The Chief Executive Officer and Corporate Social Performance: An Interdisciplinary Examination

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ABSTRACT. This paper attempts to cross the disciplinary boundaries of strategic management and social issues management to demonstrate the relationship between managerial characteristics and corporate social performance (CSP). Drawing on studies in strategic leadership research we develop and test hypotheses about linkages between top management attributes and different levels of CSP. Our results add credence to the argument that organizations are a reflection of their top managers, and encourage further systematic research of the influence of key executives in developing and implementing socially responsible policies and programs.

The responsibility of business corporations to their communities and constituencies has become an important area of scholarship and research. Public disenchantment with the greed and unethical behavior of businesses around the world has prompted multifaceted investigations of the antecedents and consequences of irresponsible corporate citizenship (e.g. Epstein, 1987; Fombrun and Shanley, 1990). Given the variety and diversity of research studies that comprise this literature, it is surprising that very little attention has focused on the specific role of managerial influence on corporate social performance. As Wood observes ". . . the business and society field has not built a concept of discretion, or discretionary social responsibility . . . A company's social responsibilities are not met by some abstract organizational actor; they are met by individual human actors who constantly make decisions and choices, some big and some small, some minor and others of great consequence" (1991b, p. 690).

The purpose of this paper is to theoretically and empirically address this shortcoming by exploring the relationship between the Chief Executive Officer (CEO) and corporate social performance. By drawing upon the literature in strategic management, some preliminary linkages between the characteristics of top managers and corporate social performance are proposed and tested on a sample of U.S. manufacturing companies. The implications of this type of research for the development of a paradigm of corporate social responsibility and performance are also investigated.

Theoretical background

Corporate social performance (CSP), has been defined as the identification of the domains of an organization's social responsibility, the development of processes to evaluate environmental and stakeholder demands and the implementation of programs to manage social issues (Carroll, 1979; Wartick and Cochran, 1985; Wood, 1991a;

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1991b). This definition seems to suggest that the top managers of the organization, those who make important decisions about its future direction would also play a critical role in the articulation of its posture *vis a vis* its stakeholders and constituents. Thus it is surprising that very little research in this field has focussed on the impact of managers and executives on the organizational system. However, several recent articles (e.g. Wood, 1991a; 1991b) have called for the integration of the individual into the CSP paradigm. For example, Wood argues that since managers are largely responsible for ". . . the precise methods and modes of corporate response to societal expectations and stakeholder demands" (1991b, p. 390), an understanding of their role and influence is critical to the advancement of CSP research.

Toward this end, we cross disciplinary boundaries and draw upon the literature in strategic management to develop an argument for the process by which managers shape organizational direction. Building on strategic leadership theory and integrating the core concepts of social issues management (SIM) we develop hypotheses of relationships between managerial attributes and different levels of CSP.

The relevance of strategic leadership

Strategic decisions determine the viability of an organization "in light of the predictable, the unpredictable and the unknowable changes that might occur in its most important environments" (Quinn, 1991, p. 4). These decisions are usually made by key executives who are responsible for navigating their firms through the complex web of constraints and restraints posed by internal and external factors. In most organizations, the Chief Executive Officer (CEO) bears the final authority and responsibility for setting and maintaining its strategic course. Like the captain of a ship, the CEO is the organization's substantive and symbolic leader whose roles include the gathering and dissemination of information, decision-making and resource allocation (Hosmer, 1982; Mintzberg, 1978). Therefore, the CEO is likely to be a significant element in the choice of social policies and programs embraced and executed by the firm. Consequently, investigations of human actors and their of shaping corporate responses to stakeholder demands should begin with the CEO. Toward this objective the research in strategic leadership is especially relevant.

Strategic leadership, and important stream of inquiry in strategic management, focuses on the people who lead the organization and the process by which they do so. The upper echelon perspective (Hambrick and Mason, 1984), a keystone in strategic leadership theory, provides a framework within which the role of key executives can be interpreted. Building on the work of behavioral theorists (Cyert and March, 1963; March and Simon, 1958), Hambrick and Mason suggest that the process by which managers arrive at important decisions is perceptual, consisting of a series of sequential steps:

> First, a manager of even entire team of managers cannot scan every aspect of the organization and its environment. The manager's field of vision – those areas to which attention is directed – is restricted, posing a sharp limitation on eventual perceptions. Second, the manager's perceptions are further limited because one selectively perceives only some of the phenomena included in the field of vision. Finally, the bits of information selected for perception are interpreted through a filter woven by one's cognitive bases and values. The manager's eventual perception of the situation combines with his or her own values to form the basis of strategic choice (Hambrick and Mason, 1984, p. 195).

