is an indicator of enhanced CSP (e.g. Artiach et al., 2010; Martin and Lee, 2010; Lourenço and Branco, 2013). Other research bases CSP on evaluations by outside firms such as KLD (e.g. Johnson and Greening, 1999; Harjoto and Jo, 2011) or Vigeo (e.g. Girerd-Potin et al., 2014). Our empirical study is in keeping with this latter approach in that the explanatory variable is based on the rating attributed each year to a sample of 88 firms by Vigeo, a French extra-financial rating firm specializing in assessing companies’ CSP. This multi-criterion evaluation takes into account the various facets of CSP and not just the environmental aspect.

CEO and CSP

What are the main determinants of CSP? The literature underscores that certain characteristics specific to the firm act as significant determinants of CSP (company size, debt, etc.) (Roberts, 1992; Artiach et al., 2010; Purushothaman et al., 2010; Lourenço and Branco, 2013). CSP may also be affected by governance variables (Khan et al., 2013; Oh et al., 2011; Barnea and Rubin, 2010; Harjoto and Jo, 2011). Moreover, the strategic strand (Andrews, 1971; Child,
1972) argues for a high impact of CEOs on corporate strategy and results, and particularly on CSP.

Thus, there is anecdotal and empirical evidence that the CEO is a key decision maker in CSR-related decisions. As Waldman et al. (2006, p. 1704) point out, CEOs are tasked with the responsibility of formulating corporate strategy and are often very much involved in promoting the image of their firms through social responsibility. From an empirical standpoint, Manner (2010) shows that the CEO’s personal characteristics are linked to strong or exemplary social performance, while Waldman et al. (2006) find that the CEO’s intellectual stimulus is significantly associated with the propensity of the firm to engage in ‘strategic’ CSR.

Other studies highlight the idea that the values CEOs mobilize to guide their decision making are essential for an analysis of socially responsible practices (Pant and Lachman, 1998; Agle et al., 1999). Similarly for Wood (1991, p. 702), ‘personal and organizational characteristics might be related to these varying perceptions in ways that would help to more clearly express the conditions of corporate social responsibility’. The study by Aguilera et al. (2007) also puts in perspective the importance of the values of leaders for committing firms to CSR. In their study of the motivations of corporate commitment to CSR and the various processes used, Maignan and Ralston (2002) take into account the motivations that lead to CSR based on three factors: determination to achieve performance objectives, compliance with stakeholder norms (community, clients and employees), and the motivation specific to personal values.
CEO turnover and CSP

So, due to the importance of the CEO for strategy and in particular for CSP, this paper aims at investigating the possible impact of CEO change on firms’ CSP. A new CEO usually has different personal characteristics from his or her predecessor (that may justify the shareholders’ choice of new CEO). This is why we expect turnover will influence CSR and at the same time CSP. Generally, published empirical studies show that changes of CEO have major effects on firms (for a synthesis, see Karaevli, 2007).

CEO changes in major companies are frequent in the life of an organization. For example, a recent study by Strategy&1 reports that 14% of CEOs were replaced within the world’s 2500 largest companies in 2013. The figure is comparable to that in the study by Lucier et al. (2006) which showed that the turnover of CEOs within those same companies rose from 9% to 15% between 1995 and 2005. Over that period, the mean tenure of a CEO fell from 9 to 6.6 years.

2. Hypotheses development

Change of CEO

Agency theory (Jensen and Meckling, 1976) addresses agency relations whereby one party (the principal) delegates a job to another party (the agent). The theory is aimed at solving agency problems. Because the functions of ownership and decision making are separate, the CEO wields considerable power. Consequently, there is a risk that managers will seek to achieve their own objectives to the detriment of the interests of the company owners and the
community at large. This situation therefore prompts the introduction of control mechanisms, one of which is the board of directors.

One of the most closely studied relations in agency theory is the connection between the board of directors and the firm’s performance. The primary idea in these models is that performance is indirectly related to the presumed roles of the directors. Among these roles, the decision to change CEO has pride of place. Published empirical studies show that changes of CEO have substantial effects on firms (see Karaevli, 2007 for a summary). In particular, the discipline that the directors impose through the change of CEO affects the firm’s performance.

Performance can be thought of as being multidimensional (e.g. Kaplan and Norton, 1992). Alongside the financial dimension (Corporate Financial Performance, CFP), other dimensions of performance have been studied, such as organizational performance (e.g. Venkatraman and Ramanujam, 1986) or, in the case at hand, CSP. However, the connections between change of CEO and performance have for the most part been addressed from the angle of CFP (Marom, 2006). We propose to extend that work by examining the connections between change of CEO and CSP. We assume therefore that the effect of a change of CEO also applies to CSP. Besides, a number of empirical studies suggest that such connections are to be found. For example, Meng et al. (2013) analysed the connections between change of CEO and the environmental performance of listed companies in China: the effects observed vary with the type of change. Those authors worked on the hypothesis that pressures from stakeholders and governance can explain the disclosure of environmental information, without providing a more specific theoretical framework. Zutshi and Sohal (2004) showed that changes of CEO,
resulting from different causes, could have complicated influences on corporate environmental responsibility.

It is not surprising to observe that CSP and CFP are correlated as dimensions of corporate performance. The theoretical connection between these two dimensions of performance is synthesized in the paper by Marom (2006). The starting point for that paper is stakeholder theory (Freeman, 1984), which is one of the two main theoretical frameworks used for conceptualizing the relationship between CSP and CFP (Ruf et al., 2001; Marom, 2006). Freeman proposes various approaches to satisfy the demands from the various stakeholders, including CSR. The theoretical hypothesis of this framework refers to the ‘social impact hypothesis’ (Preston and O’Bannon, 1997), by which the satisfaction of the needs and expectations of the various stakeholders improves financial performance. Several mechanisms can be used to mediate this relation: reputation, risk reduction, investor attractiveness, employee satisfaction, and so on.

Although CSP and CFP vary globally in the same direction (under certain conditions), it may be that they share certain common antecedents, such as the change of CEO. This leads us to make hypothesis H1. Just as the change of CEO has a positive impact on the financial dimension of performance (CFP), so it is expected to have a positive influence on the CSR dimension of performance (CSP).

**H1: CEO change positively influences the firm's CSP.**

Two factors may challenge this effect. First, the origin of the successor may impact the effects of a change of CEO. Second, divergences may arise from the causes behind the change (for
example, retirement, end of term of office, dismissal, etc.). These points are examined in the sections below on hypotheses H2, H3a and H3b.

