ABSTRACT

While the link between top executive characteristics and CSP have been explored, whether and how founder-CEOs influence CSP remains understudied. Besides, it is still unclear as to whether founder-CEOs are more effective in improving their firms’ CSP than non-founder CEOs. To address this gap, we propose a process model on why CEO founder status is positively related to CSP and firm financial performance. We propose that founder-CEOs enhance the level of CSP by emphasizing transformational leadership and long-term orientation in their overall decision-making. We conclude with detailed discussion of the contribution of our theoretical model to future research.

Keywords: Founder-CEOs, Corporate Social Responsibility, Sustainability, Strategic Leadership

INTRODUCTION

There is a growing understanding among both scholars and practitioners that the ultimate purpose of a publicly-owned business enterprise are not only the maximization of shareholder value but also corporate social performance (CSP). These objectives are intertwined since socially responsible corporate activities have been shown to affect the firm’s reputation (Orlitzky, Schmidt & Rynes, 2007; Brammer & Millington, 2008), customer satisfaction (Lev, Petrovits & Radhakrishnan, 2010) and favorable evaluation by external stakeholders (McGuire, Sundgren & Schneeweis, 1988; Arya & Zhang, 2009). In this study, we adopt the definition of CSP proposed by Wood (1991, p. 693) as “a business organization's configuration of principles of social responsibility, processes of social responsiveness, and policies, programs, and observable outcomes as they relate to the firm's societal relationships.” Along with the emphasis on factors associated with CSP, organizational scholars have also empirically examined the relationship between executive leadership characteristics (e.g. values and orientation) and CSP (Agle, Mitchell & Sonnenfeld, 1999; Sully de Luque, Washburn, Waldman & House, 2008; Waldman & Siegel, 2008). For instance, Agle and colleagues (1999) found, in their analysis of 80 U.S. companies, that the degree of stakeholder attributes such as power, legitimacy and urgency significantly influenced executives’ attention and extent of priority given to various stakeholders. They also found that CEOs’ other-regarding values significantly moderate the
stakeholder attribute and salience relationship. Sully de Luque and colleagues (2008), similarly observed that executives’ views on corporate social responsibility (CSR) engendered perceptions of visionary leadership and ultimately higher firm performance.

While the link between top executive characteristics and CSP is increasingly attracting scholarly attention in the last couple of decades, whether and how founder-CEOs influence CSP remains understudied in the literature. Despite the widespread discussion on the influence of founder-CEOs at the early (entrepreneurial) stages of the firm (Begley, 1995; Nelson, 2003), it is evident that a number of these founder-CEOs are successfully leading large and complex businesses (e.g. Jeff Bezos of Amazon.com, Larry Ellison of Oracle, and Michael Dell of Dell Inc.). While the overall question of founder-CEO and firm performance in large, established businesses is recently attracting some scholarly (Fahlenbrach, 2009; Souder, Simsek & Johnson, 2012) and practitioner (Birger, 2006) inquiries, it is still unclear as to whether founder-CEOs are in fact more effective in improving their firms’ CSP than their professional (non-founder) counterparts.

In order to address this research gap, this study proposes a process model on why CEO founder status is positively related to CSP and ultimately firm financial performance. Specifically, we introduce two leadership concepts, namely, transformational leadership and long-term orientation in order to explain why founder-CEOs could be effective in enhancing CSP and firm financial performance. Our general argument is that founder-CEOs’ leverage their personal attachment and passion to the firm to pursue transformational leadership style that involves articulating compelling vision and motivate their followers by not only creating enthusiasm about the future but also cultivating a creative and engaged work environment. We also propose that, given the lack of significant agency problems and short-term focus, founder-CEOs can enhance the level of CSP by emphasizing long-term orientation in their overall decision-making. The paper is organized as follows: we will first provide a brief overview of the CSR-performance as well as founder-CEO literatures. We then present our process model of founder-CEOs and CSP with corresponding propositions. We conclude with detailed discussion of the contribution of our theoretical model to future research.

