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Higher Highs and Lower Lows: The Role of Corporate Social Responsibility in CEO Dismissal

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Research summary: *Investing a firm's resources in corporate social responsibility (CSR) initiatives remains a contentious issue. While research suggests firm financial performance is the primary driver of CEO dismissal, we propose that CSR will provide important additional context when interpreting a firm's financial performance. Consistent with this prediction, our results suggest that past CSR decisions amplify the negative relationship between financial performance and CEO dismissal. Specifically, we find that greater prior investments in CSR appear to expose CEOs of firms with poor financial performance to a greater risk of dismissal. In contrast, greater past investments in CSR appear to help shield CEOs of firms with good financial performance from dismissal. These findings provide novel insight into how CEOs' career outcomes may be affected by earlier CSR decisions.*

Managerial summary: *In this study, we examined a potential personal consequence for CEOs related to corporate social responsibility (CSR). We explored the role prior investments in CSR play when a board evaluates the firm's financial performance and considers whether or not to fire the CEO. Our results suggest that while financial performance sets the overall tone of a CEO's evaluation, CSR amplifies that baseline evaluation. Specifically, our results suggest that greater past investments in CSR appear to (a) greatly increase the likelihood of CEO dismissal when financial performance is poor, and (b) somewhat reduce the likelihood of CEO dismissal when financial performance is good. Thus, striving to deliver profits in a socially responsible manner may have both positive and negative personal consequences.*

Introduction

A CEO's primary objective is to generate economic returns for shareholders (Quigley & Hambrick, 2015). Consistent with this idea, firm financial performance is the primary metric by which CEOs are evaluated (Graffin, Boivie, & Carpenter, 2013) and it is also the strongest predictor of CEO termination (Finkelstein, Hambrick, & Cannella, 2009). Some argue, however, that these economic returns should be pursued in a socially responsible manner (Freeman, 1984), thereby suggesting that corporate social responsibility (CSR) is a secondary objective on which CEOs should focus. As a result, some CEOs have begun supporting CSR initiatives, committing significant corporate resources (e.g., money, time, attention) to help address social and environmental problems.

Whether or not CSR activities are in the best interest of the firm, however, remains a contentious issue. Proponents of CSR suggest it can help

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increase shareholder value and build support among stakeholders, such as employees, customers, and community members (Hillman & Keim, 2001). In contrast, critics of CSR suggest it benefits these stakeholders at the expense of shareholders, which conflicts with meeting the primary goal of increasing shareholder value (e.g., Friedman, 1970; Margolis & Walsh, 2003; Petrenko, Aime, Ridge, & Hill, 2016). This controversy is aggravated by the fact that research has been unable to provide a clear, consistent link between CSR and firm financial performance (e.g., McWilliams & Siegel, 2000; Waddock & Graves, 1997; Wright & Ferris, 1997). These inconclusive findings on the financial benefits of CSR thus provide no clear guidance regarding how CSR may influence a CEO's evaluation. Given such controversies and our limited knowledge of the personal consequences CEOs face as a result of engaging in CSR, we explore the role prior investments in CSR play when a board evaluates the firm's financial performance and considers whether or not to fire the CEO.

While firm financial performance is of primary importance in evaluating a CEO, we theorize CSR is an important secondary objective that will influence how those financial returns are interpreted by board members. Our focus on CSR as a secondary goal stems from its unique characteristics, particularly its visibility, its likelihood of attracting scrutiny by outside groups, and its contestability. In terms of its visibility and scrutiny, CSR is widely tracked and interpreted by third-party rating agencies, such as MSCI (i.e., KLD), and over 4 trillion dollars are invested in socially responsible investment funds (Social Investment Forum, 2014). Corporate social responsibility initiatives also receive global attention, as over 8,000 firms from more than 160 countries have signed onto the United Nations Global Compact, which commits firms to incorporating CSR into their business practices (UN Global Compact, 2014). In response to greater demand for CSR information, firms now often issue standalone reports on their CSR performance (Christensen, 2016). Despite this visibility and scrutiny, CSR initiatives are more complex to evaluate than other types of corporate initiatives (e.g., R&D or capital investments) because CSR may be motivated by concerns unrelated to enhancing shareholder value (Wang, Tong, Takeuchi, & George, 2016). These other concerns may include reducing carbon output, promoting diversity, or building support among stakeholders beyond shareholders. Measuring CSR initiatives' overall benefit is thus difficult, making CSR more contestable than more traditional investments, which are motivated almost exclusively by economic concerns. We suggest that the visibility and scrutiny of CSR will make it an important component in assessing a CEO, while its contestability means that its association with CEO dismissal will likely be more nuanced than direct.

