경영학 석사학위논문

The Effects of Managerial Characteristics on Corporate Environmental Performance

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성과에 미치는 영향

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ABSTRACT

The Effects of Managerial Characteristics on Corporate Environmental Performance

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This paper examines the impact of managerial characteristics on corporate environmental performance (CEP). By also analyzing the interaction effects between managerial and organizational factors on the firm's environmental performance, this study intends to contribute to the past literature which had predominantly focused on the linkage of CEP with financial performance. Drawing mainly from the upper echelons perspective and stakeholder theory, this study focuses on managerial characteristics as antecedents of CEP and examines the moderating effect of consumer proximity in the associations of the three particular characteristics of CEOs analyzed: age, human capital, and educational background. The results support the predicted positive relationships of environmental performance with CEO's age and CEO's human capital. The hypotheses were tested with the analysis of 49 manufacturers of

textiles and wearing apparel located in South Korea using the Trucost environmental scores available between 2011 and 2013.

Keywords: Corporate Environmental Performance, Managerial Characteristics, CEO Age, CEO Human Capital, CEO Educational Background, Consumer Proximity

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I. INTRODUCTION

Interest in corporate environmental performance has grown significantly as environmental issues pose a major social concern in recent years (Berrone & Gomez-Mejia, 2009). Environmental concerns include a vast array of domains, being greenhouse gas emissions and global warming at the spotlight nowadays. The summer of 2014 broke the record as being the hottest of all times; and at the same week that the United Nations' Climate Summit was being held in September of 2014, a meeting addressing climate change was being held by the United States Secretary of State, the chief United States climate change negotiator, and the foreign ministers of the 17 Major Economies Forum on Energy and Climate Change. At the meeting, in spite of the gravity of other concurrent crises posed by the Islamic State (IS) and the ebola outbreak in Africa, the Secretary of State John Kerry exposed the preeminence of climate change, as "this has even greater, longer-term consequences that can cost hundreds of billions, trillions of dollars, and lives, and the security of the world" (Foderaro, 2014).

The UN Secretary-General Ban Ki-Moon, while inviting corporate leaders to the Climate Summit in 2014, made it clear that the urgency for environmental issues to be addressed is indubitable, and that business organizations are essential for it. Companies affect and are affected by changes in the natural environment, and there are an

increasing interest and significant efforts to engage or improve corporate environmental performance. In order to measure it, many methodologies were developed; however, most scholars disproportionately relied on KLD ratings (Delmas, Etzion, & Nairn-Birch, 2013). Furthermore, many studies focused on corporate environmental performance by analyzing either its relationship with corporate financial performance or with environmental disclosure to a lesser extent (Trumpp, Endrikat, Zopf, & Guenther, 2015).

The environmental performance is highly dependent on the human resources of a firm and its managerial capabilities, and firms facing similar institutional pressures might pursue different environmental strategies as a result of the CEO's characteristics. Taking into account the literature gap about the antecedents of environmental performance and the conflicting results from demographic characteristics' effects, this study intends to analyze how determined managerial characteristics affect corporate environmental performance. Moreover, in view of the lack of studies employing data from geographical regions aside from the United States and Europe, this paper intends to contribute to the existing literature by extending the CEP analysis by using data from firms located in South Korea.

The present paper empirically tests the effects of managerial characteristics on the environmental performance using an initial sample

of the 200 largest manufacturers of textiles and wearing apparel located in South Korea. The study in this particular context and country is valuable for three reasons. First, as already mentioned, since most CSR studies were based in the North American and European context, it is worthy to verify if the same logic applied in those countries are also valid in other countries, in view that socially responsible practices are highly influenced by the national institutional environment (Abreu, Castro, Soares, & Silva Filho, 2012). Second, the establishment of green policies by the former South Korean President Lee to address climate change, to foster green technology, and to comply with environmental regulations have attracted the interest from several countries in Korea's green growth (Kim & Rhee, 2012). Third, South Korea figures among the top textile producers and exporters in Asia (Adhikari & Yamamoto, 2008), and as mentioned by Chen, Larsson, & Mark-Herbert (2014), due to the increasing growth and importance of Asian textile products in the global supply chain, there is an increasing international demand that those manufacturers will behave in a socially responsible way.

Based on the premise of the upper echelons perspective that demographic characteristics of top executives reflect their cognitive structure and influence organizational outcomes and performance (Hambrick & Mason, 1984), this study intends to shed a light on how CEOs' characteristics affect their cognitive structure to perceive

environmental strategies and their willingness to engage environmental performance. This paper analyzes the antecedents of corporate environmental performance focusing on the following managerial characteristics: age, human capital, and educational background. The age and human capital of a CEO are posited to be positively associated with the firm's environmental performance, whereas CEO management education is negatively assumed with the latter. This study also proposes that higher consumer proximity will strengthen the positive relationships of CEO age and CEO human capital, whereas it would weaken the negative relationship between CEO educational background and corporate environmental performance.

The paper is organized as follows. The next section covers the theoretical background and hypotheses, while the third section presents the methodology proposed to empirically test the hypotheses postulated. The fourth section presents the results obtained. The positive relationship between CEO age and environmental performance is confirmed, as well as the positive association of CEO human capital with the latter. Nevertheless, contrary to my predictions, consumer proximity is shown to weaken these two positive relationships. The relationship between CEO educational background and environmental performance is not supported, neither is supported its interacting effect with consumer proximity. Lastly, in the fifth section, theoretical and empirical

contributions, alternative explanations for unpredicted results, limitations, and topics for future research are presented.