**LITERATURE REVIEW**

**Overview of Corporate Social Responsibility (CSR) and Firm Performance**

For the purposes of this paper, we adopt Aguinis (2011, p. 855) definition of CSR as being “context-specific organizational actions and policies that take into account stakeholders’ expectations and the triple bottom line of economic, social, and environmental performance.” Over the last several decades, organizational scholars have extensively explored a central question of whether pursuing CSR help improve firm’s performance (McGuire et al., 1988; Agle et al., 1999; Orlitzky et al., 2003; Aguinis & Glavas, 2012). Even though there are some debates as to whether it helps improve firm’s performance (Peloza, 2009), a wide variety of research has empirically explored that CSR helps boost firms’ value such as the competitive advantage of the firm, thereby ensuring value and satisfaction for stockholders and customers (Cox, Brammer & Millington, 2004; Lev et al., 2010).

A majority of empirical evidence overall suggests a significant positive relationship between CSR and financial performance (Peloza, 2009; Aguinis & Glavas, 2012). For example, Peloza (2009) reviewed 128 studies that explored the relationship between CSR and financial outcomes and found that, almost 60% showed a positive relationship, less than 15% a negative...
relationship and mixed findings from the rest of the studies. Similarly, McWilliams, Siegel, & Wright (2006) argue that strategic leadership theory can be apply to CSR and that transformational leadership will be positively correlated with the tendency of companies to participate in CSR so that CEOs will strategically use CSR. McWilliams et al (2006) also discuss particularly the stakeholder (Freeman, 1984) and stewardship (Donaldson & Davis, 1991) theories support the positive relationship between CSR and firm performance. More specifically, McWilliams et al (2006) claim that, according to the Stakeholder theory, participating in CSR can positively affect firm given, without engaging in CSR, non-financial stakeholders might no longer support for the firm because they regard CSR as crucial. The latter also implies that doing the right thing is an ethical obligation for the firm regardless of how such actions influence firm financial performance. Jones (1995) claims that institutional approaches and classical economic theory have also been applied to CSR and that firms facing repeated transactions with stakeholders based on trust and cooperation are encouraged to be honest, trustworthy, and ethical because the returns to such behavior are high.

Looking at strategic perspectives, the resource-based view (RBV) can explain why firms engage in CSR. Russo and Fouts (1997), consistent with the prescription of RBV theory, argued that higher levels of environmental performance leads to better financial performance and serves as key source of competitive advantage. This argument is in line with Hart (1995) who also asserts that RBV can be applied to CSR depending on the specific nature of firm because CSR possesses a resource that brings about a sustainable competitive advantage which in turn positively affects firm’s performance. The recent perspective of CSR also helps provide valid scholarly perspectives about the relationship between CSR and performance. For example, the study by Aguinis and Glavas (2012, p. 948) observed that the managerial commitment to ethics (Muller & Kolk, 2010) and equity sensitivity (Mudrack, Mason, & Stepanski, 1999) suggest that “the higher commitment and sensitivity, the stronger the CSR and performance relationship”.

Firms engage in CSR for various reasons (Aguinis and Glavas, 2012): instrumental reasons such as expected financial outcomes, normative reasons such as firm’s value, and nonfinancial reasons such as managerial practice improvement or attractiveness to investors, there are some negative perspectives about CSR in a recent study. Vaaland, Heide & Gronhaunl (2008) argue that when publicly held firms pursue socially responsible activities that might negatively affect profit (Lantos, 2001) arguing the legitimacy and utility of CSR strategy. Crook (2005) argued that while governments should concern all citizens as they are doomed to be, businesses shouldn’t try to follow the governments’ mission because managers who are not competent with it tend to have busy daily job which in turn gives them no time to consider the public good.

In addition, it is questionable that CSR benefits the corporate benefit. Vaaland et al (2008) claim that customers tend to pay less attention to ethical concerns in their buying decision-making behavior (Carrigan & Attalla, 2001), and raise the dilemma that customers are likely to reward unethical behavior and reprimand ethical business behavior (Titus & Bradford, 1996; Carrigan & Attalla, 2001). In other words, it might be better for firms to spend their limited resources on better products and services rather than on CSR because customers less concern their moral view when choosing products and services. If this happens, the initial value-based intention of firms helping society may not be quite effective. McWilliams et al (2006) also proposed that firms would better spend their resources on value-added internal projects or return to shareholders rather than invest in CSR. They seem to support the assertion that CSR is an executive perk.
because managers use CSR for their benefit to advance their careers. Heslin and Ochoa (2008) argue that large firms’ original CSR intention includes lobbying for their standards that apply to other firms. For instance, Enron actually cheated its stakeholders while superficially undertaking admirable social initiatives such as substantial donations. Ford Motor also publicly announced to reducing its environmental impact while lobbying against increase in federal fuel economy standards. However, there is still a robust empirical evidence supporting the positive relationship between CSR and financial performance. For example, CSR helps increase firm attractiveness to prospective employees (Turban & Greening, 1997) who in turn positively affect firms’ value. Aguinis and Glavas (2012: 947) summarized the major empirical evidence on CSR-performance relationship as follows:

“Working for socially responsible companies leads to increased organizational identification (Carmeli, Gilat, & Waldman, 2007), employee engagement (Glavas & Piderit, 2009), retention (Jones, 2010), organizational citizenship behavior (OCB; Jones, 2010; Lin, Lyau, Tsai, Chen, & Chiu, 2010; Sully de Luque, Washburn, Waldman, & House, 2008), employee commitment (Maignan et al., 1999), in-role performance (Jones, 2010), employee creative involvement (Glavas & Piderit, 2009), and improved employee relations (Agle et al., 1999; Glavas & Piderit, 2009).”

The overwhelming number of empirical studies show that there is a significant positive relationship between CSR and firm performance. Despite the extensive empirical evidence and scholarly attention to the general CSR-firm performance relationship, research that examines the executive influence on the development and implementation of CSR strategy is still evolving. In the next section, we briefly review some of the research on the influence of top executives on the CSR agenda and related performance outcomes.

**The Role of Top Executives in CSP**

Both the practitioner and scholarly communities have long acknowledged the active role executives play in pursuing an effective CSR agenda. A recent survey of 391 global top executives by the consulting firm McKinsey indicated that an overwhelming majority (more than nine of ten) of them are more inclined to include social responsibility and sustainability in their strategic priorities. The same survey has found that most executives engage in CSR related activities in response to growing pressures from key stakeholder groups such as customers and employees (Bielak, Bonini & Oppenheim, 2007). What role do top executives such as CEOs play in CSP? Many scholars have revealed the relation between CEOs’ role and CSR performance by studying demographic characteristics, leadership, and integrity and they have found that long-tenured CEOs who have a background in output functions and who have charisma with integrity have positively effect on CSR performance. Table 1 below summarizes major studies that explored the influence of top executives in CSP.

Wood (1991) argues that CSR is performed by individual human actors who continuously make decisions. These decisions - strategic decisions - are normally made by CEOs who are responsible for leading their firms. Thomas and Simerly (1994) argue that managerial attributes can be crucial determinants in which CEOs choose to satisfy an organization’s social responsibilities and that different CEOs make different decisions based on their own experiences and values; therefore, individualistic perception significantly reflects CSR performance.
Expending the logic, managerial characteristics in demographic elements can explain between CEOs’ role and CSR performance. For example, Thomas et al (1995) claim that output functions (externally oriented activities such as developing new products to fulfill market trends) and the long-tenured executives can be more adept at understanding the multiple demands of their stakeholders. In sum, Thomas et al (1995) argue that CEOs’ backgrounds in output functions such as marketing and R&D lead to high CSR performance and CEOs having longer tenure lead to high CSR performance.

Leadership has also provided some insights with CEOs role in CSR and many scholars have supported this view. For example, Waldman, Siegel, and Javidan (2006) argue that charisma as a characteristic of CEO can be as a relationship between leader and followers, that followers’ emotional connection can be felt toward a leader, and that charismatic leaders seem to maintain deeply-held personal values such as integrity and justice. Kanungo (2001) also argues that charismatic leadership can be derived from ethical values which can reflect a helping concern for others. Particularly, Shamir, House, and Arthur (1993) claim that charismatic leadership with self-concepts of followers can be related to CSR. For instance, leaders have values and moral justifications which provide motivational effects with followers by providing goals in terms of values they offer so that charismatic leaders help connect one’s identify with greater social causes; therefore, charismatic leaders may be effective at forming a collective identity based on values beyond the self-interests of individuals and even the greater organization (Waldman et al, 2006a).