According to this model, the choices made by managers on the behalf of the organization, reflect to some extent, the characteristics of these managers. Building on this logic, it is argued that when confronted with the same objective environment, different managers will make different decisions based on their individual biases, experiences and values. Thus individualistic attributes and characteristics of key managers play an important and significant role in the definition organization's strategic posture and the articulation of its mode for dealing with multiple forces in the internal and external environments.

This theory has spurred numerous empirical studies of the association between managerial attributes and organizational outcomes (e.g. Chaganti and Sambharya, 1987; Thomas, *et al.*, 1991). Over time, researchers have consistently found significant and systematic linkages between the characteristics of top executives and different dimensions of strategy and performance. For example, Bantel and Jackson's (1989) study of banks revealed that more educated managers tended to be more receptive to new ideas and were therefore associated with higher levels of organizational innovation. In a similar vein, Miller (1991) found that long tenured executives tend to become 'stale in the saddle' and hence the organizations they led often experienced lower levels of profitability.

Top managers and corporate social performance

Since managerial attributes reflect individual values and beliefs and impact the perception of events in the broader societal context (Hambrick and Mason, 1984), they can also be important determinants of the way in which leaders choose to fulfill an organization's moral obligations and social responsibilities. Prior literature in social issues has often alluded to the manager-social performance linkage. For example, Walton argued that "when a business organization 'buys' a man's talents, it also purchases in a real sense, the individual's values which shape the direction through which these talents will be expressed" (1969, p. 6). Similar arguments were presented by Sturdivant and Ginter (1977) who examined the relationships between managerial attitudes and corporate social responsiveness.

Using the theoretical foundations of the upper echelon framework, it is now possible to build on these earlier studies and systematically map the linkage between top managers and CSP. It is argued that the values, biases and characteristics of the top managers in an organization influence their perception of events in the external and internal environments. This individualistic perception subsequently guides the development of priorities with regard to the needs and demands of the numerous and diverse stakeholders. As a result, the corporation's social policies and programs, and consequently its social performance, is partially a reflection of its management. In the next sections we use the theory and methods of strategic leadership to theoretically specify and empirically explore potential relationships between top managers and CSP.

Hypotheses

In this study, managerial characteristics are described in demographic indicators. This approach, which has been effectively utilized in diverse disciplines such as sociology, political science and consumer behavior, has several distinct advantages. First, its importance to the study of organizations has been well established (Stinchcombe, *et al.*, 1968). In advocating its use, Pfeffer argued the "Demography is an important causal variable that affects a number of intervening variables and processes, and, through them, a number of organizational outcomes" (1983, p. 350). He further suggested that demography may even have a greater impact on the dependent variable than intervening psychological variables such as attitudes toward risk. This superiority could derive from the fact that some demographic indicators which offer insight to managerial experience may not have analogous psychological measures (Gupta, 1988; Hambrick and Mason, 1984; Wiersema and Bantel, 1992). For example, tenure in the organization which is a useful gauge of a manager's experience with its social structure does not have a psychological equivalent.

Second, the efficacy of the demographic approach has been demonstrated in numerous investigations of the relationship between managerial characteristics and organizational outcomes (e.g. Chaganti and Sambharya, 1987; Gupta and Govindarajan, 1984; Thomas, *et al.*, 1991) Third, some demographic attributes such as age and tenure have been found to be good surrogates of underlying psychological characteristics such as manager conservatism. Finally, they are also readily observable, unobtrusive and convenient to measure, facilitating theory building efforts (Hambrick and Mason, 1984).

In the following paragraphs, we develop

hypotheses linking the functional background, organization and position tenure of a CEO to varying levels of CSP. These dimensions were specifically selected because they have been found to be associated with distinct organizational outcomes in previous studies.

Functional background

Top managers inevitably bring to their jobs an orientation developed from experience in some primary functional area (Hambrick and Mason, 1984). For example, Dearborn and Simon (1958) found that when a group of executives from different functional backgrounds were presented with the same problem, they tended to define it primarily in terms of the activities in their own function. Hambrick and Mason (1984) built on this logic to classify various functional specialization as either "output" functions or "throughput" functions. Output functions, emphasize externally oriented activities such as developing products to meet new market trends and searching for new domain opportunities, and include the tracks of marketing, sales, and product R&D. In contrast, throughput functions such as production, finance and process engineering focus on the efficient transformation of inputs to outputs. Several studies (e.g. Chaganti and Sambharya, 1987; Thomas, *et al.*, 1991) have found that organizations whose strategies rely on environmental scanning and the flexibility to respond to market forces tend to be led by managers with backgrounds in output functions while firms that emphasize internal efficiency are led by experts in throughput functions. Extending this logic, it is possible to theorize that managers with output oriented backgrounds will be more adept at recognizing the multiple demands of their stakeholders. Their experience in the identification of market trends will serve them well in distinguishing between the competing interests of their constituencies. Conversely, managers who specialize in internal functions tend to be more task oriented and may not be as sensitive to the needs of people both within and outside their organizations. Based on the above rationals we hypothesize that:

H_1: High CSP firms will be led by CEO's with backgrounds in output functions such as marketing, research and product development.