II. THEORY AND HYPOTHESES

2. 1 CSR & Corporate Environmental Performance

Corporate environmental performance constitutes one of the various dimensions of corporate social responsibility (CSR). In spite of the vast literature about the theme, there is no definite consensus among scholars regarding the meaning of CSR. One of the most accepted and used definition is found in the seminal work of Carroll (1979: 500): "The social responsibility of business encompasses the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time." According to the author's conceptual model, social issues such as environment, consumerism, and product safety should also be addressed by managers, since they are encompassed as a part of the firm's social responsibilities. Similarly to CSR, the concept of corporate environmental performance (CEP) is also multidimensional and its definition still remains disputable (Trumpp et al., 2015).

By examining the different definitions of corporate environmental performance across the literature, Trump et al. (2015: 188) identified that they "usually focus on the outcomes of management activities with regard to the natural environment as well as on these activities itself. Therefore, environmental measures include strategies, policies, programs, and observational outcomes related to the natural environment. In accordance to the definition above, Delmas et al. (2013)

argued that CEP can be mainly categorized into two dimensions: processes and outcomes. Process-based measures correspond to the firm's efforts that will impact the environment, whereas the outcome-based measures assess the environmental impact per se. There is a proliferation of methodologies to evaluate environmental performance either as processes or outcomes; however, there is no unanimity upon what those ratings actually measure. Moreover, an extensive number of CSR studies have been based solely on ratings of KLD Research and Analytics. Nevertheless, KLD ratings still need some improvements and ought to be interpreted with caution by investors (Chatterji, Levine, & Toffel, 2009).

Another similarity between CSR and environmental performance is the disproportion of the existing literature focusing on a determined aspect of research. Literature on CSR in general has been disproportionately concentrated on its influence on firm performance, being the antecedents of CSR examined to a lesser extent (Julian & Ofori-dankwa, 2013; Mazutis, 2013). Besides, most research about corporate responsibility practices limited the analysis to companies located in the United States and Europe (Ni, Egri, Lo, & Lin, 2015). Regarding corporate environmental performance in specific, most scholars have focused either by extensively exploring its relationship with corporate financial performance or to a lesser extent its linkage to

the company's environmental disclosure (Trumpp et al., 2015).

Although it is highly debatable whether it pays to be socially responsible or not (Barnett & Salomon, 2012; Cheng, Ioannou, & Serafeim, 2014; Griffin & Mahon, 1997; Margolis & Walsh, 2003; McGuire, Alison, & Schneeweis, 1988; Surroca, Tribo, & Waddock, 2010; Ullmann, 1985; Waddock & Graves, 1997), many companies seek environmental practices in order to achieve higher profits through entrepreneurship and innovation, attending the demand of niche markets, or improving productivity, among others. The motivation and purpose for CEP engagement can be classified into *normative* and *business case* (Slater & Dixon-Fowler, 2010). *Normative* arguments propose that environmental performance constitutes a social obligation done out of moral responsibility. On the other hand, the *business case* approach justifies environmental engagement based on its financial returns, although the link between corporate environmental performance and financial performance remains controversial.

In the past, environmental efforts such as pollution reduction were thought to be *reactive* and triggered only by regulations and taxes (Porter & Kramer, 2011). The institutional theory has been extensively used to explain why firms engage environmental strategies even though their implementation might not be financially profitable (Berrone, Cruz, Gomez-Mejia, & Larraza-Kintana, 2010). In accordance to the reactive

posture, institutional pressures and demands, including societal expectations, dictate the environmental performance of the firm. Nevertheless, the institutional literature fails to explain why firms react in different ways under the same institutional conditions (Berrone et al., 2010). Nowadays, many corporate environmental management practices are considered *proactive*, going beyond merely complying with government laws and regulations (Buysse & Verbeke, 2003; Dawkins & Fraas, 2011; Dixon-Fowler, Slater, Johnson, Ellstrand, & Romi, 2013; González-Benito & González-Benito, 2006). Aside from institutional pressures, companies might implement better environmental practices in an attempt to achieve a higher economic performance, in accordance with the business case approach, through acquiring new technologies, achieving a better reputation, or attracting high-caliber job candidates, factors that could ultimately confer those firms a competitive advantage over others (Russo & Fouts, 1997).

The resource-based view of the firm, besides providing arguments on how CSR activities can lead to better financial performance (Russo & Fouts, 1997; Surroca, Tribo, & Waddock, 2010), also highlights the importance of resources to a better implementation of CSR strategies. Valuable, inimitable, and rare resources and capabilities contribute to a more efficient socially responsible performance (Julian &

Ofori-dankwa, 2013). The slack resources theory in turn has been prominent in explaining CSR expenditures. Resources enable the implementation of green strategies, and there are significant findings concluding that a firm's prior financial performance is closely related to corporate social responsibility (McGuire, Alison, & Schneeweis, 1988; Waddock & Graves, 1997). McGuire et al. (1988) found that the relationship between CSR and past financial performance was stronger than the CSR linkage to subsequent financial performance. The positive relationship between prior economic performance and social performance could suggest that only well-off companies are able to pay for the 'luxury' of high levels of CSR (Ullmann, 1985), as it requires the employment of valuable firm's resources such as monetary costs or even incur in human resource costs (Wang, Choi, & Li, 2008).

Another factor that could propel the implementation of environmental strategies is the increasing consumer demand for green products and, even more, the need to provide information about its environmental impact to customers and other stakeholders, as evidenced by the popularization of corporate social responsibility reports (Ginsberg & Bloom, 2004). As preached by the stakeholder theory, there is a need for the demands of diverse stakeholders to be addressed and not only stockholders (Freeman, 1984). Therefore, regardless if it is profitable or not, green management is a widely recognized societal expectation

(Marcus & Fremeth, 2009). The growth of socially responsible investing, for example, resulted in a proliferation of corporate social responsibility ratings and indices, such as *Fortune*'s Reputation Survey and the Dow Jones Sustainability Index, making evident the preference of investors for companies that present high levels of social and environmental performance (Delmas et al., 2013; Siegel, 2009).

