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Experience-based human capital or fixed paradigm problem? CEO tenure, contextual influences, and corporate social (ir)responsibility

Won-Yong Oh[a,*], Young Kyun Chang[b], Rami Jung[b]

[a] Lee Business School, University of Nevada, Las Vegas, 4505 S Maryland Pkwy, Las Vegas, NV 89154, USA
[b] Sogang Business School, Sogang University, 35 Baekbeom-ro, Mapo-gu, Seoul, Republic of Korea

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ABSTRACT

There are both benefits and costs of CEO tenure. CEO tenure is an indication of firm-specific knowledge and experience (i.e., the human capital view); however, long CEO tenure may lead to a lack of flexibility (i.e., the fixed paradigm view). We examine the effect of CEO tenure on two of a firm's social outcomes-CSR and CSIR. If the human capital view holds, long CEO tenure will increase CSR and reduce CSIR. If the fixed paradigm view holds, long CEO tenure will reduce CSR and increase CSIR. We further propose that these relationships are amplified by contextual influences, such as market growth, resource availability, and CEO duality. Empirically, we found general support for the *human capital hypothesis*, such that extended CEO tenure itself does not increase CSR, but decrease CSIR. Furthermore, three contextual factors moderate the CEO tenure-CSIR relationship, yet only market growth moderates the CEO tenure-CSR relationship.

1. Introduction

Over the past decades, following Hambrick and Mason's (1984) upper echelons perspective, a substantial number of studies have examined the relationship between the characteristics of a chief executive officer (CEO) and organizational outcomes (Carpenter, Geletkanycz, & Sanders, 2004). In particular, a CEO's tenure is one of the most heavily examined characteristics in management research (Henderson, Miller, & Hambrick, 2006; Luo, Kanuri, & Andrews, 2014; McClelland, Barker, & Oh, 2012; Simsek, 2007). However, there are divergent perspectives on the effects of CEO tenure, specifically whether it is beneficial or harmful to organizational outcomes (Bergh, 2001).

In order to reconcile these competing views, we examine the effect of a CEO's tenure on multi-faceted organizational outcomes, namely, corporate social responsibility (CSR) and irresponsibility (CSIR). CSR involves a firm's proactive social initiatives beyond regulatory requirements, which can be achieved through effective stakeholder management (Freeman, 1984). However, CSIR involves a firm's violations of regulatory guidelines and a failure to meet minimum standards. Thus, CSR and CSIR have distinct implications, and thus have been treated as different facets of organizational outcomes (Mattingly & Berman, 2006).

A CEO's tenure has important strategic implications for a firm's social responsibility, given that CEO tenure significantly affects managerial capability based on firm-specific experiences (Buchholtz, Ribbens, & Houle, 2003; Luo et al., 2014; Slaughter, Ang, & Fong Boh, 2007) and the flexibility of the managerial paradigm (Hambrick & Fukutomi, 1991; Henderson et al., 2006; McClelland et al., 2012), which are necessary to manage multiple stakeholders' various interests. To our best knowledge, only a few studies (Lewis, Walls, & Dowell, 2014; Marquis & Lee, 2013; Thomas & Simerly, 1994) have focused on the effects of CEO tenure on a firm's social outcomes with the mixed findings, including a positive (Lewis et al., 2014; Thomas & Simerly, 1994), negative (Marquis & Lee, 2013), and non-significant relationship (Le, Fuller, Muriithi, Walters, & Kroll, 2015) between executive tenure and CSR. This indicates that CEO tenure seems to have multiple implications for a firm's social outcomes.

On one hand, CEO tenure is a reflection of *experience-based human capital* obtained from his or her experience (e.g., Buchholtz et al., 2003; Slaughter et al., 2007). According to human capital theory (Becker, 1975), a manager's tenure is positively related to his or her capability based on the accumulation of firm-specific experiences. As CEOs stay with the position longer, they expand their knowledge sets and skill repertoires (Wu, Levitas, & Priem, 2005) and a sense of psychological ownership (Huybrechts, Voordeckers, & Lybaert, 2013). Thus, if an experience-based human capital view holds, long CEO tenure is likely to be beneficial to the firm by increasing CSR and reducing CSIR.

On the other hand, other studies (e.g., Henderson et al., 2006; Miller, 1991) argued that a CEO's long tenure leads to a lack of cognitive flexibility and resistance to making necessary strategic changes,

* Corresponding author.
E-mail addresses: wonyong.oh@unlv.edu (W.-Y. Oh), changy@sogang.ac.kr (Y.K. Chang).

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which is referred to as the *fixed paradigm problem* (McClelland et al., 2012). Extended CEO tenure is associated with persistent decision making, a commitment to the *status quo*, and failure to respond effectively to external demand (e.g., Finkelstein & Hambrick, 1990; Miller, 1991). Also, it may be associated with strong overconfidence or hubris. Thus, if this fixed paradigm problem view holds, a long CEO tenure is likely to be detrimental to the firm by reducing CSR and increasing CSIR.

Furthermore, this study examines the effects of CEO tenure on a firm's social outcomes based on different sources (i.e., industry, firm, and individual) of contextual influences, including market growth, resource constraints, and CEO duality (Finkelstein, Hambrick, & Cannella, 2008). We assumed that those contextual factors could strengthen the relationships between CEO tenure and CSR/CSIR.

Using a panel dataset of U.S. publicly-traded manufacturing firms, we found general support for the *human capital hypothesis*. First, as CEOs stay longer, their human capital helps them avoid irresponsible decisions (CSIR), but does not necessarily lead them to make responsible decisions (CSR). Second, the three contextual factors – market growth, resource constraints, and CEO duality – moderate the relationship between CEO tenure and CSIR, yet only market growth moderates the relationship between CEO tenure and CSR. This suggests that long-tenured CEOs are likely to be more active in avoiding CSIR under the conditions of high market growth, low resource constraints, and CEO duality, but they reduce CSR when the market is growing.