The internal or external origin of the CEO

The successor’s characteristics are important for evaluating the impact of the leadership change (Ansari et al., 2014). The successor's origin (internal or external) has very often been studied in the literature. Generally, research concludes that the CEO’s origin has effects in terms of maintaining or changing strategy.

The choice of internal/external CEO has a direct impact on the adverse selection problem since the possibilities of discovering the successor’s characteristics in terms of capacities depend on the information held. The characteristics of leaders recruited internally should be better known than those of external successors and the principal (the board of directors) is better equipped to assess the abilities of an internal successor. However, asymmetric information does not necessarily lead to a preference for in-house candidates. If the desired outcome is to continue with the current strategy, the board may prefer a leader from within given his or her behaviour within the organization. Alternatively, if the desired outcome is a significant change in strategy, internal candidates may not have the opportunity to provide proof of their ability to bring about such change.

Research generally concludes that the appointment of an internal leader is a holding strategy. A change from the inside is assumed to lead to a number of positive results, including reduced costs associated with socialization, turnover and mistaken choices (Zajac, 1990) and increased ability to attract and retain employees (Friedman, 1991). Furtado and Rozeff (1987) report
several advantages in internal promotions: they are less disruptive, they are stimulating for members of the management team, they are less likely to signal negative information, they rely on better knowledge of managers from within the company (lower risk of a poor appointment) and they ally specific human capital to the firm.

Arguments in the empirical literature associate internal promotions with a commitment to the status quo and managers from outside with a readiness to make changes (Boeker, 1997; Boeker and Goodstein, 1993; Brady and Helmich, 1984). Leaders from outside are assumed to have a wider perspective and are associated with change. The appointment of a CEO from outside intensifies the benefits of a break with the firm’s former policies. Bonnier and Bruner (1989) argue that the appointment of outside managers involves a higher probability of a change in objectives, investment strategy and internal organization. This hypothesis may be especially relevant for firms in difficulty: the ‘clean out’ argument (Reinganum, 1985).

The importance of the origin of the successor is also discussed in the study by Meng et al. (2013). Their empirical study takes into account the influence of the successor’s characteristics (internal or external) and his or her independence on companies’ environmental responsibility by integrating willingness to change from the existing environmental strategy. The findings show, however, that these characteristics do not significantly influence the disclosure of environmental information. In our case, the expected effects concern the CSR dimension of corporate performance (CSP) more broadly and not just the disclosure of environmental information. We therefore formulate hypothesis H2:

**H2: The effect of a change of CEO on CSP is greater when the change is external than internal.**
The reasons for CEO turnover

Empirically, the development of performance during the succession period varies significantly according to the type of CEO turnover (Filbeck and Zhao 2013; Leker and Salomo, 2000). For example, it is observed that some involuntary changes are associated with improved performance after the replacement (Leker and Salomo, 2000) and that firms whose CEO either resigns voluntarily or due to illness or death are more likely to be performing better (Filbeck and Zhao 2013). Similarly, Meng et al. (2013) examined the influences of change of CEO on corporate environmental responsibility. That study related to 782 Chinese listed companies between 2006 and 2008. The findings revealed that the influence on corporate environmental responsibility depends on the type of change. Four grounds for change of CEO were included. The results were significant for three relationships.

These results show the value of considering the type of leadership change. So a departure of the CEO due to corporate governance grounds (change of shareholders, mergers and acquisitions, buy-outs) or an unintentional and negative change (financial difficulties, dismissal, legal battles) should have a positive effect on CSP. For unintentional and ordinary changes (e.g. retirement, end of mandate) or voluntary changes (e.g. personal reasons, resignation), there is no apparent reason for the firm to change its CSR strategy and so we suppose there is no influence on CSP. Given that reaching retirement age and the expiry of the employment contract are normal circumstances in which turnover can occur, they generally have no connection with corporate performance (Chang and Wong, 2009). Consequently, as in the hypothesis by Meng et al. (2013), we assume that turnovers occurring in such circumstances have no effect on CSP.
**H3a:** The effect of a change of CEO on CSP is positive when the change is due to corporate governance or to involuntary but negative turnover.

**H3b:** CEO change is not related to CSP in the event of an involuntary but normal change or a voluntary change.

The firm’s past prioritization of CSP

In analysing the effect of the change of CEO on corporate financial performance (CFP), the authors show that the firm’s initial performance (that is, performance before the change of CEO) must be taken into account (Kesner and Dalton, 1994; Weisbach, 1988; Bonnier and Bruner, 1989; Jonhson et al., 1985). The positive impact of a change of CEO on performance is greater when the change is preceded by poor performance, and vice versa, in accordance with a pendulum effect (Finkelstein et al., 2009). For example, Kesner and Dalton (1994) show that a firm in difficulty sees its revenues increase with the arrival of a new CEO.

We propose to transpose these findings to the CSR dimension of performance (CSP). So, the board of directors of a firm that may not have put sufficient effort into CSR in the past might instruct its new CEO to improve CSP, without neglecting CFP, of course. On the contrary, a firm that already has a high standard of CSP would probably want the new CEO to maintain that high standard, without necessarily looking to greatly improve on it. It can therefore be thought that the positive effect of a change of CEO would be stronger when the firm has given lower priority to CSP in the past, and vice versa, that this effect would be weaker for firms having given high priority to CSP in the past, hence our hypothesis H4.
H4: The change of CEO is less (respectively more) positively related to CSP for firms that have given higher (respectively lower) priority to CSP in the past.

Normative constraints

Managerial discretion reinforces or limits the manager’s impact on strategic choices (Hambrick and Finkelstein, 1987). If discretion is greater, the manager has greater capacity to influence his or her company’s choices. This moderating effect has been validated in the case of the firm’s CSR policy, since Chin et al. (2013) show that the relative power of the CEO (which is dependent on managerial discretion) moderates the influence of certain management values (liberalism versus conservatism) on the CSR policy implemented in the firm. Mattingly (2015) shows that notable inconsistencies were that CEO demographics were not as often related to CSP as were TMT\(^5\) demographics, indicating that managerial discretion may be an important mitigating factor shaping managerial effects on CSP.