We thus suggest that prior investments in CSR will influence how financial performance is interpreted, and thereby moderate the effect of financial performance on CEO dismissal. Specifically, we argue that while financial performance sets the overall tone of a CEO's evaluation, CSR amplifies that baseline evaluation. On the one hand, a high level of prior investments in CSR can amplify the positive framing of good financial performance and make it appear that the CEO can not only achieve the primary goal of generating economic returns, but can also do so in a socially responsible manner that is salient to multiple stakeholders. On the other hand, such investments may amplify the negative framing of poor financial performance and make the CEO appear to have dedicated too much of the firm's resources to the secondary goal of CSR and supporting other stakeholders, and not enough to the primary goal of generating economic returns for shareholders. Consistent with this prediction, our results suggest that greater past investments in CSR amplify the likelihood that CEOs of poorly performing firms are dismissed, whereas greater past investments in CSR appear to reduce the likelihood of dismissal for CEOs of well-performing firms. This article thus contributes to the literature by providing a better understanding of how CSR may be associated with CEO career outcomes. Specifically, our results suggest that prior investments in CSR amplify the most well-documented relationship in this literature—firm financial performance and CEO dismissal.

Theory and Hypothesis Development

A firm's financial performance is the primary metric by which its board assesses the CEO. The tendency to attribute firm performance primarily to the quality of a CEO results in the CEO's continuing employment prospects being heavily dependent upon firm performance (Finkelstein et al., 2009). Indeed, the influence of firm financial performance on CEO dismissal has been found

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in multiple samples across decades of research (Finkelstein et al., 2009).

While this conclusion has garnered consistent support over time, it explains only a small portion of the variance in CEO dismissals (Finkelstein et al., 2009). To help provide a better understanding of when CEOs are more or less likely to be dismissed, we suggest that prior investments in CSR may moderate the well-established relationship between firm financial performance and CEO dismissal due to its visibility, scrutiny, and contestability. The visibility and scrutiny associated with CSR ensure that such initiatives will be well known and thoroughly analyzed, while its contestability suggests that the value of CSR is open to interpretation.

In recent years, the visibility of CSR has increased substantially (Wang et al., 2016). Socially responsible investment funds now hold trillions of dollars (Social Investment Forum, 2014) and various stakeholders have increased their focus on CSR (UN Global Compact-Accenture, 2010). The increasing visibility of CSR is thought to be driven by growing mass media coverage of CSR initiatives, the rise of advocacy groups, and increased investments in CSR by large corporations (Wagner, Lutz, & Weitz, 2009). Further increasing its visibility is a recent spike in disclosures by firms; roughly three-quarters of all S&P 500 firms in the United States now publish an annual CSR report (Governance and Accountability Institute, 2015).

CSR has also been increasingly scrutinized and assessed by multiple stakeholders. Third-party rating agencies, such as MSCI (i.e., KLD), RobecoSAM (i.e., Dow Jones), and Thomson Reuters (i.e., Asset4), evaluate CSR regularly. Negative ratings by these agencies can lead to strong investor reactions, such as TIAA-CREF selling off over 50 million shares of Coca-Cola stock following concerns raised by KLD (Chatterji, Levine, & Toffel, 2009). Advocacy groups are also increasing their scrutiny of CSR. For instance, nearly 40% of shareholder proposals now focus on social and environmental issues (Ernst & Young, 2013). Such actions suggest that board members are quite aware of the degree to which nonfinancial stakeholders are pleased or frustrated with the firm's prior investments in CSR. Governmental agencies have also increased their oversight of CSR. For example, India now mandates that corporations must invest at least 2% of their net profit in CSR, while other countries such as China, Denmark, Malaysia, and South Africa require some level of CSR reporting (Wang et al., 2016). Thus, investors, activist groups, and governmental agencies collectively ensure that CSR is highly scrutinized and, beyond shareholders, these other stakeholder groups can and do influence organizational outcomes in a visible manner.