In sum, there are many theoretical perspectives that help understand why companies engage CSR practices. Aside from the institutional theory, the resource-based view, the slack resources theory, and the stakeholder theory explaining the firm's CSR engagement as an organization; the agency theory, the stewardship theory, and the upper echelons perspective elucidates why managers present a socially responsible behavior as individuals. Regarding the motivation of managers to pursue CSR, the agency and stewardship theories present opposing views concerning it. According to agency theorists, managers are self-interested agents who seek to maximize their personal gains at the cost of principals, such as shareholders, creating a principal-agent problem (Fama & Jensen, 1983). Managerial opportunism would then manifest in the form of executives taking advantage of CSR investments to improve their personal reputation and to benefit themselves socially, politically, or for the advantage of their own careers (Donaldson & Davis, 1991; McWilliams & Siegel, 2001). Stewardship theorists, on the

other hand, argue that managers are stewards pursuing the interests of their principals, being the interests of both parties in alignment and the motivation of managers based on a greater social goal (Davis, Schoorman, & Donaldson, 1991; Schillemans, 2013).

The upper echelons perspective also sheds a light on how top executives influence a firm's socially responsible activities. The theoretical framework formulated by Hambrick and Mason (1984) explain how executives' demographical and other observable characteristics could be used as indicators of their cognition and personal values. Based on the principle of bounded rationality, these cognitive lenses act as filters when perceiving and interpreting the surrounding environment, influencing the CEOs' strategic decisions and ultimately the companies' outcomes. Due to the complexity of executive orientation, observable demographic characteristics are often used as proxies for it, and although there is a vast literature on how managerial psychological characteristics affect corporate performance, there is a lack of studies exploring the linkage of the former to CSR (Mazutis, 2013; Petrenko, Aime, Ridge, & Hill, 2015).

2.2 CEP & CEO Characteristics

Environmental performance is highly dependent on the human resources of a firm and its managerial capabilities (Russo & Fouts, 1997).

Consequently, managers exert a significant influence on a firm's environmental performance and disclosure (Lewis, Walls, & Dowell, 2014). Unilever's sustainable efforts, for example, are greatly attributed to its chief executive Paul Polman, who is also known for leading the company's turnaround since he became its CEO in 2009 (Gunther, 2013). According to the upper echelons perspective (Hambrick & Mason, 1984), organizational outcomes can be predicted by using top management's characteristics such as their experiences, values, and personalities as explanatory variables (Hambrick, 2007). Based on the premise of bounded rationality, managers have a limited capacity to comprehend all strategic choices available to them, being their interpretation of reality biased by their own cognition. Due to the difficulty of measuring and obtaining data for it, demographic characteristics (e.g. age, tenure, formal education, functional background) are usually used as proxies for executives' cognitive frames in the managerial literature.

Chief executive officers' characteristics in specific have been extensively used to predict organizational outcomes (Buchholtz & Ribbens, 1994; Hambrick, 1991, 2007; Henderson, Miller, & Hambrick, 2006; Manner, 2010). While subordinate managers affect only subdivisions of the company, CEOs are endowed with more latitude and are able to influence the whole organization (Hambrick & Quigley,

2014). As CEOs have a prominent role in the strategic decision making and the allocation of a firm's resources, they are considered to bear themselves the overall responsibility of a company's performance (Finkelstein, Hambrick, and Cannella, 2009). Previous studies supported the relationship between CEO's characteristics and corporate social performance (Slater & Dixon-Fowler, 2009), being natural that CEOs also play a crucial role in determining corporate environmental performance.

Among their motivations, CEOs might pursue socially responsible strategies based on their personal values and beliefs (Albino, Dangelico, & Pontrandolfo, 2012) or might implement green strategies due to the benefits of improving their own reputation or even be motivated by the resulting increase of corporate sales among environmentally friendly customers (Russo & Fouts, 1997). Nevertheless, environmental practices are costly and risky, being the returns of CSR investments in general expected only over the long term (Oh, Chang, & Cheng, 2014). High levels of outcome uncertainty and the risk of failure requires a long-term strategic way of thinking and might discourage managers to seek and to adopt environmental strategies (Sharma, 2000). Although environmental performance is a widely diffused societal expectation and might bring potential benefits in the future, managers might engage less risky and more conservative

investments that are more visible and might improve the overall reputation of the firm (Berrone & Gomez-Mejia, 2009). In view of the diversity of motives to engage or not environmental practices, a deeper analysis of how certain characteristics influence managers is necessary.

CEO Age

There are diverging opinions about the relationship between a CEO's age and his or her propensity towards risk (Serfling, 2014). Some authors argue that younger CEOs are more risk-averse than their older peers since they don't enjoy the same level of reputation yet and might struggle in their future careers for mistakes or poor performance. Nevertheless, CEO age has been traditionally associated with risk-aversion and commitment to the status quo (Hambrick & Mason, 1984; Miller, 1991), being CEOs near retirement age regarded as more risk-averse and short-term oriented (Oh et al., 2014). Hambrick & Mason (1984), in their seminal work on upper echelons had already presented several arguments why older CEOs tend to avoid risk and to adopt a conservative posture: reduced physical and mental abilities; greater commitment to the status quo; and fear of putting their career and financial securities at risk. In other words, as the CEO ages, agency problems are heightened since they tend to put their own interests ahead of the firm and other stakeholders (McClelland, Barker III, & Oh, 2012).