Among the environmental factors\(^6\) that may help or hinder managerial discretion we can list characteristics such as product differentiation, market growth, competitive structure of the sector, demand instability, legal constraints and the existence of powerful external forces. As part of the neo-institutional approach proposed by DiMaggio and Powell (1983), firms respond to pressure by adhering to generally recognized practices so as to seem legitimate in the face of different stakeholders. Thus historical, cultural and environmental forces inside and outside the company shape the way they exert their activities. The corollary of this is the appearance of identical structures or identical practices over the course of time, with
institutional influences becoming visible since they spread within organizations via isomorphism (DiMaggio and Powell, 1983, p. 147).

In terms of CSR, firms’ response to pressure may be reflected by the expression of sensitivity to the normative process. The normative process explains the propagation of practices within companies via the professionalization of trades. The introduction of training within the educational system but also networks and ties formed in the context of professional associations promoting the development of a formatted pattern of thought (codes of good conduct, SD Afnor standards, GRI). CSR and sustainable development have also progressively become part of the teaching curriculum. International networks of firms have formed.

Professionalization in CSR and sustainable development, especially with the creation of common areas for thought conveyed by structures like the GRI (Global Reporting Initiative) or ORSE, reinforces the influence of procedures. The Global Reporting Initiative (GRI, www.globalreporting.org) set up in 1997 is now the main world arena for dialogue for stakeholders in reporting on sustainable development. Its objective is for reporting on sustainable development to be made comparable among organizations and just as widespread as financial reporting. The GRI proposes several benchmarks (G1, G2, G3.1, etc.) corresponding to specific reporting rules on CSR. Nearly 80% of the world’s top 500 companies now produce reports based on the framework set out by the GRI. Moreover, the United Nations Environment Programme (UNEP) has adopted the GRI and invited UN Member States to do so. Joining the GRI compels the firm to make public a great deal of information relating to CSP (e.g. total number of incidents of discrimination and corrective actions taken, total direct and indirect greenhouse gas emissions by weight) and provides an
incentive to be more responsible about their industrial choices. Reporting standards impact not just the information disclosed but also business practices and strategies. Several explanations are advanced in the literature: effect of transparency on stakeholder attitudes, attraction of best employees, better image with customers, etc. (Ioannou and Serafeim, 2014).

Firms’ sensitivity to such procedures, through participation in the GRI should influence managerial discretion and temper the influence of a change of leadership on the firm’s CSP, which leads us to formulate hypothesis H5.

**H5: The firm’s participation in the GRI reduces the effect of a CEO change on CSP.**

Figure 1 shows our conceptual model.

[insert figure 1 here]

3. **Methodology of the empirical study**

**Sample presentation**

To test our hypotheses, we took as a sample 88 French public companies representing all sectors except for financial services. Financial institutions were excluded from our sample because their financial characteristics and their reporting structure differ from those of non-financial companies. The firms selected were those for which we had an evaluation of their CSPs (cf. next section) and the various financial and economic indicators forming our control variables (cf. table 2). The accounting and financial data were collected from the Worldscope
and Datastream databases respectively, which are themselves supplied from the Thomson One
Reuters base. The maximum period covered extended from 1999 to 2011, but not all the
selected firms were evaluated systematically over that period. Ultimately, we had 684
observations (firm-year).

[insert table 1 here]

The choice of France supplements the existing literature, which has mostly addressed
connections between CEOs and CSP in emerging economies (e.g. Khan et al., 2013; Meng et
al., 2013) and less often in advanced economies (Harjoto and Jo, 2011). In addition, France is
the first European country to have legislated on reporting on sustainable development. The
2001 statute on new economic regulations (bolstered in 2010 by the ‘Grenelle II’ statute)
requires listed companies to publish their social and environmental data concomitantly with
their financial data. Some choose to meet this requirement by implementing a benchmark
proposed by the GRI. France is therefore a particularly suitable case for testing our
hypotheses and especially the one about the GRI.

Study variables

Measurement of the dependent variable was based on the CSP evaluated by Vigeo, an extra-
financial notation firm. Vigeo, founded in 2002, is the leading European expert in the
assessment of companies and organizations with regard to their practices and performance on
environmental, social and governance (ESG) issues. Vigeo rates each firm on six criteria:
human resources, business behaviour, corporate governance, human rights, environment and
community involvement (for more information, see the appendix which presents Vigeo’s
methodology). These multi-criteria evaluations may be compared with KLD measurements that are very widely used in the literature. Mattingly (2015) lists a hundred or so empirical studies that use them. Our dependent variable was the average of five criteria (human rights were excluded as there were too many missing values) varying from 0 to 100. The lowest mark in the sample was 8.8 and the highest 74 (cf. table 2).

Our main explanatory variable was the change of CEO. It was encoded 1 for years in which the firm changed CEO, and 0 otherwise. The reasons for change of CEO were arranged into the four categories suggested by Meng et al. (2013) and correspond to the following dummy variables: GOVSTRAT is a dummy variable that takes the value 1 if the CEO change is due to corporate governance or change in control and 0 otherwise. INVNEG is a dummy variable that takes value 1 if the CEO change is due to involuntary but negative turnover and 0 otherwise. INVNOR is a dummy variable that takes the value 1 if the CEO change is due to involuntary but normal turnover and 0 otherwise. VOL is a dummy variable that takes the value 1 if the CEO change is due to voluntary turnover and 0 otherwise. To include the type of management change (internal versus external) another variable was introduced (EXT). It was encoded 1 for an external change and 0 otherwise. Data on the change of CEO were hand-collected from corporate reports and proxy statements for the period 1999–2011.

[insert table 2 here]

We were also interested in the possible moderating impact of the firm’s participation in the GRI through our fifth hypothesis. We therefore created a dummy variable (GRI) that took the value 1 if the firm participated and 0 otherwise.
The literature emphasizes that certain firm-specific characteristics act as factors potentially driving CSP (company size, debt ratio, etc.) and may account for variations in performance (Roberts, 1992; Artiach et al., 2010; Purushothaman et al., 2010; Lourenço and Branco, 2013). These should be controlled for to isolate the effect of a change of CEO on CSP. These variables were used in the study by Artiach et al. (2010) and the study by Lourenço and Branco (2013). We considered five variables: company size, debt ratio, financial capacity (FCF and profitability) and opportunities for growth. We used these in this study and measured them in the same way as in Artiach et al. (2010).

- Company size: the arguments made rely on factors such as greater visibility and therefore greater pressure, stronger response to stakeholder demands; size is also favourable to scale economies. Company size is assumed to be positively related to CSP. We measured company size as the log of the total assets.

