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"How does Sustainability Leadership Affect Firm Performance? The Choices Associated with Appointing a Chief Officer of Corporate Social Responsibility"

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Abstract Recent years have seen a significant increase in stakeholder pressure on firms to be not only economically sustainable but also from an environmental and social perspective. Besides operational changes in practices and products companies have reacted toward this increased pressure from a strategic perspective through structural changes of their top management team (TMT). A recent addition to the TMT has been the appointment of the chief officer of corporate social responsibility (CSR). In this paper, we take a behavioral perspective and investigate how the employment of a chief officer of CSR to the TMT impact on firm performance. Specifically, we explore how certain characteristics of the newly appointed chief executive of CSR impact on a firm's financial performance. We collected secondary, longitudinal data of listed companies in the United States. Results indicate that appointing a chief executive of CSR does under certain conditions and characteristics result in financial performance benefits. Furthermore, the greatest financial performance benefits can be achieved if the appointee is female and has a CSR functional background.

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Introduction

It is a common perception from various stakeholders that the success of a company is nowadays no longer solely judged in economic terms. Increasingly, stakeholders such as customers or investors also focus on a company's performance in terms of its social and environmental dimensions (e.g., Sarkis et al. 2010). The linkage between social and environmental practices and firm performance has been extensively studied and largely confirmed (Wiengarten and Pagell 2012; Lo et al. 2014). According to Pagell and Shevchenko (2014), the focus on sustainability research has increased the odds of companies and supply chains to become more aware of the sustainability topic.

A company's strategic decisions and directions are typically made by its chief executive officer (CEO) and its additional members of the TMT. The TMT can be defined as a relatively small group of executives at the strategic apex of the corporation with overall responsibilities for the entire organization (Strand 2013). The TMT, commonly referred to as the C-suite, is the inner circle of executives that formulate, articulate, and execute the strategic moves of the organization (Guadalupe et al. 2014). According to Menz (2012), scholars have recently begun to study individual TMT members other than the CEO such as the chief financial officer (CFO), chief information officer (CIO), and chief operating officer (COO). The composition of the TMT with its specific positions signals the strategic importance and strategic directions that a company wants to take and ultimately affects performance (Huson et al. 2001).

A relatively new addition to a company's TMT is the chief officer of CSR or chief sustainability officer (CSO). According to a recent report by PricewaterhouseCoopers (2012), the chief officer of CSR is responsible for environmental programs/strategy, social programs/strategy, community engagement, environmental health and safety, and philanthropy (Longsworth et al. 2012). Increasingly, companies are viewing sustainability and environmental performance as a strategic necessity that requires a change in the management team to reflect these company-specific strategic changes. Recently, Strand (2013) noted that the chief officer of CSR in the C-suite or TMT is gaining acceptance with an increase in practice. However, while an increase in practice is noticeable, research has yet to comprehensively investigate its performance implication. In this paper, we further advance our knowledge about the chief officer of CSR by investigating how their appointment affect firm performance from a strategic, top-down perspective (Manner 2010; Strand 2013).

Specifically, this research addresses the following research question: *Under what circumstances of the appointment and to what extent do characteristics of the appointee (i.e., chief officer of CSR) impact on a company's financial performance?* Thus, the objective of this paper is to explore the financial implications of selected characteristics of appointing a chief officer of CSR into the C-suite. To answer this research question, we rely on the contingency perspective of upper echelon theory (UET) (Hambrick and Mason 1984; Hambrick 2007). UET proposes that executives make decisions based on personal construals and situations that they face (Hambrick 2007). We are looking at specific observable upper echelon characteristics (i.e., insider vs. outsider appointee, functional background, and gender) and test whether these characteristics influence the impact of appointing a chief executive of CSR on financial performance.

Using longitudinal data collected in the United States, results indicate that appointing a chief executive of CSR results in financial performance benefits. Furthermore, the greatest financial performance benefits can be achieved if the appointee is female with a CSR functional background.

Literature Review and Hypotheses Development

Guadalupe et al. (2014) highlight that the executive team is a reflection of a firm's organizational structure, as well as the governing body that sets firm strategy, coordinates activities, and allocates resources across business units. Furthermore, Hendricks et al. (2014) state that the TMT is the main driver of corporate strategy, and selecting and appointing members to the TMT is one of the most critical decisions to be made by the CEO. Previous research highlights that creating a specific functional C-suite position in areas such as marketing or operations/supply chain management sends out a powerful signal to the firm's stakeholders about its strategic importance (Hendricks et al. 2014).

The TMT has been defined using multiple characteristics and dimensions (Menz 2012). Members of the TMT typically report directly to the CEO, are involved with strategic decisions made by the CEO, and include the two top management tiers (Menz 2012). Furthermore, the composition of the TMT is dynamic and changing. For example, in the early 1960, nearly no U.S corporation had a chief financial officer (CFO), and by the 70 s solely about 5 %. Nowadays, nearly all corporations have appointed a CFO, reflecting the importance of shareholder value (Zorn 2004 in Strand 2013). This could also serve as an indicator for the growing importance or the chief position of CSR. Recent studies have revealed that from the mid-1980s to the mid-2000s, the size of the executive team has doubled from 5 to 10 members. Furthermore, three-quarters of this increase can be attributed to an increase in functional managers at the C-suite level (Guadalupe et al. 2014). Classical functional managers at the C-suite are, for example, the CFO, CIO, or the COO.

According to Menz (2012), a key premise of research on TMT member is that the structural roles of specific functional executives have specific performance outcomes. Previous research has identified that a company's functional TMT members such as COO affects performance outcomes (Menz 2012). For example, Geiger and North (2006) conducted an event study and identify that CFOs impact on a company's financial performance. However, this premise is not universally confirmed (Nath and Mahajan 2008). Some researchers propose that the TMT-performance relationship is contingent on various factors such as TMT composition, CEO support, or personal characteristics of the appointee (Menz 2012). In applying UET, we believe that it is important to investigate personal characteristics of the TMT member when assessing their impact on performance. This could explain some of the recent contradicting results in this line of research.

While other functional positions such as CFO have been studied extensively, the financial performance implications of appointing a chief of CSR are relatively unexplored. Thus, in this paper, we are focusing on the financial performance outcomes of appointing a chief officer of CSR to the TMT.