Taking in view that CSR investments are costly, risky and returns expected only over the long term, agency problems might arise as CEOs who are risk-averse and resistant to organizational changes might actually unwelcome or even reject environmentally friendly strategies. On the other hand, it is argued that risk-averse CEOs avoid unethical and socially irresponsible strategies (Kang, 2015). A negative influence on the firm's reputation, on its relationship with other stakeholders, on its financial performance, and even on the financial market pose as reasons why risk-averse CEOs engage CSR. Another reason why they might not only reactively but also proactively pursue CEP is in order to accumulate 'moral capital' in a preventive way to reduce risks or as an insurance to protect firms against CSR-related negative events or to relieve them from the subsequent punitive sanctions (Godfrey, 2005; Godfrey, Merrill, & Hansen, 2009). Accordingly, as older CEOs are more risk-averse, and risk-aversion is found to induce CSR engagement, I propose that firms with older CEOs will present higher environmental performance.

H1: CEO age is positively associated with corporate environmental performance.

CEO Human Capital

Human capital consists on the set of skills and knowledge obtained through education and experience that enables the worker to perform his

or her duties ultimately producing economic value to the company (Jansen, Curşeu, Vermeulen, Geurts, & Gibcus, 2011). Consequently, human capital is essential for the firm as it affects its performance and determines its success or failure (Pennings, Lee, & Witteloostuijn, 1998). According to the resource-based view of the firm, resources such as knowledge that are valuable, rare, difficult to imitate and to substitute provide the basis for the competitive advantage of a firm (Barney, 1991). Intangible resources are considered to be more probable to offer a competitive advantage than tangible resources, and a number of scholars have shifted their attention from the latter to the former (Carpenter, Sanders, & Gregersen, 2001). Human capital constitutes an intangible resource pivotal to the firm and refers to the individual's knowledge, skills, and abilities; being the importance of education and training widely recognized by researchers (Crook, Todd, Combs, Woehr, & Ketchen Jr, 2011).

Education is highly regarded as a human capital attribute, since individuals with greater levels of formal education possess greater general knowledge and capability to learn firm-specific knowledge. Students from renowned universities are viewed as desirable and valuable assets not only because of their knowledge and potential to learn throughout their careers but also due to the 'elite social networks' they

offer to the firm (Hitt, Biermant, Shimizu, & Kochhar, 2001). Higher levels of education also expand the cognitive complexity of the individual and are positively associated with the receptivity to innovation (Hambrick & Mason, 1984). Moreover, education increases the confidence level of a person and positively influences the level of risk acceptance and the ability to deal with uncertainty (Jansen et al., 2011; Rivera & Leon, 2005). Therefore, it could be expected that highly-educated CEOs are better able to deal with the riskiness and uncertainty of environmental strategies. Also, taking into account the fact that individuals with higher levels of formal education demonstrate more awareness and concern about environmental issues (Rivera & Leon, 2005), I hypothesize that the higher the CEO's human capital, the higher the firm's environmental performance.

H2: CEO human capital is positively associated with corporate environmental performance.

CEO Educational Background

Not just the amount but also the type of education influences a person's values and cognitive preferences. CEOs educated in management in particular are not expected to be innovative or to present a risk-taking behavior by their own nature (Hambrick & Mason, 1984). Moreover, management education influences the individual's cognitive

structure to perceive the firm as a ‘return-generating asset’ (Patzelt, Knyphausen-Aufse, & Nikol, 2008) and instills a profits-first mentality (Slater & Dixon-Fowler, 2010). Management doctrine is believed to instill ‘self-fulfilling’ theories about the negative aspect of human nature and corporations, since the ideas preached are influential as a practical discipline (Ghoshal, Bartlett, & Moran, 1999). There are also many studies that demonstrate that students who majored in economics tend to cooperate less than students from other areas (Manner, 2010). One possible reason consisted on the lack of ethical and CSR issues in the curriculum and textbooks. Notwithstanding, there is also skepticism regarding the teaching of ethics in graduate schools as a person’s ethical values are formed long before adulthood, being fruitless the exposition to it only later in life (Miller & Miller, 1976).

Considering the number of empirical studies confirming that students majoring in economics presented higher levels of self-interest, Frank, Gilovich, & Regan (1993) conducted some experiments to verify whether lower levels of cooperation were due to the discipline of economics itself or if the students who chose that major were already less cooperative and more self-interested to begin with. After conducting experiments with students who took only one semester of microeconomics, it was confirmed that those students responded less honestly to ethical dilemmas presented to them by the end of the course.

MBAs have also been under criticism for either being irrelevant for the development of managerial skills and abilities or for promoting the attitude of seeking profits first by any means (Slater & Dixon-Fowler, 2010). MBA students were found to have greater tendency to cheat in their coursework, and empirical studies suggest that this profits-first mentality induces managers to be less concerned over socially responsible affairs. Therefore, I suppose that the educational background of CEOs influences them to engage more or less in environmental strategies, and I suggest that CEOs with a degree in management, economics, or MBAs will present lower levels of CEP.

H3: CEO management education is negatively associated with corporate environmental performance.

2.3 Consumer Proximity

Consumer proximity constitutes another determinant that influences a firm to engage environmental activities. Nike, Gap and Zara are living examples of how stakeholders are prone to hold corporations at the end of the supply chain accountable for the whole manufacturing process (Lee, 2010). Accused of using sweatshops, Nike denied any responsibility for the alleged inhumane conditions of its production from the early 1990s until 2005, then suddenly disclosing a list of its global factories and suppliers in April of that year (Chandler & Werther, 2014).