- Debt ratio: its effect is explained by the power over the resources required by the firm. Debt ratio prompts the firm to give precedence to creditors, who are generally more powerful than the other stakeholders. The firm’s debt ratio is assumed to be negatively related to CSP. We measured it by the total liabilities divided by total assets.

- Financial capacity: where resources are scarce, managers must choose priorities among the needs of the various stakeholders. When economic resources are scarce, the firm is compelled to prioritize economic demands at the expense of social claimants. Thus, high free cash flow (FCF) indicates the firm has sufficient financial capacity to invest in CSR without that being detrimental to other domains. Likewise, the firm’s profitability influences its capacity to undertake programmes in favour of CSR. The higher the performance, the less it comes under pressure from financial investors and the better it can meet social and environmental expectations. There is a positive
relationship between profitability and CSP. We selected two measures: free cash flow (FCF) and ROA.

- Opportunities for growth: the more opportunities there are for growth, the more the firm is able to integrate CSR principles in its strategy and the better its CSP. The measure selected was market-to-book (MTB) ratio.

The type of industry a company is engaged in has been identified as a significant determinant of CSP. The empirical literature reveals a significant positive relationship between the sector of activity reflecting the firm’s level of exposure to environmental and social risks and its standard of CSP. Cowen et al. (1987) claim there is a concern for visibility on the part of firms belonging to sectors that are more sensitive to environmental and social risks. For example, firms operating in sectors exposed to environmental risk (chemicals, forestry, oil and gas, transport) will be under greater scrutiny in terms of their environmental performance than other firms, whereas firms in consumer-oriented sectors will demonstrate their commitment more in terms of societal responsibility to the community, because this is liable to affect the firm’s reputation and so influence its level of sales. Firms in our sample belonged to 18 industries, thus we used 17 dummy variables (IND) to control for the sector of activity effect.

Lastly, our long time span (13 years) led us to control for the potential effects of time-specific factors (e.g. business cycles) on corporate social endeavours. Thus, we used 12 dummy variables to control for temporal effects.
Method of analysis

We investigated whether the change of CEO influenced CSP beyond firm-specific characteristics. The effect of a change of CEO on CSP cannot be immediate. It takes time for the CSR policy implemented by the new CEO to take effect and to lead to enhanced CSP. This is why the change of CEO variable had to be offset in our model relative to the variable representing CSP. This methodology enables us to capture the dynamic linkage between change of CEO and CSP. The impact of explanatory variables on firms’ CSP was evaluated by panel data modelling. The functional form of the multivariate model\(^8\) is:

\[
\text{CSP}_{i,t} = \alpha_1 + \beta_1 \text{TURN}_{i,t-k} + \beta_2 \text{SIZE}_{i,t} + \beta_3 \text{LEV}_{i,t} + \beta_4 \text{FCF}_{i,t} + \beta_5 \text{ROA}_{i,t} + \beta_6 \text{MTB}_{i,t} + \sum_{j=1}^{12} \phi_j \text{IND} + \sum_{k=1}^{12} \lambda_k \text{YEAR} + \varepsilon_{i,t} \tag{1}
\]

Where CSP\(_{i,t}\) is the CSP of firm \(i\) at time \(t\). TURN\(_{i,t-k}\) represents the change of CEO of firm \(i\) at time \(t-k\). SIZE\(_{i,t}\) is the size of firm \(i\) at time \(t\). ROA is the economic profitability of firm \(i\) at time \(t\). LEV is the ratio of book value of total debt and total assets of firm \(i\) at time \(t\). FCF is the ratio between free cash flow and total sales of firm \(i\) at time \(t\). MTB is the market-to-book ratio for firm \(i\) at time \(t\). IND and YEAR are dummy variables that capture the sector of activity and temporal effects. \(k\) is the selected forecast horizon. In our case, we present the results for forecast horizons of \(k = 1\) to 5 years. Our model is predictive in character.

Table 3 reveals a correlation between the CSP variable and the selected explanatory variables. All the correlation coefficients display the expected sign except for the CSP - ROA
correlation, which displays an unexpectedly negative sign. The closest correlation is recorded between the CSP variable and firm size (0.447), suggesting that company size is the most important determinant of the firm’s CSP. The weakest correlation is between CSP and LEV.

As some of the correlations among explanatory variables in the model were significant, we ran a multicollinearity test. We estimated the models using the ordinary least squares method to calculate the variance inflation factors (VIF). It is generally accepted that a VIF of more than 10 indicates a serious multicollinearity problem (Neter et al., 1983). In the regressions in our study, all the VIFs are less than 4, so any multicollinearity problem can be dismissed.

4. Results

Initially, we tested the effect of CEO changes on the firm’s CSP by identifying the influence of two major types of succession to the top job (internal or external promotion) and the reasons for change. Subsequently, we tested the moderating effect of the firm’s past prioritization of CSP, and the firm’s participation in the GRI, which can affect managerial choice.

The effect of a change of CEO

Table 4 presents the results of regression in panel data with fixed industry and year effects. We observe that the change of CEO has a positive and significant effect on the firm’s CSP but only five years later. The effect is significant at the 1% level. A probable explanation is that the new CEO introduces a new policy which requires time to produce positive effects on CSP. Too immediate an effect would hardly have been credible and may even have been
suspicious. Positive CSP effects obey an industrial and social rationale involving such things as staff training, implementation of an eco-design approach to products, supplier certification process, etc. The adjusted determination coefficient is about 6% for this forecast horizon. The comparatively weak explanatory power of our regression can be accounted for by the predictive character of the relationship between CEO change and CSP.

[insert table 4 here]

We then used the five-year time scale to refine the results and take into account the influence of the control variables identified in the literature (Artiach et al., 2010). We tested four models (cf. table 5). In model 1, only the control variables were present. Model 2 took up the control variables and included the change of CEO. In model 3, the sample was restricted to observations that had experienced at least one change of CEO over the period and the control variables and external change of CEO were used. Model 4 included the four reasons for CEO change and the control variables.