Further, the value of CSR is contestable and open to interpretation by stakeholders because the overall impact of CSR on firms is often difficult to quantify. Despite the fact that the relationship between CSR and financial performance has been widely studied, research has yielded conflicting results without a clear consensus. Some research suggests CSR has a positive influence on firm financial performance because it can generate stronger relationships with stakeholders, increase customer loyalty, and positively influence corporate reputation (Choi & Wang, 2009; Hillman & Keim, 2001). Other research, however, suggests that CSR initiatives hinder financial performance (Aupperle, Carroll, & Hatfield, 1985; Jensen, 2002) and come at the expense of shareholders (Brammer & Millington, 2008; Navarro, 1988). Still other research finds no relationship between CSR and firm financial performance (e.g., McWilliams & Siegel, 2000).

One potential cause for these disparate findings may be that quantifying the financial returns of CSR is more difficult than quantifying the returns from other forms of investments, such as capital expenditures, because the outcomes from CSR may simply be more diffuse (Wang et al., 2016). As we noted earlier, the motivations for engaging in CSR go beyond exclusively economic considerations. While there may be positive economic returns to CSR, other benefits, such as a positive impact on employees' dignity, are more difficult to quantify. Thus, these complex motivations and more diffuse benefits make CSR a more contestable form of investment than those that are purely economically motivated.

Financial Performance, Corporate Social Responsibility, and CEO Dismissal

Given its unique characteristics, we argue that prior investments in CSR will not directly influence CEO dismissal. Rather, we suggest that financial performance—a major determinant of CEO dismissal (Finkelstein et al., 2009) and a key reference point for decision makers (Greve, 1998)—will be interpreted in light of the firm's level of prior investments in CSR. Specifically, we argue that financial performance will set the overall tone of

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how the CEO is evaluated, and that CSR, due to its contestable nature, will amplify that baseline evaluation.

On one hand, good financial performance supports the perception that the CEO is of high quality. When this is combined with high levels of prior investment in CSR, this suggests that, not only was the CEO able to achieve the primary goal of generating economic returns, but was also able meet the secondary objective of accomplishing this in a socially responsible manner that benefited other, nonfinancial stakeholders. We suggest that by supporting these other stakeholders (e.g., employees, community activists, customers) through prior investments in CSR, these groups will view the sitting CEO more positively. In turn, due to the visibility of such stakeholders and their influence on firm outcomes (e.g., Briscoe & Safford, 2008; Choi & Wang, 2009; Freeman, 1984; Hillman & Keim, 2001), board members who are charged with retaining or dismissing the CEO, will evaluate the CEO even more positively as a result of the approval of these nonfinancial stakeholders.

On the other hand, when a firm displays poor financial performance compared to other firms, this negatively influences perceptions of the CEO's quality. We suggest that such negative perceptions will be amplified if the CEO has previously dedicated significant resources to CSR. Specifically, we suggest that poor financial performance, when combined with high levels of prior investment in CSR, will lead the board to believe that the CEO has invested too much of the firm's resources on the secondary objective of CSR rather than on the firm's primary mission—generating economic returns for shareholders. Thus, this may lead board members to conclude that the CEO focused too much on satisfying these other stakeholder groups at the expense of shareholders. We thus suggest:

Hypothesis 1: CSR will moderate the negative relationship between firm financial performance and CEO dismissal, such that CSR amplifies this relationship.

Methods

Sample

Our sample consisted of Fortune 500 firms spanning the years 2003–2008. We obtained financial information from COMPUSTAT; executive characteristics, ownership, and pay from ExecuComp; CEO dismissal from an analysis of media collected from LexisNexis; Corporate Social Responsibility data from Kinder, Lydenberg, and Domini (KLD); governance measures from Risk Metrics and Thomson Reuters; and stock returns from the Center for Research in Security Prices (CRSP). Private firms and missing data reduced our sample to 441 firms and 2,298 firm-year observations.