Gap's overseas supply chain was also under heavy scrutiny in 2007, with shocking reports of children being sold by their own parents to work in factories making clothes 16 hours a day for no pay. In 2011, the Spanish clothing retailer Zara was also accused of slave-work condition of its workshops in Brazil. From one of Zara's outsourced factories, 33 clandestine workshops were traced, and the work conditions of one of them revealed that its workers had a daily shift of at least 12 hours, gaining on average US$ 569 per month (Antunes, 2011).

Branco and Rodrigues (2008) argued that the nearer the consumer proximity, the greater its social visibility and hence its social responsibility disclosure. Organizational visibility denotes the extent to which a company can be seen or noticed, and depending on its visibility level, a firm is more or less subject to public scrutiny and exposed to institutional and stakeholders' pressures (Bowen, 2000; Brammer & Millington, 2006). More visible companies tend to have a reduced information asymmetry between managers and stakeholders, turning firms more sensitive towards the pressure of political and social stakeholders.

The seminal work of Freeman (1984: 46) established the grounds for the stakeholder concept, defining it as "any group or individual who can affect or is affected by the achievement of the firm's objectives." In accordance with the stakeholder theory, it is vital for a company's

strategic decisions to be supported by key stakeholders in order to guarantee its prosperity and survival (Roberts, 1992). Managers promote and endorse environmental strategies in order to satisfy key stakeholders, seeking to improve their relationship and even the possibility to influence them. Consequently, companies cannot be only profit-oriented, but must pay attention to social and political demands from society. Several stakeholders could exert an influence in a firm's corporate environmental performance: shareholders, employees, consumers, environmental groups, media, institutions, and even competitors (Buysse & Verbeke, 2003).

The consumer proximity concept is termed by González-Benito & González-Benito (2006) as the 'position in the value chain,' referring to "the proximity to the final consumer within the supply chain". The manufacturing activity itself is already regarded as a prominent cause of pollution and requires a substantial consumption of natural resources (Wong, Lai, Shang, & Lu, 2014). The position within the manufacturing value chain influences the pressure that companies will face to comply with environmental practices, since manufacturers of end products have greater visibility and face higher consumer pressures than manufacturers of raw or intermediate products regarding their environmental performance. The extent to which the position in the value chain influences the adoption of CSR practices has already been questioned by

Abreu et al. (2012). Based on the assumption that the consumer proximity within the supply chain is positively related to CSR engagement, the authors hypothesized that apparel manufacturers presented more comprehensive CSR practices than textile manufacturers. The empirical results using Brazilian and Chinese firms as sample did not support the hypothesis; but as the authors themselves recognized, the results could not be generalized since they were based on the survey of a small number of firms. Furthermore, the objectivity and validity of self-reports is highly questioned by scholars (Edwards, 2012).

Exploring the lack of empirical evidence in the past literature and focusing only on the environmental dimension, it can be expected that the nearer the consumer proximity, the greater the effects of organizational visibility and the pressure of stakeholders, leading to higher levels of environmental performance. Accordingly, this study posits that consumer proximity will positively moderate the linkages of corporate environmental performance with CEO age (H1) and CEO human capital (H2). On the other hand, it is assumed that the consumer proximity will weaken the negative relationship between CEO management education and environmental performance (H3).

H4: Consumer proximity strengthens the positive relationship between CEO age and corporate environmental performance.

H5: Consumer proximity strengthens the positive relationship between CEO human capital and corporate environmental performance.

H6: Consumer proximity weakens the negative relationship between CEO management education and corporate environmental performance.

III. METHODS

3.1 Sample

The initial sample comprised the 200 largest manufacturing firms of textiles and wearing apparel (NACE Rev. 2 codes 13 and 14) located in South Korea. The list was sourced from Orbis database and comprised the largest companies that were active and presented at least one Trucost environmental score between the years of 2011 and 2013. Orbis provides information of almost 150 million companies around the world, both private and public. Information about CEOs were obtained by manually assessing various data sources such as KisLine, TS-2000, JoongAng Daily (www.people.joins.com), Naver (www.naver.com), and the company websites. Data of moderating and firm-level control variables were also collected using KisLine, Orbis, and TS-2000 databases. Missing data reduced the final sample to 49 companies and 87 firm-year observations. In order to address a causal relationship, the independent, moderating, and control variables were collected using a two-years lag. Therefore, the time span of those variables ranged from 2009 to 2011.

3.2 Measurements

Dependent Variable

Corporate Environmental Performance. Delmas et al. (2013) analyzed in their study three corporate environmental performance

indicators used in more than one hundred articles: KLD Research and Analytics, Trucost, and Sustainable Asset Management (SAM). According to the authors, those three ratings have been widely used by scholars and are visible to the general public. KLD and Trucost have been used to provide data for the *Newsweek* Green Rankings, an environmental ranking of the 500 largest publicly traded companies both in the United States and worldwide. SAM ratings are used for the Dow Jones Sustainability Indices (DJSI), consisting of sustainability benchmarks of countries, regions, and the world. As a leading environmental research organization, Trucost provides data for renowned institutions such as governmental agencies and influential companies (Reilly & Hynan, 2014). Its environmental risk metric assigned to each company represents the potential percentage of revenue at risk from the total environmental costs of its business activities. The metric is based on six categories of corporate environmental impacts: greenhouse gases, water usage, waste, air pollutants, land and water pollutants, and natural resources usage.

Independent and Moderating Variables

CEO age. The age of the CEO was measured by the logarithm of his or her number of years. CEO age is usually highly correlated to CEO tenure, and it could actually be considered an alternative explanatory variable to

the latter. Nevertheless, although both are highly correlated, they can present distinct results to predict relationships (Finkelstein & Hambrick, 1990).