The results of model 1 show that the control variables considered alone are all significant and explain 29.6% of firms’ CSP. These results are consistent with those in the study by Artiach et al. (2010) except for ROA, which we find significant at p<.10, whereas it is not significant in their study. When we include the change of CEO (model 2), it can be seen that the new variable is highly significant and the model sees its explanatory power rise to 35.2%, which is an improvement of 5.6 points of the adjusted $R^2$. The findings are consistent with those of Artiach et al. (2010) for four of the five control variables. The only difference is for free cash flow (FCF), the effect of which is not significant in their study. Two control variables lose their significance compared with model 1: debt ratio and economic profitability. It seems
therefore that the change of CEO prevails over these two financial variables in terms of predicting CSP. Ultimately, the variable representing change of CEO provides an incremental predictive power compared with that of other explanatory variables found in the literature. Overall, the analysis of results confirms the significant impact of changes of CEO on the firm’s CSP, after a period of five years, which means hypothesis H1 can be accepted.

The third model is useful for examining the effects of the external or internal origin of the new CEO on the firm’s CSP (H2). To this end, the model is estimated on the sample of just those firms that have changed CEO. The explanatory variable EXT is 1 when the change of CEO is external and 0 when internal. Examination of the results confirms the effects of control variables: the same effects are found as in model 2. Next, it is observed that the EXT variable coefficient is positive and significant (at the 5% level), which indicates that a change of CEO from the outside has a more positive effect on the firm’s CSP than an internal change of CEO. In other words, changing the CEO has a more positive effect on CSP when the new CEO is brought in from outside the firm, which is consistent with hypothesis H2. Finally, it will be noted that model 3 has high explanatory power (adjusted $R^2 = 41.2\%$).

This result (stronger effect of an external change) contradicts the conclusion of Meng et al. (2013) who did not find any effect for the type of change of CEO (i.e., independence, and internal or external promotion) on the firm’s environmental information disclosure. Three possible explanations may be advanced. First Meng et al. (2013) conducted their study in the context of an emerging economy (China). Moreover, their dependent variable was quite different from ours since they used just one aspect of CSP (environment), which they
analysed via a proxy (environmental information disclosure). Lastly, and above all, their panel data bore on just three years, whereas our data (spread over 13 years) reveal an effect after five years.

Model 4 sets out the results of the estimation taking as explanatory variables the four reasons for change of CEO and the control variables. We find that the coefficients associated with the GOVSTRAT and INVNEG variables are positive and significant at least at the 5% level. Thus the effect of a change of CEO on CSP is positive when the change is due to corporate governance or involuntary but negative turnover, confirming hypothesis H3a. Conversely hypothesis H3b is only partly validated because although the results show that voluntary change has no impact on CSP, they show that involuntary and normal change of CEO has a positive and statistically significant predictive coefficient. Contrary to H3b, involuntary and normal departure of the CEO may therefore significantly improve the firm’s CSP within the next five years.

The moderating effect of the firm’s past prioritization of CSP

To test hypothesis H4 about the firm’s past prioritization of CSP, we formed two samples of firms on the basis of their CSP level in 2001. The year 2001 was chosen because it was the date the legislation on new economic regulations was enacted in France and for which most firms in our sample have a CSP score. The 2001 statute on new economic regulations (bolstered in 2010 by the ‘Grenelle II’ statute) requires listed companies to publish their social and environmental data concomitantly with their financial data. In terms of regulations, the new legislation required listed companies to publish social and environmental information in their annual reports. The first sample was formed by including all firms for which the CSP
level was less than or equal to the median CSP of our sample, and the second sample by including all firms with a CSP score higher than the median.

Table 6 shows the results of regression in panel data with industry and year fixed. The estimation method remains identical but was applied to both samples. For the two samples, the effect of a change of CEO is similar to that observed previously, i.e. the predictive coefficient associated with the TURN variable is positive and statistically significant. However, it can be noted that the coefficient associated with the TURN variable is about twice as high in the first sample as it is made up of firms with an initially low level of CSP. This result confirms hypothesis H4 that CEO change is less positively related to the firm’s CSP when the firm prioritized CSP. Similar results were also recorded for the external change of CEO variable and went some way towards validating hypothesis H4.

[insert table 6 here]

Another empirical test strategy for H4 is to keep all the firms in our sample in the same regression by introducing a variable for interaction with the change of CEO variable (change of CEO × CSP prioritization). The results – available on request from the authors – show that the coefficient associated with this interaction measure is significant, confirming the moderating role of CSP prioritization on the relation between change of CEO and CSP.

The moderating effect of the firm’s participation in the GRI

Hypothesis H5 predicts that the firm’s participation in the GRI should negatively moderate the influence of a change of CEO on CSP. To test this hypothesis, the dummy variable
‘participation in GRI’ must be included in the model. Initially, it is helpful to examine the direct effect of this variable on CSP. As table 7 (panel data regression with fixed individual effects) shows, this variable does have a significant direct effect on the firm’s CSP, but only after three years. The effect is even stronger in years four and five. It becomes highly significant after five years. The firm’s participation in the GRI therefore has a positive effect on its CSP, which seems fairly logical insofar as the firm’s voluntary participation in the GRI attests to an interest in CSR which ultimately leads to improved performance in this field (CSP).

[insert table 7 here]

To test hypothesis H5, which predicts an interaction effect between the firm’s participation in the GRI and the changes of CEO, a new model is estimated including the direct effects and the interaction effect of the GRI variable (cf. table 8). Model 7 therefore takes up the control variables, the change of CEO, participation in the GRI and interaction between the two variables. Estimating this model yields comparable results to models 1 and 2 with regard to the control variables. For the explanatory variables, it can be observed that the change of CEO and participation in the GRI have positive and significant effects on CSP, which is consistent with the previous findings. Moreover, in line with hypothesis H5, it can be observed that interaction between the change of CEO and the firm’s participation in the GRI has a significant negative effect on the firm’s CSP. This means that, when the firm participates in the GRI, the change of CEO impacts its CSP less positively than in a similar case in which the firm does not participate in the GRI. This result confirms the idea that the positive impact of the change of CEO on CSP is weaker when the managerial discretion of the new CEO is limited by the constraint of an external norm such as the GRI norm. Model 7 improves the
adjusted $R^2$ by 7 points (compared with model 2) to reach 42.2 %, which is a relatively high level. Hypothesis H5 is therefore validated.

Lastly, model 8 (cf. table 8) was estimated on the same basis as model 3, that is, by limiting the sample to those observations where a change of CEO occurred, the objective being to take account of both the impact of the GRI and the nature of the managerial change (internal or external). This model therefore takes up the control variables, the external change of CEO, participation in the GRI and external CEO interaction $\times$ GRI. The results are consistent with those of model 3 with respect to the control variables. The moderating effect of participation in the GRI on the image of an external change of CEO on CSP is confirmed. This means that the positive effect of an external change of CEO on CSP is weaker when the firm participates in the GRI. Participation in the GRI can therefore be analysed as a quasi-moderating variable (Sharma et al., 1981) because it has two types of effect: a direct effect on the dependent variable (CSP) and an interaction effect with the independent variable (change of CEO). This finding was unexpected, but underscores the importance of taking account of normative constraints in explaining CSP. It is also an incentive to conduct closer empirical studies on managerial discretion and its effects.