H_2: Low CSP firms will be led by CEO's with backgrounds in throughput functions such as engineering, accounting and finance.

Tenure

The length of an executive's tenure can be a useful gauge of his or her knowledge of the organization and its stakeholders. Kotter (1982) suggested that the promotion of chief executives from an internal pool of candidates (rather than recruitment from outside the organization) can have several advantages. Insiders tend to possess greater information than outsiders about the firm's specific products markets, customers and employees. Gupta suggests a similar rationale by observing that "the longer an individual has worked for an organization, the more familiar he/she is likely to be with its products, markets and technologies, but also with its people, standard operating procedures (SOP's) and culture" (1986, p. 216). This experience in turn facilitates the comprehension of the needs of different constituencies in the process of making important decisions. For example, Fredrickson (1985) found that the decision processes of experienced managers were significantly different from their inexperienced counterparts. More experienced managers were able to make better decisions because of their ability to rely on the outcomes of multiple, previous decisions.

Insiders who have been at the helm of their organizations for some time, also have developed social networks with subordinates and peers both within and outside the organization. Pfeffer and Salancik (1977) found that the tenure of hospital administrators was positively related to the organization's relationship with local and business communities. Thus it would seem that long tenured executives, promoted from the ranks, would have a better grasp of the range of the organization's specific stakeholder needs and superior knowledge of the feasible and acceptable options for meeting them. Such knowledge is likely to be critical in the process of choosing between alternative programs and policies and allocating resources necessary for their effective execution. Therefore we hypothesize that:

H_3: High CSP firms will have CEO's who have longer tenure in the organizations than their counterparts in low CSP firms.

H_4: High CSP firms will have CEO's who have spent more years in the organization, prior to the attainment of their current position, than their counterparts in low CSP firms.

Method

Sample

The sample for this study was selected from the 305 corporations listed in *Fortune's* (1989) survey of America's most admired corporations. All publicly traded, manufacturing firms that were ranked one standard deviation above or below the mean in their industry on a measure of CSP, were included in the sample. This criteria resulted in the selection of 97 firms. Since firms in service industries employ different processes, structures and criteria for success, they were deliberately excluded in order to control for systematic biases. This approach to sample definition represents a refinement of previous studies that have typically used all firm in the *Fortune* database (e.g. McGuire, *et al.*, 1988).

The firms in the sample were typically large and had sales ranging from \$121 billion to \$561 million (mean = \$11.2 billion) and assets ranging from \$164 billion to \$86 million (mean = \$13.5 billion).

Measures

Corporate Social Performance: Each year, *Fortune* polls over 8000 senior executives, outside directors and financial analysts to evaluate the reputations of firms which comprise its list of largest industrial and service corporations. These experts are asked to rank the corporations *in their industry*, using a scale ranging from 0 (poor) to 10 (excellent) on eight qualitative, perceptual dimensions.[1] The scores are then combined to derive a composite number which determines a firm's rank on the list of "most admired corporations." The primary advantage of the *Fortune* survey is that it minimizes the bias of any individual respondent by polling multiple constituencies to derive the score for each company. Further, since this survey has been conducted every year for fourteen years, it can be assumed that the *Fortune* database reflects the inevitable changes in the social performance of the organizations which it ranks.

The raw data reflecting the evaluation of industry specialists on each of the eight dimensions for firms in 35 industries was obtained from *Fortune* and used in this analysis. The *Fortune* data has been successfully used in a number of previous studies (e.g. McGuire, *et al.*, 1988; Wartick, 1988) and has also been found to be significantly correlated to other indices of corporate social performance (Sharfman, 1992), facts which attest to its validity and reliability.