CEO human capital. The human capital of the CEO was measured by his or her highest level of formal education achieved, ranging from 0 to 2. No college degree was coded as ‘0’; the attainment of a bachelor’s degree was coded as ‘1’; and a graduate degree as ‘2’ (Slater & Dixon-Fowler, 2010).

CEO educational background. The management education was coded as a binary variable, being ‘1’ if the CEO attained a diploma in business, economics or MBA or ‘0’ if otherwise (Patzelt, zu Knyphausen-Aufse, & Nikol, 2008).

Consumer proximity. The level of consumer proximity was measured as a binary variable, coding the company ‘0’ if it was a manufacturer of textiles or ‘1’ if it was a manufacturer of wearing apparels. The division was based on the European classification system Nomenclature of Economic Activities (NACE Rev. 2), as only companies that were manufacturers of textiles (primary code 13) or wearing apparel (primary code 14) were retrieved from Orbis database. The value chain of textiles

is clearly defined and ranges from the production of raw materials and yarns to the distribution and sales of apparel products to end customers. The manufacturing of textiles involves activities that produce finished textile products such as yarns and fabrics that will be in turn used in the manufacturing of apparels (Ngai, Peng, Alexander, & Moon, 2014). As manufacturers of finished products, it is expected that apparel manufacturers will face greater pressures from stakeholders than textile manufacturers (Abreu et al., 2012).

Control Variables

CEO functional background. In accordance with the upper echelons perspective, the work experience of top executives were classified into output and throughput functions. Output functions include externally oriented functions such as marketing, sales, and R&D; being throughput functions more internally oriented and figuring among them: production, process engineering, and accounting (Hambrick & Mason, 1984). There is evidence from the past literature that output functions are positively associated with CSR activities (Mazutis, 2013); therefore, CEO functional background was controlled in this study. The variable was measured as a binary variable of either ‘0’ if a throughput function or ‘1’ if an output function.

CEO tenure. Managerial tenure can refer to the number of years in a determined position, in the top management team, in the firm, or even in the industry (Finkelstein & Hambrick, 1990). In this paper, tenure was measured as the number of years the CEO hold such position in the firm. This variable was controlled for since longer tenure is associated with higher levels of risk-aversion and commitment to the status quo, influencing the organizational performance (Finkelstein & Hambrick, 1990; McClelland et al., 2012).

Firm age. Firm age is assumed to intervene in social responsible activities (Roberts, 1992), being controlled in this study. Older firms might have well established CSR activities and a reputation derived from it. Consequently, it could be costly or risky for them to deviate from this behavior. The logarithm of the number was used in the analysis due to skewed distribution.

Firm size. Corporate environmental performance is influenced by firm size (Bowen, 2002; González-Benito & González-Benito, 2010; Roberts, 1992), which is commonly measured by the number of employees of a company. Therefore, this factor was controlled in this paper's analysis. Larger companies tend to be under higher internal and external pressures from stakeholders, such as employees, investors, consumers, media,

regulators, and media. Firm size is also related to organizational inertia and to the level of managerial discretion of the top management team (Finkelstein & Hambrick, 1990), affecting the influence of managerial characteristics on organizational outcomes. This variable was also transformed logarithmically in order to reduce highly skewed variables.

Organizational form. Publicly quoted companies are associated with higher levels of visibility in comparison to private ones, and the different level of attention received is believed to affect their environmental performance (Dixon-Fowler, Slater, Johnson, Ellstrand, & Romi, 2013). Therefore, the condition of whether a company is public (1) or private (0) was controlled as a dummy variable.

Slack Resources. The availability of slack resources is prominent in explaining the affordability of CSR expenditures (Waddock & Graves, 1997). A traditionally used indicator of financial resource availability in the CSR research is firm net profit (Julian & Ofori-dankwa, 2013), the measure used in this paper. In order to strengthen the causality relation and average out single year effects, the average net profit of the two years prior to the focal year of the independent variable were calculated and used in the analysis. Therefore, only for this control variable the time span was from 2007 to 2009.

3.3 Statistical Analysis

The empirical analysis of this study was conducted using a panel data analysis with random effects, as there are individual specific effects across the sample that are random and uncorrelated with the independent variables. Using a random effects model offered the advantage of including time invariants, and all the statistical analyses were performed by using STATA version 12.0.

TABLE 1. DESCRIPTIVE STATISTICS AND CORRELATIONS

Variable	Mean	S.D.	1	2	3	4	5	6	7	8	9	10	11
1. CEP	-5.16	3.32	1.00										
2. CEO Functional Background	0.22	0.42	-0.11	1.00									
3. Firm Size	2.13	0.46	-0.04	-0.14	1.00								
4. Organizational Form	0.22	0.42	-0.12	-0.27	0.35	1.00							
5. Slack Resources	5.75e+06	1.99e+07	0.09	-0.13	0.36	0.18	1.00						
6. Firm Age	2.78	0.82	-0.28	-0.03	0.32	0.39	0.08	1.00					
7. CEO Tenure	9.67	7.84	-0.07	-0.08	0.02	-0.12	-0.01	0.20	1.00				
8. Consumer Proximity	0.74	0.44	0.87	-0.21	-0.10	-0.17	-0.02	-0.27	-0.01	1.00			
9. CEO Age	3.97	0.17	-0.06	-0.09	0.05	0.12	0.21	0.30	0.51	-0.12	1.00		
10. CEO Human Capital	1.25	0.56	-0.22	-0.23	0.14	0.23	0.17	0.29	0.01	-0.26	0.16	1.00	
11. CEO Educational Background	0.58	0.49	-0.04	-0.15	0.13	0.23	-0.02	0.21	-0.07	0.05	0.04	0.51	1.00

