

# When CEO Career Horizon Problems Matter for Corporate Social Responsibility: The Moderating Roles of Industry-Level Discretion and Blockholder Ownership

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**Abstract** This paper examines the influence of CEO career horizon problems on corporate social responsibility (CSR). We assume that as CEOs are getting older, they tend to disengage in CSR due to their shorter career horizons. We further argue that high levels of industry-level discretion (ILD) and blockholder ownership amplify the negative effects of CEO age on CSR. Using a panel sample of US-based firms over 2004–2009, we do not find the main effect of CEO age on CSR, but find support for the moderating effects, such that CEO age is negatively associated with CSR when there are high levels of ILD and blockholder ownership. Therefore, results suggest that CEO career horizon problems matter for CSR when (1) CEOs have sufficient discretion over the firm's strategic decisions and (2) outside blockholders put more pressure on CEOs to engage in financial earning management.

**Keywords** CEO age · Career horizon problems · CSR · Industry-level discretion · Blockholder ownership

## Introduction

There has been increasing attention to corporate social responsibility (CSR) as responsible business activities have been considered to be important determinants of firm's sustainability (Elkington 1997; Epstein 2008). Given the strategic importance of CSR, scholars have identified factors that lead firms to be involved in proactive social activities (Aguilera et al. 2007), ranging from external factors, such as regulations and laws (Dawkins and Lewis 2003), activist groups (den Hond and de Bakker 2007), and communities (Boehm 2005), to internal factors, such as slack resources (Waddock and Graves 1997), firm size (Stanwick and Stanwick 1998), board characteristics (Johnson and Greenings 1999), and ownership structures (Barnea and Rubin 2010; Oh et al. 2011).

Despite the extensive line of research, little research has examined the effects of chief executive officers' (CEOs) career horizons on CSR, although literature has consistently reported that CEOs' career horizons have a significant impact on corporate strategic decisions and subsequent organizational outcomes (e.g., Matta and Beamish 2008; McClelland et al. 2012). CEO career horizon particularly matters for CSR, since CSR has been viewed as "long-term" investment (Mahapatra 1984; Orlitzky et al. 2003) that requires corporate managers' *sustained* attention and commitment to their investment decisions. As such, it is reasonable to assume that CEO career horizon can play a critical role in making strategic decisions on social responsibility.

By definition, CEO age affects *career horizon* (Davidson et al. 2007; McClelland et al. 2012), which can be referred as a psychological assessment of career security over career termination (i.e., retirement). Career horizon could be problematic to organizations as top managers are

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getting older, because their career horizons are getting shorter than optimal ones that can maximize firm's long-term value.

We propose that older CEOs with shorter career horizon tend to be less motivated to engage in CSR. It is because CEOs who are close to or beyond the conventional retirement age tend to focus on short-term outcomes, not on long-term ones (e.g., social investment) that may not be realized during their incumbency. We further argue that high levels of industry-level discretion (ILD) and blockholder ownership amplify the negative effects of CEO career horizon problems on firm's social responsibility. Specifically, CEO career horizon problems are more likely to occur when (1) CEOs' managerial discretionary powers are fueled by industry conditions, and (2) CEOs face a greater pressure from the outside blockholders to meet the shareholders' demands for financial earnings. Taken together, our main research questions are:

- How is CEO's career horizon related to CSR?
- What are the roles of ILD and blockholder ownership in the relationship between CEO career horizon and CSR?

Using a panel dataset of 1,332 firm-year observations from the US manufacturing firms over 2004–2009, we found some support that CEOs' shorter career horizons discourage firms to engage in CSR when there are high levels of ILD and blockholder ownership. This study provides several contributions to the fields of both strategic management and corporate ethics. For the strategic management field, this study confirms the upper echelons perspective (Hambrick and Mason 1984; Hambrick 2007) by showing that CEOs' *observable* attributes (e.g., age) have an impact on a firm's strategic decisions and outcomes, yet sheds additional light on this stream of research by examining the impact on "social" performances. Further, this study offers a more precise description of the relationships between CEO age and CSR by considering the moderating roles of managerial discretion and ownership structure. For the corporate ethics field, this study introduces new evidence of "why" firms engage or disengage in socially responsible activities, especially by looking at relatively underexplored CEO career horizon, and thereby advancing our existing knowledge about the drivers of corporate ethics.

## Theory and Hypotheses

This study relies on two important viewpoints of CSR. First, we assume that CSR is the consequence of a *long-term strategic orientation* since firm's socially responsible actions require a long period of time to pay off (Mahapatra 1984). Returns from CSR are unlikely to be achieved in a

short run, and often current financial resources are likely to be used up in a short-term (e.g., Burke and Logsdon 1996). Second, we also assume that social investments have *outcome uncertainty*. Indeed, previous studies confirmed the argument of outcome uncertainty by showing mixed findings about CSR-financial performance linkage, including positive, negative, and null (e.g., Chang et al. 2013; Griffin and Mahon 1997; McWilliam and Siegel 2000; Waddock and Graves 1997; Wang et al. 2008). These inconsistent results indicate that the engagement in social issues does not always bring better financial outcomes; therefore, social investments have a high level of outcome uncertainty.

Based on these premises, we propose that CSR could be the outcome of the strategic decision makers' attributes associated with time horizons for decision-making and risk-taking mindsets to tolerate outcome uncertainty. Notably, McGuire et al. (2003) have already stated that "strong social performance may be primarily driven by managerial beliefs" (p. 349). The upper echelons perspective (Hambrick and Mason 1984), however, suggests that while CEOs' psychological properties are difficult to capture, CEOs' observable characteristics can be reasonable indicators of such underlying psychological properties.

In fact, several existing works have already explored the relationships between CEOs' observable characteristics—as a proxy for underlying psychological properties—and firm's social responsibility. For example, Manner (2010) found that educational background, career experience, and gender of CEO are associated with firm's CSR rating. Although these findings are consistent with the fundamental assumption of upper echelons perspective that observable features are a reflection of top managers' cognitions, little has been done to explore the effects of CEO career horizon on CSR.