Dependent Variable

Our dependent variable, *CEO dismissal*, equals 1 if the CEO was fired, 0 otherwise. It was measured using Shen and Cannella's (2002) method to code involuntary turnover. We evaluated 339 successions using media articles from major U.S. newspapers in LexisNexis covering 1 year before to 1 year after the transition. First, we eliminated successions in which CEOs died, had health issues, were interim CEOs, accepted similar positions at other firms, or left due to a merger or acquisition. From the remaining successions, we identified dismissals when CEOs were reported to have (a) been fired or forced out; (b) resigned immediately or unexpectedly due to poor performance, undisclosed personal reasons, or a desire to pursue other interests; (c) retired early amidst performance problems; or (d) left before age 64 and also gave up their board seat. This method identified 104 CEO dismissals. After requiring control variables, our final sample included 98 CEO dismissals occurring at 90 different companies.[1]

Independent Variable

Our independent variable is the interaction of industry-adjusted returns and CSR. We calculated *industry-adjusted returns* as the firm's industry-adjusted annual stock return (including dividends), where industries were classified based on two-digit SIC codes; we found substantively similar results with three-digit SIC codes. We calculated *CSR* as the net strength and weakness rankings of five dimensions from KLD: employee, community, diversity, environment, and product (Choi & Wang, 2009; Hillman & Keim, 2001; Kang, 2013; Tang, Qian, Chen, & Shen, 2015).[2]

[1] In our sample, no individual firm-year had more than one CEO dismissal.

[2] Similar to prior research, we assume that observable CSR ratings are positively correlated with CSR investment, which is

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We used KLD ratings as they are "broadly regarded as the most comprehensive data available to measure CSR" (Petrenko et al., 2016).

Control Variables

We included several control variables to capture other factors that may influence the likelihood of dismissal. First, we included *firm size*, measured as the natural log of firm assets, to account for greater expectations for CEOs at larger firms (Shen & Cannella, 2002). Second, we controlled for CEO characteristics that could influence the likelihood of dismissal. CEO tenure and CEO duality help capture the power and influence the CEO has in the boardroom (Shen & Cannella, 2002). *CEO tenure* is measured as the number of years the CEO has been in office at the firm. *CEO duality* takes a value of 1 if the CEO chairs the board, 0 otherwise (Shen & Cannella, 2002). *CEO pay* helps capture the likelihood that the CEO will attract greater outside scrutiny and pressure as pay increases, which is measured as the natural log of total current compensation (Cai, Jo, & Pan, 2011). Third, we controlled for corporate governance characteristics using *institutional ownership*, calculated as the percentage of the firm's shares owned by institutional investors (Parrino, Sias, & Starks, 2003), and the *number of blockholders*, measured as the count of owners with at least 5% of the firm's shares. Finally, we controlled for the firm's R&D intensity, capital intensity, and market-to-book ratio, to capture differences in the firm's operating strategies (Ioannou & Serafeim, 2015; McWilliams & Siegel, 2000). *R&D intensity* was calculated as R&D expense divided by sales, and set to zero if missing; *Capex* was calculated as capital expenditures scaled by sales; *Market-to-book* was calculated as the market value of equity divided by the book value of equity.

Estimation

We used random-effects probit regression with standard errors clustered by firm to estimate our binary CEO dismissal model.[3] All regressions included year fixed-effects, and all independent and control variables have been lagged by 1 year.

Results

Table 1 provides descriptive statistics and correlations for the variables in our models. We also calculated variance inflation factors and found that all values were less than two, indicating that multicollinearity was not an issue (Kennedy, 2008).

Table 2 reports the results of our random-effects probit regressions predicting CEO dismissal. Model 1 presents the results with only the control variables, while Model 2 includes both components of our interaction term, and Model 3 presents the full model with the interaction term. Hypothesis 1 predicted that CSR would moderate the relation between financial performance and CEO dismissal. The results of Model 3 show that the coefficient on the interaction term is negative with a high likelihood that its value differs from zero ($\beta = -0.174$, $p = .002$). We plot the interaction and provide simple slopes in Figure 1.

At low levels of financial performance (one standard deviation below the mean), increasing prior investments in CSR from one standard deviation below the mean to one standard deviation above the mean is associated with an increased likelihood of dismissal by 84% (from 4.15 to 7.64%, $p = .040$). At extremely low levels of financial performance (two standard deviations below the mean) increasing prior investments in CSR from one standard deviation below the mean to one standard deviation above the mean is associated with a 206% increase in the likelihood of dismissal (from 4.82 to 14.7%, $p = .015$).