The attribute, "community and environmental responsibility" was used as a surrogate for CSP. This indicator has been similarly employed in previous studies (e.g. McGuire, *et al.*, 1988; Wokutch and Spencer, 1987). Recognizing that the *Fortune* data has certain inherent shortcomings, we took several precautions in ensuring its validity and reliability. In response to concerns that the eight measures represented a single construct (e.g. Fombrun and Shanley, 1990) a factor analysis was performed on the sample. The results indicated that regardless of the number of factors selected, responsibility to the community and the environment consistently loaded on a separate factor. These results are consistent with those reported in other studies.[2] Correlation analyses on a sub-sample of firms in several industries over a three year period (1988, 1989, 1990) was also conducted to confirm the reliability of the data. Notwithstanding changes in economic and environmental conditions, the correlations were consistently positive and significant (ranging between 0.7 and 0.9).

Managerial Characteristics: Data on the CEO's of the 97 firms in the sample was obtained from *BusinessWeek's* survey of the CEO's of the 1000 largest companies and Dun and Bradstreet's *Reference Book of Corporate Management.* The CEO data was collected for the period 1986–1987. This lag between the measurement of the demographic attributes and corporate social performance was instituted to allow sufficient time for decisions made by the executive to be reflected in the outcomes of the corporation.

Functional Background (FBACK), was coded as a categorical variable to reflect output or throughout experience. As mentioned previously, output experience included backgrounds such as marketing and product research and development while throughout experience included backgrounds in finance engineering and manufacturing (Chaganti and Sambharya, 1987; Miles and Snow, 1978). *Tenure,* was operationalized using two separate indicators. First, the number of years the executive had spent in the organization was counted (COTEN). Second, the number of years the CEO had spent in his or her position was subtracted from the total organization tenure score to evaluate the years that the CEO spent in the organization prior to being promoted to its helm (INOUT).

Analysis

Step 1: Determining high and low CSP groups: All manufacturing firms on the *Fortune* list were evaluated within the context of their own industries. The mean CSP score was computed for each industry in the population. Companies that ranked one or more standard deviations above or below the mean CSP score *for their industry* were classified as "high CSP firms" and "low CSP firms" respectively. By classifying each firm within its own industry, the problem of perceptual bias by raters of a specific industry was substantially reduced. This procedure resulted in 50 high CSP firms and 47 low CSP firms.

Step 2: Comparing managerial attributes across high and low CSP firms: Multivariate Analysis of Variance was used for testing the hypotheses employing continuous data (H_3–H_4). As the MANOVA was significant, univariate F-tests were carried out for each dependent variable to examine the null hypothesis that there were no significant differences between the two groups. Student t-tests were then used to compare group means. Chi-square tests were used to test the hypotheses incorporating the categorical variable, functional background (H_1–H_2). The results of the analysis are presented in Table I and II.

Results

Hypothesis 1 and 2

Consistent with theoretical expectations, several differences were found between the executives of high and low CSP firms. It was found that high CSP firms had a significantly greater proportion of executives with backgrounds in output functions such as marketing and sales (chi-square

TABLE I
Univariate f-tests and planned comparison tests[a]

Measure	High CSP	Low CSP	F-stat	t value[b]
COTEN	28.56 (11.69)	21.65 (12.94)	7.60**	2.74**
INOUT	20.94 (11.22)	13.59 (11.08)	10.49***	3.24***

[a] Natural means are reported; Standard deviations are in parentheses. [b] Test of H_0: no significant difference across compared groups.
* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$.

TABLE II
Chi-square tests comparing functional area distributions[a]

Functional area	High CSP	Low CSP
Throughout functions (%)	36.0	86.3
Output functions (%)	64.0	13.7
Chi-square	3.841*	26.06***
Number cases	50	47

[a] Test of H_0: no significant differences within compared groups.
* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$.

= 3.84; $p < 0.05$). In contrast, low CSP firms had a significantly greater proportion of executives with backgrounds in throughput functions such as manufacturing and process engineering (chi-square = 26.06; $p < 0.001$). Thus hypotheses 1 and 2 were supported.

In combination, the pattern of relationships suggest that the functional background of the CEO influences the firm's sensitivity to the concerns of its constituencies. As mentioned earlier, perhaps executives with greater experience in boundary spanning functions direct more attention to the corporation's posture *via a vis* its stakeholders. For example, Johnson and Johnson's CEO James Burke, who rose to the helm via product development was widely lauded for the company's handling of the Tylenol-tampering crises. His knowledge of the market undoubtedly influenced the decision to swiftly recall all products despite the enormous loss in earnings. That decision has been attributed for continued consumer confidence in Tylenol and Johnson and Johnson. On the other hand, internally oriented executives probably frame problems and issues to reflect their emphasis on task orientation and efficiency. As a result, social performance and other interactions involving problems or groups outside the organization are assigned a lower priority.