To address this gap, in this study, we specifically examine if CEO career horizon makes a difference on CSR. We used CEO age as a proxy for CEO's career horizon that significantly affects his or her strategic decision-making patterns (Davidson et al. 2007; Gray and Cannella 1997). Furthermore, we set the boundary conditions of our testing by considering the moderating effects of (1) ILD (Finkelstein and Boyd 1998; Hambrick and Finkelstein 1987; Keegan and Kabanoff 2008), the degree to which industry conditions allow CEOs to create differences in organizational decisions and subsequent outcomes, and (2) level of outside blockholder ownership from which CEOs experience a pressure for managing financial earnings.

## Effects of CEO Career Horizon on CSR

CEO career horizon is a psychological assessment of career security over career termination, and determined by age.

Gray and Cannella (1997) noted that CEO age is associated with time horizon in the decision-making process. By definition, older CEOs are likely to have relatively shorter career horizons. Literature has found that the agency problem of CEOs increases as they are near retirement age (e.g., Davidson et al. 2007). This is often framed as the “career horizon problem” (Matta and Beamish 2008) indicating that CEOs with a short career horizon are more likely to avoid risks and less likely to make long-term-oriented decisions. Furthermore, Davidson et al. (2007) showed that older CEOs are likely to pay more attention to short-term earnings rather than long-term performance. While previous researchers have examined the relationship between CEO career horizon and organizational decisions such as R&D investments (Barker and Mueller 2002), strategic changes (Grimm and Smith 1991) and acquisitions (Matta and Beamish 2008), little examination has been undertaken to examine the association between CEO career horizon problems and CSR.

We propose that as career horizon is shortened (i.e., as getting older), CEOs are likely to disengage in CSR. First, although social investments may enhance the shareholders’ wealth as well as the level of CEO’s compensation in the *long run*, CEOs in the later stage of career will be less incentivized to engage in CSR. Older CEOs may believe they will not benefit from social investments because this kind of investment is likely to be recouped in a long run—probably after their incumbency. Thus, due to the long-term pay-off nature of CSR (Burke and Logsdon 1996; Mahapatra 1984), older CEOs may be less favorable for long-term investments like CSR and more attracted to short-term profit-generating initiatives (e.g., cost cutting, and sales promotion).

Second, CEOs in the later stage of career are less likely to seek corporate strategies with high outcome uncertainty. Since the proactive social investments may jeopardize the current profits without guaranteeing the economic benefits, social investments can be seen as a risky strategy to older CEOs. Mixed findings for the linkage of CSR-financial performances (Chang et al. 2013; Griffin and Mahon 1997; McWilliam and Siegel 2000; Waddock and Graves 1997; Wang et al. 2008) evidently support the claim that social investments are highly outcome-uncertain.

This contention has been echoed by a number of studies that have identified the negative effect of CEO age on long-term-oriented and risk-involving investments. For example, Dechow and Sloan (1991) showed that CEOs are inclined to reduce spending for R&D and advertising as they approach to the retirement age. Several studies have reported similar findings, such as reduced R&D spending in firms managed by older CEOs (Barker and Mueller 2002). Other studies have found that actual risk-involving activities, rather than investment strategies, may go down

with CEO age such as making international acquisitions (Matta and Beamish 2008) and engaging in entrepreneurial behaviors (Levesque and Minniti 2006). Taken together, given older CEOs’ short-termism and risk-averseness (e.g., Barker and Mueller 2002), it is expected that CEO age should be negatively associated with CSR.

### **Hypothesis 1** CEO age has a negative effect on CSR

#### Moderating Role of ILD

The upper echelons perspective provides a basis of why CEO career horizon problems affect firms’ social responsibilities. However, for a more accurate account, we set the boundary conditions of this argument. Specifically, we attempt to elaborate the relationship between CEO’s career horizon and firm’s social responsibility by taking managerial discretion into account. Managerial discretion, defined as “latitude of action” (Finkelstein and Boyd 1998; Finkelstein and Hambrick 1990), refers to the degree to which CEOs make changes in organizational decisions and subsequent outcomes (Hambrick and Finkelstein 1987). As originally conceptualized, the managerial discretion emanates from three different levels: individual (e.g., political acumen), organization (e.g., board characteristics), and industry (e.g., industry dynamism).

In this paper, we specifically focused on the discretion from industry-level characteristics, following previous studies (e.g., Halebian and Finkelstein 1993; Hambrick and Abrahamson 1995). High discretion industry can be characterized by high concentration ratio, high market growth, high dynamism, low capital intensity, and high advertising intensity (Finkelstein and Boyd 1998). For example, prior studies (e.g., Finkelstein and Hambrick 1990; Hambrick and Abrahamson 1995) identified that computer, chemical, and natural gas distribution industries have high, medium, and low level of ILD respectively. Computer manufacturing firms have discretion regarding product form, design, price, distribution, and promotion. In contrast, such latitude of action does not exist in commodity industries such as natural gas distribution industry. In this sense, CEOs may differ significantly in terms of latitude of action offered by their industry attributes; the more discretion CEOs have, the stronger their impact on the firm’s strategic decision is.

Integrating the roles of industry characteristics, CEO career horizon and CSR together, we propose that ILD plays a moderating role in the relationship between CEO career horizon and CSR. As hypothesized earlier, older CEOs with shorter career horizon are likely to disengage in CSR. When the level of ILD is high, CEOs are more empowered to use their own judgment in firm’s strategic decisions such as engagement in CSR.

Thus, older CEOs, when they have greater discretion by industry characteristics, are likely to stick with their less favorable stance on CSR and thus do not make supportive decisions on CSR. On the contrary, when the level of ILD is low, since CEOs have limited discretion over firm's strategic decisions, their ages do not make a significant difference on CSR. Given this description, we hypothesize that the negative effects of older CEO's career horizon problems on CSR will be more pronounced when the level of ILD is high.