At high levels of financial performance (one standard deviation above the mean), increasing prior investments in CSR from one standard deviation below the mean to one standard deviation above the mean is associated with a 53% reduction in the likelihood of a CEO's dismissal (from 3.05% down

generally unobservable. While there are a number of dimensions of CSR available from KLD, the five that we chose are commonly used in the literature, and are classified as stakeholder management dimensions. Other dimensions—such as alcohol, tobacco, gambling—are typically considered social issue participation, and are commonly excluded from measures of CSR (cf. Hillman & Keim, 2001). We reran the analyses including all KLD dimensions in our CSR measure and found substantively similar results. We also examined the individual dimensions of CSR and found that no single dimension drives the overall results, suggesting the overall measure is most appropriate. Furthermore, using a decile ranked measure of CSR also produced similar results.

[3] Indistinguishable results and conclusions are drawn using random-effects logistic regression. Moreover, mean-centering industry-adjusted returns and CSR does not substantively change the results.

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Table 1
Descriptive Statistics and Correlations

	Variable	*M*	*SD*	1	2	3	4	5	6	7	8	9	10	11	12
1.	CEO dismissal	0.043	0.202												
2.	CSR	0.398	3.161	0.036											
3.	Industry-adjusted returns	−0.027	0.282	−0.075	−0.038										
4.	Industry-adjusted returns × CSR	−0.045	0.821	−0.069	−0.146	0.033									
5.	Firm size	9.632	1.371	0.045	0.165	−0.045	−0.026								
6.	Capex intensity	0.056	0.078	−0.025	−0.132	−0.043	0.026	0.069							
7.	R&D intensity	0.018	0.042	0.012	0.313	−0.041	−0.088	0.018	0.046						
8.	Market-to-book	3.106	3.282	−0.002	0.170	0.076	−0.062	−0.110	−0.069	0.128					
9.	CEO pay	8.862	0.925	−0.001	0.124	−0.012	−0.030	0.402	−0.009	0.080	0.048				
10.	CEO tenure	5.582	6.062	0.009	−0.009	−0.028	0.007	−0.040	0.002	−0.024	−0.018	0.031			
11.	CEO duality	0.717	0.450	−0.030	0.008	−0.016	0.022	0.140	0.040	−0.032	0.005	0.185	0.240		
12.	Number of blockholders	1.891	1.454	−0.001	−0.133	−0.016	0.018	−0.310	−0.046	−0.102	−0.111	−0.137	0.001	−0.058	
13.	Institutional ownership	0.741	0.162	−0.002	−0.048	0.066	−0.005	−0.297	−0.103	−0.084	0.000	−0.017	−0.008	−0.035	0.634

$N = 2{,}298$ firm-year observations.

to 1.42%, $p = .047$). This association increases to an 81% reduction in likelihood of dismissal (from 2.60% down to 0.050%, $p = .030$) at extremely high levels of financial performance, two standard deviations above the mean. Overall, the findings are consistent with the relationship suggested by Hypothesis 1.[4]

Supplemental Analyses

We conducted several supplemental analyses to assess the robustness of our findings. First, since boards may compare the firm's CSR to other firms in the industry when evaluating the CEO, we reran our analysis using an industry-adjusted CSR measure. The results are reported in Model 4 of Table 1, and are consistent with our prior results ($\beta = -0.163$, $p = .006$).

Second, to rule out the possibility that a time-invariant omitted variable may be driving our results, we reran our analyses using three models that include fixed-effects. We first duplicated our primary analysis including controls for industry fixed-effects. The results remain unchanged (Model 5 of Table 2: $\beta = -0.180$, $p = .003$). Next, we ran a conditional logistic regression with clustered robust standard errors including firm fixed-effects (S. J. Long, 1997). This produced results consistent with our main analysis (Model 6 of Table 2: $\beta = -0.259$, $p = .041$). While accounting for the dichotomous dependent variable, this method reduced our sample to only those firms that experienced a CEO dismissal. To overcome this limitation, we ran a linear fixed-effects regression with clustered robust standard errors (Kennedy, 2008), and again obtained consistent results (Model 8 of Table 2: $\beta = -0.012$, $p = .036$).[5] These analyses are consistent with our main findings in the presence of firm fixed-effects.