The Chief Officer of CSR Entering Top Management Teams: Financial Implications

Menz (2012) highlights the socio, economic, and technological developments impact on the composition of the

TMT. A recent edition to the TMT has been the chief officer of CSR (Strand 2013). This change in TMT reflects the growing demands from various stakeholders such as employees, customers, governments, or shareholder for a greater focus on sustainability issues that include a company’s environmental performance dimension (Sarkis et al. 2010).

The theoretical consensus in the literature is that appointing someone into the C-suite has various performance implications (McGovern et al. 2004; Kerin 2005). However, recent findings have emerged indicating that this relationship is not as straightforward as it may seem (Lee and James 2007). While some C-suite positions may result in specific functional performance improvements, others may result in overall financial performance improvements (Weinzimmer et al. 2003; Marcel 2009).

Appointing a newly created top management position sends signals about elevating the role of a particular managerial aspect/focus into the firm’s strategic level, both externally and internally. Externally, the appointment indicates to stakeholders that the firm is making a commitment to improving the effectiveness of the management in a particular area. Appointing a chief officer of CSR is an important milestone to move companies through the corporate responsibility stages (Lubin and Esty 2010). It represents an essential step toward CSR initiatives of a firm in the eyes of stakeholders. Therefore, it helps to increase the company’s reputation, which in turn might affect the financial performance positively. A good reputation is a valuable asset that allows a firm to achieve persistent profitability (Roberts and Dowling 2002).

Internally, creating a new top management position in CSR can help to inform other TMT members about the potential of CSR strategies, which can build and develop awareness and cooperation among various functions within the company. The effectiveness of corporate strategies is influenced by the integration and alignment of various functional strategies. Joshi et al. (2003) conclude that in effective organizations, integration and alignment of various functions are important for developing and implementing corporate strategies.

As a member of TMT, a chief officer of CSR can discuss and make adjustments of CSR strategies with other TMT members to ensure the integration and alignment with other functional strategies. Also, through the power of being a TMT member, the chief officer of CSR can influence corporate decisions that are related to environmental and social sustainability, and convince other decision makers to devote more resources to support these initiatives and align their existing resource with sustainability decisions. This can increase the effectiveness of CSR strategies.

Previous research has continuously confirmed the impact that improvements in the environmental and social performance dimensions can have on financial performance. The concept of sustainability has been operationalized through environmental, social, and financial performance dimensions, summarized through the triple bottom line (Elkington 1994). Furthermore, research has continuously confirmed the interrelationships between social, environmental, and financial performances. For example, from a social perspective, recent research has shown that caring for the workforce on the shop floor, creating a safety climate, and reducing health and safety incidence can ultimately improve financial performance in the long run (Pagell et al. 2014). Similar findings have been reported from an environmental perspective. Montabon et al.’s (2007) study was one of the first that used objective data to assess the impact of environmental management practices on a range of multiple performance indicators. Using corporate environmental reports, they identify that a wide range of environmental management practices are positively associated with financial and environmental performance indicators. To confirm whether the association between environmental performance and financial performance is a causal relationship, Lo et al. (2012) conduct a long-term event study of how ISO 14001, the most widely used environmental management system, improves manufacturers’ profitability (measured by return on assets), in the fashion and textiles industries. They find that the adopting firms’ return on assets increased by 2.9 % during a three-year period. Thus, confirming that sustainability practices can lead to financial benefits in the long run.

A chief executive of CSR is in a position to guide the direction of a company toward these sustainability practices, which ultimately should result in financial performance benefits (Strand 2013). For example, Coca-Cola worked intensively with its bottling partners to “light weight” its packing which generated savings in the tens of millions of dollars (Lubin and Esty 2010). Effective sustainability strategies can help to save costs, which in turn can have a positive impact on financial performance. However, to implement an effective sustainability strategy, the chief executive of CSR does not only require a high level of technical knowledge of operations process, but more so needs a high level of managerial skills for driving a new corporate culture and to liaise with various internal stakeholders. Therefore, we believe that the chief of CSR has a substantial influence on effective sustainability strategy.

Personal Characteristics of the Chief of CSR and Performance Implications

UET focuses on personal characteristics (i.e., upper echelon characteristics) that lead to strategic choices and ultimately affect a company’s performance (Hambrick and

Mason 1984). Upper echelon characteristics such as age, functional tracks, education, and socioeconomics roots evidently vary by person (i.e., the member of the C-suite). UET takes the stance that executives matter in terms of performance outcomes and stirring a company's strategic direction (Hambrick and Mason 1984). Furthermore, the strategic choices that TMT members make have a behavioral component that is reflected in the decisions executives make. Hambrick and Mason (1984, p. 193) state, "organizational outcomes—both strategies and effectiveness—are viewed as reflections of the values and cognitive bases of powerful actors in the organization". Hambrick and Mason (1984) refer to March and Simon (1958) and argue that the decision maker's cognitive base (i.e., knowledge or assumptions about future events, knowledge of alternatives, and knowledge of consequences attached to alternatives) and values (Scott and Mitchell 1972) ultimately affect their strategic choices. In a follow-up paper by Hambrick (2007) published in the Editor's Forum of the *Academy of Management Review,* the author concludes that many of the originally proposed characteristics do indeed affect decision-making and performance outcomes. In reviewing the literature based on UET, Carpenter et al. (2004) highlight that the basic premises of the UET model have been supported in the literature in various settings using various performance measures.

In the next section, we apply the UET to propose whether personal characteristics of the appointee affect this relationship.

Gender

Previous research regarding TMT characteristics has largely focused on various general TMT characteristics such as appointing an insider versus an outsider, age, or past experience. However, other important factors such as gender have been largely neglected (Zajac and Westphal 1996). Lee and James (2007, p. 228) state, "the status differences accorded to men and women, coupled with the infrequency with which women are named to executive positions, make gender a salient characteristic that deserves empirical attention".

UET suggests that gender may play a role on strategic choices and firm performance, while stakeholders judge the announcement of employing a female or male CSO. Gender may affect the cognitive base of TMT members and also their values. Previous research has shown that for example gender matters in terms of risk aversions. Graham et al. (2002) state that there is a significant body of research, supporting the position that women are more risk averse than men when they invest. Additionally, Barskey et al. (1996) conclude that men take more investment risks compared to female. However, previous research has also shown that gender matters in terms of performance outcomes. Campbell and Minguez-Vera (2008) studying gender diversity in the boardroom conclude that an increase in gender diversity may generate economic gains.