**Hypothesis 2** Industry-level discretion strengthens the negative effect of CEO age on CSR.

#### Moderating Role of Blockholder Ownership

Corporate governance literature suggests that external monitors, such as outside blockholders, can influence executives' decisions because of their substantial voting power (e.g., Brickley et al. 1988). Due to their sizeable ownership, blockholders have both incentive and power to monitor CEOs' decisions.

We argue that the CEO's career horizon problems become more salient when there are high levels of blockholder ownership. Powerful shareholders, such as blockholders, put pressure on CEOs to generate favorable financial earnings and are willing to exert a threat of intervention (e.g., dismissal of CEOs) when the company appears to be performing below its potential. They often impose greater capital market pressure leading to excessive focus on short-term financial earnings (e.g., Bolton et al. 2006; Guthrie and Sokolowsky 2010). Therefore, it seems to be challenging for CEOs to pursue CSR engagement that may result in uncertain financial outcomes, when there is a high level of blockholder ownership.

This could be the case, especially for older CEOs who have limited job mobility. If CEOs fail to meet the financial expectation from shareholders, blockholders possibly penalize CEOs by not only lowering their compensation levels, but also trying to dismiss under-performing CEOs (Kaplan and Minton 2012). Thus, such blockholder activism may raise older CEO's concern for their career termination (i.e., forced retirement). On the contrary, the pressure from blockholders on younger CEOs is somewhat limited since younger CEOs may find it relatively easier to move on other executive positions. Therefore, older CEOs are more likely to make strategic decisions that are aligned with blockholder's interests, and thereby disengage in outcome-uncertain investments like CSR. Taken together, we hypothesize that the negative effects of older CEO's career horizon problems on CSR will be more pronounced when there are high levels of outside blockholder ownership.

**Hypothesis 3** Outside blockholder ownership strengthens the negative effect of CEO age on CSR.

#### Method

##### Sample

The sample of this study is the US-based manufacturing firms (two-digit SIC code between 20 and 39), which is randomly selected from *Corporate Library* database during a period from 2004 to 2009. About 300 firms were drawn as initial sample and then we used the following sampling procedures. First, in order to be sampled, firms should have CSR ratings, assessed by Kinder, Lydenburg, Domini (KLD) Research and Analytics. Second, following previous literature (e.g., Barker and Mueller 2002), we did not include the cases where CEOs had been in place less than 1-year because CEOs could have little influence over firm's social engagement within such a short period of tenure. Due to the lack of full data availability from all archival data sources (described below), 1,332 firm-year observations from 223 firms were used as final sample in our study.

Thus, the panel sample represents firms with diverse characteristics (e.g., size, profitability, governance, CEO characteristics, etc.) across multiple industries. To address a causal relationship, the independent, control, and moderating variables were collected in " $t-1$ " period (from 2003 to 2008) and dependent variables (i.e., CSR ratings) were measured in " $t$ " period (from 2004 to 2009) with 1-year lag. For the data collection, a number of archival sources such as *COMPUSTAT*, *Corporate Library*, and *Proxy Statements* were used.

##### Dependent Variables

We used the assessment of CSR ratings offered by KLD. KLD is a rating provider that focuses exclusively on assessment of corporation's social responsibility (and irresponsibility). KLD's assessments consist of multiple sub-domains: *Environment*, *Community*, *Diversity*, *Employee Relations*, *Human Rights*, *Product Quality and Safety*, and *Corporate Governance*. Recently, increasing criticism has been raised for the operationalization of the construct through combining "positive" (sum of strengths) and "negative" (sum of concerns) dimensions toward CSR (Godfrey et al. 2009; Kacperczyk 2009; Mattingly and Berman 2006). Specifically, Arora and Dharwadkar (2011) distinguished positive CSR from negative CSR. They suggested that since positive CSR reflects the proactive social participation of the firm, whereas negative CSR involves the violation of regulatory requirement or minimum standard, positive and negative CSR ratings should not be combined

as a whole. Therefore, following previous literature (e.g., Mattingly and Berman 2006), we used the sum of strength in KLD ratings as a measure for “corporate social responsibility (CSR)”.

### Independent and Moderating Variables

As a proxy for CEO career horizon, *CEO Age* was obtained directly from the *Corporate Library* and firm proxy statement (i.e., SEC Form DEF 14A) if necessary.

In measuring *Industry-Level Discretion*, we created an aggregate construct comprising multiple industry characteristics, including (a) industry concentration, (b) market growth, (c) industry dynamism, (d) capital intensity, and (e) advertising intensity (see Hambrick and Abrahamson 1995; Liberson and O'Connor 1972). All these categories were scored in terms of ranks (ranged from 0 to 20) at the two-digit SIC level with the exception of SIC 357 (e.g., Coad and Rao 2008). The sum of five categories was used as *Industry-Level Discretion* score, which ranged from 35 to 88 with the average of 47.95 in our sample. For an industry concentration, we used the eight-firm concentration ratio (CR8), the share of industry sales accounted for by the eight largest firms. In calculating market growth and industry dynamism, we took a two-step procedure based on industry-level sales over the prior five years, suggested by Keats and Hitt (1988). For capital and advertising intensity, industry-level capital expenditures and advertising expenses were divided by total sales. All these industry-level data were obtained from *Standard & Poor's COMPUSTAT* database.

*Blockholder Ownership* represents the sum of shares held by outside investors who hold more than 5 % of the firm's outstanding shares. The information was obtained from the *Corporate Library* and firm proxy statement (i.e., SEC Form DEF 14A)

### Control Variables

We included a number of control variables that may potentially account for the variance of CSR. First, previous literature (Udayasankar 2008) found that firm size is positively associated with CSR. Since larger firms are under more intense public scrutiny due to their visibility and have a greater social impact due to their scale of activities (Stanwick and Stanwick 1998), they are more likely to engage in socially responsible practices. For this study, *Firm Size* was controlled with a measurement of total sales (e.g., Godfrey et al. 2009). Sales information was obtained from *COMPUSTAT* and this variable was transformed logarithmically since it was positively skewed. We also controlled for *Company Age* since company age is significantly associated with CSR (Moore 2001). *Company Age*

was calculated by counting the number of years since its foundation and also transformed logarithmically due to skewed distribution. Information for company age was obtained from the *Corporate Library* database.