Third, we ran two tests to assess the possibility that a time-varying omitted variable may

[4] These effect sizes were of consistent economic magnitude across estimation methods. Summary statistics from a 2×2 analysis of dismissal rates based on high/low *CSR* and high/low *industry-adjusted returns* yield similar inferences. Specifically, when financial performance is below the median, and CSR is above (below) the median, CEO dismissal rates are 6.6% (5.2%). When financial performance is above the median, and CSR is above (below) the median, CEO dismissal rates are 2.5% (2.8%).

[5] For reference, a pooled linear model without firm fixed-effects is shown in Model 7 of Table 2.

Table 2
Results of Regressions Predicting CEO Dismissal

	Random-effects probit					Conditional logit	Linear probability model		Survival model
Variables	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9
Firm size	0.110	0.099	0.100	0.102	0.114	2.686	0.010	0.074	0.155
	(0.012)	(0.020)	(0.019)	(0.016)	(0.053)	(0.019)	(0.043)	(0.001)	(0.047)
Capex intensity	−0.788	−0.852	−0.923	−0.949	−0.266	0.776	−0.060	0.066	−2.247
	(0.208)	(0.184)	(0.153)	(0.140)	(0.794)	(0.854)	(0.138)	(0.738)	(0.101)
R&D intensity	0.837	0.108	−0.203	−0.032	1.468	−2.847	0.008	−0.065	−0.404
	(0.432)	(0.921)	(0.854)	(0.977)	(0.248)	(0.746)	(0.945)	(0.865)	(0.881)
Market-to-book	0.005	0.006	0.004	0.005	−0.002	0.050	0.000	0.000	−0.003
	(0.732)	(0.660)	(0.746)	(0.700)	(0.916)	(0.613)	(0.714)	(0.940)	(0.924)
CEO pay	−0.046	−0.050	−0.048	−0.048	−0.026	0.202	−0.005	−0.001	−0.067
	(0.348)	(0.333)	(0.354)	(0.361)	(0.678)	(0.272)	(0.273)	(0.851)	(0.557)
CEO duality	−0.205	−0.206	−0.206	−0.206	−0.194	−0.967	−0.018	−0.050	−0.474
	(0.054)	(0.053)	(0.055)	(0.054)	(0.120)	(0.012)	(0.090)	(0.012)	(0.031)
Number of blockholders	0.028	0.014	0.013	0.013	−0.013	−0.071	0.001	−0.005	0.046
	(0.489)	(0.724)	(0.753)	(0.756)	(0.763)	(0.598)	(0.732)	(0.328)	(0.596)
Institutional ownership	0.184	0.259	0.250	0.260	0.559	3.756	0.023	0.158	−0.051
	(0.678)	(0.556)	(0.570)	(0.553)	(0.237)	(0.030)	(0.566)	(0.070)	(0.958)
CEO tenure	0.007	0.007	0.008	0.008	0.009	0.184	0.001	0.008	n/a
	(0.311)	(0.312)	(0.288)	(0.291)	(0.337)	(0.133)	(0.313)	(0.000)	n/a
Industry-adjusted returns		−0.791	−0.730	−0.722	−0.803	−1.049	−0.050	−0.041	−1.688
		(0.001)	(0.001)	(0.001)	(0.000)	(0.057)	(0.000)	(0.009)	(0.001)
CSR		0.013	−0.006	−0.010	−0.015	−0.040	0.001	−0.001	−0.015
		(0.457)	(0.750)	(0.627)	(0.460)	(0.638)	(0.568)	(0.796)	(0.713)
Industry-adjusted returns × CSR (H1)			**−0.174**	**−0.163**	**−0.180**	**−0.259**	**−0.015**	**−0.012**	**−0.393**
			(0.002)	**(0.006)**	**(0.003)**	**(0.041)**	**(0.003)**	**(0.036)**	**(0.001)**
Year fixed-effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry-adjusted CSR	No	No	No	Yes	No	No	No	No	No
Industry fixed-effects	No	No	No	No	Yes	No	No	No	No
Firm fixed-effects	No	No	No	No	No	Yes	No	Yes	No
Constant	−2.453	−2.387	−2.395	−2.428	−2.600	n/a	−0.014	−0.759	n/a
	(0.000)	(0.000)	(0.000)	(0.000)	(0.004)	n/a	(0.809)	(0.001)	n/a
Pseudo-R^2/Adj. R^2	0.038	0.083	0.093	0.090	0.163	0.152	0.017	0.219	n/a
Observations	2,298	2,298	2,298	2,298	1,917	499	2,298	2,298	2,298
Unit of Observation	FirmYear	FirmYear	FirmYear	FirmYear	FirmYear	FirmYear	FirmYear	FirmYear	CEOYear
# of unique firms/CEOs	441	441	441	441	375	90	441	441	682

