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CEO Greed and Firms' Environmental Performance in Environmentally Sensitive Sectors of China

Saif-Ur-Rehman, Canadian University Dubai, UAE
Elgiliani Elshareif, Canadian University Dubai, UAE
Hashim Khan, COMSATS University Islamabad, Pakistan

ABSTRACT

In the current study, the authors explored how CEO greed concerning bonuses and rewards on restricted stock affects a firm's environmental performance (EP) in environmentally sensitive sectors of China. Moreover, they empirically tested the constraining role of the quad director on the relationship between CEO greed and EP. Findings indicate that (a) CEO greed negatively affects the strategic firm's environmental performance, particularly the negative relation is augmented by the person-pay interactionism rationale (bonus), (b) the presence of one quad director in the board does not constrain CEO greed and EP negative relation, and (c) the presence of two or more quad directors in the board significantly constraints the negative relation between CEO greed and EP. Thus, having at least two quad directors is more effective than combining directors with multiple features. Our results are robust to different CEOs' power dynamics. Our research has important practical implications for corporate governance and business strategy formulation.

KEYWORDS

CEO Greed, China, Corporate Governance, Environmental Performance, Environmentally Sensitive Sectors, Quad Director

1. INTRODUCTION

Self-interest is a general trait of CEOs, and too much altruism can harm firm performance (Takacs Haynes, Campbell, & Hitt, 2017). This reveals some businesses' dark and self-destructive propensities and presents an opportunity to correlate greed, egotism, and firm performance (financial and non-financial). Further, empirics have highlighted the consequences of CEO greed, and firms led by greedy CEOs suffer severe consequences (Francoeur, Melis, Gaia, & Aresu, 2017). In the current study, CEO greed refers to an intense and selfish desire for wealth, supporting the researchers' view that more greedy CEOs are less concerned with environmental performance (hereafter EP). During the last few decades, the governance monitoring role and firms' EP have become imperative for stakeholders.

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Therefore, the search for rising yields in environmentally-sensitive organizations will probably coexist with improved governance and EP practices (Cheng et al., 2014). Environment strategy requires the resolution of scientific and engineering problems, and the solution could be costly and may temper short-run performance (Schrettle, Hinz, Scherrer-Rathje, & Friedli, 2014).

Therefore, a key factor can be how firms make decisions that affect the EP, and in this context, it is vital to understand how a greedy CEO influences corporate choices. Based on the Upper Echelon viewpoint, we stated that firms managed by greedy CEO are likely to be associated with poor EP, as EP represents a long-term-oriented strategic choice with limited instant return (Shou, Shao, Lai, Kang, & Park, 2019). Since CEO greed is associated with short-run profits (Haynes, Josefy, & Hitt, 2015), they are more likely to neglect EP. Likewise, executive behavior correlates with intrinsic and extrinsic motives (Wowak, Gomez-Mejia, & Steinbach, 2017)); we hypothesize that CEO greed and CSR relation are subject to the type of CEO pay measures (Wowak & Hambrick, 2010). Agency theory predicts that economic motivations are an influential tool for controlling CEOs' emphasis on stakeholders' essentials (Sajko, Boone, & Buyl, 2021). As the material gain is a promise of greed (Wang & Murnighan, 2011), we also propose that the willingness of greedy CEOs to opt for EP as a strategic choice is mainly sensitive to pay arrangements, like bonuses and restricted stocks. We empirically tested the negative role of CEO greed in EP, and our results supported the view. We also found that EP is highly sensitive to pay arrangements as a strategic choice. We found that bonus augments the CEO greed and EP negative relation in both coefficient and level of significance.

In contrast, restricted stocks weaken the relation in terms of coefficient only. Further, the negative relation is more pronounced when CEOs exercise powers (CEO duality and CEO compliance board). Our study contributes to the existing literature by providing evidence regarding CEO greed and EP performance in environmentally sensitive sectors of Chinese manufacturing firms. Our study contributes to the literature on the drivers of CEO behavior in the context of EP (Busenbark, Krause, Boivie, & Graffin, 2016). We integrated the Upper Echelon viewpoint and agency model to predict why and how the CEO shapes firms' EP profiles and responded to calls to integrate CEO's motives (pecuniary and non-pecuniary) as antecedents of firm strategic choices (Wowak et al., 2017).

To what extent governance can control the self-centered behavior of executives remains an unresolved myth. The corporate board is primarily responsible for the oversight of the conduct and efficiency of these executives (Banerjee, Nordqvist, & Hellerstedt, 2020). We believe that these executives may not be selfish or careless in their duties, but they are humanly determined. Therefore, the board needs to have their work cut out for them, and they every so often fail in their primary role-monitoring responsibilities, as revealed in governance failures. These incidences are localized, and the board behaves as spectators to these misconducts (Park, Boeker, & Gomulya, 2020). Acknowledging the large risks associated with EP, we devoted the second part of our research to studying how the board monitoring capability can be increased. Maybe the utmost track has been to suggest upsurges in board independence (Baulkaran & Bhattarai, 2020), reducing the board size. So the logic of effectiveness and responsibility of the board should be enhanced (Ho, Jenkins, Verreynne, Teo, & Singh, 2018); separating the duality role of the CEO (Havrylyshyn & Schepker, 2020) or, otherwise, employing a lead director[1]_ftn1 (Baulkaran & Bhattarai, 2020); and specifying the presence and confirmation of several committees like compensation or nominating (Almaqoushi & Powell, 2021). Though adopting these remedies has much face validity (Haynes, Zattoni, Boyd, & Minichilli, 2019), a substantial part of empirics specifies that these projected solutions do not serve as a critical solution at all.

Furthermore, organizations are still facing governance problems. In the current scenario, we presented new empirical evidence showing the board's effectiveness in monitoring the negative consequences of CEO greed in the context of EP. We proposed that the presence of quad directors improves board efficacy, thus, reducing the negative association between CEO greed and EP in China. At the outset, we emphasized that directors are engaged in the monitoring process, naturally unobservable by stakeholders. In contrast, governance failures allow influential individuals like CEOs to direct policies toward self-centered objectives, like CEO greed, as the focus of the current study