Slack resources theory (e.g., Waddock and Graves 1997) suggests that firm's social responsibility is driven by economic affordability. Thus, we controlled for *Industry-adjusted ROA*, *Debt Ratio* and *Cash-to-Asset Ratio*. *Industry-adjusted ROA* was calculated by dividing net income by firm's total assets, and industry adjustments were made at the two-digit SIC level by subtracting the industry-mean ROA. We also included *Debt Ratio* and *Cash-to-Asset Ratio* as indicators of organizational slack. *Debt Ratio* was calculated by firm's long-term debt relative to its assets. *Cash-to-Asset Ratio*, the ratio of current assets to its current liabilities, reflects firm's ability to pay short-term obligations.

Corporate board characteristics are also known to affect CSR (Johnson and Greening 1999). Thus, we included *Proportion of Outside Directors*, *Board Size*, and *CEO-Chairperson Duality*. We controlled for *Proportion of Outside Directors*, calculated by dividing the number of unaffiliated independent directors by the total number of board members on board, since outside directors are likely to make a CSR-supportive decision due to their diverse backgrounds and concerns for stakeholders (Chang et al. 2012). *Board Size* was measured by counting a total number of directors on corporate board. *CEO-Chairperson Duality* (i.e., when CEO is also a chairperson of the board of directors) was controlled for since it reflects the CEOs' power over the board (Baysinger and Hoskisson 1990), thus it was also controlled. We created a dummy variable coded as '1' when CEOs also serve as the chairperson of board, '0' otherwise. Board composition information were also obtained from *Corporate Library*, as well as from firms' proxy statements (i.e., SEC Form DEF 14A) if necessary.

CEO shareholdings and compensation structure affect their motivation to maximize long-term shareholder value (Fama and Jensen 1983), thus we included *CEO Ownership* and *CEO Variable Pay*, obtained from *Corporate Library* and *ExecuComp*. CEOs with significant ownership and greater level of variable pay are likely to actively engage in social initiatives (e.g., Mahoney and Thorn 2006). *CEO Ownership* was measured by the proportion of CEO equity holdings, whereas *CEO Variable Pay* was measured by the proportion of variable pay (i.e., sum of bonuses, long-term incentive plans, stock-based rewards, etc.) relative to total compensation. We also controlled for *CEO Tenure*, which reflects CEO's managerial paradigm and cognitive inflexibility associated with strategic decisions (Henderson et al. 2006).

Lastly, since our sample firms fall into multiple years, we included year dummies. For the sake of brevity, we did

not report coefficient and standard error for each year dummy. All control variables were lagged by one-year over dependent variables.

### Statistical Analysis

Our data have both cross-sectional and time series components. Furthermore, we have hierarchical data structures such that *Industry-Level Discretion* variable is at the industry level (two-digit SIC code), whereas CEO career horizon and blockholder ownership variables are at the firm level. Thus, traditional ordinary least square (OLS) regression method is not appropriate because it violates the assumptions of constant error variance and independence of errors. Since our sample firms are nested or embedded within each industry, we analyzed the longitudinal data by conducting multi-level regression analyses. We used *xtmixed* command in STATA version 13.0 in order to conduct multilevel mixed-effects linear regression (see Rabe-Hesketh and Skrondal 2005 for this command). Our models were estimated using maximum likelihood estimation. Thus, our analyses recognize the existence of data hierarchies by allowing for residual components at each level in the hierarchy.

We performed the statistical analyses using separate hierarchical (i.e., step-wised manner) regression analyses. This is a conservative approach since all control variables are included first into the model before testing variables are entered. Thus, any spurious relationship between the dependent variable (CSR ratings) and the predicting variables (CEO age, ILD, and blockholder ownership) could be parceled out of the model.

We used the mean-centered variables for our independent and control variables. Further, in order to assess the degree of multicollinearity, we calculated variance inflation factors (VIFs), which ranged from 1.03 to 2.84 (Tolerance ranging from 0.35 to 0.97). The range of VIFs falls outside the conventional threshold of 10 (Neter et al. 1985), thus our statistical analysis does not seem to have multicollinearity issues.

### Results

The means, standard deviations, and correlations among variables are presented in Table 1. The average CSR rating is 3.17 with the standard deviation of 3.62. The average CEO age is 54.76 with the standard deviation of 6.81, and CEO age is positively associated with firm size, industry-adjusted ROA, board size, CEO-Chairperson duality, CEO shareholdings, and CEO tenure.

We performed regression analyses through five steps. In Table 2, as shown in the Wald  $\chi^2$  statistics, all our

regression models are statistically significant ( $p \leq 0.001$ ). Given the multi-level feature of our dataset, we reported intra-class correlation (ICC), a measurement of how much correlation exists in a hierarchical dataset, at the industry level (ICC = 0.02) as well as the firm level (ICC = 0.88), which supports the appropriateness of statistical analysis for multi-level modeling (Hox 2010).

Model 1 examined the effects of control variables on firms' CSR ratings. In particular, *Firm Size* ( $p \leq 0.001$ ) and *Industry-level Discretion* ( $p \leq 0.001$ ) are positively associated with CSR ratings, but *CEO Shareholdings* ( $p \leq 0.05$ ), *CEO Variable Pay* ( $p \leq 0.05$ ), and *Blockholder Ownership* ( $p \leq 0.05$ ) are negatively associated with CSR ratings. Models 2 examined the effect of CEO age on CSR ratings. Consistent with the hypothesis 1 predicting the effect of CEO career horizon problem on CSR, CEO age is negatively associated with CSR ratings. However, this relationship is not statistically significant at the conventional level, so hypothesis 1 is not supported.