Two-tailed *p* values are shown in parentheses below coefficient estimates. All models use robust standard errors clustered by firm. The survival model incorporates CEO tenure in the hazard function. Model 4 employs an industry-adjusted CSR measure, which was calculated using two-digit SIC codes. The variable of interest is shown in bold font.

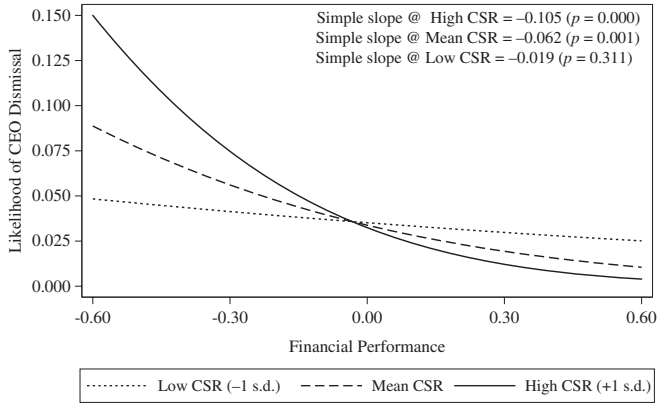

Figure 1. Interaction plot of marginal effects for financial performance (i.e., industry-adjusted returns) and corporate social responsibility (CSR) predicting CEO dismissal. Simple slopes are measured at mean levels of financial performance and are shown with two-tailed *p* values testing whether the slope is statistically different from zero.

be driving our results. First, we reran our analyses with additional controls: stock return volatility, return on assets (ROA), strategic change and strategic deviation, board independence, CEO age, CEO ownership, the entrenchment index, firm age, and leverage. Our conclusions remained unchanged.[6] Next, we wanted to assess how strong a correlated omitted variable would have to be to overturn our results, so we calculated the impact threshold of a confounding variable (ITCV) for our interaction term (Frank, 2000).[7] The results show an ITCV of −0.011, which implies that partial correlations between *Industry-adjusted returns*CSR* and *CEO dismissal* with an omitted confounding variable would have to be about 0.104 ($=\sqrt{0.011}$) to overturn the results. To put this in perspective, it would take a correlated omitted variable with an impact nearly as large as the strongest variable in this model to overturn the results. Assuming that we have a reasonable set of control variables, this suggests that the results are not likely driven by a correlated omitted variable.

Fourth, we evaluated the potential endogenous nature of our two independent variables by assessing whether (a) prior investments in CSR led to industry-adjusted returns or (b) industry-adjusted returns led to CSR in our sample. We ran two linear fixed-effects models—one using CSR to predict industry-adjusted returns and one using industry-adjusted returns to predict CSR—including clustered robust standard errors and the same control variables as our main models. The results suggest that CSR did not help explain industry-adjusted returns ($\beta = -0.002$, $p = .777$), nor did industry-adjusted returns help explain CSR ($\beta = 0.130$, $p = .318$).