In addition, Waldman et al (2006a) argues that integrity as a role of CEOs can also be relevant to CSR value, that define leader integrity behavior as sharing important information with followers, keeping one’s word, and protecting the interests of followers rather than oneself, and that conclude that the vision and integrity of a leader will increase CSR values of shareholders. The logic here is that followers’ favorable reactions may include perceptions of selflessness as well as trust in the leader (Gottlieb & Sanzgiri, 1996). In other words, CEOs who have high level of integrity and vision positively affect CSR.
Table 1: Summary of Major Studies in Top Executives Role in CSP

<table>
<thead>
<tr>
<th>Study</th>
<th>Orientation (Conceptual/Empirical)</th>
<th>Variables Studied</th>
<th>Sample</th>
<th>Key Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Thomas &amp; Simerly (1994)</td>
<td>Empirical</td>
<td>Managerial characteristics and CSP</td>
<td>305 U.S Firms</td>
<td>Organizations are a reflection of their top managers, and encourage further systematic research of the influence of key executives in developing and implementing CSP</td>
</tr>
<tr>
<td>Waldman, Siegel &amp; Javidan</td>
<td>Empirical</td>
<td>CEO Charismatic leadership and CSR</td>
<td>56 U.S. and Canadian Firms</td>
<td>CEO intellectual stimulation (a component of transformational leadership) was found to be significantly associated with strategic CSR.</td>
</tr>
<tr>
<td>Basu &amp; Palazzo (2008)</td>
<td>Conceptual</td>
<td>CSR activities and a process model of sense-making</td>
<td>1143 U.S public firms between 1998 and 2002</td>
<td>Studying cognitive, linguistic, and conative dimensions might lead to a better understanding of a firm’s CSR.</td>
</tr>
<tr>
<td>Hillestad, Chunyan &amp; Haugland (2010)</td>
<td>Empirical</td>
<td>New knowledge on corporate branding from a corporate social responsibility</td>
<td>One company within the Norwegian offshore oil and gas industry</td>
<td>Founder’s role as cultural architect influences employees’ attitudes and behaviors in relation to environmental issues; enforces a positive reputation for the company as a “green innovator.”</td>
</tr>
<tr>
<td>He (2008)</td>
<td>Empirical</td>
<td>CEOs founder status and financial performance</td>
<td>1143 U.S. public firms between 1998 and 2002</td>
<td>CEOs tend to earn smaller incentive compensation and smaller total compensation than professional CEOs. Founder-managed firms are associated with higher financial performance and are more likely to survive than professional managed firms.</td>
</tr>
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</table>
**Founder-CEOs and Firm Performance**

There are two types of founder-status, founder CEOs and non-founder CEOs. Many studies argue that founder-CEOs have more positively influence on performance than non-founder CEOs. Fahlenbrach (2009) states that among publicly traded the largest U.S firms, only eleven percent is led by founder CEOs, and compared to non-founder-led firms, founder-led firms have a higher firm valuation as well as a higher stock market performance. How and why founder CEOs perform better than non-founder CEOs? Jayaraman, Khorana, Nelling, and Covin (2000) argue that compared to non-founder CEOs, founder CEOs generally have more capabilities and incentives that translate into performance, and that the fortune of founder CEOs is highly related to the destiny of their firms. In other words, founder CEOs are more likely to work hard and tend to invest in improving their managerial skills, and with lower incentives than non-founders, founder CEOs are better encouraged to contribute their effort and work for shareholders benefit.

Particularly, a study by He (2008) shows many scholarly perspectives to support why founder CEOs perform better than non-founder CEOs. For example, founder CEOs contribute almost everything they have to their firm so that such contribution will lead the founders to be more strongly identified with and committed to the firm than non-founder CEOs (Arthurs and Busenitz, 2003; Gimeno, Folta, Copper, & Woo, 1997; Nelson, 2003; Smith & Miner, 1983). Many psychological perspectives also support founder CEOs more than non-founder CEOs to performance. For instance, Deci and Ryan (1985) argue that founder CEOs’ psychological link inherently relates to their firm, and the intrinsic motivation helps highly connect founder-CEOs’ interests to the goal of the organization. He (2008) also supports psychological link that founders CEOs’ intrinsic motivation reduces the needs for high incentives (Benabou & Tirole, 2003; Murdock, 2002), this intrinsic motivation that positively affects performance. In sum, the closer founder CEOs link to their firm, the more they care about their firm; as a result, the higher cost efficiency the firm enjoys. The effect of this situation, therefore, helps firm enjoy superior firm performance.