For testing interactions, all variables were mean-centered following the advice of Cohen et al. (2002). In this procedure, the linear terms used to construct the interaction terms were centered by subtracting the mean of each term from observed values. As shown in the change in  $\chi^2$  statistics over the control model, our interaction terms account for a significant proportion of the variance in firm's CSR ratings even after controlling for firm, governance, and CEO effects.

Model 3 reports the moderating roles of ILD. The interaction term of *CEO Age* and *Industry-level Discretion* is statistically significant ( $p \leq 0.05$ ), indicating that managerial discretion emanating from the industry characteristics strengthens the negative effect of CEO career horizon problems on CSR. Therefore, hypothesis 2 is supported. In model 4, we included the interaction terms of CEO age and outside blockholder ownership. We also found the interaction term of *CEO Age* and *Blockholder Ownership* is negative and statistically significant ( $p \leq 0.01$ ), showing that blockholder ownership strengthens the negative relationship between CEO age and CSR. Therefore, hypothesis 3 is also supported. Lastly, as reported in Model 5, we conducted the full model including both of interaction terms. The pattern of results is same as previous models in Model 3 and 4, with slightly different coefficients and standard errors.

In order to demonstrate the moderating effects of ILD and blockholder ownership, we plotted the relationship between CEO age and CSR at different levels of moderators (e.g., plus and minus one standard deviation from mean). Figure 1 shows that CEO age has a greater negative impact on CSR ratings when there is a high level of ILD. Similarly, Fig. 2 indicates that the negative effect of CEO age is exacerbated when the outside block ownership level is high. The results of post-hoc simple slope t-tests also confirmed the moderating effects found in these analyses:

**Table 1** Descriptive statistics and correlations ( $N = 1,332$ )

	Mean	SD	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1. <i>CSR Ratings</i>	3.17	3.62														
2. <i>Firm Size</i>	8.01	1.55	0.63													
3. <i>Company Age</i>	3.69	0.95	0.20	0.20												
4. <i>Industry-adjusted ROA</i>	0.00	0.11	0.14	0.16	0.08											
5. <i>Debt Ratio</i>	0.17	0.14	0.01	0.13	0.09	-0.10										
6. <i>Cash-to-Asset Ratio</i>	2.37	1.63	-0.22	-0.51	-0.24	-0.06	-0.21									
7. <i>Proportion of Outside Directors</i>	0.75	0.14	0.17	0.17	0.07	-0.01	0.12	-0.15								
8. <i>Board Size</i>	9.79	2.29	0.41	0.59	0.28	0.05	0.20	-0.44	0.13							
9. <i>CEO-Chairperson Duality</i>	0.67	0.47	0.09	0.16	0.09	0.06	0.03	-0.05	0.16	0.03						
10. <i>CEO Shareholdings (%)</i>	1.05	3.19	-0.07	-0.14	0.00	0.00	-0.03	0.09	-0.19	-0.05	0.12					
11. <i>CEO Variable Pay</i>	0.78	0.17	0.24	0.41	0.03	0.14	-0.02	-0.15	0.13	0.23	0.11	-0.12				
12. <i>CEO Tenure</i>	7.95	6.55	0.01	-0.12	-0.08	0.01	-0.03	0.20	-0.12	-0.10	0.14	0.24	-0.04			
13. <i>ILD</i>	47.95	10.75	0.06	0.05	0.03	0.03	0.03	-0.08	0.03	0.07	-0.01	0.04	0.00	-0.02		
14. <i>Blockholder Ownership</i>	0.19	0.15	-0.14	-0.23	-0.14	-0.10	0.09	0.08	0.07	-0.19	0.02	-0.02	-0.13	0.01	-0.04	
15. <i>CEO Age</i>	54.76	6.81	0.07	0.07	0.01	0.06	0.04	0.01	0.02	0.09	0.20	0.07	-0.01	0.37	0.03	0.02

(a) Correlations greater than 0.061 are significant at  $p \leq 0.05$  and those greater than 0.071 are significant at  $p \leq 0.01$