Number of Observations = 87 / Number of Firms = 49

TABLE 2. RESULTS OF PANEL DATA ANALYSIS

Variable	Model 1	Model 2	Model 3
CEO Functional Background	-1.20 (1.02)	0.22 (0.55)	0.39 (0.62)
Firm Size	0.45 (0.82)	0.13 (0.46)	0.53 (0.46)
Organizational Form	0.65 (1.00)	0.19 (0.53)	-0.14 (0.53)
Slack Resources	0.00 (0.00)	0.00* (0.00)	0.00 (0.00)
Firm Age	-1.81** (0.59)	-0.35 (0.34)	-0.51 (0.36)
CEO Tenure	0.05 (0.05)	0.02 (0.03)	-0.02 (0.03)
Consumer Proximity		5.48*** (0.48)	6.03*** (0.52)
CEO Age			3.21* (1.40)
CEO Human Capital			0.80 (0.50)
CEO Educational Background			-0.41 (0.48)
CEO Age x **Consumer Proximity**			
CEO Human Capital x **Consumer Proximity**			
CEO Educational Background x **Consumer Proximity**			
Constant	-0.84 (2.00)	-7.94*** (1.29)	-21.97*** (5.65)
Observations	102	102	87
Chi-squared	12.48	182.49	209.47

Standard Errors in Parentheses
+ *p* < 0.1, * *p* < 0.05, ** *p* < 0.01, * *p* < 0.001**

TABLE 2. RESULTS OF PANEL DATA ANALYSIS

Variable	Model 4	Model 5	Model 6
CEO Functional Background	0.62 (0.60)	0.43 (0.61)	0.28 (0.64)
Firm Size	0.27 (0.45)	0.41 (0.45)	0.56 (0.46)
Organizational Form	-0.20 (0.51)	-0.04 (0.52)	-0.06 (0.54)
Slack Resources	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)
Firm Age	-0.21 (0.36)	-0.64+ (0.35)	-0.52 (0.36)
CEO Tenure	-0.03 (0.03)	-0.01 (0.03)	-0.03 (0.03)
Consumer Proximity	29.81** (10.80)	8.43*** (1.42)	5.35*** (0.89)
CEO Age	5.52** (1.70)	3.58** (1.37)	3.31* (1.40)
CEO Human Capital	1.09* (0.49)	1.69* (0.69)	0.74 (0.51)
CEO Educational Background	-0.52 (0.45)	-0.29 (0.47)	-1.00 (0.78)
CEO Age x **Consumer Proximity**	-5.85* (2.65)		
CEO Human Capital x **Consumer Proximity**		-1.76+ (0.97)	
CEO Educational Background x **Consumer Proximity**			0.95 (1.00)
Constant	-32.05*** (7.11)	-24.36*** (5.67)	-21.87*** (5.67)
Observations	87	87	87
Chi-squared	238.58	225.68	208.77

Standard Errors in Parentheses
+ *p* < 0.1, * *p* < 0.05, ** *p* < 0.01, * *p* < 0.001**

IV. RESULTS

Table 1 presents the descriptive statistics, means and standard deviations, along with the correlations for the variables included in this study's analysis. Given the possibility of multicollinearity, the variance inflation factor (VIF) was calculated and concluded below the threshold value of 10. There are some results that are noteworthy. Firstly, as commonly expected and also due to the fact of focusing on firms located in South Korea, where high positions in the top management team are usually taken over by older employees, CEO age and tenure were highly correlated.

Secondly, CEO human capital and CEO educational background also presented a high level of correlation between them. It indicates the preference of CEOs to attain a degree in management, economics, or an MBA degree as they pursue further degree studies. Thirdly, another noteworthy result was the positive correlation between consumer proximity and corporate environmental performance at a highly significant level. Such strong association remains very significant even after controlling for firm and individual level-characteristics, as presented in table 2 in all the five models that it appears ($p < 0.01$ or $p < 0.001$).

Table 2 reports the results of the panel data analysis. Model 1 includes all the control variables, model 2 adds the moderating variable

(consumer proximity), and model 3 includes the three independent variables to the analysis: CEO age, CEO human capital, and CEO educational background. Within model 3, it is observed that only hypothesis 1 is supported at a significant level ($p < 0.05$), confirming the assumed positive relationship between CEO age and corporate environmental performance. The older a CEO becomes, the higher the level of environmental performance a firm presents. The positive association between CEO age and CEP at a significant level is also observed in models 4, 5, and 6 ($p < 0.05$ or $p < 0.01$).

Models 4 through 6 present the interaction effects. The results of models 4 and 5 show that CEO human capital has a positive impact on the firm's environmental performance, providing support for hypothesis 2 at a significant level ($p < 0.05$). It confirms that CEOs who received higher levels of formal education present higher levels of CEP. However, there was no support for hypothesis 3, which predicted a negative relationship between CEO management education and environmental performance.

Model 4 demonstrates that consumer proximity moderates the relationship between CEO age and corporate environmental performance at a significant level ($p < 0.05$) but negatively, contradicting the strengthening effect predicted by hypothesis 4. Model 5 reveals that consumer proximity negatively moderates the relationship between CEO

human capital and CEP at a significant level ($p < 0.1$), weakening the positive relationship between them, contrary to the assumption from hypothesis 5. In other words, the higher levels of CEP related to older CEOs or highly educated CEOs are dampened as the firms are closer to the final consumer. Model 6 shows that there is no support for hypothesis 6, which predicted that consumer proximity negatively moderates the relationship between CEO management education and corporate environmental performance. Therefore, the education in management studies did not produce any significant effect on the level of CEP, neither its interaction effect with consumer proximity had any impact on it.