Previous research has identified multiple reasons as to why gender matters in terms of TMT members. One reason could be related to the perception of stakeholders in terms of their gender. Jonsen et al. (2010) indicate that stereotyping affects the stakeholders' perceptions toward women holding leadership management positions. Stereotypes are perceptions about the qualities that distinguish groups or categories of people (Schneider 2004). They are social judgments of individual group members that lead people to judge group members consistently (Biernat and Kobrynowcz 1997). Stakeholders may create stereotypes based on familiar women's roles such as mothers and nurses, and being nurturing and communal. These stereotypes might be inconsistent with those that traditionally define a "good business leader" (Jonsen et al. 2010). Stereotypical male behaviors are perceived by corporate managers to be closer to ''good leadership" than stereotypical female behaviors (Prime et al., 2008). Schein (2001) identifies that the "think manager–think male" paradigm Schein (1973, 1975) is still a global phenomenon, and that successful managerial characteristics are generally more likely to be held by male than female.

In addition to the external perceptual/stereotyping argument that we brought forward earlier, UET suggests that gender plays a role on the impact of TMT members on performance outcomes. Gender is a potential personal characteristic that impacts upon the managerial field of vision, selective perception, and interpretation of situations and information. Thus, gender impacts upon the perception of the chief officer of CSR and his/her strategic choices, which ultimately affects their firm's performance. Furthermore, previous arguments and results suggest that a male appointee might be more beneficial in terms of financial performance benefits.

Another reason as to why gender matters is related to the inherent differences in characteristics and leadership styles between male and female chief officers of CSR. Previous studies suggest that females are more concerned with ethical and CSR behaviors. Females are more inclined to build harmonious relationships and helping others, and are more likely to be ethical compared to males (Betz et al. 1989; Butz and Lewis 1996; Mason and Mudrack 1996). Moreover, previous research indicates that women tend to be more concerned about fairness in organizational procedures and policies than men (Sweeney and Mcfarlin 1997; Tata 2000). This suggests that women prefer strict adherence to organizational regulations and decisions. CSR management needs innovative ideas and the ability to change to cope with a high clockspeed environment (Dart and Hill 2010; Hillestad et al. 2010).

In conclusion, the literature and UET provide compelling arguments as to why gender matters when studying the financial impact of CSR TMT members. However, convincing evidence on the direction of the gender hypotheses could not be found. Subsequently, we propose our first hypotheses in a non-directive manner:

H1 The financial impact of a CSR TMT position appointment is dependent on the gender of the appointee.

Functional Background

The managerial functional background is another element of an appointee's background examined in our study. The functional background may affect the field of vision (i.e., the direction they look and listen), the selective perception (i.e., what they actually see and hear), and the interpretation (i.e., how they attach meaning to what they see and hear) of the appointee (Hambrick and Mason 1984). Specifically, early studies have shown that functional backgrounds influence the way in which problems are defined and dealt with (Dearborn and Simon 1958), information is processed (Walsh 1988) and strategic choices are made (Hitt and Ireland 1985).

Furthermore, TMT members with relevant functional background are likely to be more influential to a firm than those without such background (Boeker 1997). Guthrie Datta (1997) indicates that functional background serves as one important factor shaping a top manager's ability and orientation in her/his job. It also determines how well suited the TMT member is to provide input into organizational decisions (Perrow 1970). For example, a study by Boeker (1997) identifies that the willingness to make aggressive strategic decisions such as expanding in specific product markets is higher when the appointee has a relevant functional background.

Similarly, if the chief of CSR has relevant functional background, (s)he will be more devoted and committed to the job and has a higher ability to make successful strategic decisions. For instance, Lubin and Esty (2010) indicate that a CSO helps the CEO to visualize goals and professionalize the process of aligning vision with a business strategy from the sustainability perspective. Thus, an appointee with relevant background to deal with environmental and social tasks is expected to have higher abilities to professionalize these processes. Additionally, a chief officer of CSR has to help the firm to broaden and deepen its relationships with various stakeholders such as environmental groups and NGOs to achieve sustainability goals. An appointee with a relevant functional background who might already have affiliations with CSR groups can smoothen the cooperation between the firm and CSR groups through existing social network. Therefore, the appointment of an experienced chief of CSR expertise will send a stronger signal to both internal and external stakeholders as they view the executive to be more capable to lead CSR strategies and activities. Subsequently, we hypothesize:

H2 The financial impact of a CSR TMT position appointment is greater if the appointee has a functional background in CSR.

Newly Created Position

The creation of a new strategic CSR position sends signals to both internal and external stakeholders about elevating the role of CSR in the firm at the strategic level. The first CSO appointment is an important step to move companies through the sustainability stages (Lubin and Esty 2010). Joshi et al. (2003) indicate that integration and alignment of various functions are critical for developing and implementing effective corporate strategies. Under a clear sustainability leadership, the appointee can enable the firm to obtain more benefits than through their previously unstructured CSR practices. Although the appointee of a newly created position may need more time to resolve conflicts with existing functions, to battle for more resources, to develop CSR culture, and to design an appropriate approach to implement CSR strategy in the organization, the room for improvement is greater than through a succession appointment. In addition to the signaling effect to external stakeholders, a newly appointed chief of CSR could also help the organization to obtain more external resources and improve its reputation. Subsequently, we hypothesize:

H3 The appointment of a chief of CSR being a newly created position in TMT has a greater impact on financial performance as compared to a succession appointment.

Internal Versus External Recruitment

Our final hypothesis examines whether appointing an internal versus an external chief of CSR has varying implications for financial performance. External recruitment refers to recruiting from outside the firm rather than promoting or transferring from within the firm (Zajac 1990). In general, internal recruitment is believed to have potential advantages. Dherment-Ferere and Renneboog (2000) argue that there are two main advantages of appointing an insider. First, they have better firm-specific process and technological knowledge. Second, they have existing social networks to obtain specific internal information. However, 'organizational equilibrium theory' implies that the longer the tenure of employees, the fewer the innovative ideas they generate when dealing with new situations (Helmich 1977).

In contrast, top managers appointed from outside can make strategic decisions more objectively without the obligations to consider past decisions made in that company. Outsiders have broader perspectives and are likely to be more willing to make changes (Datta and Guthrie 1994). They will convey new information about future strategic directions and be more willing to challenge the status quo and existing practices (Friedman and Singh 1989; Peteraf and Shanley 1997).