(b) Two-tailed coefficient test from 1,332 firm-year observations

**Table 2** Regression analysis on CSR (DV: sum of strengths in KLD ratings)

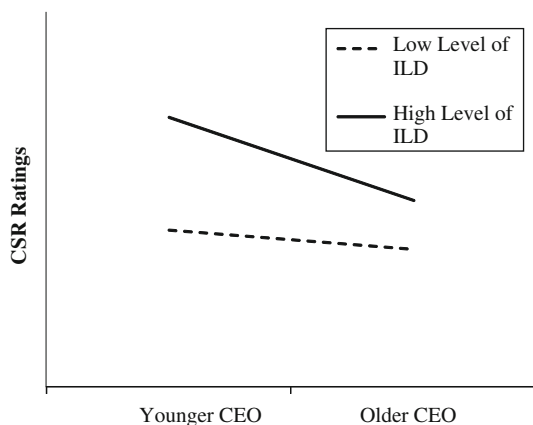
	Model 1 $\beta$ (SE)	Model 2 $\beta$ (SE)	Model 3 $\beta$ (SE)	Model 4 $\beta$ (SE)	Model 5 $\beta$ (SE)
Constant	3.26*** (0.24)	3.26*** (0.24)	3.27*** (0.24)	3.27*** (0.24)	3.27*** (0.24)
Firm, governance and CEO controls					
<i>Firm Size</i>	1.01*** (0.11)	1.02*** (0.11)	1.01*** (0.11)	1.01*** (0.11)	1.00*** (0.11)
<i>Company Age</i>	0.04 (0.17)	0.04 (0.17)	0.03 (0.17)	0.05 (0.17)	0.04 (0.17)
<i>Industry-adjusted ROA</i>	0.43 (0.34)	0.42 (0.34)	0.45 (0.34)	0.43 (0.34)	0.46 (0.34)
<i>Debt Ratio</i>	0.27 (0.35)	0.25 (0.35)	0.24 (0.35)	0.26 (0.35)	0.25 (0.35)
<i>Cash-to-Asset Ratio</i>	0.05 (0.04)	0.04 (0.04)	0.04 (0.04)	0.04 (0.04)	0.04 (0.04)
<i>Proportion of Outside Directors</i>	-0.55 (0.37)	-0.54 (0.37)	-0.54 (0.37)	-0.59 (0.37)	-0.60 (0.37)
<i>Board Size</i>	0.03 (0.03)	0.03 (0.03)	0.03 (0.03)	0.03 (0.03)	0.03 (0.03)
<i>CEO-Chairperson Duality</i>	0.13 (0.10)	0.13 (0.10)	0.12 (0.10)	0.13 (0.10)	0.12 (0.10)
<i>CEO Shareholdings (%)</i>	-0.04* (0.02)	-0.04* (0.02)	-0.04† (0.02)	-0.04* (0.02)	-0.04† (0.02)
<i>CEO Variable Pay</i>	-0.58* (0.23)	-0.58* (0.23)	-0.57* (0.23)	-0.58* (0.23)	-0.57* (0.23)
<i>CEO Tenure</i>	0.00 (0.01)	0.01 (0.01)	0.01 (0.01)	0.01 (0.01)	0.01 (0.01)
<i>ILD</i>	0.02*** (0.00)	0.02*** (0.00)	0.02*** (0.00)	0.02*** (0.00)	0.02*** (0.00)
<i>Blockholder Ownership</i>	-0.73* (0.35)	-0.73* (0.35)	-0.75* (0.35)	-0.74* (0.34)	-0.76* (0.34)
Testing variables					
<i>CEO Age</i>		-0.02 (0.01)	-0.02 (0.01)	-0.02† (0.01)	-0.02† (0.01)
<i>CEO Age × ILD</i>			-1.16* (0.46)		-1.24** (0.46)
<i>CEO Age × Blockholder Ownership</i>				-0.11** (0.04)	-0.12** (0.04)
Wald $\chi^2$ statistics (df)	408.64 (18)***	412.09 (19)***	420.62 (20)***	420.66 (20)***	430.45 (21)***
$\Delta\chi^2$ statistics (df)		2.61 (1)	9.04 (2)*	9.72 (2)**	17.15 (3)***
ICC at the industry level	0.02	0.02	0.02	0.02	0.02
ICC at the firm level	0.88	0.88	0.88	0.88	0.88
Number of observations	1,332	1,332	1,332	1,332	1,332

Coefficients and standard errors for *CEO Age × ILD* are multiplied by 1,000 for presentation

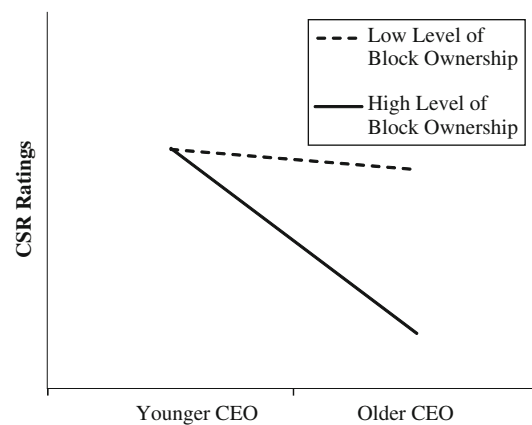
$\Delta\chi^2$  statistics represents change in  $\chi^2$  value over the Model 1 with only control variables

ICC intra-class correlations

†  $p \leq 0.10$ ; \*  $p \leq 0.05$ ; \*\*  $p \leq 0.01$ ; \*\*\*  $p \leq 0.001$ , two-tailed coefficient test ( $N = 1,332$ )



**Fig. 1** Relationship between CEO age and CSR at different ILD levels



**Fig. 2** Relationship between CEO age and CSR at different blockholder ownership levels



**Table 3** Regression analysis on CSIR (DV: sum of concerns in KLD ratings)

	Model 1 $\beta$ (SE)	Model 2 $\beta$ (SE)	Model 3 $\beta$ (SE)	Model 4 $\beta$ (SE)	Model 5 $\beta$ (SE)
Constant	3.25*** (0.26)	3.26*** (0.27)	3.26*** (0.27)	3.26*** (0.27)	3.26*** (0.27)
Firm, governance and CEO controls					
<i>Firm Size</i>	1.05*** (0.08)	1.05*** (0.08)	1.05*** (0.08)	1.05*** (0.08)	1.05*** (0.08)
<i>Company Age</i>	-0.04 (0.12)	-0.04 (0.12)	-0.04 (0.12)	-0.04 (0.12)	-0.04 (0.12)
<i>Industry-Adjusted ROA</i>	0.23 (0.30)	0.23 (0.30)	0.23 (0.30)	0.23 (0.30)	0.23 (0.30)
<i>Debt Ratio</i>	-0.24 (0.30)	-0.25 (0.30)	-0.25 (0.30)	-0.25 (0.30)	-0.25 (0.30)
<i>Cash-to-Asset Ratio</i>	0.09** (0.03)	0.09** (0.03)	0.09** (0.03)	0.09** (0.03)	0.09** (0.03)
<i>Proportion of Outside Directors</i>	-0.28 (0.32)	-0.28 (0.32)	-0.28 (0.32)	-0.28 (0.32)	-0.28 (0.32)
<i>Board Size</i>	-0.09*** (0.03)	-0.09*** (0.03)	-0.09*** (0.03)	-0.09*** (0.03)	-0.09*** (0.03)
<i>CEO-Chairperson Duality</i>	0.13 (0.08)	0.14 (0.08)	0.13 (0.08)	0.14 (0.08)	0.13 (0.08)
<i>CEO Shareholdings (%)</i>	0.00 (0.02)	0.00 (0.02)	0.00 (0.02)	0.00 (0.02)	0.00 (0.02)
<i>CEO Variable Pay</i>	0.17 (0.21)	0.17 (0.20)	0.17 (0.20)	0.17 (0.20)	0.17 (0.20)
<i>CEO Tenure</i>	-0.01 (0.01)	0.00 (0.01)	0.00 (0.01)	0.00 (0.01)	0.00 (0.01)
<i>ILD</i>	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)
<i>Blockholder Ownership</i>	0.28 (0.30)	0.28 (0.30)	0.28 (0.30)	0.28 (0.30)	0.28 (0.30)
Testing variables					
<i>CEO Age</i>		-0.01 (0.01)	-0.01 (0.01)	-0.01 (0.01)	-0.01 (0.01)
<i>CEO Age × ILD</i>			-0.31 (0.40)		-0.31 (0.41)
<i>CEO Age × Blockholder Ownership</i>				0.00 (0.04)	0.00 (0.04)
Wald $\chi^2$ statistics (df)	321.28 (18)***	321.10 (19)***	321.57 (20)***	321.08 (20)***	321.58 (21)***
$\Delta\chi^2$ statistics (df)		1.60 (1)	2.17 (2)	1.60 (2)	2.17 (3)
ICC at the industry level	0.15	0.15	0.16	0.15	0.16
ICC at the firm level	0.84	0.84	0.84	0.84	0.84
Number of observations	1,332	1,332	1,332	1,332	1,332