Especially, by studying two theoretical perspectives below, we can find why founder-CEOs perform better than non-founder CEOs. Godos-Diez, Fernández-Gago, and Martínez-Campillo (2011) argue that stewards have morality beyond individual benefit that tends to affect all business participants such as organizations and stakeholders (Davis, Schoorman, & Donaldson, 1997; Hernandez, 2008) and the closer CEOs to stewards model, it will help them provide moral responsibility beyond just regal responsibility, which helps increase a higher level of CSR activities to their firms. Hernandez (2008) argues for stewardship theory that all stakeholders want to enjoy the long-term value of the firm. Stewardship approach infers that founder CEOs with moral value tend to give more effort to CSR for society as well as for their organizations, which lead to long-term value of their firms - sustainable competitive advantage. For instance, Godos-Diez et al.(2011) argue that stewards will support the welfare of all stakeholders as well as the shareholders so that all participants of organizations can enjoy the best interest of the group.

Another theoretical perspective to explain why founder CEOs perform better than non-founder CEOs is “Wealth effect.” Adams, Almeida, & Ferreira (2009) argue that founder CEOs’ wealth normally comes from their firm performance. When they retire, they want to possess maximum benefit which stems from past good performance. Therefore, while having their own businesses,
founder-CEOs should be more care about performance than non-founder CEOs. Although wealth effects have some negative aspect (e.g., founder CEOs get better informed than other participants -inside trading issues), founder-CEOs want to keep their firm-related wealth high at least until they leave their firm.

These perspectives generally make sense. Founder CEOs establish their firm by putting endless effort, a great amount of time and money, external and internal resources they utilized as much as they can. They want their company keep growing; maintain sustainability in order to get paid off for sacrificing themselves for the firm.

In sum, we find two general themes stemming from literature review. First, CSR positively affects firms’ performance. Second, founder CEOs pay more attention to their firm’s performance rather than do non-founder CEOs who are inclined to more care about their own interest. However, few studies have revealed that the relationship between founder status and corporate social performance (CSP) which is main purpose of this study. Even though we may anticipate that there is the positive relationship between founder CEOs and CSP because both are positively related to firm performance, few scholars prove conceptually the relationship. Therefore, next sections we intend to establish theoretical development that explains the relationship between founder CEOs and CSP.

**A PROCESS THEORY OF FOUNDER-CEO STATUS AND CORPORATE SOCIAL PERFORMANCE**

Figure 1 below presents the proposed theoretical model of the paper. As described earlier in the paper, we present a process model explaining how founder-CEO led firms are associated with CSP and ultimately firm financial performance. The level of transformational leadership and long-term orientation are presented as mediators of the founder-CEO and CSP relationship. In addition, the four major components of transformational leadership are presented.

![Figure 1: A Process Model of CEO Founder Status and Corporate Social Performance](image-url)
Transformational leadership has long been identified by organizational scholars as a major leadership archetype that has been found to be effective in various settings (Burns, 1978; Bass, 1985; Avolio & Bass, 1993; Bass, 1999; Avolio & Yammarino, 2002). An extensive array of empirical evidence exists on the positive impact of transformational leadership on employee commitment, satisfaction and organizational identification (Dumdum, Lowe & Avolio, 2002; Avolio, Weichun, Koh & Bahatia, 2004; Wang & Howell, 2012), organizational citizenship behavior (Piccolo & Colquitt, 2006) and task performance (Howell & Avolio, 1993; Dvir, Eden, Avolio & Shamir, 2002).

Transformational leadership is comprised of four major components (Avolio, Bass & Jung, 1999; Bass & Riggio, 2006): (1) Idealized Influence (ability of leader to attract admiration and respect and desire to follow from subordinates), (2) Inspirational Motivation (ability of leader to communicate clear vision and create enthusiasm about future), (3) Intellectual Stimulation (ability of leader to encourage creativity and unconventional and status quo-challenging problem-solving among followers), and (4) Individual Consideration (ability of leader to accept individual differences and actively provide feedback and interaction with followers).