In CSR management, innovative ideas and changes that challenge the status quo to cope with changing environments are essential. Hillestad et al. (2010) argue that companies benefit from finding their own innovative approach to CSR, which developing unique business models, skills, and operations are useful for branding and differentiation. Dart and Hill (2010) also indicate that CSR is an important management construct and encompasses beneficial behaviors including changes that challenge the status quo of management practices, which can help to improve corporate morale and organizational values.

Moreover, an outsider can bring new strategic opportunities to a firm (Carter 1971) with their experience and knowledge gained from other firms and industries, which can provide new insights and best practices (Boeker 1997; Guthrie Datta 1997). DiMaggio and Powell (1983) indicate that managers seek to improve existing policies and practices by looking into other firms' practices, in order to cope with environmental change. The transfer of TMT members thus provides an opportunity of direct transmission of relevant information from one firm to another, which may improve existing practices.

Therefore, external recruitment will send a strong positive signal to both internal and external stakeholders that the firm is serious about the particular functional area (i.e., CSR) and seek to make improvements to firm performance (Schwartz and Menon 1985; Friedman and Singh 1989). Subsequently, the appointment helps to increase its reputation, in turn affect the financial performance positively. A good reputation is a valuable asset that allows a firm to achieve persistent profitability (Roberts and Dowling 2002).

From a theoretical perspective, UET proposes that executives' experiences, values, and personalities affect their field of vision, selective perception, and interpretation (Hambrick and Mason 1984). The experiences of an outsider clearly differ versus a person that has previously worked in the same organization. Although the empirical evidence is mixed due to potential benefits of both internal and external recruitment in top management, Kind and Schläpfer (2010) indicate that the majority of studies that examine the difference between the two successor types (outsider/insider) of CEO revealed hiring an outsider has a positive impact on financial performance. Also, Mian (2001) and Chatterjee et al. (2001) highlight that a company's financial performance improves when the newly appointed CFO and CIO are an outsider rather than an insider. Outsiders may gain valuable external experience, and the signaling effect of hiring an outsider might be higher compared to hiring an insider. Subsequently, we hypothesize:

H4 Appointing an outsider as chief of CSR has greater impact on financial performance as compared to an insider.

Data Collection and Research Methodology

We performed the following three steps in our data collection process: (1) identifying position titles keywords, (2) collecting the appointment and financial information, and (3) verifying announcement information of TMT members with the focus on CSR appointments.

Step 1: Identifying TMT Position Titles with CSR Focuses

The titles of TMT positions of CSR including chief sustainability officer vary and are mixed consisting of different keywords. Therefore, we first identified alternative position titles before collecting appointment data. Recent studies on the leadership of CSR treated CSR as an "umbrella construct" Strand (2013, 2014). An "umbrella construct" is "a broad concept or idea used loosely to encompass and account for a set of diverse phenomena", which can be used in organizational behavior (Hirsch and Levin 1999). In the CSR literature, Matten and Moon (2008) also describe CSR as an umbrella term, which is used synonymously with ethical and sustainability management concepts. The CSR umbrella construct consists of broadly defined keywords such as 'corporate social responsibility,' 'corporate responsibility,' 'sustainability,' and 'ethics'. However, a chief "ethics" officer also has a major role in regulatory compliance, keeping internal procedure, following rules and conducts, which is quite different from this current research scope. Therefore, we do not include keywords related to "ethics" and "compliance" in the current sample search. Moreover, specific terms such as 'health,' 'environment,' and 'diversity' are not considered as broad umbrella terms of CSR Strand (2013, 2014).

Based on the above rationale and with reference to the studies by Strand (2013, 2014), we identified possible position titles such as: "EVP, Sustainability & Corporate Affairs," "VP, Corporate Responsibility." Therefore, we focused on keywords of CSR, sustainability. The possible position titles in this study are as follows:

Keywords	Position titles
Sustainability	Chief sustainability officer; corporate sustainability officer; vice president, sustainability; vice president, corporate sustainability; vice president, global sustainability; vice president, sustainable development; director of sustainability; director of corporate sustainability; director of global sustainability; director of sustainable development
CSR	Chief corporate social responsibility officer; chief corporate responsibility officer; vice president, corporate social responsibility; vice president, corporate responsibility; director of corporate social responsibility; director of corporate responsibility

Step 2: Collecting Appointment Data and Financial Data

To examine our research question objectively, we conducted searches on the appointment announcements for listed companies in the U.S. Our search covered standard industrial classifications (SIC) codes ranging from 0100 to 8999, including industries such as agriculture, forestry, mining to services industries, such as banking and retailing. For listed companies financial data is publicly available, and this allowed us to verify the TMT background and company information from multiple publicly available sources (i.e., Factiva, Google News, Company’s official announcements to investors, SEC filings reports, and CSR business portals). Financial information of the corresponding companies was collected from Standard and Poor’s COMPUSTAT database. Each appointment was verified by multiple information sources to ensure that the major role of the CSO is to focus on social responsibility or sustainability. The first chief sustainability officer was appointed in 2004 (Weinreb 2011). Therefore, our data collection period started in 2004 and ended in 2012.

Step 3: Verifying the appointment data

Our initial samples consisted of 195 announcements that appoint a chief executive of CSR to existing or newly created positions by U.S. listed companies between the years 2004 and 2012. The year of the appointment was taken according to the date of the announcement corresponding to the fiscal year of the listed company to analyze its effect on financial performance. For example, the year of the appointment is 2011 for the announcement made on 13/9/2010 by General Mills Inc., which has its fiscal year-end in May. Our study aims to measure the impact of this appointment on financial performance. Thus, we measured financial performance through a one-year delay after the appointment as our dependent variable.

We excluded the announcements that had two or more simultaneous appointments in order to reduce the possibility of conflicting events driving the company’s financial performance. For example, if an announcement mentions that in addition to a CSR position appointment the firm was also appointing a new CFO, then it was excluded from our sample. We also excluded appointments that share the role of ethics compliance. In addition, we excluded appointments that have confounding events during the study period (e.g., major restructuring). Thus, 150 eligible announcements were identified after these exclusions. We further omitted companies where financial data were not available because the appointment occurred before the company was listed publicly or after it was delisted. Subsequently, our final sample consists of 123 appointment announcements. Examples of some appointments are as follows:

> The Hershey Company (NYSE: HSY), today announced that John C. Long has been named Vice President, Corporate Social Responsibility, effective immediately… his experience at Hershey and with industry groups makes him the ideal choice for this new position.