Coefficients and standard errors for *CEO Age × ILD* are multiplied by 1,000 for presentation

$\Delta\chi^2$  statistics represents change in  $\chi^2$  value over the Model 1 with only control variables

ICC intra-class correlations

†  $p \leq 0.10$ ; \*  $p \leq 0.05$ ; \*\*  $p \leq 0.01$ ; \*\*\*  $p \leq 0.001$ , two-tailed coefficient test ( $N = 1,332$ )

(1) high ( $t = -2.923$ ,  $p = 0.004$ ) versus low ( $t = -0.427$ ,  $p = 0.670$ ) level of ILD and (2) high ( $t = -2.978$ ,  $p = 0.003$ ) versus low ( $t = -0.012$ ,  $p = 0.990$ ) level of blockholder ownership.

Figures reveal several interesting findings, which call for further discussion. First of all, no substantial horizon problems on CSR existed when the levels of managerial discretion and blockholder ownership are low. Post-hoc simple slope  $t$  tests ( $p > 0.05$ ) also confirmed such non-significant relationships. Second, the highest CSR ratings come from younger CEOs who are in high discretion industries. In contrast, the lowest CSR ratings are observed from older CEOs with the higher level of blockholder ownership.

#### Supplementary Analysis

Even though we did not propose a priori hypothesis for corporate social “irresponsibility” (CSIR), the non-significant relationship between CEO age and CSIR deserves to

be noted. We tested a set of regression analyses using CSIR ratings, measured by the sum of “concern” in KLD ratings as dependent variables, as shown in Table 3. Results suggest that CEOs’ career horizon problems do not affect firm’s social *irresponsibility* (CSIR) and ILD and ownership structure do not moderate the relationship between CEO age and CSIR.

Aside from CSR, CSIR is the reflection of the degree of failure to comply with the minimum standard, and CSIR may result in explicit penalties and other implicit detrimental outcomes to the firm (Arora and Dharwadkar 2011). Hence, CSIR may jeopardize the CEOs’ reputation and position, and thus threaten their employment security. For example, Beasley (1996) noted that senior executives have been forced to resign or terminated after financial statement fraud. Such an employment risk from taking socially irresponsible actions is detrimental for older CEOs since they have limited career mobility (e.g., Veiga 1983; Ward et al. 1995). Therefore, CEO career horizon problems may

discourage firm's proactive social involvement (CSR), but do not necessarily increase the socially irresponsible decisions (CSIR) or wrongdoings.

## Discussion

This study explores the relationship between CEO age and CSR and its boundary conditions. We find that as CEOs are getting older (i.e., having shorter career horizons), they are likely to lead firms to disengage in CSR, when (1) industry conditions enable them to do so, and (2) CEOs are facing a greater pressure from blockholders to meet the owners' demands for financial earnings. More specifically, as CEOs are getting close to the conventional retirement age, they are likely to shrink their career horizon. Such a short-termism discourages CEOs to make a long-term decision and consequently disengage in CSR. However, this tendency would be stronger when their leeway to take a short stance is reinforced by industry conditions as well as by ownership structures.

In fact, a considerable number of prior studies (e.g., Davidson et al. 2007, Matta and Beamish 2008, McClelland et al. 2012) reported the CEO career horizon problems. Following this idea, we argued that older CEOs, especially they approach near the conventional retirement age, might be less committed to CSR due to their shorter career horizon. However, given the lack of support for the main effects of CEO age on CSR (see hypothesis 1), one should not draw blanket conclusion that older CEOs are detrimental for firm's CSR. Rather, it is important to understand the boundary conditions of such relationship. As displayed in Fig. 1, CEO age is negatively associated with CSR under the high discretion condition, whereas CEO age makes little difference on CSR under the low discretion condition. Likewise, as shown in Fig. 2, CEO age is negatively associated with CSR under the high level of blockholder ownership, whereas CEO age has little to do with CSR under the low level of blockholder ownership. Thus, our findings suggest that the relationship between CEO career horizon and CSR depends on contingencies or conditions that organizations face. In this sense, it is important to consider the industry-specific and ownership-specific boundary conditions regarding when the CEO's career horizon matters for the firm's involvement in CSR. Without considering such boundary conditions, one may incorrectly estimate the variance explained by CEO effects with the interaction of industry and governance specific conditions on CSR.

## Contributions and Implications

This study offers several theoretical contributions and practical implications. From a theoretical standpoint, first of all, we extended the scope of theorizing that the upper

echelons perspective prescribes. Previous research has argued that CEOs' observable attributes (e.g., age) influence firms' strategic outcomes, including R&D investment (Barker and Mueller 2002), foreign market entry (Herrmann and Datta 2002), anti-takeover provision (Buchholtz and Ribbens 1994) and so on. Our findings further suggest that the observable attributes of CEOs are also significantly related to firm's "social" performance, even after controlling for organizational factors identified as influential by other researchers.