[insert table 8 here]

It will be noticed that the predictive power of model 8 is 5.8 points higher than that of model 3, and reaches 47%. The results of this last model therefore reinforce the confirmation of hypotheses H2 and H5.
5. Discussion

The results show overall a positive effect of a change of CEO on CSP. The intensity of the effect varies, however, with the position the company is in, and its dynamics over time is worth investigating.

Change of CEO: status quo or strategic break

Our findings seem to indicate that the replacement of the CEO has variable effects on CSP depending on the intention behind the change of CEO. Deep down, the replacement of the CEO may be driven by an intention to effect change (change strategy to improve the company’s position) or on the contrary it may be associated with an intention to continue the company’s current strategies (maintain the status quo). Our study has implicitly addressed both these scenarios by considering the impact of several factors. The first, of course, relates to whether the new CEO is recruited from inside or outside the company. The results show that the arrival of a new CEO from outside the firm, attesting to an intention to break with the firm’s practices, has a greater impact on CSP. In this event, the CEO will be less influenced by the company’s habits and culture and his or her personal characteristics might have a greater impact on the policies implemented, especially in the area of CSR. The intention to break with the past marked by the choice of a new CEO from outside the firm can also be observed through effects on CSP occurring sooner. An external change has a positive impact on CSP from year 3 on, whereas an in-house change (indicating an intention to maintain the status quo) only has a positive effect on CSP five years on.10
For the specifically CSR aspect of corporate strategy, the quest to maintain the status quo can be contemplated when the firm has already achieved a high standard of CSP and/or is a member of the GRI. In this event, the advent of a new CEO does indeed have less of a positive impact on CSP because it is already of a high standard. The new CEO therefore has the mission of maintaining that high standard of performance. On the contrary, when the firm has a low level of CSP and/or is not a member of the GRI, the arrival of a new leader makes a greater impact on CSP. It can be observed therefore that the change at the top is an effective way of improving CSP when the firm has a low level of commitment to CSR. It also provides an opportunity to make a clean break with past strategies. Notice, though, that when the firm seems to be looking to maintain the status quo, the change in CEO still exerts a positive albeit less intense effect on CSP. These findings confirm the relevance of the change of CEO as a governance mechanism available to shareholders to consolidate or on the contrary redirect their corporate strategy. They also show that, regardless of the position the firm is in, any new CEO should ultimately have a positive impact on CSP. Making efforts in the area of CSR is no longer an option for listed companies exposed to ever increasing stakeholder demands in this domain.

This positive effect of a change of CEO can be explained by his or her attachment to certain values (Hemingway and Maclagan, 2004; Huang, 2013) or by other personal characteristics pursuant to upper echelons theory (Hambrick and Mason, 1984). Since the change of CEO impacts CSP, it is the case that the new manager stamps his or her mark on policies implemented as the strategic strand claims (Andrews, 1971; Child, 1972).
The timing of effects

In studying the same set of firms over an extended period (13 years), this research highlights the development of CSP in terms of different variables. The positive effects referred to above require time. Careful scrutiny of the findings reveals a variation over time in the impact of the different variables from which an interesting history can be outlined. Generally, the advent of a new CEO seems first to have a negative effect on CSP for the first two years (statistically non significant results). The effect becomes positive in years 3 and 4 (statistically non significant results) before becoming stronger and statistically significant in year 5. It can therefore be assumed that initially the new CEO concentrates on maintaining or improving the firm’s economic and financial performances (CFP) and may also have to deal with a degree of disorganization of the firm. Subsequently, the CEO will devote more energy to improving CSP. An initial explanation might therefore be that new leaders give priority to CFP at the expense of CSP at the start of their term of office.

A second explanation could be that strategies and actions designed to improve CSP are long-term projects by their very nature. When it comes, for example, to protecting the environment or complying with workers’ rights, the firm cannot achieve radically different results overnight. The lag of several years before an effect on CSP is observed might therefore correspond to the incompressible time required to put in place long-term projects and see the first concrete results. This explanation is consistent with another result: membership of the GRI has a positive impact on CSP after three years. The two explanations – prioritizing economic and financial performances, time required for the strategies put in place to bear fruit – are not mutually exclusive and could combine.
In any event, the existence of a lag of several years pleads in favour of the long-term remuneration of CEOs. Deckop et al. (2006) found that long-term CEO pay was positively related to CSR (short-term pay exhibited a negative association). Other results point in the same direction (Mahoney and Thorn, 2006; Jian and Lee, 2015). As an incentive for CEOs to take account of CSP lastingly, it is important that the time horizon of their remuneration (or of a part of it) is geared to that of the effects sought.

If we now consider the results in terms of the reasons for the change of CEO, it can be observed that the effect of a negative unwanted change (e.g. firm’s financial difficulties; legal problem of the CEO or the firm) entails a (statistically significant) fall in CSP the next year. Yet it might be expected that the new CEO would make it a priority to correct the failings of the firm or his or her predecessor. The reason for this counterintuitive result is probably technical. It is likely that the extra-financial rating agency Vigeo sanctions the failing that caused the CEO’s departure in its ex post evaluation. Intuitively, it can be assumed that the new CEO has to face a decline in financial performance, and therefore focuses on its improvement, to the detriment of CSP. But after five years, whatever the ground for the change of CEO, the impact on CSP is invariably positive, except in the case of voluntary departures (but this last result is not very robust because of the small number of changes observed in this category).

**Contribution to theory**

*CSP as a dimension of corporate performance.* This research confirms that it is worth considering corporate performance to be multidimensional: in addition to the financial
dimensions (CFP), performance also has a CSR dimension (CSP). Our work provides three arguments for this multidimensional conception of performance.