> The Coca-Cola Company (NYSE: KO) has created a global Office of Sustainability and appointed its first Chief Sustainability Officer (CSO) in an effort to better integrate ongoing initiatives.

Measures

Dependent Variable

We used return on assets (ROA) as our dependent variable, which is a traditional financial measure of firm performance. ROA is defined as a firm’s operating income before interest and taxes over total assets. To examine the long-term financial impact, we use ROA in year one as the dependent variable. Various recent studies on top management appointment have also used ROA as the financial performance indicator (e.g., Furtado and Karan 1994; Firth et al. 2006). ROA differs significantly from stock prices, which has also been used in many previous studies of top management appointment and turnover (Worrell et al. 1993; Kang and Shivdasani 1996; Chatterjee et al. 2001; Mian, 2001; Shen and Cannella 2003; Boyd et al., 2010). ROA indicates the long-term annual changes in financial performance, rather than the short-term daily changes in stock market investors’ reaction. Also, stock prices contain information relevant for valuing the firm but do not necessarily contain all information for evaluating the performance of the firm's management, which ROA does (Antle and Smith 1986). One other traditional measure of long-term performance is return on equity, but it does not provide information on the level of risk to which a company is exposed to or the overall efficiency with which a firm's total assets are employed (Hsu and Boggs 2003). Subsequently, we use ROA as the financial performance indicator to obtain a more comprehensive view on the financial impact for firms pursuing a triple bottom line performance strategy.

Independent Variables

Announcements in our sample often provide background information about the CSR position and the background of the appointee. For those announcements where the appointee background information is not provided, we examined the profile information on company websites, and websites that often provide executives profile of U.S. listed companies, such as Forbes, Bloomberg BusinessWeek and Thomas Reuters, and LinkedIn. Firstly, we coded 1 for a male appointee and 0 for female.

Secondly, we coded 1 for an appointee with CSR relevant functional background and 0 otherwise. We decided on a CSR-related functional background appointment based on whether the appointee's previous position has one of the following keywords "sustainability, environment, health and safety, and social responsibility". The following Table 1 shows the distribution of TMT members with and without a CSR-related functional background in our sample. It can be concluded that nearly 50 % of the TMT members come from marketing, public relations, and general management fields.

Thirdly, we coded the dummy variable *New position* to capture any differences for existing or newly created CSR TMT positions for H3. We identified this information from the appointment announcements on whether the position is newly created, and we verified it from multiple sources. An example reads as follows:

> Owens-Illinois Inc. announced that Steven C. Hammond has been named to the newly created role of vice president, corporate sustainability.

We checked the TMT member record from Standard and Poor's Execucomp database, which hosts the position titles of TMT. If the position detail could not be obtained through this database, we checked the 10 K report with senior management from the U.S Securities and Exchange Commission (SEC) on the year prior the announcement and the year of announcement. If we could not find a similar position in the previous year, we treated that appointment as a newly created position.

Finally, we coded 1 for an outsider appointee and 0 otherwise. As the appointment of an outsider could be for a newly created position or an existing position, we divided the outsider dummy variables into two categories, which are New Position for Outsider and Existing Position for Outsider. Table 2 provides the yearly distribution of the announcement from 2004 to 2012, and the distribution of the independent variables.

Control Variables

We controlled for several variables that may influence the extent of financial impact of chief executive of CSR position appointment. A firm's ROA may be affected by factors such as firm size, firm profitability, firm R&D intensity, industry economic status over the period (Barber and Lyon 1996). Thus, we included these factors as control variables in the regression model. First, firm-specific control variables were obtained from the COMPUSTAT database. *Firm size* is measured as the natural logarithm of the total assets of sample firms. *Firm profitability* is measured by the pre-event ROA of sample firms, which is highly correlated with the post-event ROA. *R&D intensity* is calculated by R&D expenses over sales. Data of all of the above mentioned control valuables are from year -1. Furthermore, we controlled for the industry economic status over the period by including the variable *industry ROA change* (at the two-digit SIC code level). It is computed by subtracting the industry average ROA in year -1 by industry average ROA in year 1. We also control for industry type by including the 2-digit standard industrial classification (SIC) code.

It can be argued that for firms that already have an advanced CSR system in place the appointment itself may not affect firm performance. Therefore, we controlled whether the company has already published CSR reports in year -2 and year -1. For firms that were publishing CSR reports, two-year prior the CSO appointment, we code 1.

In addition, we controlled for the *year of appointment*, which is the year of the appointment, to capture any differences between early and late appointments. Bolton (1993) indicates that a late adoption of a new organizational structure means that companies delay actions until the benefits associated with an innovation demonstrably reduces the "liabilities of newness." Late appointments may benefit companies more in terms of financial performance.

Finally, we controlled for the age of the appointee and their educational background. For the educational background, we created two control factors. The first one is the level of education. We code 1 for appointee without a bachelor degree, 2 for at least one bachelor degree, 3 for at least one master degree, and 4 for at least one doctoral

Table 1 Distribution of CSR and non-CSR functional background

	No.	% of total
CSR-related functional background		
Corporate social responsibility management	5	9.26
Environmental management	22	40.74
Health and safety management	5	9.26
Sustainability management	22	40.74
Total	54	100.00
Non-CSR functional background		
Marketing and public relations	15	21.74
General management	14	20.29
Human resources	6	8.70
Legal	6	8.70
Operations	5	7.25
Research & Development	5	7.25
Finance	4	5.80
Business strategy	3	4.35
Engineering	3	4.35
Governmental services	2	2.90
Information technology	2	2.90
Policy and regulations	2	2.90
Supply chain management	2	2.90
Total	69	100.00

degree. The majority of appointees obtained at least one master degree prior their appointment. We also controlled whether the appointee obtained a Master of Business Administration (MBA) degree because an appointee with MBA training might be more capable to pursuit economical performance. Table 3 shows the corrections between the specified variables in our model.