V. DISCUSSION AND CONCLUSION

Drawing from the upper echelons perspective (Hambrick & Mason, 1984), this study addresses the lack of evidence of the impact of top executives' attributes on CSR, more specifically, the environmental aspect of it (Cong, Freedman, & Park, 2014; Rivera & Leon, 2005). As previously mentioned, most studies on environmental performance had focused on the question 'does it pay to be green?' and past studies trying to address the under-explored relationship between individual characteristics and environmental performance produced conflicting results.

The findings of this study confirmed that demographic characteristics of CEOs reflect their cognitive structure to perceive environmental strategies and influence their disposition and engagement in environmental performance. Among the three characteristics examined, only CEO age and human capital were found to be significantly and positively related to corporate environmental performance. This paper also intends to shed a light on the impact managerial characteristics on corporate performance in general, as empirical results are still debatable or even scarce. As argued by Serfling (2014: 251): "although CEO age is readily observable, there is surprisingly little evidence on how a CEO's age affects the CEO's corporate risk-taking behavior."

This study provides some practical contributions on how to determine a CEO change or look for a ‘moral rescuer’. Based on the results presented, firms seeking to improve their environmental performance might consider twice before hiring a younger CEO based on the assumption that he or she has greater physical and mental abilities (Hambrick & Mason, 1984). The positive relationship found between older CEOs and higher CEP could imply that younger CEOs might have the motivation but not the power or the firm-specific human capital to effectively allocate resources and improve corporate performance (Crook et al., 2011; McClelland et al., 2012). In addition, companies seeking higher environmental performance might prefer not just hiring highly educated employees but invest in their human capital to do so, as the task of finding an above-average CEO is not easy (Crook et al., 2011).

Among the empirical contributions of this research, it is worth mentioning that it is few the number of longitudinal studies in the previous literature linking TMT and CSR (Mazutis, 2013). The present study also contributes on examining how managerial characteristics interact with a firm-level determinant (consumer proximity) and how this interaction influences the firm’s environmental performance. Although CEOs play a decisive role in corporate performance, environmental initiatives also require decision-makers to be attuned to different stakeholders’ demands and to pay attention to changes of the conditions

in which firms operate in.

This paper could not clarify the controversy regarding the linkage between management studies and socially responsible behavior, since there was no support for the relationship between CEO educational background and CEP. Possible explanations for such result could be the argument that ethical principles are formed during the individual's early ages (Miller & Miller, 1976) or the irrelevance criticism which preaches that management education does not provide the effective skills, knowledge nor abilities to actually manage, as management is learned through experience and 'not in the classroom' (Slater & Dixon-Fowler, 2010).

It is surprising that although consumer proximity and corporate environmental performance are highly positively correlated, consumer proximity was found to weaken the two positive relationships of CEO age and CEO human capital with CEP. An alternative explanation for such result derives from the absence of definitive conclusions regarding the impact of CSR activities on financial performance. Since there is no clear evidence of the desirability of socially responsible investments neither there is a notion of the ideal investment amount (McWilliams & Siegel, 2001), there might be a 'stopping rule' delineating a limit for investments in CSR (Godfrey, 2005).

This paper also presents some limitation, such as generalizability.

The analysis is country-specific, as only South Korean firms were included in the sample, and it presents a relatively small sample size of firms (49) and firm-year observations (87). Although the initial sample comprised 200 firms, due to missing values the final sample was substantially reduced. Moreover, this study suffers from the inherent limitation to capture all variables that influence CSR (Roberts, 1992).

Future research could benefit by including and examining the following elements in the analysis: managerial discretion, CEO's compensation, and reverse causality. Firstly, although in this study it is assumed without reservations that CEOs are influential in the firm's performance, it is possible to identify the circumstances under which executives affect organizational outcomes to a greater or lesser extent. Hence the inclusion of managerial discretion (Hambrick & Finkelstein, 1987) would certainly enrich the analysis and produce more robust results. Secondly, stock-based compensation influences CEOs' decisions regarding CSR strategies and their ethical behavior, as stock-holding CEOs tend to be more risk-averse (Kang, 2015). Therefore, the addition of this variable could better explain the causal relationship between risk-aversion and environmental performance.

Lastly, it is noteworthy that in the unavailability of information about the qualification of potential candidates, education attainment is often used as a screening method in the job selection process (Pennings

et al., 1998). In spite of the positive relationship between CEO human capital and environmental performance found in this paper, future research could examine if there is a reverse causality: if maybe CEOs with higher levels of education choose companies with higher levels of CEP to work in or if the companies themselves are the ones who select those type of candidates.

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국문초록

경영진의 특성이 기업의 환경적 성과에 미치는 영향

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이 논문은 최고경영자의 특성이 기업의 환경적 성과에 미치는 영향을 연구하였다. 또한, 최고경영자의 특성과 기업 특성 사이의 상호작용을 분석함으로써, 기업의 환경적 성과와 재무적 성과 사이의 관계에 주로 치중했던 기존 연구 흐름에 기여하고자 하였다. Upper Echelons Theory 와 Stakeholder Theory 에 기반하여, 경영진의 특성이 기업의 환경적 성과에 미치는 영향을 분석하고 고객친밀도가 최고경영자의 나이, 인적자원, 교육수준의 세 가지 특성에 대해 조절효과를 보이는 지 확인하였다. 2011년에서 2013년 사이의 Trucost 환경 점수를 이용하여 한국의 섬유 및 의류 제조 기업 49개를 분석한 결과, 기업의 환경적 성과는 최고경영자의 나이, 인적자원과 각각 양의 관계를 나타냈다.

주요어: 기업의 환경적 성과, 경영진의 특성, 최고경영자 나이, 최고경영자의 인적자원, 최고경영자의 교육수준, 고객 근접도

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