In this paper, we propose that CEO’s transformational leadership style positively mediates the relationship between founder-CEOs and corporate social performance. Indeed, transformational leadership has been found to influence CSR behavior among some firms (Waldman et al., 2006). In their analysis of 56 U.S. and Canadian firms, Waldman and colleagues have found some empirical support for the relationship between CEO intellectual stimulation (which is one dimension of transformational leadership) and CSR. Some studies have shown that Founder-CEOs often exhibit deep personal attachment and passion for their firms (Ling, Zhao, & Baron, 2007). In addition, they articulate and communicate a strong sense of vision for their organizations (Wasserman, 2003; He, 2008). In addition to personal attachment and vision, founder-CEOs often have a high social capital, reputation and goodwill among external stakeholders of the firm (Nelson, 2003; Fischer & Pollock, 2004; Bamford, Bruton & Hanson, 2008). These attributes of founder-CEOs suggest that they are more likely to display a transformational leadership style in their organization. Founder-CEOs that utilize idealized influence (charismatic leadership), inspire and motivate their followers, provide an intellectually stimulating work environment and strive to create an individualized consideration to their followers can be effective in instilling an organization-wide social responsibility agenda. Therefore we propose the following:

**Proposition 1 (P1):** The level of transformational leadership positively mediates the relationship between founder status and corporate social performance (CSP).

Specifically, we propose that:

**Proposition 1a (P1a):** The level of CEO idealized influence positively mediates the relationship between founder status and corporate social performance (CSP).

**Proposition 1b (P1b):** The level of CEO inspirational motivation positively mediates the relationship between founder status and corporate social performance (CSP).
**Proposition 1c (P1c):** The level of CEO intellectual stimulation positively mediates the relationship between founder status and corporate social performance (CSP).

**Proposition 1d (P1d):** The level of CEO individualized consideration positively mediates the relationship between founder status and corporate social performance (CSP).

**The Mediating Role of Long-Term Orientation**

Long-term orientation refers to the propensity of executives to emphasize long-term goals in their strategic decision-making and overall management philosophy. We argue that founder-CEOs particularly are more likely to focus on long-term orientation in their management philosophy and decision-making. We further argue that such long-term orientation enables founder-CEOs to passionately embrace various CSR practices in the firm’s business model. Past studies have shown that founder-led firms tend to pursue long-term strategies of growth and stability as opposed to mere short-term performance outcomes since they are personally interested in the long-term success and viability of the institution (He, 2008; Fahlenbrach, 2009). Fahlenbrach (2009) for instance observed that founder-led firms in his study’s sample invest more in capital budgets as well as research and development compared to their non-founder counterparts. Unlike their professional (non-founder) counterparts, founder-CEOs have less concern on short-term employment security (Nelson, 2003; Souder, Simsek, & Johnson, 2012). Fahlenbrach (2009, p. 439) for instance observed that “Founder-CEO firms invest more in research and development, have higher capital expenditures, and make more focused mergers and acquisitions….Founder-CEOs often consider their firm as their life’s achievement. This intrinsic motivation and long-term approach encourages founder CEOs to pursue the optimal shareholder-value maximizing strategy instead of concentrating on short-term actions or “enjoying the quiet life.”” Founder-CEOs tend to be long-term oriented also because of their unique perspective on risk-taking. While they are mainly regard as risk-taking entrepreneurs (Willard, Krueger & Feeser, 1992; Begley, 1995), founder-CEOs do not usually create an agency problem that is typical among many professional (non-founder) CEOs (Gao & Jain, 2012). Specifically, unlike non-founder CEOs, they are more likely to pursue less risky (conservative) organizational actions (Fahlenbrach, 2009; Souder et al., 2012).

Given that CSR is a value-based organizational commitment (Thomas & Simerly, 1994; Maignan, Ferrell & Hult, 1999; Bansal, 2003; Aguilera, Rupp, Williams & Ganapathi, 2007), it is reasonable to expect that founder-led firms emphasize high CSP. While empirical research on the link between founder-CEOs and CSP is at the early stage, some preliminary studies have suggested that there is a significant increase in CSP among founder-led firms when compared to their non-founder led counterparts (Block & Wagner, 2010; Hillestad, Chunyan & Hougland, 2010). In sum, we propose that the emphasis on long-term orientation as an executive philosophy serves as a facilitator in the relationship between founder-CEOs and CSP. Therefore we propose the following:

**Proposition 2 (P2):** The extent of long term orientation positively mediates the relationship between founder status and corporate social performance (CSP).
Corporate Social Responsibility and Firm Financial Performance