Analysis

We conducted a multiple regression analysis to investigate the multivariate relationships between the dependent variable (ROA) and all independent variables. The panel dataset comprises observations on multiple entities such as firms, where each entity is observed at two or more points in time. We used "year" as the time unit in our analysis. The year of an appointment announcement was used as the focal point of time t; $t-1$ refers to the year before the announcement; $t+1$ refers to the year after the announcement. Our sample data contain the announcements at t and financial data at $t-1$ and $t+1$. We analyzed the data using ordinary least square (OLS) regression based on the following formula:

t + 1 $\mathrm{ROA}_i = \beta 0 + \beta 1\ t-1\ \mathrm{ROA}_i + \beta 2\ t-1$ Firm $\mathrm{Size}_i + \beta 3\ t-1$ RD $\mathrm{Intensity}_i + \beta 4\ t-1$ Industry ROA

Table 2 The distribution of CSO appointments

	No. of appointment	% of sample
Year		
2004	3	0.02
2005	4	0.03
2006	8	0.07
2007	17	0.14
2008	20	0.16
2009	14	0.11
2010	24	0.20
2011	19	0.15
2012	14	0.11
Total	123	100.00
Independent variables		
New position	102	83
Existing position	21	17
Outsider	25	20
Insider	98	80
CSR-related functional background	54	44
Non-CSR-related functional background	69	56
Male	77	63
Female	46	37

Table 3 Pearson correlation coefficients

		1	2	3	4	5	6	7	8	9	10	11	12
1	Post-appointment ROA	1											
2	Post-appointment SOA	.396***	1										
3	Post-appointment sales growth	.114	.037	1									
4	Pre-appointment ROA	.832***	.379***	−.121	1								
5	Pre-appointment SOA	.361***	.966***	.007	.435***	1							
6	Pre-appointment sales growth	−.208**	−.140	−.348***	−.190**	−.121	1						
7	Industry ROA change	.040	−.031	.037	.151*	−.032	.021	1					
8	Industry SOA change	−.031	−.125	−.055	−.084	−.143	.018	−.034	1				
9	Industry sales growth change	.083	.010	.075	.067	−.001	−.052	.025	−.063	1			
10	Pre-appointment total assets	−.281***	−.198**	−.097	−.265***	−.195**	.141	−.023	−.046	.027	1		
11	Pre-appointment R&D intensity	.139	−.141	.060	.176*	−.116	−.065	−.141	−.061	−.083	−.014	1	
12	Industry SIC code (2-digit)	−.061	−.204**	−.091	−.070	−.177**	.152*	−.070	.180**	−.216**	.154*	−.053	1
13	CSR report history	.060	−.142	−.136	.092	−.122	.105	.085	−.043	−.051	−.097	.212**	−.141
14	Appointee age	−.227**	−.110	−.071	−.256***	−.110	−.092	−.146	−.062	−.029	.032	.033	−.085
15	Education level	−.096	−.201**	−.018	−.074	−.193**	−.068	.024	.007	−.069	.149*	.051	−.105
16	MBA	.030	.007	.242***	−.009	.002	−.093	−.042	.196**	.116	−.046	−.084	−.041
17	Appointment year	−.038	−.131	−.110	−.008	−.123	−.044	.024	.015	.216**	.153*	.050	.118
18	New position	−.034	−.013	.038	−.088	−.026	.081	−.094	−.036	−.104	−.039	.007	.067
19	CSR functional background	.026	.039	.182**	−.072	−.005	−.120	−.005	−.045	.115	−.111	−.085	−.113
20	Male	−.067	.183**	−.037	.003	.195**	.091	−.104	−.108	.067	.025	−.072	−.054
21	Outsider	−.049	−.083	.149*	.038	−.023	−.033	−.115	−.054	.026	−.048	.094	.000
	Mean	.125	.873	.043	.128	.896	.146	.358	.049	−.670	63002.776	.015	41.244
	Median	.120	.746	.036	.124	.783	.077	.000	−.002	−.036	12,414.000	.000	37.000
	SD	.059	.639	.285	.064	.660	.585	4.133	.238	7.184	205610.611	.032	18.041
	Maximum	.291	3.505	2.734	.300	3.474	6.196	35.630	1.494	17.120	2,117,605.000	.174	87.000

Table 3 continued

		13	14	15	16	17	18	19	20	21
1	Post-appointment ROA									
2	Post-appointment SOA									
3	Post-appointment sales growth									
4	Pre-appointment ROA									
5	Pre-appointment SOA									
6	Pre-appointment sales growth									
7	Industry ROA change									
8	Industry SOA change									
9	Industry sales growth change									
10	Pre-appointment total assets									
11	Pre-appointment R&D intensity									
12	Industry SIC code (2-digit)									
13	CSR report history	1								
14	Appointee age	.284***	1							
15	Education level	−.025	−.064	1						
16	MBA	−.031	−.148*	.106	1					
17	Appointment year	.138	.043	−.151*	.080	1				
18	New position	−.010	.058	−.016	−.181**	−.297***	1			
19	CSR functional background	−.081	−.027	−.037	.005	.060	.004	1		
20	Male	−.153*	.003	−.017	−.034	−.099	.178**	.222**	1	
21	Outsider	−.137	−.161*	.154*	−.036	−.039	−.080	.090	−.032	1
	Mean	.465	46.150	2.882	.252	2008.969	.835	.433	.622	.213
	Median	.000	47.000	3.000	.000	2009.000	1.000	.000	1.000	.000
	SD	.501	6.606	.650	.436	2.055	.373	.497	.487	.411
	Maximum	1.000	59.000	4.000	1.000	2012.000	1.000	1.000	1.000	1.000

* Correlation is significant at the 0.1 level (2-tailed)

** Correlation is significant at the 0.05 level

*** Correlation is significant at the 0.01 level

$Change_i + \beta5$ Industry SIC $Code_i + \beta6$ CSR $reports_i + \beta7$ Appointee $age_i + \beta8$ Education $Level_i + \beta9$ $MBA_i + \beta10$ Time of $Appointment_i + \beta11$ New $Position_i + \beta12$ Functional $Background_i + \beta13$ $Gender_i + \beta14$ New Position X $Outsider_i$ $\beta15$ Existing Position X $Outsider_i + \varepsilon i$.