This study makes several contributions to research on both CSR and strategic management. This study adds new evidence of why firms engage in socially responsible (or irresponsible) activities. While an extensive body of research has been devoted to examining the antecedents of a firm's social responsibility, there is relatively little research on the effects of a CEO's tenure on a firm's social outcomes. This study fills this gap by advancing the existing knowledge about the precursors of corporate ethics. In addition, this study extends the upper echelons argument (Hambrick & Mason, 1984); specifically, it reconciles the divergent perspectives on the effects of CEO tenure by examining multifaceted organizational outcomes. Furthermore, this study offers a more precise description of the relationships between a CEO's tenure and a firm's social outcomes by considering contextual influences at multiple levels. In particular, our findings suggest that CEO tenure may be a double-edged sword in some conditions (e.g., high market growth); long CEO tenure prevents a firm from taking CSIR actions, but at the same time discourages a firm from being proactive in CSR activities.

2. Theory and hypotheses

2.1. Effects of CEO tenure on CSR and CSIR

Given the contrasting perspectives on the effects of CEO tenure on organizational outcomes (Bergh, 2001), we develop a set of competing hypotheses to examine the effects of CEO tenure on both CSR and CSIR.

2.1.1. Experience-based human capital hypotheses

The experience-based human capital view (e.g., Becker, 1975; Slaughter et al., 2007) suggests that extended CEO tenure is beneficial to organizational outcomes, since CEO tenure may be a "useful gauge of his or her knowledge of the organization and its stakeholders" (Thomas & Simerly, 1994, p. 962). During CEOs' time in their positions, they gain firm-specific expertise and social capital that has value within that specific firm. CEOs may develop the firm-specific knowledge (Finkelstein et al., 2008) that helps them understand the various interests of multiple stakeholders, as well as the internal resources and capabilities that can be used to satisfy those interests. Also, as CEOs gain tenure, they build social capital with their stakeholders, which is the goodwill and trust that these stakeholders have toward the firm. For example, Luo et al. (2014) found that CEO tenure has a positive impact on long-term relationships with employees. In contrast, CEOs who have a short tenure may face a liability of newness (especially for CEOs who join from outside of the firm) because they have a limited amount of time to develop social capital with key stakeholders or an understanding of the firm's operations (Bergh, 2001).

As CEOs gain knowledge of various stakeholders' situations, power, characteristics, and relationships with the focal firm, they can more effectively deal with the interests of those stakeholders. Furthermore, CEOs' increased familiarity with stakeholders may foster interpersonal and/or inter-organizational trust (e.g., Luo et al., 2014). Therefore, if the experience-based human capital view is supported, CEOs with a longer tenure are more likely to engage in CSR through effective stakeholder management.

Hypothesis 1a. (Human capital hypothesis) CEO tenure will be positively associated with CSR.

As CEOs stay longer in their positions, they fully capitalize on their own knowledge and capabilities for operational purposes, which may lead them to have a strong sense of psychological ownership of the firm. From a psychological ownership perspective, such CEOs are likely to feel that the firms they lead are ones in which they have invested, and possibly feel as if the company is their own (Pierce, Kostova, & Dirks, 2001). Psychological ownership refers to the feeling of possession of a subject regardless of whether he or she has any real authority or control over that subject. The more an individual (i.e., CEO) can manage the target (i.e., organization), the more information he or she acquires about it, and the more that individual feels he or she owns the target (Huybrechts et al., 2013; Pierce et al., 2001). Indeed, Huybrechts et al. (2013) argue that tenure strengthens the CEO's psychological ownership.

Previous studies argued that psychological ownership can lead to pro-organizational behavior, such as organizational commitment, stewardship, or citizenship behavior (e.g., Van Dyne & Pierce, 2004). In particular, Hernandez (2012) defined stewardship behavior as sacrificing personal gains for the long-term well-being of various stakeholders, suggesting stewards are less likely to engage in wrongdoing that harms stakeholders' wealth (Davis, Schoorman, & Donaldson, 1997). Therefore, if the experience-based human capital view is supported, CEOs with longer tenure would make their organization ethically sound, and thus are more likely to disengage from CSIR.

Hypothesis 1b. (Human capital hypothesis) CEO tenure will be negatively associated with CSIR.

2.1.2. Fixed paradigm hypotheses

Other studies (e.g., Henderson et al., 2006) have claimed that CEOs are likely to have an inflexible and rigid decision-making scheme, which is often referred to as the *fixed paradigm problem* (McClelland et al., 2012). There are at least two reasons why extended CEO tenure leads to such problems. First, CEOs are likely to stay in their positions longer because they have performed well financially or have successfully managed the relationship with stakeholders. Due to their past success, longer-tenured CEOs could be *overconfident* in their existing managerial paradigm (i.e., cognitive model regarding how to run an organization) and reluctant to go beyond what they have done in the past (Hambrick & Fukutomi, 1991). Second, longer-tenured CEOs may have greater power and discretion over other stakeholders (e.g., Hill & Phan, 1991), and thus they are less sensitive in responding to external demands (Simsek, 2007).

Given this description, we argue that long-tenured CEOs are less attentive to making socially responsible decisions. Because they have been in the same position for a long period of time, long-tenured CEOs are likely to commit to the *status quo*. Specifically, Miller (1991) noted that such CEOs have a 'stale in the saddle' mindset. Thus, they are unable or unwilling to respond to multiple stakeholders' diverse interests and demands. In other words, a commitment to the *status quo* leads long-serving CEOs to fail to grasp the various stakeholders' interests and

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