Does CSP lead to financial performance? Although there are some debates whether CSP positively affects financial performance (e.g., does doing good mean doing well?), several perspectives have supported that there is a positive relationship between CSP and corporate financial performance. Stakeholder theory (Freeman, 1984) has been an important theoretical foundation for this relationship. This theory argues that favorable social performance is a requirement for business legitimacy, and social and financial performance tends to be positively associated over the long term. Recently, Marom (2006) argues that the two concepts of CSR and stakeholder theory support that social responsibility affects financial performance because both address the issue of social responsibility; either toward stakeholders, or toward society as a whole. For example, doing good to society, and reacting to stakeholders’ needs and expectations, would lead to improved financial performance. Lee (2008) and Peloza (2009) argue that corporate that behave in a socially desirable manner will also do better financially and suggest that environmental initiatives by firms be more likely to be related to positively financial returns; e.g., decreased energy consumption reduce operating costs, which increases the firm’s share price.

Not all scholars, however, support the positive relationship between CSP and CSR. Among five frequently-used dimensions about CSR (Voluntariness, Stakeholder, Social, Environmental, and Economic), inconsistent perspectives about philanthropy (voluntariness) arise. For example, agency perspectives on corporate social performance by Navarro (1988) argue that legalizing corporate contributions has led to a flagrant abuse of shareholder property rights, an inefficient use of corporate and societal resources, and eventually reduction of financial returns to companies. Brammer and Millington (2008) argues that good CSP comes at the expense of good financial performance; e.g., social performance needs firm resources that lead to significant managerial benefits rather than devoting those resources to alternative investment projects or returning them to shareholders. Although there are some debates about the effect of voluntariness on the relationship between CSP and CSR, it does not mean that there is no positive relationship between two variables. One notable study by Preston and O’Bannon (1997) empirically found that there is positive association between social and financial performance in large U.S. corporations. This study is broadly corresponding to the stakeholder theory. Therefore we propose the following:

Proposition 3 (P3): corporate social performance (CSP) is positively related to firm financial performance.

DISCUSSION AND IMPLICATIONS

The purpose of this paper is to explore the organizational processes through which founder-CEO led firms influence CSP and ultimately firm financial performance. Specifically, we proposed that the degree of transformational leadership and long-term orientation significantly mediate the relationship between founder-CEOs and CSP. Our major argument in this paper is that founder-CEOs are in a better position to pursue an effective corporate social responsibility agenda given their long-term orientation and their tendency to espouse a transformational leadership style. This argument has some anecdotal support. For instance, Angelo Mozilo, the CEO of Countrywide Financial has been quoted as saying “…I’m emotionally attached to this company,
which means I’m going to do whatever it takes to protect its financial integrity. There’s no way a babysitter can feel the same way about a child as the parents.” (Birger, 2006).

This paper contributes to the on-going research on CSP in a number of ways. First, this paper extends the growing scholarly emphasis on the role of top executives in creating effective CSP (Agle et al., 1999; Waldman & Siegel, 2008). We particularly do so by discussing the under-explored issue of founder-CEO leadership in large, established firms. Organizational scholars have examined founder-CEOs influence on their organization’s behavioral and structural characteristics, often referred to as ‘founder imprinting’ (Barron, Hannan, & Burton, 1999; Nelson, 2003). Past studies have shown that founder-CEOs play important role post-initial public offering (IPO) by shaping the structure, governance, culture and strategic decisions (Wasserman, 2003; Souder et al., 2012). In this study, we extend the literature by proposing how founder-CEOs enhance CSP by fostering transformational leadership and long-term orientation in their strategic decision-making. Our paper enhances our understanding of CSP by presenting an explanation that, given their personal commitment, attachment and their dedication to the long-term performance of the firm, founder-CEOs can enhance the level of CSP.

We believe that future research could empirically explore the dynamics of the relationship between founder-CEOs and CSP. Are founder-CEOs more likely than professional (non-founder) CEOs to pursue corporate social responsibility agenda? How do founders differ from non-founders in terms of their commitment to CSP? If founders indeed outperform non-founders in CSP, is this relationship influenced by institutional, organizational and managerial factors and contexts? Research still is needed to answer these and other questions. Future research could also explore whether founder-CEOs in certain industries are more effective in achieving higher CSP and whether the nature of competitive environment influences the relationship between founder status and CSP. Lastly, future research can also utilize a grounded-theory building approach and in-depth multiple case studies to further explore whether and why founder-CEOs are better advocates of the CSR agenda.

References