Hypothesis 3 and 4

Hypotheses 3 and 4 were also supported. As expected, the CEO's of high CSP firms had longer tenures in the company than their counterparts in low CSP firms (28.56 vs. 21.65; $p < 0.01$).[3] They had also been with the organization for significantly longer periods before being promoted to its helm (20.94 vs. 13.59; $p < 0.001$). These results lend credence to earlier arguments which suggested that firms led by executives who had been in the company for longer periods of time had superior knowledge of its stakeholders and were better able to design and implement appropriate programs to meet their needs.

Richard Ruch, the long tenured CEO of Herman Miller, is attributed as being one of the reasons why the furniture maker continues to lead the industry in its commitment to the environment. He was largely responsible for his organization's pioneering decision to stop using tropical woods, such as rosewood, in their office furniture to restrict the depletion of endangered forests. Inspired by this decision, the Business and Institutional Furniture Manufacturers association, now urges similar conduct from all its members (Caminiti, 1992). Similarly, a key reason for veteran Wal-Mart executive David Glass's ascension to the top of his organization was his familiarity, knowledge and support of founder Sam Walton's vision of building to company for its employees and buying as many American products as possible.

Limitations

The shortcomings of this effort are readily recognized and acknowledged. Causal relationships were not uncovered and the associations presented in the results could perhaps have alternative explanations. However, rather than providing a definitive answer to a complex issue, it was the intent of this study to demonstrate that the fields of social issues management and strategic management can each benefit from the theories and approaches of the other. The cross-fertilization of skills and ideas can offer novel avenues to the study of intriguing questions that transcend disciplinary boundaries.

Suggestions for further research

This study represents a preliminary, broad-brush attempt to explore the logically appealing relationship between manager characteristics and corporate social performance. Although a number of previous efforts have assumed that organizational policies and values were a reflection of the orientation and philosophy of its managers, this contention had not been tested until now. Drawing on the theory and methods of strategic management, this study examined specific associations between the characteristics of Chief Executive Officers and corporate social performance. The systematic pattern of linkages revealed in this examination point to the necessity for further research in this vein.

Future efforts could investigate the role of CEO's across different industry settings. It would be interesting to find out whether managerial influence on corporate social performance can vary by industry specific factors. For example do factors such as industry growth rates, product differentiability and extent of governmental regulation constrain or enhance the latitude of action available to managers in formulating and implementing social policies and programs? The theory of managerial discretion(Hambrick and Finkelstein, 1987) could be a useful starting point in addressing questions such as this.

Another important offshoot of this research would be to explore the impact of the top management team and board of directors in the development and execution of corporate social strategies and policies. While CEO's are undoubtedly the most visible leaders of an organization, the members of the board of directors and other top executives often have vital roles to play as well. Expanding the scope of future efforts to incorporate top management teams would certainly be beneficial. Similarly, it would be useful to assess the patterns and processes by which social policies and programs become institutionalized during the evolutionary cycle of an organization. Does the influence of founders such as Walt Disney and Sam Walton endure long after their time? Conversely, is CSP a reflection of the values of the current cadre of executives in an organization?

Finally, this line of research can be extremely useful in a business environment that is becoming increasingly global and yet more aware of corporate social responsibilities and obligations. This study represents an initial step in the exploration of top managers and CSP. Having established some preliminary linkages in a sample of large American corporations, many of which have extensive multinational operations, it is now possible to explore these issues in multiple national and cultural environments. Authors such as Hofstede (1980) have suggested that the cultural characteristics in different countries largely influence management style and organization functioning. Building on these cultural dimensions, scholars of social issues and international business can delineate managerial characteristics and attributes that may be relevant to social performance in different country settings. Subsequently, inquiries of the relationship between leadership and CSP can be initiated. Thus, this type of research can provide an appropriate platform for the integration of theories from different disciplinary paradigms to address issues that have broad implications.

Conclusions

The increase of environmental activism and awareness around the world is prompting greater demands for corporate accountability. Boards of Directors, CEO's and top management teams are coming under heightened levels of scrutiny. An understanding of their role in enhancing or inhibiting responsiveness and sensitivity to stakeholder concerns is vital. Such an understanding would facilitate executive promotion and recruitment decisions and ultimately protect or diminish corporate liability. Toward this end, the mandate to scholars of social issues and strategic management is clear.

Notes

[1] These dimensions are quality of management; quality of products or services; innovativeness; long-term investment value; financial soundness; ability to

attract, develop and keep talented people; community and environmental responsibility; and use of corporate assets.

[2] A detailed discussion of this step in the analysis, and the factor solutions are available from the authors.

[3] In comparison, the *Businessweek* survey of the 100 largest U.S. companies, the population from which this sample was drawn, revealed that the average CEO had been in their companies for 23 years, and in their positions for 10 years.

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