Second, this study unpacks additional mechanism through which a firm engages in CSR. There have been many attempts to identify the mechanisms, yet surprisingly only few studies have explored the role of CEO characteristics (e.g., Manner 2010), although strategic management literature consistently has reported that CEOs have a great impact on corporate strategic decisions and subsequent organizational performances. In particular, this study examines the relationship between CEO age and firm's social responsibility by looking at the underlying mechanism of CEO career horizon. The findings of this study contribute to the literature on corporate ethics by addressing the precursors of organizational ethicality and prosocialness.

Third, our study supplements the existing line of research focusing on how CEOs' incentive mechanisms, such as compensation and shareholdings, affect their risk-averseness and decision-making (e.g., Fahlenbrach and Stulz 2011; Mahoney and Thorn 2006). For example, significant CEO shareholdings and long-term-based pay might help CEOs pay keen attention to the strategic decisions for longer-term pay-off. In contrast, CEOs may show entrenchment, risk avoidance, and short-termism without such appropriate governance mechanism (e.g., Kumar and Rabinovitch 2011). However, our findings revealed that CEO *career horizon* makes a significant difference in CSR, even after controlling for such compensation and shareholdings attributes.

Finally, our findings suggest that the effect of CEO career horizon on firm's social responsibility is contingent upon industry situations and ownership structure. Upper echelons perspective has already pointed out the critical role of contingencies, noting that not all CEOs have equal influence on organizational outcomes (Finkelstein and Hambrick 1990). However, prior studies have not examined the possible contingencies in the context of CSR. We concluded that CSR is not solely determined by CEO, but by the interaction among CEO, industry, and ownership characteristics. Thus, our study advances the current understanding of the effects of CEO characteristics on CSR by incorporating two crucial contingencies.

From a practical standpoint, this study offers several meaningful implications. More and more companies have been admitting CSR as an essential strategic and investment agenda. Indeed, more than eighty percent of organizations

in multiple countries have been engaging in various CSR-related initiatives (Society for Human Resource Management 2007). Once seen as a purely philanthropic activity—a source of general goodwill with no bottom-line consequence—CSR is now moving from the fringe of concern to the center in many firms. This implies that CSR should be understood as the consequences of top managers' strategic choices (McGuire et al. 2003). In this sense, organizations need to better understand the underlying mechanisms through which CEO characteristics affect CSR.

Also, given the effects of CEO age on CSR, firms need to be more careful to select or dismiss top managers in order to achieve organizations' social objectives. Specifically, if firms face with the situation in which corporate moral legitimacy is at stake through organizational wrongdoings (e.g., corporate scandals), organizations should be able to restore their images and legitimacy by changing the strategic directions in a way to promote social contributions. CEO change might be one of the most effective ways to make necessary strategic changes (e.g., Barron et al. 2010). In this case, the findings of this study can be particularly informative to the morally tainted organizations looking for *moral rescuer*. Simply put, if firms are competing in concentrated, fast-growing, and dynamic industries, and governed by blockholders, older CEOs may not be a good option to achieve a firm's active social engagement.

Furthermore, findings of this study also offer an insightful message about the importance of strategic alignment (e.g., Rajagopalan and Datta 1996). As shown in Figs. 1 and 2, the highest CSR ratings are observed from younger CEOs who run businesses in high discretion industries, and the lowest CSR ratings are observed from older CEOs who manage firms with the high level of blockholder ownership. These findings indicate the importance of *vertical alignment* for proactive social engagement. Aligning CEO career horizon with industry conditions promotes CSR. For instance, hiring or promoting younger CEOs with longer career horizon in high discretion industries may lead firms better engage in CSR. On the contrary, misalignment between CEO career horizon and ownership characteristics decreases firm's commitment to CSR. For example, retaining older CEOs when there is a high level of outside blockholdings may lead firms to disengage in CSR. In this sense, organizations need to align the CEO career horizon with the external (e.g., industry conditions) and internal (e.g., governance characteristics) contingencies in order to promote CSR.

#### Limitations and Future Directions

Despite the theoretical and practical contributions, this study is not without limitations. First, although supported by the upper echelons theory (Hambrick and Mason 1984), this study relies on the observable characteristics of CEOs in

order to capture psychological properties such as career horizon. Some scholars (Carpenter et al. 2004; Lawrence 1997) criticized this approach using 'visible' attributes of CEOs for 'invisible' theoretical constructs. Although we do not tap into a means to explore the CEO's intra-psychological processes that actually lead to social responsibility, future studies may be enriched with different research methods such as field surveys and interviews that enable researchers to collect in-depth knowledge about CEO cognition. Second, even though this study uses multiple dimensions to capture the ILD, we do not fully address the managerial discretion emanating from the individual and organization sources. Empirical operationalization of managerial discretion from these sources may be challenging (Keegan and Kabanoff 2008), but future studies may benefit from using different levels of managerial discretion. Lastly, our sample is composed of publically traded manufacturing firms based in the US. If the sample firms were collected from outside the US, the results might be different, since the firm's decision-making processes for social investment as well as the extent to which CEOs can affect these processes vary according to institutional environments (e.g., Rodriguez et al. 2006). Thus, generalizability of our findings to other institutional contexts may be limited.

#### Conclusion

Recently, organizations have begun to embrace the agenda of corporate citizenship both as a social responsibility and as a source for competitive advantage. As a key organizational decision maker, CEOs evidently hold greater accountability and take initiative regarding CSR policies. Paralleling with the reality, academic scholars have tried to explore the relationships between CEO's characteristics and firms' social performance (see Manner 2010; McGuire et al. 2003), but still been in its preliminary stage. This study adds to the line of research by offering the unique findings of the effects of CEO career horizon on CSR. More importantly, this study offers a more precise description for this relationship by introducing the moderating roles of ILD and blockholder ownership as critical contingencies. Therefore, it is important to identify the industry-specific and ownership-specific boundary conditions in order to better understand how CEO career horizon problems matter for CSR.

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