$t + 1$ ROA_i is the post-appointment ROA of the company at $t + 1$; $t - 1$ ROA_i, $t - 1$ Firm $Size_i$, and $t - 1$ RD $Intensity_i$ are the ROA, total assets and R&D intensity, respectively, at $t - 1$; $t - 1$ Industry ROA $Change_i$ is the change in average industry ROA from $t - 1$ to $t + 1$ for company i; Industry SIC $Code_i$ is the 2-digit SIC code of company i operating in; CSR $reports_i$ represent whether company i published CSR reports in $t - 1$ and $t - 2$; Appointee age_i is the age of appointee in year t; Education $Level_{i\ \mathrm{and}}$ MBA_i are the education background of the appointee of company i; Time of $Appointment_i$ is the year of appointment for company i; New $Position_i$ captures whether the CSR position is newly created; $Experienced_i$ captures whether the appointee has CSR relevant functional background; $Male_i$ captures whether the appointee is a male; New Position X $Outsider_i$ captures an outsider appointment for a newly created CSR position; Existing Position X $Outsider_i$ captures an outsider appointment for an existing CSR position.

The maximum variance inflation factor (VIF) is 1.604, which is below the traditional threshold value of 10 and also below the more stringent threshold value of 6 (Cohen et al. 2003). The Durbin-Watson statistics value is 1.645, which lies between the upper and lower bounds (1.519 and 1.956) for the critical values at 5 % significance level for sample sizes between 100 and 150 with 15 regressors excluding the intercept (Savin and White 1977). Thus, these results statistics indicate that the interpretation of the regression coefficients is not adversely affected by multicollinearity.

The OLS regression results are reported in Table 4. The control model only includes the control variables. It explains about 70.6 % of variance of the post-appointment ROA. The coefficients of pre-appointment is positive and significant (both are $p < 0.01$).

The full model includes all variables in our model. The overall variance explained is about 73.4 %. The independent variables for testing our hypotheses explain an additional variance of about 2.9 %. The coefficient of the pre-appointment ROA is positive and significant ($p < 0.01$) as in the control model. We found support for the two hypotheses regarding the characteristics of the CSR appointee (i.e., H1 and H2). In terms of H1, we identified that the positive financial impact caused by a CSR TMT position appointment is larger when the appointee is female ($p < 0.05$). With regards to H2, our results confirm that the financial impact of a CSR TMT position appointment is greater if the appointee has a functional background in CSR ($p < 0.05$).

Furthermore, our results show a negative financial impact if the appointee is an outsider for an existing position ($p < 0.1$). We found no support for the hypothesis that a newly created CSR position (H3) could bring more benefits.

With regards to appointing an outsider, we found a negative impact on the firm performance. However, the negative impact of appointing an outsider depends on whether the position is newly created. The coefficient effect of the interaction between an existing position and outsider (i.e., outsider for old position) has no significant impact on firm performance. Our results show that an outsider appointment should be avoided for a newly created CSR TMT position. It also does not provide financial benefits to an existing position of the firm. Therefore, H4 is not supported, and a CSR executive should better be appointed through internal promotion.

Table 4 also shows the results of using sales over total assets (SOA) and sales growth as the dependent variables. This provides us with a broader picture of how CSR executive appointment and their characteristics affect firm performance. We found that the CSR functional background is also a significant positive predictor of SOA, and the negative impact of hiring an outsider for a newly created position is significantly negative. However, the gender of the CSR executives does not affect the SOA. All the predictors have no effect on firms sales growth, but surprisingly, we found that the younger the CSR executive, the better the sales growth after the appointment. We also found that CSR executives with an MBA degree have a positive impact on sales growth. This implies that this educational background enables them to improve the company's revenue.

Discussion

Companies follow different means to implement sustainability practices and corporate social responsibility. From a strategic, top-down perspective companies have started doing so through appointing chief officers of CSR into their C-suite (Strand 2013). This research was set out to explore the consequences of appointing a chief officer of CSR and the role that their personal characteristics have on a company's financial performance.

In this research, we tested the importance of various personal characteristics of the CSR appointee and how they affect their impact on financial performance. In a nutshell, we identified that the impact of the appointee on performance is increased if the person is a female and has a CSR functional background. Furthermore, we identified that if a new CSR position is created and the appointee is an outsider, the companies cannot expect any financial performance

Table 4 Results from OLS regression for $t + 1$ ROA after tax/$t + 1$ SOA/$t + 1$ sales growth

	Control model (ROA after tax)		Full model (ROA after tax)		Control model (SOA)		Full model (SOA)		Control model (sales growth)		Full model (sales growth)	
Intercept	1.680	.540	2.146	.669	4.590	.297	6.836	.431	4.864	.359	1.820	.127
Pre-appointment ROA/SOA/sales growth	.769	14.442***	.788	14.829***	.916	37.089***	.923	37.721***	−.086	−3.747***	−.088	−3.752***
Industry change of ROA/SOA/sales growth	−.001	−1.608	−.002	−1.959*	.044	.662	.033	.522	.001	.765	.001	.631
Pre-appointment total assets	.000	−.948	.000	−.690	.000	−.174	.000	−.093	.000	−.621	.000	−.522
Pre-appointment R&D intensity	−.025	−.244	−.008	−.085	−.511	−1.051	−.358	−.748	−.095	−.229	−.042	−.100
Industry SIC code (2-digit)	.000	−.051	.000	−.094	−.002	−1.809*	−.001	−1.530	−.001	−.878	−.001	−.757
CSR report history[a]	.000	−.006	−.003	−.413	−.033	−1.008	−.046	−1.413	−.016	−.557	−.008	−.284
Appointed age	.000	−.322	.000	−.446	.000	−.061	−.001	−.372	−.003	−1.686*	−.004	−1.748*
Education level	−.003	−.567	−.001	−.209	−.022	−.897	−.007	−.291	−.025	−1.240	−.024	−1.148
MBA[b]	.005	.630	.004	.536	.000	−.009	−.003	−.081	.056	1.827*	.060	1.924*
Appointment year	−.001	−.526	−.001	−.657	−.002	−.283	−.003	−.421	−.002	−.337	−.001	−.110
New position[c]			.006	.650			.044	.898			.022	.515
CSR functional background[d]			.014	2.144**			.068	2.141**			.026	.950
Gender[e]			−.015	−2.249**			−.034	−1.054			.031	1.107
Outsider for new position[f]			−.016	−1.847*			−.127	−2.992***			.000	−.010
Outsider for existing position[f]			−.013	−.755			−.033	−.411			−.013	−.179
N	123		123		123		123		123		123	
R square	.706		.734		.937		.943		.211		.238	
Change in R square			.029				.007				.027	

t-statistics are in parentheses

Significance levels (two-tailed tests) of independent variables: $p < 0.1$*; $p < 0.05$**; $p < 0.01$***

[a] *Base category* no CSR report in $t - 1$ or $t - 2$

[b] *Base category* not obtained MBA degree

[c] *Base category* existing position

[d] *Base category* non-CSR functional background

[e] *Base category* female

[f] *Base category* insider

benefits. Companies appointing an outsider for a newly created position can expect negative performance. These results have various managerial and theoretical implications, which we will discuss in the following.