First, our research emphasizes that these two dimensions – CFP and CSP – may have common determinants, in the case at hand, the change of CEO. However, that determinant exerts an effect that is deferred over time: whereas the literature reports that its effects on CFP are quite rapid (Bertrand and Schoar, 2003; Furtado and Rozeff, 1987), the impact of the change of CEO on CSP takes longer (five years according to our findings). Work analysing CSP determinants should therefore span a period of at least five years. Given the close connections between CFP and CSP, such work should also control for the variables proposed by Artiach et al. (2010): the firm’s characteristics, notably the financial ones, alone account for 30% of CSR performance in our study.

Another common point between CFP and CSP is that both are subject to a pendulum effect upon the arrival of a new CEO. Finkelstein et al., 2009 show that the effect of the change of CEO on CFP is stronger when the firm was in difficulty before the change of CEO. Similarly, our results show that the arrival of a new CEO has a greater impact on CSP in firms that had given lower priority to CSP in the past.

Lastly, our results show that the advent of a new CEO has a positive impact on CSP over the course of time, whatever the position of the company (GRI member or not, past prioritization of CSP or not) or the nature of the change (internal/external, reasons for change). So, just as it is expected that a new CEO will improve CFP, it is also expected that he/she will improve CSP. The CSR dimension of corporate performance therefore becomes a major requirement of the stakeholders in the company.

**Firm governance and CSP.** As Khan et al. en 2013 emphasize, ‘although corporate governance and corporate social responsibility (CSR) reporting have separately established
themselves as well-researched areas, relatively less attention has been paid in setting up a link between these two’ (Khan et al, 2013, page 207). The literature on the impact of governance mechanisms on CSP is indeed scarce. Our research caters for this emerging area of knowledge in at least two ways.

In terms of governance mechanisms, published studies look into ownership structure, CEO duality, presence of audit committee, etc. and the effects of the composition and structure of the board of directors on CSP (Khan et al. 2013; Oh et al., 2011). Since it is common knowledge that the characteristics of the board of directors impact CSP (Mallin and Michelon, 2011), there was a need to study the impact of the tools available to the board for guiding CSP. Our research meets this need by considering a specific governance mechanism available to the board of directors: the change of CEO. Our research confirms that it is an effective tool for improving CSP and enhances the range of governance mechanisms for promoting CSP.

Some research has been done into the connections between governance mechanisms and CSP. Except for work using KLD measures (Mattingly, 2015), studies relating specifically to the impact of changes of CEO on CSP have been limited to partial CSP measures, thereby reducing the scope of their findings. Thus, for example, Khan et al. (2013) and Meng et al. (2013) consider environmental performance alone. By taking a more comprehensive approach to CSP, our work confirms and extends those earlier results, specifying the circumstances under which the impact of a change of CEO on CSP is strongest.

**Managerial discretion and GRI.** This work also illuminates factors that might moderate the impact of the CEO on the strategies implemented by the firm in the logic of Upper Echelon Theory (Hambrick and Finkelstein, 1987). Whatever his or her origin, and whatever the reasons for change, the influence of a new CEO may be tempered by external factors. In particular, we have shown that when the firm participates in the GRI, the positive impact of
the new CEO on CSP is weaker (but still positive). This does not mean that participation in the GRI lessens the firm’s CSP. On the contrary, our results underscore the direct positive effect of the firm’s GRI participation on CSP. When the new CEO takes over managing a firm that is already participating in the GRI, it already benefits from this positive effect. The impact of the new CEO therefore seems to be ‘residual’ because the firm already has a high level of CSP. Moreover, the CEO’s influence is then limited because participation in the GRI is a normative constraint that reduces his or her scope of action (weaker managerial discretion). These findings confirm the point that the CEO’s impact is weaker when his or her managerial discretion is low (Hambrick and Finkelstein, 1987; Mattingly, 2015).

Conclusion

The change in CEO does indeed have a positive effect on CSP. However, this effect takes time to show up (five years). It varies in intensity depending on where the new CEO is recruited from. An external recruitment impacts CSP more than an internal recruitment. Conversely, the type of change (voluntary, involuntary, etc.) does not seem to affect the intensity of the effect. The governance aspect therefore has a mitigated impact. The influence of a new CEO may be tempered by two factors: the firm’s participation in the GRI, which contributes to weaker managerial discretion, and the firm’s past prioritization of CSP.

This research is innovative in at least two areas. First, to the best of our knowledge, it is the only study to have analysed, for a developed economy, the simultaneous effects of the nature of the change of CEO (governance mechanism) and the impact of an outside normative constraint (managerial discretion) on CSP, the latter being also the subject of an independent multi-criteria evaluation. Then, by using a long time period (13 years), our study has made it
possible to identify long-term effects (impact of CEO change five years on). Thus, this study offers practical implications from a temporal standpoint in that our findings send a message about the dynamic effect and predictive effects of CEO changes.

In managerial terms, this research teaches three points. First, where governance is concerned, if shareholders wish to strengthen CSP, for whatever reason, it is in their interest to pick the new CEO from outside the firm and to urge the firm to joint the GRI. Moreover, this research illustrates the extent to which expectations are not just economic and financial but also concern CSP. Thus when a firm has given low priority to CSP in the past, it asks its new CEO to make a special effort in this area. This underscores the importance of CSR for firms (corporations are forced to widen their agendas to include social and environmental concerns) and more specifically the importance of the results achieved in this area (CSP). Third, this also suggests that CEOs will be evaluated on the basis of CSP and not just on accounting and stock-exchange performances (importance of long-term remuneration). It remains to be demonstrated whether criteria relating to CSP are taken into account in CEO remuneration systems at the present time.

Finally, this research opens the way to further investigations. We shall list four avenues which, with the help of other investigators, we would like to examine:

1) The first avenue is to enrich the dependent variable. CSP could be viewed from several angles (relations with suppliers, customers, human rights, environment, etc.). Vigeo provides ratings for five such dimensions. It would then be possible to repeat the analyses to study the effects dimension by dimension. It would also be useful to compare Vigeo’s ratings with
other independent evaluations, such as those proposed by Bloomberg (ESG data – Bloomberg Equities and Industries services).

2) The concept of managerial discretion could also be more fully operationalized, taking into account – in addition to participation in the GRI – other internal (e.g. existence of an ethics committee) and external (e.g. regulatory constraints) factors.

3) The effects of changes of CEO seem to depend on the level of economic development (emerging versus developed economy). It would be opportune to check how robust such differences are (e.g. are the results from our French sample reproducible for other advanced economies such as the UK, Australia or Canada?) and to propose and test different explanations, as the case may be.