Fifth, we considered if the hypothesized product term—*Industry-adjusted returns* × *CSR*—is endogenous by using a two-stage least squares instrumental variables method proposed by Wooldridge (2003), which accounts for endogenous product terms. We used the political leanings of the state where the firm is headquartered, measured as whether the state voted for a Democrat in the prior presidential election, as the instrument. While no instrument is perfect, we suggest that firms in these states are likely to have higher levels of CSR, while it is not clear why the local political views would influence CEO dismissal, making it a potentially valid instrument. Further, it is predictive of CSR ($\beta = 1.136$, $p = .000$), but not of CEO dismissal ($\beta = -0.012$, $p = .909$). Results from the second stage of this test show that the coefficient on the interaction term is consistent with our primary findings ($\beta = -0.032$, $p = .008$).

Sixth, because the likelihood of dismissal changes over CEO tenure, we reran our main analysis using a Cox proportional hazard event

[6] Results of all untabulated supplemental analyses can be obtained from the first author upon request.

[7] To calculate the ITCV (Frank, 2000; Larcker & Rusticus, 2010), we used an expanded version of Model 7 in Table 2, which also included additional interaction terms (Maroulis & Gomez, 2008). Specifically, we interacted *Industry-adjusted returns* with all the control variables in the model (e.g., *R&D intensity* × *Industry-adjusted returns*) to provide a better benchmark against which to compare the ITCV. Using this model, we found similar results to those reported in Model 8 and calculated that the ITCV for *Industry-adjusted returns*CSR* is −0.011.

history model, which incorporates CEO tenure in the hazard function (Jenter & Kanaan, 2015; Singer & Willett, 2003). As shown in Model 9 of Table 1, we again found similar results ($\beta = -0.393$, $p = .001$).

Finally, as a placebo test, we considered voluntary CEO turnover as a dependent variable, as we would not expect to find any results in this setting. We coded for voluntary CEO turnover by excluding departures that were due to sickness, death, interim CEOs, or due to involuntary dismissal, which identified 141 voluntary turnovers. When we reran our primary analyses with this dependent variable, our results show the coefficient of *industry-adjusted returns* ($\beta = 0.24$, $p = .675$), *CSR* ($\beta = -0.01$, $p = .596$), and the interaction ($\beta = 0.006$, $p = .902$) all match our expectations that there is no meaningful effect. Thus, our combined main and supplemental analyses provide consistent evidence suggesting that CSR moderates the relationship between firm financial performance and CEO dismissal.

Discussion and Summary

In this study, we sought to explain the potential personal consequences for CEOs related to corporate social responsibility (CSR). Broadly, our findings suggest that prior investments in CSR amplify the relationship between firm financial performance and CEO dismissal. Specifically, if things are going poorly financially, greater prior investments in CSR appear to expose the CEO to an even higher risk of being fired. In contrast, if the firm is performing well financially, higher levels of CSR appear to help protect the CEO from dismissal. It thus appears that prior investments in CSR amplify directors' assessments of financial performance and, in turn, the likelihood of CEO dismissal.

Our findings extend the direct linkage between financial performance and CEO dismissal (Finkelstein et al., 2009) by suggesting that prior investments in CSR subsequently frame the assessment of financial performance delivered during the CEO's watch. Our results are consistent with prior research asserting the primary importance of firm financial performance on CEO assessment, but also suggest that earlier investments in CSR inform how financial performance is interpreted. Our results also suggest that investing or not investing in CSR influences career outcomes for CEOs, but that this influence is dependent upon how their firm is performing financially.

As with all studies, this article also has its limitations. One limitation is that we focused only on CEOs in the United States. Thus, our findings may not generalize to other countries due to differing cultural norms or governance practices. Also, since our sample was limited to Fortune 500 firms, the results may not generalize to smaller firms as they may not face the same level of scrutiny as larger firms. Additionally, although we employ numerous methods to address endogeneity, it is difficult to fully rule out its influence when conducting empirical research. Finally, there is still debate regarding how to properly measure CSR. Consistent with previous research (e.g., Barnett & Salomon, 2012; David, Bloom, & Hillman, 2007; Hillman & Keim, 2001; Hull & Rothenberg, 2008; Ioannou & Serafeim, 2015), we used KLD ratings as our proxy for earlier investments in CSR. While we recognize that measuring CSR is difficult, this measure is the most well-known and frequently studied measure of CSR. Thus, despite questions about its reliability (e.g., Chatterji, Durand, Levine, & Touboul, 2016), its widespread usage, among academics and in social investments funds, suggests it is a reasonable CSR proxy.

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