Managerial Implications

The findings of this study make particularly important contributions to management practices and thus have various managerial implications. We firstly identified that appointing a chief of CSR makes sense from a financial standpoint. In other words, adding a chief officer of CSR to your TMT improves a company's financial performance in terms of ROA under certain conditions and characteristics. Through appointing a chief officer of CSR, a company shows its commitment to sustainability and social responsibility to its stakeholders. It provides a positive image for a company and may have signaling effects for its customers, employees, and shareholders. Appointing a chief officer of CSR can portray a positive image of the company that customers care about which subsequently materializes in increased sales. Furthermore, while environmental or social benefits might be expected, the finding that appointing a chief of CSR into the TMT improves financial performance in terms of ROA provides management with additional incentives to increase the strategic importance of CSR in a company. Additionally, our results provide managerial recommendations in terms of the characteristics of the CSR appointee and the appointment itself, and how they affect their impact on financial performance.

Companies need to be aware that certain characteristics of the chief officer of CSR have financial performance implications. For example, the decision of appointing a chief officer of CSR can be dependent on a company's performance objective. If the objective is to improve the firm's overall profitability through sustainability leadership, then the appointment should be made through internal staff that has a functional CSR background, and is preferably female. However, if the appointment is simply for marketing purposes, then hiring a younger candidate with an MBA degree is already an effective choice, because these two factors have significant positive impact on the sales growth.

Theoretical Implications

From a theoretical perspective, this research makes various contributions to theory and the associated literature. It is clear that the importance of the CSR component of management for companies is steadily increasing. Various stakeholders such as customers, governments, NGOs, and suppliers demand for responsible and sustainable management. In a way, this makes the question as to does social responsibility and sustainability lead to improved performance outcomes obsolete (Pagell and Shevchenko, 2014). However, being profitable is still a major pillar of the sustainability triangle.

UET proposes that personal characteristics of the member of the upper management team (i.e., TMT) impact upon the strategic choices made and impact on firm performance. The theory also proposes a direct link between upper echelon characteristics and firm performance. Our findings are in alignment with previous literature that identified that upper echelon characteristics matter (Manner 2010). However, we tested this concept on a relatively new member of the TMT, the chief officer of CSR. In confirming and identifying specific characteristics of the CSR executive we contribute to the strategic management literature in general but more specifically to the CSR and sustainability literature. Upper echelon characteristics differ in terms of C-suite executive position (e.g., CEO, CFO, CMO, and COO) and impact financial performance differently. We identified that if the CSR executive appointee is an insider for a newly created position, has a functional background related to CSR and is female greater financial performance benefits can be expected in terms of ROA.

We contribute to the strategy literature in investigating how the recent addition to the TMT "chief executive of CSR" impact on a company's financial performance. Whilst contradictory results have been found that could not detect performance benefits through additional C-suite member the general view has been that TMTs do contribute to firm performance (Menz 2012). We have analyzed and confirmed that under specific circumstances adding a chief executive of CSR into the TMT is beneficial in terms of financial performance outcomes. Although our findings contradict our prediction regarding appointing an outsider for a CSR TMT position, we found that the negative impact is only limited to the newly created position, and not for an existing position. In other words, if the outsider appointment is a successor, we do not find any negative performance implications. Our study shows that the additional benefits of appointing an outsider into the TMT are not a universally applicable for all types of strategic leadership. Overall, we analyzed and confirmed that under specific circumstances adding a chief executive of CSR into the TMT is beneficial in terms of financial performance outcomes.

Conclusion

More and more companies are changing the composition of their TMT to reflect stakeholder pressure and appoint the chief officer of CSR into the C-suite. The results of our research provide additional arguments to include CSR into their strategy. Appointing a chief of CSR into a company's TMT also makes sense from a financial perspective. Furthermore, we applied UET to identify various personal characteristics that are of importance when considering the financial performance implications of the CSR appointee. Thus, we contribute to the CSR and strategic management literature.

However, as with all research our study has to be interpreted taking various limitations into consideration. Firstly, our study is limited to financial performance in terms of ROA, SOA, and sales growth. It would have been interesting to see how these characteristics may vary in terms of social and environmental performance outcomes. It could also be that gender affects the triple bottom line dimensions differently. We only confirmed that a female CSR appointee positively influence financial performance. However, future research could take a more holistic performance perspective and also include environmental and social performance. Furthermore, the other personal characteristics revealed in this study may also not have the same impact on environmental or social performance. An additional consideration could also be for future research to include some dependent variables that measure reputation as an intangible measure of success. An increase in reputation could be a first-order result of appointing chief officers of CSR into the TMT, which in turn might increase market share, share prices, and the likes.

Additionally, our study is a reflection of the early stages of companies appointing CSR representatives in their TMT (Strand 2013). It might be that the signaling effect is still strong, which might diminish the strong impact on financial performance in the coming years. It would be interesting to see, when new data become available, whether the financial performance impact might dampen over the years or whether this effect is consigned. Additionally, our study is bound and confined by a sample from the United States. Historically, stakeholders put strong emphases on the company's TMT in North America. Subsequently, the effects might differ in other regions such as the EU or Asia. Finally, based on previous literature, we put forward two reasons as to why gender matters in TMT research. Gender could matter because of the perceptions and stereotypes that stakeholders still have toward female TMT members or because of inherent differences in leadership styles (which is based on UET). We concluded that gender does matter. However, in our current research design, we cannot truly tease out which of the proposed reasons is causing this effect. Future research could try to apply additional theories to UET, such as stakeholder or institutional theory, to acquire more conclusive results.

Nevertheless, through investigating the impact of appointing a chief executive of CSR on financial performance and exploring the role of specific personal characteristics of the appointee, this study highlights the importance of the CSR position in the TMT for a company's sustainable financial success.

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