4) Since the CEO seems to impact the firm’s CSP, it can be asked what explains this impact on an individual level? It would be interesting to consider the personal values of CEOs, for example like Manner (2010), explicitly to understand why some of them influence their firms’ CSP more than others. This might involve questioning CEOs directly to identify the values they subscribe to and to study possible ties between those values and CSP.

Acknowledgments. We are grateful to the Vigeo social rating agency for their generosity in providing the ratings they produce.
Appendix

Vigeo’s Methodology

Source: Vigeo’s website (http://www.vigeo.com/csr-rating-agency/en/2-3-methodologie)

Vigeo’s analysis model relies on 3 main elements:

- a frame of reference of precise, opposable and balanced objectives of social responsibility;
- a questioning segmented into different angles of analysis, all formalized and complementary;
- a conventional rating scale, organized in a hierarchy of 4 differential score levels.

A frame of reference of precise, opposable and balanced objectives of social responsibility

The objectives of social responsibility are represented by 38 criteria coming from 6 different domains.

- **Human Resources**: Constant improvement of professional and labor relations, as well as of working conditions.

- **Human Rights at workplaces**: Respect of trade unions’ freedom and promotion of collective negotiation, non-discrimination and promotion of equality, eradication of banned working practices (Child and enforced labor), prevention of inhumane or humiliating treatments such as sexual harassment, protection of private life and personal data.
• **Environment:** Protection, safeguard, prevention of attacks on environment, implementation of an adequate managerial strategy, ecodesign, protection of biodiversity and reasonable control of environmental impacts on the overall life cycle of products and services.

• **Business Behaviour:** Taking into account of clients’ rights and interests, integration of social and environmental standards both in the process of selection of suppliers and in the overall supplying chain, efficient prevention of corruption, and respect of competition laws.

• **Corporate Governance:** Efficiency and integrity, insurance of both independence and effectiveness of the Board of Directors, effectiveness and efficiency of audit and control systems, and in particular inclusion of social responsibility risks, respect of shareholders’ rights and most of all of the minorities, transparency and moderation in executive remuneration.

• **Community involvement:** Effectiveness, managerial integration of commitment, contribution to economic and social development of the territories of establishment and their human communities, concrete commitment in favor of the control of societal impacts of products and services, transparent and participative contribution to causes of general interest.

They are evaluated according to 200 principles of action that enable Vigeo to question managerial systems.

Each standard is activated according to its sectorial relevance and is subject to a weighting that shows the relative impact of the social responsibility objectives it refers to.
### Sectorial impacts on stakeholders

<table>
<thead>
<tr>
<th>Factor 1</th>
<th>Factor 2</th>
<th>Factor 3</th>
<th>Weight of the criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nature of the rights, interests and expectations</td>
<td>Sectorial vulnerability</td>
<td>Categories of risks</td>
<td></td>
</tr>
</tbody>
</table>

#### A questioning segmented into different angles of analysis

Vigeo analyzes managerial systems on the basis of three “items”. Its questioning is organized into 9 elementary analysis angles. These combine the precise questions and observations on the basis of which Vigeo’s analysts and auditor-consultants collect, select and qualify information to express their views.

<table>
<thead>
<tr>
<th>3 items</th>
<th>9 elementary angles of analysis</th>
</tr>
</thead>
</table>
| Leadership | • Content
• Visibility
• Ownership

Implementation | • Process
• Means
• Control/reporting

Results | • Indicators
• Stakeholders
• Controversies

The elementary angles of assessment gather together precise questions and observation points on the basis of which Vigeo’s analysts and auditors collect, select and qualify information to give their opinions.

To set up a criterion’s score, Vigeo consolidates different scores attributed to relevance of policies, coherence of implementation and results.
**Note**

- The scores awarded to each angle of approach are reported, by consolidation, to their attached item.
- The items’ scores are then consolidated at the standard level to produce “standard scores”, which are then all consolidated at the whole field level.
- Given the heterogeneity of their subjects, domain scores are not consolidated

**A 4-level assessment scale**

Our ratings are recorded into a conventional scale organized into 4 levels of differential scores, whether it is a declaratory SRI questioning or an audit questioning.

<table>
<thead>
<tr>
<th>Little evidence of commitment</th>
<th>Commitment initiated</th>
<th>Consolidated commitment</th>
<th>Advanced commitment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poor to very poor guarantee of risk management</td>
<td>Poor to moderate guarantee of risk management</td>
<td>Reasonable guarantee of risk management</td>
<td>Social responsibility objectives actively promoted</td>
</tr>
</tbody>
</table>
References


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1 The 2013 Chief Executive Study, Strategy& (formerly Booz & Company) (http://www.strategyand.pwc.com/media/file/Strategyand_The-2013-Chief-Executive-Study.pdf)

2 The leader is the chairman of the board of directors who has a more important role than the CEO in China.
Changes in control (e.g. change of shareholders, mergers and acquisitions, buy-outs) and governance of the board (separation of chairman and chief executive functions); unintentional and negative change (e.g. health problems, financial difficulties, dismissal, legal battles); unintentional and ordinary changes (e.g. retirement, end of mandate); voluntary changes (e.g. personal reasons, resignation).

We were largely inspired for this section by a judicious comment by one of the anonymous reviewers for which we are most grateful.

Top Management Teams.

Hambrick and Finkelstein (1987) identify three factors determining the degree of managerial discretion.

Observatoire de la Responsabilité Sociétale des Entreprises (ORSE) is an association bringing together firms, professional bodies, NGOs and portfolio management companies. It is an intelligence structure on questions affecting corporate social and environmental responsibility, sustainable development and ethical investment.

We conducted empirical tests to evaluate the relevance of our model’s specification. We first ran a Fischer test on the nullity of all the parameters. The value of the F test meant the null hypothesis of individual effects could be rejected at the 1% level. Thus the fixed-effect estimation method was more appropriate than the simple pooled model. We also compared the fixed individual effect with the random effects model by the Hausman test. The fixed effects estimation method proved systematically preferable to the random effect estimation method. The statistical realization of the Hausman test implies rejection of the null hypothesis at the 1% level, confirming the existence of fixed effects.

We de-trended the CSP removing the best straight-line fit from CSP. We made further tests to ensure CSP increased mechanically over time for the sample of firms. We obtained similar results (available on request) to those presented in the manuscript. The new de-trended CSP variable is closely correlated with the CSP variable, the correlation coefficient is about 0.96. The general increase in CSP over time across all companies does not seem to affect our results.

Details of results can be provided by the authors on request.